

Export of Farm Products One Year After Cept/Afta

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1. New opportunities and challenges

As arranged by the CEPT/ AFTA, farm products exported by Vietnam met both challenges and opportunities as of July 1, 2003.

Challenges: From July 2003 on, farm products from Vietnam have to meet keen competition on both the world and regional markets in terms of quality, price, design, trademark and brand name. First of all, import duties on 760 items of this category must be cut by 20-50% as compared with days before July 1, 2003, which affected directly the competitiveness of Vietnamese farm products. In addition, Vietnamese farm products also met rules posed by each market and country, including the anti-dumping laws as the American one. Generally, the competitiveness of the farm products is poor in all aspects and they are great difficulties in the first stage of international integration.

Opportunities: There are also opportunities but not many. Firstly, Vietnam could enter all markets and enjoy fair competition as others instead of exporting through an intermediary as before. In 2003, output of staple products for export, such as

coffee, rubber, wooden furniture, cashew nut and aquatic products, enjoyed some increases in prices on the world market after many falls in the past few years. The market demand for certain products, such as rice and coffee, started to exceed the supply. Trade agreements between Vietnam and the U.S. and the EU also allowed Vietnam to enter markets of high spending power, especially on wooden furniture and aquatic products. In Vietnam, the agricultural output in 2003 and the first half of 2004 rose remarkably in terms of both quality and quantity, which allowed increases in export quantity. The Government has taken strong and timely measures to promote trade, encourage all classes to export farm products, cut agricultural taxes, exchange contracts to sell with peasants, and establish cooperation between various parties in exporting farm products.

2. Export in 2003 and the first seven months of 2004

In 2003, the export value of farm products passed the US\$5.5-million mark increasing by 8.7% compared with 2002 and reached the highest peak so far.

In the first seven months of 2003, while the export value of certain manufactured goods showed some decline, quantity and prices of many farm products rose remarkably in comparison with 2003. The value of exported rice rose by 17.8% due to high rises in price; coffee rose by 48.5%; black pepper 29%; cashew nut 34%; and tea 56.4%. Particularly, wooden products earned US\$577 million increasing by 87% compared with the same period last year, surpassing rice (US\$592 million) and coffee (US\$416 million) and took the second place (after only aquatic products – US\$1,161 million) among exported farm products and ranked fifth among exports from Vietnam.

Generally, values of all exported farm products rose high in this period. The aquatic products, in spite of legal troubles in the American market, gained a growth rate of 9.6% in 2003 and earned US\$1,161 million in the first seven months of 2004. This is a result of concerted effort by farmers, fisherpersons, processing factories and exporters of all sectors.

Up till now, Vietnamese aquatic products have footholds in 49 countries and territories, including the most demanding ones, such as the



U.S., Japan, the EU and China. In spite of many difficulties, the U.S. is still the biggest market for aquatic products exported from Vietnam. Export earnings from this market rose by 36.5% in the first half of 2003. From July 2003 to July 2004 the growth rate was a bit lower but still high enough, especially earnings from basa catfish and shrimps, two items that are in trouble with the American anti-dumping law.

The Vietnamese market share in the EU and Japan has been expanded, earnings from these markets are on the increase, by 67% in the EU and 25% in Japan. These increases, however, are not high enough to make up for falls in the American market. The Chinese market is large but earnings from it didn't rise steadily.

Vietnam has been the world's second largest exporter of rice: 3,820 tons in 2003 increasing by 17.9% compared with 2002 and 2,588 tons in the first seven months of 2004 increasing by 17.2% compared with the same period last year. This result is affected by many factors: changes in market forces, policies of importing countries, natural disasters all over the world, etc. In Vietnam, some progress has been made in purchasing, storage, transport, and farming and processing techniques. This is a rare opportunity for Vietnamese rice in some past few years. The export price of rice rose from US\$188.2 per ton in 2003 to 228.7 in the first seven months of 2004 and it may rise higher in the months to come.

