Trade Linkages in Shrimp Exports: Japan, Thailand, and Vietnam

Masahiro Kagawa
Department of Sociology
Colorado State University

Conner Bailey
Department of Agricultural Economics & Rural Sociology
Auburn University

Abstract

Shrimp are grown in coastal areas of the tropics primarily for export and have become significant sources of foreign exchange. Japan is the world’s single most important importer of seafood products, including shrimp. We examine the nature of linkages between Japan and two major exporting countries, Thailand and Vietnam. In the terms of World Systems theory, Thailand has become a part of the semi-periphery while Vietnam remains very much in peripheral status. Differing positions in the global economy affect the kind of trade relations which exist between Japan, Thailand, and Vietnam. These are reflected in terms of technology transfer, financial assistance, and the relative market autonomy enjoyed by processors in Thailand and Vietnam. We apply commodity systems theory in focusing on the nature of relationships formed as a particular commodity (in this case shrimp) is physically transformed through processing and exported.

Paper presented at the 2003 meetings of the
Rural Sociological Society
Montreal, Canada
July 2003

Work reported upon here was supported by a grant from the Rockefeller Brothers Fund, the generosity of which is gratefully acknowledged.
Introduction

The purpose of this paper is to examine the nature of trade relationships between shrimp importers in Japan and their suppliers in Thailand and Vietnam. Shrimp farming in coastal Southeast Asia is big business, generating substantial foreign exchange earnings for exporting nations, profits for entrepreneurs, and employment for workers in ponds and processing facilities. Shrimp farming’s disruptive impacts on coastal ecosystems and communities have been documented thoroughly elsewhere (e.g., Flaherty and Karnjanakesorn 1995; Stonich and Bailey 2000). Our interest here is to describe the actors, product forms, technologies, and relationships that have emerged over the past two decades, a period of rapid expansion of shrimp farming in Southeast Asia and other tropical nations.

Seafood represents one of the most important commodities traded internationally. International seafood exports reached US$51 billion in 1997, up from US$36 billion in 1990 (Lem 1999). Asian nations are significant players in the international seafood market, both as importers and exporters. The Association of Southeast Asian Nations (ASEAN) exported fishery products valued at US$7.6 billion in 1998 (FAO 2000). Shrimp is the main fish trade commodity in terms of value, accounting for approximately 20% of the total value of internationally traded fishery products (FAO 2000). Approximately 80% of the world’s farmed shrimp were produced in Asian countries in 1999 (Ryuken 2002). Japan and the United States lead the world in shrimp imports. Thailand and Vietnam are major shrimp exporters to Japan. Japan’s frozen shrimp imports increased 4,000 tons in 1961 to 245,000 tons in 2001 (Ryuken Research 2002).

The account which follows is largely descriptive but is informed by two theoretical perspectives: world systems theory and commodity systems theory. World systems theory helps us understand structural conditions that determine different roles which Japan, Thailand, and Vietnam play in the global marketplace. Japan is part of the global capitalist system’s industrialized core and has the capacity to dominate commercial relations with non-core trade partners through control of markets, technologies, and financial capital. Vietnam is on the periphery of the global capitalist system, having experienced a period of prolonged war and reconstruction during which time it was largely isolated from global economic forces. Only recently has Vietnam embraced (or been brought within) the capitalist world system. At this point, Vietnam has limited industrial capacity and is dependent on core nations for technological and financial support as well as for market access. In contrast to Vietnam, Thailand has emerged as one of Southeast Asia’s “Asian Tigers” into the status of semi-peripheral nation with a growing industrial base and a measure of technological and financial autonomy. As we will see, the relationships formed between Japanese importers and their suppliers in Thailand and Vietnam reflect the roles defined by world systems theory.

We find the commodity systems theory useful for present purposes because it helps us focus on the nature of relationships formed as a particular commodity (in this case shrimp) is grown, harvested, physically transformed through processing, shipped, distributed, marketed, and consumed. A substantial literature exists on the production and harvest of shrimp (Boyd and Clay 1998; Flaherty and Karnjanakesorn 1995; Lebel et al. 2002), but relatively little has been written on trade relationships generally or Japanese consumer preferences more specifically.
That is the gap to which the current paper is addressed.

