

Competitiveness of Vietnam's Farm Products

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I. OVERVIEW

Over the past 15 years, Vietnam's agriculture has met the market demand, developed rather comprehensively and built a lot of intensive farming areas such as rice and fruit in the Mekong Delta, rubber and cashew in the southeastern region, coffee and cotton in the Central Highlands, tea and paper materials in the northern midland and mountainous areas, aquaculture in the central coast. These areas produce major exports earning large value as well as import substitutes such as milk, sugarcane, maize, and soybean.

Vietnam's agriculture is at the threshold of profound and far-reaching changes in the new millennium. Top officials realize that the time has come to move up the farm value scale, to put quality ahead of quantity, and are frantically launching programs for the purpose. In the 15 years since the launching of the economic renovation and open door policy, agriculture has been one of Vietnam's success stories. Production has far outstripped domestic demand and the country has become a leading farm exporter.

Nevertheless, the restructuring of agriculture and rural areas remains slow and is not kept pace with the market demand. The farm production is still divergent, dispersed and spontaneous. The application of scientific and technological advances is restricted and backward, thus the productivity, quality and competitiveness of several local agro-products are still low and less effective and not stable and the

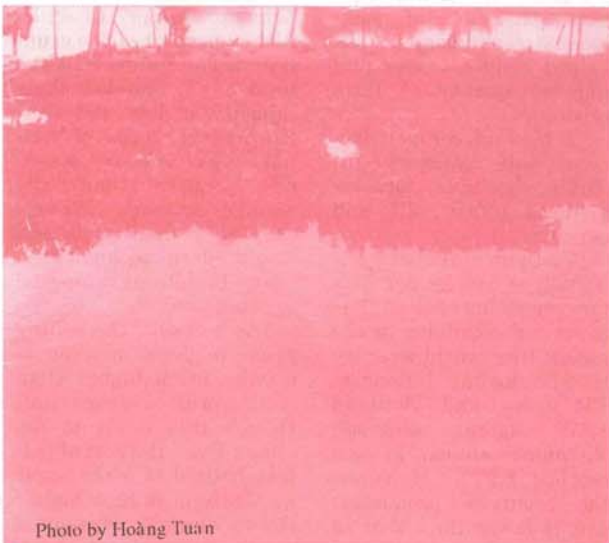


Photo by Hoàng Tuan

consumption of farm produce is difficult.

Just because of this, the process of integration in the regional and the world's economies is opening a lot of opportunities and at the same time, posing not a few challenges to Vietnam's farm products. To promote the competitiveness of Vietnam's farm products, it is required to evaluate advantages of each item, therefore to work out appropriate strategy, solutions and roadmap.

However, things are not quite as rosy as they seem. In centers like Hanoi and HCMC, Vietnamese rice is slowly losing out to Thai imports. World demand for the crop stands at 23-25 million tonnes, of this Vietnam accounts for a mere 3-3.5 million tonnes, well behind India and Thailand; and even that fetches just US\$170-190 per tonne, again well behind its Asian rivals' exports. Where does the fault lie?

For many years, Vietnam concentrated merely

on quantity rather than quality, and it is now coming home to roost. But it's now time for change. If the agricultural sector does not increase competitiveness of agro-produce by improving quality immediately, it will face greater challenges in international markets. But what is needed for Vietnamese agriculture to climb the quality ladder?

Ministry of Agriculture and Rural Development (MARD) has begun programs to boost the quality of traditional crops like rice, coffee, pepper and tea across the country. The ministry is urging local authorities to come up with programs to produce high quality rice. Vietnam has the potential to export far greater volumes of agro-products than it is doing now. But to do that, upping quality is imperative. The competition is getting so severe that local businesses have no choice but increase quality. Moreover, to support exports the country also has to improve infrastructure, up-

date market information and conduct marketing campaigns. These are crucial programs to improve our product competitiveness and penetrate international markets. The chore takes added urgency with agricultural output increasing relentlessly and Vietnam under threat of an agro-product glut. Either new markets must be found or farm production restructured if the nation's farmers are not to fall victims to their own efficiency.

As vital as improving quality is attracting foreign investment into the sector and agricultural officials are mulling ways to do just that. In fact, foreign investment can also help attain the primary goals of making Vietnam's agro-products competitive and expanding its markets. However, despite the sector being considered of great potential, it has failed to allure foreign investors. Thus, while some 80% of the population is dependent on the industry for a living, FDI flows into it remain very modest, representing just 5 per cent of total FDI commitments in the country. Climatic uncertainties, international market situation and diseases are often cited as the reasons for this reluctance on the part of foreign investors.

MARD and the Ministry of Planning and Investment are conducting a survey to review the experiences of FDI projects in operation. Besides, the two ministries are also conducting studies on agricultural policies adopted by other regional countries. Lessons drawn from these studies would be used to

draw up policies to tackle problems.