One of remarkable features in the rice export in this period is the fact that rice exporters were more proactive in doing their business. Since the beginning of 2004, contracts to sell acquired by exporters topped the 3-million-ton mark because they have improved ways to purchase and process rice for export. The price of rice in the domestic market stayed at a reasonable level that was satisfactory to both peasants and exporters, so the State needed not spend thousands of billion covering interest payments for exporters that purchased rice before acquiring contracts to sell. More contracts at reasonable prices signed in the following months were carried out well with the result that the volume of export rice surpassed the target planned for the year. The price of rice on the world market, however, was not stable, which affected unfavorably the price in the domestic market. In 2003 while the volume of exported rice rose by 17.9%, the

earnings were equal 99.1% of the 2002 earnings. In the first seven months of 2004, the reverse happened: the volume didn't rise, the earnings increased by 17.8% compared with the same period last year because the price rose.

Prices of some other products, such as rubber, coffee, black pepper and cashew nut also changed in the same direction. The price of rubber for export rose from US\$562 per ton in 2002 to 854 in 2003, so the earnings rose by 43.1% while the volume fell by 2.3%. This trend continued in the first seven months of 2004: the volume reduced by 37.4% but the earnings fell by only 11.9% compared with the same period last year because the price rose to US\$1,133 a ton.

As for coffee, another staple export from Vietnam, some 749,200 tons were exported in 2003 making an increase of 3.7% only, because the price was much lower than in three previous years. Thousands of hectares of coffee in Western Highlands were replaced with other plants. In addition, this zone suffered a drought, some 4,000 hectares were not watered, especially in Dak Lak, with the result that the coffee output fell drastically. Meanwhile the price of coffee on the world market started to rise in late 2003 when the demand exceeded the supply. This change made the earnings from coffee rise by 46.7% compared with 2002 while the export volume didn't increase. However, the price of coffee in 2003 didn't rise steadily: it rose in June, fell in August and rose again in September, causing a lot of difficulties for producers and exporters. In the first seven months of 2004, the business went better: the volume reached 630,000 tons increasing by 55.2%, the earnings reached US\$416 million rising by 48.5%, lower than the rise in the volume. Generally, the export of coffee always faces problems with the price and export market although it is one of Vietnam's staple exports.

The export of cashew nut in 2003 experienced sudden increases in both export volume and earnings: the former rose by 35% and the latter 36% compared with 2002. This tendency continued in the first seven months of 2004: the volume reached 51,000 tons rising by 19.2% and the earnings were US\$190 million increasing by 34%.

Wooden products for export are more saleable in 2003: its earnings surpassed the US\$550-million mark increasing by 35.2%, second to

aquatic products and rice and much higher than coffee and rice. In the first seven months of 2004 the earnings reached US\$577 million increasing by 87% compared with 2002 and ranked second among farm products for export, second only to the aquatic product.

Besides these increases, there were five items whose earnings showed signs of decline. They were peanut, tea, black pepper, vegetable and pig meat. In the first seven months of 2004 some items started to gain higher earnings but the speed was still low. The volume of exported tea rose by 76.7% but its earnings rose by only 56.4% because its price fell. As for rubber, both its volume of export and earnings fell although the price was higher in comparison with the same period last year. Vegetable and pig meat faced the same falls in both volume and earnings. In the first seven months of 2004, earnings from vegetable reached US\$93 million decreasing by 3% although the supply was reliable. Export volume of peanut fell by 42.5% and its earnings by 45.2%.

Causes of these falls are various. External ones are:

- The Iraqi war and conflicts in Middle East caused the export market to contract. Up till now it shows no sign of recovery.

- Fluctuations in the supply and demand of farm products, especially ones exported by Vietnam, in recent years have been very wide, which made it hard for exporters to work out long-term business plans.

Internal causes are:

- Competitiveness of Vietnamese farm products, especially tea, vegetable, pig meat and rubber, is poor and they are not cheap enough.

- Production cost is high because of small scale and obsolete techniques.

- Most farm products have no brand name. And as a result, many of them have to be exported to an intermediary country, especially when they are exported to Africa and Middle East.

- Local potentials haven't been fully tapped because of poor planning and inconsistent policies, including ones to encourage the export business.

- There is no link between production and processing process. Up to 2004, most farm products are exported as raw materials or semi-finished goods with the result that they couldn't be sold at higher prices.