Commodity systems analysis has been applied to a wide range of agricultural and industrial commodities, from athletic shoes and automobiles (Gereffi and Korzeniewicz 1994) to shrimp and strawberries (Gronski 1997; Wells 1996). Commodity systems analysis is particularly useful in focusing attention on the complex connections involved in international trade relations. Commodity systems can be mapped and compared, as we have done in the case of the shrimp trade between Japan and Vietnam and Thailand. This mapping of networks helps us to identify key points in the commodity system where control over transactions can be established, and so helps us examine questions of power within trade relationships.

**Methods**

Data for this paper came from both primary and secondary sources. Secondary data took the form of published and unpublished reports of international agencies such as the Food and Agriculture Organization of the United Nations (FAO), and reports of both government agencies and trade organizations in Japan, Thailand, and Vietnam. Primary data were based on semi-structured interviews with people actively involved in the shrimp business in Japan, Vietnam, and Thailand. This involved travel to each of these countries. Two separate trips were made in 2002 and 2003 by the first author.

In Japan, there were two goals. The first was to understand current trends (volumes, product forms) within the Japanese shrimp market. The second goal was to assess from the perspective of Japanese importers the nature of the relationship they had with processors (exporters) in Vietnam and Thailand. To what extent did trade relations also involve provision of financial or technical assistance? Semi-structured interviews were conducted using a prepared questionnaire from November 2001 to January 2002, from June to July 2002, and during June 2003. The questionnaire was designed for knowledgeable people (researchers, NGO member, and professors) and private sector respondents (general trading companies, fishing companies, wholesalers, and restaurant chains). Most questions were open-ended, allowing respondents to answer as they saw fit. Since the interviewees freely spoke, additional questions were also asked based on their answers. One or two hours were spent for each interview. Interviews with knowledgeable people and Japanese importers were set up by acquaintances of the first author (two people in general trading companies and two people in a research institute). Then, respondents of Japanese importers set up interviews with people in their branch offices in Vietnam and Thailand.

In Vietnam, semi-structured interviews were conducted using a prepared questionnaire. The first author interviewed one Vietnamese person working for a Japanese importer, 10 processors (three in the north and seven in the south), six government officials in the north, one journalist in the south, three farmers (one in south and two in north), three local community leaders in north, four researchers (one in south and three in north), and one NGO member working on mangrove reforestation. These interviews were facilitated by the introduction provided by of Japanese importers I interviewed in Tokyo. These interviews took place in Vietnam during February to March 2002, May 2002, and June 2003. Interviews were greatly facilitated by the assistance of the Research Institute for Aquaculture No.1 (RIA 1), located in
Bac Ninh Province near Hanoi. RIA 1 provided a translator and where necessary arranged for a car and driver as well as providing accommodation for much of the time the first author was in Vietnam. There were interviews with four government officials (including one association), three processors, four researchers, two shrimp farmers, and three local community leaders set up by RIA 1 mainly in the northern region.

In Thailand, the same approach was adopted. The first author interviewed six employees of three Japanese importers in Bangkok, five processors (three in Bangkok and two in the south), two government officials and one association in Bangkok, four researchers (one in Bangkok and three in the southern region), seven shrimp farmers (five in Songkla and Nakohn si Thamarat and two in Trang, all located in the south), one association in Bangkok, and one NGO member working for mangrove eco-system protection. Again, importers in Japan assisted in arranging interviews with their counterparts in Thailand. These local offices also provided translator assistance and access to a car and driver to make three different field trips to processors. The first author also interviewed two people in the public sector and one researcher through contacts provided by a Thai student of Auburn University. In the southern region, the first author benefited from the cooperation of Prince of Songkla University (PSU) in Hat Yai. There were interviews with two processors, three researchers, and five farmers set up by PSU. Researchers of PSU provided assistance as translators and provided access to a car with a driver as well as accommodation for the first author. Interviews in Thailand took place during April and May of 2002 and during June 2003.