According to MARD, agro-processing is still in its infancy, with huge potential waiting to be tapped, particularly with foreign capital. Rice processing units have a total capacity of 20 million tonnes per year, meeting 80 per cent of the demand. As regards fruits and vegetables, the total capacity is 180,000 tonnes per year or around 10 per cent of output. Around 50 plants have the capacity to process 100,000 tonnes of coffee per year, or just 15 per cent of Vietnam's output.

While these figures establish the undoubted potential of the farm sector, conditions are still not propitious for it to lure FDI. Foreign investors are justifiably unhappy about purchasing inputs from thousands of farming households for production and processing, while policies to support investors in the sector are not superior to other industries.

II. COMPETITIVENESS OF VIETNAM'S FARM PRODUCTS

Based on factors of production cost, quality, processing technology, capacity, competitiveness and others, farm products may be sorted into three categories as follows:

1. High competitiveness: they include rice, aqua products, coffee, pepper, cashew nut. They have firm comparative advantages in terms of natural and socio-economic conditions, even in the current level of domestic technologies, their prices are still lower than the world prices. Furthermore, their development potentials are long-lasting, their consumer markets large and their advantages fall in one of three factors of productivity, quality and production cost. This category includes three major products such as coffee (high output, good quality), cashew nut (good quality)

and rice (low price). Thanks to reforms of policies on farming, rice production has grown fast in terms of land area and output, for example, the farming areas have risen from 2.4% to 2.6% per year on average and rice output up 5% per year. At the same time, the use of post-harvest technologies has helped reduce losses and improve quality of farm produce.

2. Medium competitiveness: this category includes vegetable, forestry products, rubber, silk, and peanut.

Vietnam's rubber production is 545 kg per hectare, much lower than that of several countries in the region (the world average is 910 kg/ha; Indonesia 734 kg/ha; and Thailand 1,479 kg/ha) although Vietnam's annual growth reaches 6.27%. However, the country's production cost is lower than that in the region due to abundant labor, cheap labor cost and application of new technologies, for example, it is only equal to 70% of Thailand and Indonesia's costs and 60% of Malaysian cost. This indicates Vietnam has advantages in rubber production and it is an important condition to boost export.

In spite of initial achievements, the Vietnam's tea output remains low, only 935 kg/ha on average, as compared to the Indonesian yield of 1,386 kg/ha or over 2,000 kg/ha of Malaysia. As a result, to increase the productivity of Vietnam's tea orchards is a determinant to the country's tea industry. In addition, the local tea quality is also low, and processing technique poor, therefore, the output value is not compatible with the Vietnam's potentials although its price is low; the Vietnam's export price is US\$600 to US\$800 per tonne lower than the world's average. However, the production cost is 14% lower than the export

price, so tea is also a competitive item in international trade.

3. Low competitiveness: this group includes breeding products, milk, sugar cane, vegetable oil, and soybean.

The sugar industry is symbolized by economic efficiency thanks to scale. Although most of the country's sugar refineries have been newly founded, their capacity is low and thus the production cost of Vietnam sugar industry is usually higher than the world's average because they have small scale and not modern technologies, even obsolete as compared to other countries.

As a result, the selling price in local market is usually much higher than the world average (although this tends to decline). Even the cost of materials used to make sugar in Vietnam is also higher than the international price. This shows Vietnam's sugar export potentials are small in short run because in any case, the competitive advantage is always a precondition for development of export activities.

The breeding products, on the whole, have low quality, dispersed production, unsatisfied sanitary conditions and high prices, so the competitiveness remains low.

In short, the comparative advantage of Vietnamese farm produce and aqua-products depends only on natural conditions and cheap labor cost. Nevertheless, several farm products reveal their export potentials: Vietnam accounts for one third of the world's rice market, ranks second in coffee export, the country's rice output is highest in the South-eastern Asia, the production cost of areas growing rice for export is only equal to 80-95% of that in other countries, Vietnam's coffee productivity tops the world's list and the Vietnam's tiger

prawn output ranks third among the world's producer behind Thailand and Indonesia. The labor cost is only one-sixth of Thai cost. In addition to rice, other products are able to expand areas for higher output. The shortcomings in competitiveness of Vietnam's farm products include not concentrated production, high losses after harvest, scattered and not integrated system of processing and preservation, and not synchronous quality. This has bad effects on the country's agro-products.

The Vietnam's loss proportion after rice harvest is 13-16%, higher than that of Thailand (7-10%). The processing technologies are not advanced and small in size (80% of Vietnam's rice processing establishments are modest while those in Thailand have large scale).

Vietnam's coffee and rice are mainly unprocessed products, so their export value is not high. The value of raw rice is equal to two-thirds of that of instant rice, the value of coffee bean is only a half of that of roasted coffee.

