

ON EXPORT PROMOTION AND HIGHER VALUES FOR FARM PRODUCTS FROM VIETNAM



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Global financial crisis and recession are affecting seriously the Vietnamese economy, especially its export. The export value in the first quarter of 2009 was estimated at US\$13.5 billion increasing some 2.5% over the same period last year. This situation makes it difficult for Vietnam to gain an export growth rate of 13% set by the National Assembly.

In such a situation, the export of farm products from Vietnam can also make some progress because their competitiveness is good enough and the world demand for food is high. Promoting the export of farm products not only help make up for falls in export of other goods but also implement the program to develop agriculture and rural areas as required by the conference of the VCP Central Committee of the 10th term. This effort is more meaningful when the export of manufactured goods is falling.

1. Export of farm products

Farm products account for some 20% of the Vietnam's export value. This proportion hasn't changed for years. Export earnings from farm products approximated US\$13 billion in 2008, and 2.635 billion in the first quarter of 2009. Four out of 11 items that earn at least US\$1 billion in export are farm products. Vietnam ranks among the world's biggest producers of some farm products: the second in rice after Thailand, the second in coffee after Brazil and the first in black pepper. Moreover, the local content in farm products is much higher than that of manufactured goods. These said features affirm the position of farm

products in Vietnam's export. To increase the export value, Vietnam should accelerate changes in the structure of industry and of exports, and at the same time, promote the export of farm products and proportion of processed products.

In spite of their position and share in the export value, the export of farm products faces many external limits and internal shortcomings that should be dealt with as soon as possible. They are as follows.

a. External limits:

- In the market for farm products, the demand is usually stable while the supply often fluctuates (because of weather and harvests in Vietnam and many other agricultural countries) and Vietnam has no regulatory mechanism and facilities for this mechanism. That is why the situation in which "low price after good harvests and high price after the bad ones" repeats itself year after year with the result that peasants are the only ones who suffer losses.

- Peasants tend to grow the crops when their prices rise, which makes the supply exceed the demand after the harvest, otherwise, they abandon the crops when the price falls.

b. Internal shortcomings:

- The product quality is usually low while the quality and food sanitary control is very poor.
- Unprocessed products represent a big share in the export volume and they bring about low added value.
- Mechanism for purchasing farm products for export and regulating the export volume isn't good

enough with the result that it sometimes causes harm for exporters and peasants as well.

- Supply of business information and predictions of changes prices and market forces by both companies and authorities is poor, which makes many companies suffer huge losses. Violations of contracts to sell cause damage to public image of Vietnamese exporters in the eyes of foreign customers (such cases are common among exporters of rice, coffee, black pepper and cashew nuts).

- Ineffective tasks of controlling crops and product quality from all stages (growing, harvesting, purchasing and processing) and lack of agreements with other countries about mutual recognition of standards and technical tests make farm products from Vietnam face technical barriers. Many products with potentials for export (tropical fruits for example) can't be exports in large quantities and exporters have to depend on cross-border trade with China in which prices of Vietnamese farm products are usually cut to the bone. Moreover, China usually keeps strict control over the cross-border trade to protect its interests. More often than not, local companies have to sell out their goods, especially vegetables, at very low prices before they go rotten.

- Trade promotion programs are poor and ineffective.

2. Measures to promote the export of farm products

To increase earnings and added value when exporting the farm products, the said shortcomings must be corrected. Many things should be done in the coming years but they should be started as soon as possible and many of them could be carried out immediately. They are as follows.

- Planning: Certain area can be zoned for production of farm products for export based on predictions of changes in the supply of, and demand for, farm products on the world market. Some mechanism must be developed to prevent producers from making the area for certain products exceed the planned one; such as imposing high land tax on extra areas (this is an act of protecting peasants, not impoverishing them). the plan allows local authorities to encourage peasants to accumulate land when possible to facilitate production of larger scale, introduction of new

techniques and strains of higher quality and yield, and stricter control over the growing stage.

- Processing technology: More investments must be put in new technologies in order to increase the added values of farm exports and diversify farm products.

- Ownership: Co-ownership for both peasants as producers and processing companies must be established to make peasants to get attached to the companies, which help stabilize quality and quantity of the farm products supplied to the companies.

- Post-harvest problems: Post-harvest techniques must be improved in order to reduce loss and enhance the product quality. There must be silos to regulate the supply of farm products to prevent falls in prices after good harvests and shortage of products when the price rises. In locality of silos, credit funds could be formed to help peasants to send their produce to silos when the price falls after good harvests. After sending the produce to the silos, the peasants can get some loans for personal use based on the volume deposited. When the price rises, they can sell their produce from the silos and repay loans. This model is very useful and must be developed by degrees.

- Price stabilization fund: Such fund can be raised among exporters in periods when the export prices go high.

- Standards for exporters: Criteria for participation in the export business (such as product quality, required area of silos or warehoused, and technical and sanitary standards for products for export, etc.) must be established to control distribution and export of farm products more effectively.

- Investing more money and energy in trade promotion for farm products.

- Reorganizing and enhancing the supply of information and predictions of demand for farm products on the world market.