In addition to field interviews, follow-up “interviews” were conducted via email with representatives of a fishing company and a researcher in Japan, with several people in Vietnam (a researcher, an employee of a Japanese importer, and a member of a local NGO), and with a researcher and an employee of a Japanese importer in Thailand

Japan’s Shrimp Imports and Market

Japan is the biggest importer of marine products in the world, accounting for 26% of the world’s seafood imports by value in 1998 (MAFF 2002a). The primary marine products imported by Japan are shrimp, tuna, salmon, and crab. Japan’s imports of these marine products accounted for 29%, 63%, 33%, and 56%, respectively, of global import value of these products in 1999. In 1999, Japan’s marine products imports accounted for about 5% of all products imported into Japan by value (MAFF 2001b). Shrimp imports accounted for the highest proportion of Japan’s marine products imports by value. Japan’s shrimp imports (fresh, chilled, or frozen) reached a peak (303,723 tons) in 1994 (JMPIA 2002), then gradually decreased from 1994 to 1998 before another slight increase occurred. In 2001, Japan’s shrimp imports totaled 245,274 tons (US$2,285 million). The primary shrimp exporting countries to Japan were Indonesia (55,624 tons), India (42,992 tons), Vietnam (35,676 tons), Thailand (20,580), and China (14,971 tons) (JMPIA 2002).

Two Types of Importers

There are approximately 50 shrimp importers in Japan (Mitsubishi Research 2000). There are two types of companies that import shrimp: fishing companies and trading companies.
Until the early 1970s, fishing companies (gyorou) operated fishing fleets which would catch and freeze fish that they would sell to major wholesalers in the Tsukiji Central Market. Trading companies imported frozen fish and shrimp caught by other countries’ ships. After 1972, however, the Law of the Sea gave all coastal nations the right to control and manage natural resources within 200 miles of their shores. It became difficult for Japanese fishing vessels to pursue deep-sea fisheries and gyorou were forced to adopt a new business plan which involved importing frozen seafood.

The key difference between the gyorou and trading companies involves capital availability and shrimp buying patterns. Since powerful trading companies (general trading companies) have enormous capital resources, they buy huge quantities of shrimp on a one-time basis when they believe conditions are favorable (speculative spot market). If they predict correctly, they make huge profits. However, if they miscalculate they risk huge losses. In contrast, the market approach of the gyorou is more conservative, perhaps reflecting more limited financial resources and more limited experience with speculative trading. The standard approach of the gyorou is to purchase shrimp continuously, paying whatever the market price of the day might be. More recently, some gyorou have begun using the spot market as a hedge against price and exchange rate fluctuations and the larger fishing companies today operate much like trading companies.

Types of Imported Shrimp Products

Many kinds of shrimp are imported to Japan. Imported farmed shrimp include black tiger (Peneaus monodon), taisho shrimp, and Ecuador white (P. vannamei). Wild-caught shrimp includes white, pink, flower, brown, banana, and so forth. Prior to 1980, virtually all shrimp imported to Japan were wild-caught. After that time, farmed shrimp as a proportion of total imports increased, reflecting expanded pond production. In 1981, 1991, and 2001, the proportion of farmed shrimp in Japan’s imports was 6.5%, 45.7%, and 43.4% respectively (JETRO 1988, Ryuken Research 2002a).

The black tiger shrimp is been the primary farmed shrimp grown in Asia. In 2001, black tiger shrimp accounted for 95.1% of whole farmed shrimp imports and 45.6% of whole shrimp imports (Ryuken research 2002a). Imports of Penaeus vannamei shrimp are increasing and this shrimp, a native of Latin America, is now being grown in Southeast Asia. According to Japanese importers, P. vannamei has a better flavor than black tiger and Japanese importers predict that imports of P. vannamei will approach to those of black tiger by weight in the future. In the future, P. vannamei will dominate the market for small shrimp while the black tiger will be the primary species sold as larger shrimp. In 2003, in both Thailand and Vietnam, people in governments, associations, research institutes, and local shrimp farmers interviewed by the first author mentioned the increased importance of P. vannamei farming. In Bangkok’s Mahachai market, a half of all shrimp traded appears to be P. vannamei. In Vietnam, especially in the northern areas, farming P. vannamei has expanded over the past year and already has contributed to exports to Japan. In contrast, the first author P. vannamei was barely a rumor in 2002, demonstrating how quickly conditions can change in the shrimp farming industry.

