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Comparative Advantage and Export Potential of Thai Lychees

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Abstract

The lychee market is dominated by Asian countries in terms of production, consumption and trade. Thailand is the world's fourth largest lychee producer with 85,000 tons of annual production. In recent years lychee production in Thailand is facing heavy competition within the country, competing for land against other perennial crops, and competing for demand against other Asian countries in particular China. Thus, the objective of this study is to explore to which extent Thai lychee production is internationally competitive and which potential there is for world trade of lychee with a particular focus on Thailand.

Lychees are produced in the northern region of the country predominantly by small-scale farm households. Many farmers have reduced lychee production and shifted to other perennial crops such as oranges mainly to avoid risks due to yield and price fluctuations. However, lychee is a horticultural crop with an increasing demand domestically, within Asia and in Europe, North America and the Middle East. The discrepancy between the production trend in Thailand and the demand trends calls for a closer look to determine if Thailand has a comparative advantage for lychee production and the potential of exporting lychee.

The study has two parts; the first is an analysis of the comparative advantage and the second presents estimates of the potential of the export market for Thailand. The domestic resource cost (DRC) method is used to determine comparative advantage of lychee in Thailand. The DRC ratio is a measure of the cost of production when prices are adjusted for taxes and subsidies and resources are valued in alternative uses. The estimation of supply and demand elasticities along with a descriptive analysis will be used to estimate the potential of the international lychee market.

The results of this study show that Thailand has a comparative advantage for producing lychee for the world market but advantages vary across the region. The analysis of the international market indicates that there is a growing demand market particularly in Europe and in North America.

Keywords: Comparative advantage, lychee market