

# COMPETITIVE ADVANTAGES OF VIETNAMESE COFFEE

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## 1. An estimate of competitive advantages of the Vietnamese coffee

Vietnam is one of countries that have favorable climatic conditions for growing coffee. Only 10 years after the economic reform was launched, Vietnam rose to the eighth place among coffee producing countries in 1994 and became the world's second biggest exporter of coffee in 2001-02. The Vietnam's yield of coffee is of the highest in the world. The development of coffee growing business reflects the abundance of factor inputs of the Vietnamese coffee. However, we still need a closer look at these factors.

a. Soil: There are some 10.5 million hectares of cultivable land in Vietnam. Large part of this area that

is found in Central Highlands and Eastern South is suitable for such perennials as coffee, tea and rubber. According to the Agricultural Planning

Institution, the area suitable for coffee growing in Vietnam is as follows:

The total area suitable for coffee is 2,368,765 hectares, of this area, 46% is

of grades 1 and 2. According to the General Department of Statistics, there were 526,700 hectares of coffee in Vietnam. This means that the poten-



Table 1: Land for coffee growing (hectare)

Zone	Grade 1 (very suitable)	Grade 2 (suitable)	Grade 3 (less suitable)	Total
Northwest (Lai Châu, Sơn La, Hòa Bình)	30,300	46,310	102,550	179,160
Northeast (Cao Bằng, Lạng Sơn, Quảng Ninh)	25,110	32,980	37,800	95,890
Northern Border Land (Lào Cai, Yên Bái, Hà Giang, Tuyên Quang, Thái Nguyên, Bắc Cạn)	21,780	69,140	267,600	358,520
Northern Middle Land (Vĩnh Phú, Hà Bắc)	18,500	34,400	71,020	123,920
Zone IV	47,530	59,470	126,270	233,270
Lâm Đồng	17,727	4,771	114,270	136,768
Daklăk	17,976	172,896	274,845	465,717
Gia Lai	50,831	107,439	183,394	341,664
Kon Tum			33,671	33,671
Eastern South	57,000	270,500	72,685	400,185
Total	286,754	797,906	1,284,105	2,368,765

Source: Agricultural Planning Institution 1999



tial for coffee growing business is great because this area equals only to 47% of the area of land of grades 1 and 2. So this could be considered as one of competitive advantages of the coffee industry.

b. Climate: Generally, the climatic conditions in all zones of Vietnam are suitable for the growth of coffee plant, especially in Central Highlands and Eastern South. This advantage help improve the competitiveness of Vietnamese coffee, otherwise coffee planters have to spend a lot of money on improvements in the product quality. Micrometeorological researches must be carried out in order to raise the average yield of coffee in each zone.

c. Labor: According to the 1999 census, Vietnamese population was 76.5 million; 76.5% of them lived in rural areas and 72.9% lived on agriculture. Of resources for producing wealth, labor accounts for 74% while natural resources for 11% only. According to the Ministry of Labor, Invalids and Social Affairs, the hidden unemployment was common in many provinces, including ones producing coffee. The following table provides us with some data about this unemployment.

Regarding provinces with favorable conditions for coffee growing alone, the number of laborers in need of regular jobs reached 6.28 million. Thus, the development of coffee growing business means not only big export earnings but also reduction in the unemployment rate in rural areas and a narrower gap between cities and countryside.

According to a rough estimate, the coffee processing industry hasn't developed in parallel with increases in the coffee output. Difference between the output and processing capacity leads to poor and unstable product quality.

**Table 2: Hidden unemployment in some zones and provinces in 1999**

Zone Province	Working population (15-59 age bracket)	Laborers in need of regular jobs	As % of working populationn
Northeast	2,517,332	922,694	36.65
Northwest	1,258,539	411,967	32.73
North Central Vietnam	5,647,408	2,758,129	48.84
Coastal Central Vietnam	4,029,980	1,209,337	30.01
Central Highlands	1,647,989	386,941	23.48
Kom Tum	169,695	24,206	14.26
Gia Lai	532,423	166,597	31.29
Daklak	945,871	196,138	20.74
Eastern South Vietnam	7,465,248	595,298	7.97
Lâm Đồng	555,618	26,164	4.71
Bình Phước	382,118	66,852	17.50
Bình Dương	459,012	42,767	9.32
Đồng Nai	1,214,093	152,479	12.56
Bà Rịa-Vũng Tàu	482,331	28,116	5.83
Total	22,566,496	6,284,366	27.85

Source: Ministry of Labor, Invalids and Social Affairs 2000.