In 2001, frozen shrimp accounted for 83% of total shrimp imports by weight (Ryuken
Research 2002a). Other shrimp imports included such highly processed shrimp products as nobashi (straightened shrimp), panko ebi (fried shrimp), and sushi ebi (sushi shrimp). Future growth in Japan’s shrimp imports is likely to be in the form of highly processed products, which are gradually replacing the import of simple frozen shrimp. There are two reasons for this trend, according to Japanese shrimp importers. First, the shrimp processing business recently has shifted from Japan to other countries as processors seek cheaper labor. Second, the fluctuation in price for highly processed shrimp products is smaller than that of frozen shrimp.

Japan’s imports of panko ebi (ready-to-fry breaded shrimp products) increased from about 980 tons (1989) to about 23,980 tons in 2001 (Ryuken Research 2002a). Japan’s imports of sushi shrimp increased from about 1,691 tons (1988) to about 14,045 tons in 2001 (Ryuken Research 2002a). Sushi shrimp is used in rolling sushi bars, take-out sushi, and sushi delivery. Panko ebi is used in restaurants, lunch box chains, and supermarkets. Black tiger shrimp is mainly used to produce these processed shrimp products.

**Vietnam: Shrimp Processing and Exporting**

Seafood exports are very important for the Vietnamese economy. The Ministry of Fisheries is expecting revenues of US$2 billion from seafood exports during the period 2000-2005 (Anonymous 2002a). If this target is achieved, the seafood industry will be a key source of “stable hard currency for the economy” (Anonymous 2002a: 4). There is little doubt this target will be achieved: in 2001, fisheries exports reached US$1.77 billion (VASEP 2002).

The main export markets for the Vietnamese seafood industry are Japan, the U.S., China, and the European Union (EU). In 1995, Japan was the largest exporting market of Vietnamese seafood products including shrimp, squid, and fish (ADB 1996). In 1995, Japan imported 44% by weight and 52% in value of Vietnamese seafood exports (ADB 1996). In 1995, other countries, such as Hong Kong, Singapore, and the EU accounted for 8%, 7%, and 13% in value, respectively (ADB 1996). After the U.S. lifted a trade embargo on Vietnamese products in 1995, seafood exports began flowing from Vietnam to the U.S. (ADB 1996). Currently, the U.S. is the leading export market for the Vietnamese seafood industry. The Ministry of Fisheries has continued to diversify its export markets. The expected proportion of Vietnamese seafood exports is 27-30% for the U.S., 25-28% for Japan, 23-25% for China, and 7-8% for the EU (Anonymous 2002a).

Shrimp is the primary source of foreign exchange from seafood exports. Shrimp exports increased from 8,500 tons (1985) to 66,500 tons (1995) (ADB 1996) and reached 87,777 tons in 2001, accounting for about 44% of all seafood exports from Vietnam by value in that year (VASEP 2002; MOF 2002).

The main shrimp products for the Japanese market are nobashi (straightened shrimp), cocktail shrimp, individual quick frozen (IQF) shrimp, sushi shrimp, and panko ebi (Ebi fry or fried shrimp). Black tiger shrimp is primarily used to manufacture these products. Export markets in Japan and the U.S. accounted for more than 75% of business in most of the processing factories that I visited. Currently, Japan’s shrimp imports are stable, while U.S. imports have drastically increased. In contrast, shrimp exports to the EU account for a small
proportion because of strict regulations on antibiotics by the EU, which has the strictest antibiotic rules among major shrimp buyers.

Processors

Prior to 1986, as a socialist country all companies in Vietnam were supposed to be state-owned. However, since the establishment of the “Doimoi policy” in that year, the situation has changed. Although it is still difficult to precisely define “private” companies, it appears that roughly half of the 272 seafood processing factories in Vietnam (Anonymous 2002a) are state-owned, and the remainder are private. There are, in addition several joint venture firms involving Vietnamese and foreign partners (Anonymous 2002a). The trend has been for state-owned processors to become private companies. State-owned processors include Seaprodex, independent state-owned processors that used to be a part of Seaprodex, and processors owned by local governments (provinces or districts). Seaprodex was the first company allowed to export fisheries products (1978), with Japan the primary market. Currently, Seaprodex is a less important player in the seafood export market because there are many private processors in the southern region. This trend is likely to continue because the Vietnamese government is encouraging privatization of state-owned companies.