- Networks for purchasing, storing and processing goods for export

are small and scattered, which leads to failure to integrate into the world and regional markets and compete successfully against foreign counterparts.

3. Predictions of the export of farm products in the second half of 2004

In the remaining months of 2004, Vietnamese farm products will still face keen competition posed by the second year of CEPT/ AFTA implementation. Opportunities, however, are also available. In the years 2003-04, many government delegations launched trade promoting campaigns in developed countries with a view to expanding the market shares for Vietnam in the EU, the U.S., Japan, South Korea, China, East Europe, Russia, South Asia and Africa. Many contracts to sell farm products in large quantities were signed in the first months of 2004. As for the supply, due to good harvest in 2003 and the first half of 2004, the supply of farm products is abundant, diverse and of better quality. The Government has adopted more progressive policies to encourage the export of farm products and they started to produce positive effects. In such a situation, it is predicted that the export of these products will keep growing but the growth rate isn't high. Specific predictions are as follows:

As for rice, the volume of export will reach some 4 million tons because of the following reasons:

- + Asian markets are stable, especially Indonesian and Philippine ones while other markets in Africa, Middle East, Japan and East Europe start to expand.

- + The supply is more reliable due to good harvest. In the Mekong Delta, the average yield reached 5.87 ton per hectare and the output was 8.6 million tons in the winter-spring season of 2004. The Hồng Delta enjoyed good harvests of rice and vegetables.

- + The price of rice on the world market has stayed at a high level, which make the profit for peasants rise by some 50% in the summer-fall season of 2004. It's estimated that the price will rise in next months, which encourages peasants, especially in the Mekong Delta, to do intensive farming, expand the rice growing area and improve the product quality by using new strains.

The export of rice in the first seven months of 2004 proves that these predictions are possible. Besides increases in the volume, the earnings are expected to rise re-

markably due to higher price. It's estimated that the rice earnings for whole 2004 will reach US\$900 million, the highest level since 1999.

The export volume of coffee is expected to rise to 824,000 - 830,000 tons increasing by 10% or 11% compared with 2003 because the price has an upward tendency and stays high in comparison with previous years. However, increases in both export volume and earnings are not high because the coffee output from Western Highlands couldn't increase fast due to the drought in 2002 and the first half of 2004, especially in Dak Lak and Lâm Đồng Provinces. It's estimated that the export volume of coffee in the rest of 2004 will increase by 10% compared with the same period last year.

The export volume of rubber in 2004 will be higher in comparison with 2003 because the markets are expanding, especially the Chinese one. The supply is also on the increase because the rubber area increased fast in 2003, especially in Western Highlands and Eastern South. The volume, however, will grow at a medium rate but the earnings will be higher due to better prices.

Cashew nut will be more saleable in 2004 because of the higher demand while the supply from Eastern South and coastal plains in Central Vietnam is stable.

The export of aquatic products in 2004 will increase steadily because of larger supply and market demand. However, the lawsuit against Vietnamese aquatic products by American producers will affect unfavorably

the export of these products in 2004. The earnings are estimated at US\$2.3 or 2.4 billion for the whole year. Main export markets are the U.S., Japan, China and the EU. The American market shows signs of recovery and could still be the biggest market for Vietnamese aquatic products in the coming years.

Earnings from wooden products in 2004 could reach US\$1 billion but the growth rate isn't high because the supply is limited.

Other products that have no possibility of increasing in the next months are vegetables, peanut, black pepper and pig meat because of poor competitiveness and fluctuations in the market demand.

4. Some suggested measures

Firstly, Ministries of Trade and Foreign Affairs had better soon arrange the signing of contracts to sell farm products for the rest of 2004, and cooperate with export associations in ensuring timely delivery. In addition, they should find market for items with low export volumes.

Secondly, fees and surtaxes could be cut with a view to helping exporters of staple farm products improve their competitiveness and deal with sudden changes in market forces.

Thirdly, Ministry of Fishery and related governmental bodies must help the Vietnamese Association of Aquatic Product Exporters make preparations for the lawsuit against the dumping of Vietnamese shrimp. Legal fee in the lawsuit is very high (some US\$1.5 million), so the support from both central and local governments is much needed. ■