**Table 3: Export of coffee in 1996-2000 (1,000 tons)**

Nation	1996	1997	1998	1999	2000	
					Volume	Market share (%)
Brazil	918	1,010	1,089	1,388	1,081	20.27
Vietnam	227	371	386	465	696	13.05
Colombia	635	655	675	600	551	10.33
Ivory Coast	165	254	239	132	355	6.66
Mexico	278	270	204	261	318	5.96
Indonesia	386	345	336	304	312	5.85
Guatemala	239	255	212	281	291	5.46
India	187	158	209	217	296	5.04
Honduras	124	103	140	119	173	3.24
El Salvador	139	166	101	113	152	2.85
Uganda	279	210	197	230	151	2.83
Peru	101	99	117	144	142	2.66
Ethiopia	110	119	115	109	119	2.23
Costa Rica	146	126	123	132	118	2.21
Nicaragua	49	43	56	59	81	1.52
Kenya	114	70	50	67	79	1.48
Cameroon	34	82	45	69	72	1.35
Papua New Guinea	65	63	81	79	63	1.18
Thailand	52	64	47	30	58	1.09
Tanzania	58	39	45	38	47	0.88
Others	347	285	303	276	206	3.86
Total	4,653	4,787	4,770	5,113	5,334	100.0



**Table 4: Coffee yield by main producers in 1999**

Nation	Average yield (kg/ha)	Compared with Vietnam's
Brazil	792	0.38
Colombia	924	0.44
Vietnam	2,101	1.00
Indonesia	738	0.35
India	967	0.46
Mexico	368	0.18
Uganda	525	0.25
Venezuela	300	0.14

**Table 5: Production of coffee (US\$/ton)**

Nation	Cost	Strain	Compared with Vietnam's
Indonesia	397	Robusta	0.91
Vietnam	435	Robusta	1.00
India	637	Robusta	1.46
Thailand	674	Robusta	1.55
Uganda	805	Robusta	1.85
Brazil	933	Arabica	2.14
India	1,188	Arabica	2.73
Mexico	1,411	Arabica	3.24
Ethiopia	1,600	Arabica	3.68
Colombia	1,644	Arabica	3.78
Costa Rica	1,822	Arabica	4.19
Papua New Guinea	2,111	Arabica	4.85

**Table 6: Export prices offered by main producers of coffee in early 2000 (USD cent/lb)**

Nation	Export price	Strain	Compared with Vietnam's
Indonesia	41.94	Robusta	1.01
Vietnam	41.39	Robusta	1.00
India	53.01	Robusta	1.28
Thailand	38.20	Robusta	0.92
Uganda	60.38	Robusta	1.46
Brazil	96.71	Arabica	2.34
India	72.33	Arabica	1.75
Mexico	91.97	Arabica	2.22
Ethiopia	83.62	Arabica	2.02
Colombia	96.73	Arabica	2.34
Costa Rica	76.89	Arabica	1.86
Papua New Guinea	2,111	Arabica	1.57

In previous years when the export of coffee brought in big incomes, the coffee growing area increased quickly, even in the less suitable soil. High

profitability made coffee planters give not enough attention to techniques of harvesting and storing their produce (they gathered both green and ripe

coffee bean), and as a result, coffee processing factories couldn't produce high-quality coffee.

Coffee is grown in many provinces instead of

being concentrated in the most suitable areas with the result that it's hard to develop the processing industry and improve the product quality. In short, the competitive advantages of the coffee business are not fully tapped, or in other words, the unreasonable employment of resources limits the competitiveness of Vietnamese coffee on the world market.