This relatively recent history with private enterprise and the recent rapid growth in shrimp exports puts Vietnam in the position of a new player in the contemporary global shrimp trade game. As a result of prolonged war, Vietnam lacked basic equipment and facilities to support an active fishing industry. Once trade in fisheries products was established in 1978, Japanese importers began helping Vietnam establish processing factories. Vietnam did not have enough foreign currency to pay for the equipment. Japan supplied everything in advance, taking payment in the form of seafood. There may have been assistance from the Japanese public sector in the 1970s and the 1980s. Among the items brought to Vietnamese processors from Japan were trucks (Mitsubishi), freezers (Mycop), and engines (Yamaha). Because of this Japanese assistance, seafood export value increased from US$11 million (1980) to US$205 million (1990). Japan certainly played a very important role in rebuilding Vietnam’s seafood business.

During interviews, most processors said they did not rely on Japanese buyers for financial assistance because they are able to obtain low interest loans from banks. This was not always the case, and some processors indicated that they needed Japanese investment to improve their facilities and buy new machines to produce high-value shrimp products. However, most shrimp processed in Vietnam are exported in the form of frozen blocks rather than the more highly processed products which are gaining market share in Japan and which command price premiums.

Technical Assistance

In 1992, some processors in Ho Chi Minh City began studying the processing of high-value shrimp products with Japanese importers. Vietnamese processors sent their workers to Japan to visit seafood processing factories and learn advanced seafood processing techniques, which they then applied in their factories in Ho Chi Minh City. From there it expanded to the
Mekong Delta area. At the same time, leading Japanese general trading companies came to Vietnam and started giving technical assistance to produce nobashi shrimp (straightened shrimp), sushi shrimp, and panko ebi (fried shrimp). Japanese technicians came to factories and stayed there for about one or two weeks to teach processing skills to factory workers. In some cases, Japanese technicians stayed in Vietnam until the factories finished the first trial run to make sure that the final products were acceptable.

Japan appears to be the only nation whose buyers provide technical assistance to processors in both processing skills and sanitary requirements. Importers from the U.S. and the EU do not provide technical assistance, though officials from the U.S. Food and Drug Administration do inspect processing facilities for sanitary standards. The quality and standards required by U.S. companies is not very strict while the EU has strict regulations on residues of chemical and antibiotics. Requirements of Japanese companies are very strict and the size of shrimp products required by Japanese companies is very specific. When processing factories start producing new products, such as panko ebi, Japanese importers tell processors what processing machine, ingredients, and chemicals they should use. Size of shrimp and even the proportion of bread crumbs to shrimp flesh are strictly dictated by Japanese manufacturing manuals. Especially during the first and second weeks of processing, Japanese importers thoroughly check the whole processing line to confirm whether factory workers are following the instructions of Japanese importers. After factory workers have acquired processing skills, Japanese importers visit the factory once every three or four weeks to check the quality of products and the production line.

Japanese sanitary standards for seafood are high. The U.S. has developed a sanitary standard known as HACCP (Hazard Analysis and Critical Control Point). Interview respondents indicated that this approach is fine in theory but difficult to apply to production lines. Japanese companies offer more practical techniques to improve the quality of seafood products. Japanese importers very specifically instruct factory workers about sanitary control, showing them each step. Because Japanese people often eat raw fish, they are especially skilled at keeping fish fresh and in good sanitary condition. One processor in Vietnam that consistently produced high quality product experienced a dramatic increase in orders from Japan as a direct result.