3. Export of farm products during the economic crisis and some suggestions

The global financial crisis is affecting badly the export because investment, employment and income are cut with the result that consumers should adjust their needs to limited income. The demand for farm products, however, won't reduce

much because most of them are food and foodstuffs (except for some kinds for industrial use, such as rubber). The consumers tend to choose cheaper products and price wars will be keener. The export prices and earnings ton of product may get lower. When the total export value made by Vietnam in the first quarter of 2009 rose only by 2.4% (this figure is smaller if re-export of gold is not taken into account), the export of farm products rose by 7%. This proves the position of such products in present situation.

a. Rice: According to many predictions, the world trade in rice in 2001 – 2010 increases by 2.2% a year and reaches 31.4 million tons by 2010. The demand for rice is stable in spite of the crisis. Indonesia may have a good harvest but China suffers drought and some Chinese provinces have to declare a state of emergency. The food price in 2009 may be lower than the 2008 average but still higher the ones in the past few years. In the first quarter of 2009, 941,000 tonnes of rice were exported bringing in US\$785 million, increasing by 71.3% in the volume and 76.4% in the value as compared with the first quarter of 2008. Up to now, Vietnam has signed contracts to sell for 3.8 million tones higher than the planned volume for the first half of the year. Vietnam can export about five million tones this year because of good harvests. Foreign trade authorities should purchase and export effectively in order to protect in-

terests of producers and increase the export value, and moreover, keep the price from rising too high, which may produce bad effects on the wage earners when the unemployment rate goes higher.

b. Aquatic products: According to the FAO, the world aggregate demand for seafood will increase by 2.1% in the years 2006 – 2010. A common food to most peoples in the world, the demand may move to cheaper products, such as catfish, because of the global recession. Products of higher quality will be not as saleable as before, the price war will be keener, especially in sale of shrimp that is not a staple export from Vietnam because of a high production cost and shortage of inputs. In the first quarter of 2009, the Vietnam's export of seafood earned US\$714 million equaling 89.2% of the earnings in the same period last year (this fall was partly due to a Russian ban on import of Vietnamese seafood, but it has been lifted now). Export authorities must pay full attention to food safety to deal with strict regulations and high standards set by importing countries, and enter into new markets, especially the one for various kinds of catfish from Vietnam, such as Russian, former Soviet states, East Europe and Latin America (including Brazil, a big market that has just accepted Vietnamese catfish), but the full attention must be also paid to technical barriers.

c. Coffee: the world import of coffee is expected to rise by 0.2% on average in 2001 – 2010



Farm products at a supermarket

and reach 5.5 million ton by 2010. The real demand doesn't fall much in spite of the recession. Importers of coffee may meet with difficulties in securing the formal credit especially when many banking systems are weakening. In the first quarter of 2009, Vietnam exported 419,000 tonnes, which grew by 21.3% in the volume, and earned US\$634 million equaling 93% of the earnings in the same period last year. Vietnam had better diversify its export market, especially China whose per capita consumption is on the increase. Good predictions are much needed for regulating the speed of export. It's worth noting that the world price tends to rise when Vietnam just finishes harvesting and Indonesia has not yet come to its harvest time.

d. Vegetables: The world import of tropical vegetables and fruits may rise by 8% in the years 2001 – 2010 and reach 4.3 million tons by 2010 and 87% of which, or 3.8 million tons are bought by developed countries. The EU is still the biggest market for these products. Of the four important tropical fruits (pineapple, mango, avocado and papaya), the pineapple is the most traded one but mango is the fruit that gains the highest growth rate in the coming years. The financial crisis may reduce the import but the fall is not serious. Moreover, the Vietnam's share in this business is small, therefore it is hardly affected. Problem with Vietnam's export of tropical vegetables is the sanitary standards. In the first quarter of 2009, its export of vegetables earned US\$91 million, some 3.4% higher than the earnings in the same period last year. Authority must smooth the export of dragon fruit to the US market according to the agreement between the two countries in order to pave the way for other vegetables and fruits to this market.

Japan will help Vietnam beef up the sanitary control over its fauna and flora according to the AJCEP agreement signed by Japan and ASEAN countries in late 2008. Authority had better ask Japan to carry out this agreement as soon as possible to enhance Vietnam disease control capacity as an important measures (along with technical measure and organization of agricultural production) to improve the export Vietnamese vegetables to the world market.

e. Cashew nut: The demand can fall to a certain extent and its price is determined by the

world output. In the first two months, Vietnam exported 22,000 tonnes earning US\$100 million. The supply of cashew fruit is not stable. It's necessary to keep a close watch on changes in the world market to import raw materials at a reasonable level.

f. Rubber: The main market for Vietnamese rubber is China. This Asian country plans to gain a growth rate of 8% but many economists thought it was not an easy task while international financial institutions offered a much lower growth rate. Falls in the oil price makes the price of synthetic rubber fall accordingly, the export price, therefore will be lower than the 2008 one. In the first two month of 2009, Vietnam sold some 79,000 tonnes that is equal to 95.2% in volume and earned only 52.6% in value of the rubber export in the same period last year. It's necessary to time the latex harvest and control the export volume in order to avoid falls in price, and keep a close watch on Chinese package stimuli because they affect greatly development of rubber-using industries, especially the automobile one.

g. Cassava and its products: In recent years, cassava and its products are saleable on the world market. Their main export is also China. The financial crisis and economic recession can prevent the price from rising but the demand is unchanged. In the first quarter, Vietnam exported 1,156,000 tonnes (making a threefold increase over the same period last year) for US\$181 million increasing by 23.7% over the first quarter of 2007. In spite of its increasingly high export value in recent years, it can't be included in the long-term development plan because its value is low, and the crop can exhaust the land and cause pollution. That is why Thai companies transfer production and processing of cassava to Vietnam.

In short, although Vietnam should keep on changing the structure of industry, reforming its economic structure and adjusting to a new development model in its industrialization and modernization program, the export and farm products and increasing their added value by developing the processing industry is still a matter of long-term strategy. This is also one of important contents in the policy to develop the agriculture and rural areas suggested by the 8th conference of the VCP central committee ■