## 2. An estimate of the Vietnamese coffee competitiveness

a. Quantity approach: This approach assumes that countries with larger areas for coffee growing will have better competitiveness and larger market share. The following table shows export of coffee from principal producers in 1996-2000.

The table shows that the Vietnamese export of coffee tripled within four years. It surpassed Colombia and Indonesia and accounted for 13.05% of the world coffee export being second only to Brazil.

The Vietnam's advantage in terms of fertility of the soil reflects in the following table.

The average yield of coffee in Vietnam is also higher than those in many coffee producing countries as Brazil, Colombia and Indonesia (2.1 tons per hectare compared with under 1.0 ton per hectare). Thus, soil and climatic condition are two factors that have made the coffee output and average yield in Vietnam rise steadily in recent years. This approach also shows that the competitiveness of Vietnamese coffee is only second to Brazilian counterpart.

b. Quality approach: This approach tends to analyze allocation and use of factor inputs. Countries that produce coffee of high quality and low production cost will be considered more competitive. First of all, we could have a look at





**Table 7: Competitiveness of coffee from principal exporting countries in 2000**

Nation	Price index	Cost index	Competition index	Strain
Indonesia	1.01	0.91	1.11	Robusta
Brazil	2.34	2.14	1.09	Arabica
Vietnam	1.00	1.00	1.00	Robusta
India	1.28	1.46	0.88	Robusta
Uganda	1.46	1.85	0.79	Robusta
Mexico	2.22	3.24	0.69	Arabica
India	1.75	2.73	0.64	Arabica
Colombia	2.34	3.78	0.62	Arabica
Thailand	0.92	1.55	0.59	Robusta
Ethiopia	2.02	3.68	0.55	Arabica
Costa Rica	1.86	4.19	0.44	Arabica
Papua New Guinea	1.57	4.85	0.32	Arabica

production cost of a ton of coffee in various countries.

The table shows that the lowest production cost of coffee could be found in Indonesia and Vietnam. But we couldn't estimate their competitiveness before examining their selling prices.

The average price of coffee on the world market, including ones offered by such Asian countries as Indonesia and India, is always higher than the Vietnam's export price. This means that the quality of robusta coffee from Vietnam isn't high because of obsolete processing techniques. Unstable quality of coffee in the same lot is one of factors that slashed

the selling price of Vietnamese coffee.

The competitiveness of Vietnamese coffee is poor because of its quality. The product quality, however, isn't the factor that determines the competitiveness of a product. Full attention must be paid to export price and production cost which reflect the comparative advantages of a producer. Combination of those two factors is called "competitive index". The following table shows us the competitiveness of coffee from different countries.

The table shows that the competition indexes of other producers as compared with Vietnam is the

comparison of the selling price- production cost ratio found in other countries to that of Vietnam on the assumption that Vietnamese producers break even. Thus, countries whose competition index is bigger than 1.00 have stronger competition as compared with Vietnam.

The above -mentioned data show that the Vietnamese coffee has strong competitiveness, only second to Indonesia and Brazil but the difference isn't too far. Differences in the competition indexes lead to those in competitive strength. Producers with high competition index can survive the price war and

maintain their profits while others suffer losses.

### 3. Conclusion

When estimating the competitiveness of various coffee suppliers in the world, we see that the Vietnamese coffee has strong competitiveness and Vietnam ranks second in export volume and third in production efficiency.

Its competitiveness will be improved if shortcomings in various stages of production are overcome properly. These shortcomings are as follows:

- High profitability leads to fast increases in the area of coffee in the past few years. As a result, coffee was planted everywhere, including land that isn't suitable enough.

- Abuse of fertilizer and insecticide makes the production cost rise and causes harm to the environment.

- System of warehouses and processing facilities aren't developed well with the result that the quality of Vietnamese coffee is always lower than its counterparts from other countries.

- Harvest isn't done properly. Proportion of green coffee bean is high.

To deal successfully with these shortcomings, in our opinion, can enhance the competitiveness of the Vietnamese coffee. ■