Processors interested only in producing ice blocks of shrimp do not need technical assistance from Japanese importers. However, to improve their processing skills, processors need technical assistance from Japanese importers. Technical assistance from Japanese companies is vital to the Vietnamese industry because it provides training and knowledge on processing techniques to produce high quality, high-value products. Vietnamese processors recognized that they could not improve their facilities and processing skills without assistance from Japanese companies. From the perspective of Japanese importers, they assist Vietnamese processors because they need inexpensive labor to produce products that meet Japanese consumer preferences. On the other hand, processors want technical assistance from Japanese importers because they want to improve their processing skills and gain access to a market for highly processed products. If they can improve processing skills through Japan’s technical assistance, they will be able to expand their export business not only with the Japanese, but also with other countries.
In most cases, Japanese trading houses provide assistance to processors on the basis of a verbal “gentlemen’s agreement” that the processor will sell their product to the trading company that provides technical assistance. No formal contractual obligations are incurred. Processors in Vietnam may sell their product to any buyer and buyers from Japan are not required to purchase the product coming from a particular processor. This arrangement may not be as balanced as it would appear. Trading houses may provide technical assistance to produce a product that meets the particular specifications of a retail distributor or institutional buyer in Japan for which the trading company acts as buying agent. In this case, the processor may not have a market other than the trading company which provided the technical training and product specifications required. Moreover, if market shifts dictate reduced purchases, the trading company is not obligated to purchase a fixed volume of shrimp.

**Thailand: Shrimp Processing and Exporting**

In 1995, Thailand became the number one seafood exporter in the world (TFFA 2000). By 2000, seafood exports reached 1.4 million tons by weight and 185,658.4 million baht (US$4.6 billion). Of the total seafood exports, shrimp exports accounted for 32.4% by value (TFFA 2002). Problems associated with disease outbreaks have reduced production and new competitors on the world market are expanding production, but Thailand is still one of the world’s leading shrimp exporters of farmed shrimp.

Thailand’s primary export markets are the U.S. and Japan. In 2001, fresh and frozen shrimp exports to the U.S. and Japan accounted for about 46% and 17% by weight, respectively (TFFA 2002). While shrimp exports to the U.S. have increased, fresh and frozen shrimp exports to Japan have decreased from 1995 (50,738 tons) to 2001 (24,883 tons) (TFFA 2000, 2002). Exports of prepared and preserved shrimp products to both the U.S. and Japan increased from 1997 to 2001. Exports to Japan increased from 16,472 tons in 1997 to 21,886 tons in 2000 (DOF 2002). Prepared and preserved shrimp products imported to Japan include **sushi** shrimp, **tempura**, and **panko ebi** (fried shrimp).

Based on interviews, there are three main reasons that fresh and frozen shrimp exports to Japan have decreased. First, Japanese importers are shifting their trade from Thailand to other shrimp producing countries (e.g., Vietnam and India) where shrimp prices and labor costs are lower than those of Thailand. Second, Thai processors have diversified their export markets to avoid relying heavily on the Japanese market. Third, Thai processors prefer the U.S. market to the Japanese market. U.S. importers place large orders for products that are simply processed (e.g., frozen block). In contrast, Japanese importers order small quantities and prefer highly processed shrimp. To illustrate the difference, highly processed products for the Japanese market are counted by the piece (100, 200, 300 pieces). Products for the U.S. market are counted by tons.

**Processors**

The Thai shrimp processing business started about 30 years ago, before Thai shrimp farming began developing in the 1980s. At that time, Thai shrimp processors exported wild-
caught shrimp (Foodmarket 2001a). Currently, Thailand imports shrimp for processing even though Thailand is the number one cultured shrimp producer in the world (TFFA 2002, Foodmarket 2001a). Processing both domestic and imported shrimp, Thailand is the main processing center for shrimp in the world. In addition, Thai processors are experienced at processing tuna. Thai processors currently import 300,000-400,000 tons of fresh, chilled, and frozen tuna, primarily from Taiwan and Japan, for processing. Thailand has been the number one exporting country of canned tuna since 1985 (TFFA 2002). About 70% of Thai seafood processors are members of the Thai Frozen Food Association (TFFA). In 2002, TFFA had about 180 processors as members. Approximately 100 of these are involved in the shrimp processing business for exports (TFFA 2002). Unlike processors in Vietnam, all Thai processors are private. Virtually, all processors directly export products to Japan and the U.S. In short, seafood processing in Thailand is relatively more advanced than in Vietnam and has been a player on the world market for a very long time.