Furthermore, producers do not pay full attention to the branding. Most of the country's farm products do not have their own brands. The freight and cost of unloading are high, so their price competitiveness is limited (the cost of unloading at Saigon Port is double that in Bangkok). In addition, the investment capital for research and development (R&D) in farming is only one-tenth of that in Thailand, one-eighth of that in Indonesia and one-third of that in China. Therefore, Vietnam's production cost remains high.

The reasons for low competitiveness of Vietnam's farm products are as follows:

- Derived from a backward agriculture and many years of war, Vietnamese farmers and rural areas

still face poverty, lack of capital, low educational attainment, challenges in innovation and installation of equipment and machinery as well as application of new technologies to production, and finally restricted access to the information about market demand.

- The country's agriculture has just shifted to commercial production (the trading proportion of rice is 50%, coffee 90%, rubber 85%, and tea 60%). Like other countries, Vietnam's farm products are churned out seasonally and hardly kept in reserve or preserved. As a result, they are shipped abroad right after harvest without attention to the law of demand and supply, prices and markets, their selling prices are lower as compared to same-kind products of other countries.

- The research and development of scientific and technological advances, especially for varieties of plants and animals, and processing of agro-forestry-fishery products are slow and have not yet made progress in productivity and quality.

- The planning of production and business is not scientifically logical and practical; the projects are not well implemented and this results to unplanned production and not healthy competition which cause losses.

- The agriculture has not been really developed into commercial trends. Local businesses have not paid full attention to production and business strategy and plans, not specified the structure of products and services, business methods and not established brands in the market. State-owned enterprises generate low efficiency and slowly renovate their activities. The collective sector remains poor and the private sector grows in the spontaneous trend and not healthy competition, thus reducing effi-

ciency of the national economy. The relations between different economic sectors have not been established firmly and closely, especially in export. Associations of businesses have not fulfilled their roles in their representation, protection and assistance.

- The services for production and export including banking, transport, forwarding, telecommunications...face a lot of inadequacies and their higher costs badly affect competitiveness of the manufacturing sector.

- Some mechanisms and policies are inappropriate and slowly rectified, especially policies on land, credit, science, technology and market. The Government's investment for agriculture and rural development has not yet satisfied essential requirements, although it has made great efforts. The system of management does not catch up with growing businesses in the trading sector. The study and application of other countries' experience in this field is still limited.

The analysis of the competitiveness of Vietnamese farm produce shows some following results:

- Vietnam's farm production has some comparative advantages as compared to other countries in the region and the world. However, the country has not yet fully utilized these advantages to enhance the competitiveness in each field.

- The competitiveness of Vietnam's agricultural production depends on mainly cheap labor and existing natural resources. But these advantages tend to decline fast and the country encounters harsh competition with other countries in the region, especially China and Thailand.

- Processing technology innovation is a major key to the promotion of com-

petitiveness. Nevertheless, local businesses have not poured proper investment in this field.

- Lower competitiveness of Vietnam's agriculture includes modest quantity, capacity of harvesting, processing, preservation, transport, and outlets. This is mainly attributed to the dispersion and scattering of farm production. The plans of material growing areas have not been made or inappropriately made, so processing plants are not closely connected with material areas. Just because of this, the major task in competitive enhancement is to organize the network of production and business towards concentration, economic connection, application of scientific advances, and mass production.

III. SOME MEASURES TO RAISE COMPETITIVENESS

- To perfect the legal system to build a liberal framework for the agriculture and rural areas to develop fast.

- To boost the industries preserving and processing farm products to promote their value and efficiency, at the same time to implement the industrialization and modernization of agriculture and rural areas.

- To pour more investments in biological technology including varieties of plants and animals to enhance competitiveness of farm products with a view to expanding local and foreign market shares.

- To combine the product quality and food safety to secure health for customers and satisfy strict requirements of large importers in EU, the US, Japan, and so on.

- To restructure and strengthen the role and activities of business associations with the aim to reach a consensus among enterprises in the same indus-

try and avoid not healthy competition and dumping which lead to loss of markets and national benefits.

- To use advanced technologies and develop biological technologies to beef up production and ensure the national food security.

- To intensify the restructuring of farm economy in the trend of integration and sustainable development.

- To develop organic farming in order to increase export value and protect the environment, make the best use of this advantage when the country basically solve the problem of food security, and boost export of such items as rice, coffee, and pepper.

- To continue improving investments in rural infrastructures and give priority to irrigation projects for industrial plants (both perennials and short-term plants) with a view to promoting productivity, reducing production costs and competing successfully in the market.

- To develop imports-substitute farm products including milk, cotton, vegetable oil, maize, soybean through national programs on renovation of varieties, farm extension, technology transfer ...

- To heighten processing and preserving technologies to increase the value of farm products, and connect the processing establishment with the material producing areas via economic contracts.

- To exchange international experience on a bilateral or multilateral basis, make access to foreign markets with the aim to gather information about modern technologies and advanced equipment and prevent wastes in the process of procuring equipment for innovation.

- To attract local and foreign resources for rural development by appropriate policies and large incentives.■