Since 1995, processors in Thailand have shifted their business from simply processed items, such as producing frozen shrimp, to highly processed shrimp, such as panko ebi (fried shrimp), tempura, and sushi shrimp. This occurred after serious shrimp disease problems (white spot) developed, causing Thai shrimp to become more expensive than shrimp from other countries. Thai processors could not compete against processors in other countries in producing frozen block shrimp so they shifted focus towards producing more highly processed products. Even here processors in Thailand face serious competition from lower-cost competitors in China and Vietnam. Thailand has an advantage in producing panko ebi shrimp because the specific types of bread crumb used to give a high quality product is made in a factory there. Special skills and techniques are required to produce the breading used in panko ebi. Processors in other countries must import the breading from Thailand for their product to be of acceptable quality.

Thailand retains an edge on processing quality and therefore continues to attract orders from Japan, but Japanese importers are providing technical assistance to processors in Vietnam in a conscious strategy to establish an alternative and lower costs source of highly processed shrimp products.

Technical Assistance

During the 1970s and 1980s, the quality of frozen block shrimp exported from Thailand was low, with different qualities of shrimp intermingled in the same block. Japanese importers began working with Thai processors to improve quality control because they needed to assure both supply and quality for their trade operations. Critical to their efforts was the question of sanitation. Japanese importers report having provided technical assistance to Thai processors until the mid 1990s.

Compared to their counterparts in Vietnam, Thai processors today have limited need for technical or financial assistance from Japanese business partners. Thai processors already have the equipment necessary to produce highly processed products. If Thai processors do not have a particular piece of equipment needed to process a new product, processors in Thailand either have their own capital resources or have access to bank loans. Thai processors who were interviewed made it clear that they were not interested in financial assistance from Japanese
importers because doing so would mean loss of decision-making control.

As was found in Vietnam, U.S. importers did not have the same level of involvement with Thai processors, and rarely if ever visited the processing facilities. U.S. importers were content to order frozen block shrimp or simply processed products such as shrimp cocktail. In contrast, all Thai processors interviewed had received technical assistance from Japanese importers. Thai processors are aware that Japanese consumers have the strictest food preferences in the world. Japanese consumers care about the quality, freshness, and appearance of products and the ingredients used in products. To meet these consumer demands, Japanese importers need to give technical assistance to Thai processors.

Thai processors receive very specific orders from Japanese importers. Basically, Thai processors have the skills and equipment to produce various highly processed products, but individual orders may have unique specifications to meet Japanese market requirements. Japanese importers will provide technical assistance to meet those special requirements. For example, production of panko ebi will vary depending on ultimate customer. A particular kind of breading is put on the shrimp at the processing facility. If panko ebi is to be used for Japanese restaurants and lunch box services, they put panko ebi on trays and freeze them. Here, the color of the tail of black tiger shrimp is black, which Japanese consumers do not like. But since the food service companies will fry the panko ebi before it is served to Japanese consumers, the tail color will turn red, which is what Japanese consumers like. However, if the panko ebi is for Japanese retailers, such as supermarkets, the tail color must be red because Japanese consumers buy uncooked panko ebi in supermarkets and cook it in their houses. To make the tail of these uncooked shrimp red, factory workers put the tail of each shrimp between two metal sticks and boil only the tail, then they put bread crumbs on the raw shrimp flesh.

Japanese importers request many specific requirements for panko ebi and also for sushi shrimp. That is why Thai processors say that orders of Japanese importers and Japanese consumers’ preferences are very specific. Despite their advanced processing skills, Thai processors still need technical assistance from Japanese importers to meet these orders and preferences. Most shrimp processors in Thailand were able to produce panko ebi, but none of the processors in Vietnam had that capacity in 2002.

Because Thai processors have more advanced processing skills than do Vietnam processors, Japanese importers visit processors in Thailand less often than they do in Vietnam. In Thailand, when processors start to produce new products, Japanese importers usually send their technicians for the first two weeks to check the production lines and final products. This also is done in Vietnam. However, after the first two weeks, Japanese importers visit Thai processors only once a month. In some cases, Japanese importers barely visit processors. In one processing factory that is ranked in the top five in Thailand, Japanese importers visit only once a year.

Thai processors have remained competitive by producing new and highly processed products for the Japanese market and by making their production lines more efficient. One way they have accomplished this goal has been to purchase shrimp from other countries where prices are lower. In some cases, Japanese importers import shrimp from other countries for processing
in Thailand. After processing, Japanese importers export them to Japan. Thai processors also have diversified their export markets by expanded sales to the U.S. However, Thai processors realize that they cannot continue to compete on the world market for simply processed shrimp products like frozen block shrimp because other countries have lower labor and other production costs. In response, Thai processors are shifting their attention to more highly-processed products which have larger profit margins and for which there is as yet less competition. For such products, quality is a key factor in a buyer’s decision to place an order, and Thailand’s competitors have not yet reached the point where they are competitive on that dimension. However, there is no reason to believe this will remain the case in the future due to Japanese technical assistance efforts designed to diversify sources of supply.

Business relationships between Japanese importers and Thai processors tend to be based on long-established and informal ties. When the two business partners first begin to do business, the contracts may be for relatively small shipments. Over time as trust and familiarity are established, the contracts may increase, but the agreements tend to be informal in nature. Japanese importers prefer not to establish long-term contractual relationships so that they can respond flexibly to changing market conditions and consumer preferences. The option of procuring shrimp products from lower cost producers is a key part of the market condition calculation importers make.

**Conclusion**

Japanese importers of shrimp products have a large number of potential suppliers in both Vietnam and Thailand, as well as in the many other countries which export shrimp. As suppliers, each country brings its own special advantages. Consistent with world systems theory, Thailand and Vietnam present differences which Japanese importers have been quick to spot and exploit. As a member of the semi-periphery, Thailand’s economy is more advanced which means, all things being equal, that wage rates and other costs of doing business are likely to be somewhat higher than in countries on the periphery. If a country like Thailand is to remain competitive, it must do so based on the quality of their production processes because competitors on the periphery will be able to offer their goods at lower prices. In this competitive market, the buyer has clear advantages. This would appear to be the case with shrimp, where potential competitors for Japan’s export market include nations from India and Bangladesh to Indonesia and Ecuador.

From the perspective of a Japanese importer, confidence in the quality of the shrimp they import is important. Such confidence can only be achieved over time, through experience. As a result, business relationships between importers and processors tend to be long-term rather than contract by contract in nature. Processors in Thailand and Vietnam build facilities with the expectation that a certain volume of business will come their way, and they do not make this calculation in a vacuum. Rather, importer and processor reach informal gentlemen’s agreements regarding trade relations. These agreements do not limit the ability of either importers or exporters engaging in business with other potential partners. Both sides benefit from this flexibility, but it may well be that Japanese importers have more to gain from such informal relationships. There are relatively few importers compared to the number of processors, so that the basic competitive balance may be skewed in favor of the importers. Importers also are the
ones who understand market demand both in terms of volume and with regard to product specifications. Changing consumer preferences in Japan make processors, even in Thailand, continually dependent upon Japanese importers for technical assistance.

The fluidity of relationships between processors and importers tends to favor the latter as ultimately they are the ones who decide to buy product for sale in Japan. Importers generally prefer to do business with several processors, each of which will produce a particular product for one of the end users in Japan (supermarkets, sushi bars, institutional buyers, etc.). Doing business with a half dozen different processors makes it possible for the importer to obtain the product they need without becoming dependent upon any single processor. Even though Thai processors have established a world class reputation, in business relations they remain in the position of responding to rather than creating market needs. Relations between Japanese importers and Thai processors are more nearly symmetrical than was found to be the case in Vietnam, but Japanese importers still have a critically important edge in being able to source from many processors in Thailand and elsewhere. Thai processors consciously have sought to diversity by expanding exports to the U.S., but remain dependent upon Japanese buyers for the more lucrative trade in highly-processed shrimp products.

References

Lebel, Louis, Nguyen Hoang Tri, Amnuay Saengnoree, Suparb Pasong, Urasa Buatama and Le


