

Vietnamese agriculture: One year entering the WTO

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Abstract

Vietnam became the official member of the World Trade Organization (WTO) on the 7th of November, 2006. Joining the WTO has brought great opportunities as well as challenges to the Vietnamese economy, especially the agricultural industry. The nation has 73.7% of its population living in rural areas. This includes 13.2 million households of which 11 millions are directly involved in agricultural production. The agricultural industry contributes 21% to the nation's GDP. This paper reviews some achievements of the industry and proposes solutions for it to overcome challenges after being a member of the WTO.

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Key words

Vietnamese agriculture, WTO, export, trade barriers

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Overview of the Vietnamese agricultural industry

Agricultural production

The agricultural sector had to face many difficulties in 2007. The winter was unusually long and severe in the north. Pestilence appeared again in the Mekong Delta and the foot and mouth disease occurred in almost every province of the country. In addition, prices of many inputs were extremely high. In spite of that, the industry still managed to achieve significant outputs.

The total area (up to 15/10/2007) cultivated for rice was 7,207.3 thousand ha of which 2,446.8 thousand ha was in the north and the rest was in the south. This was approximately about 97.3 percent as the same period of the previous year. The areas for vegetables and other autumn-summer and winter crops were also increased. Up to the 15th of October, the total area of winter crop was 339.5 thousand ha including 178 thousand ha of maize, 39.3 thousand ha of sweet potato, 54.3 thousand had of bean, and 61.5 thousand ha of vegetables.

The high prices of coffee, tea, rubber, and pepper have encouraged farmers to invest more in these crops and expand the planting areas. In 2007, the total area of perennial industrial crops was 1,792.1 thousand ha, which was five percent higher than that of the previous year.

The numbers of cattle and poultry have also increased compared with the previous year. In 2007, there were a total of 2.99 million buffalos (increased 2.58 percent compared with the number in 2006) and 6.72 million cattle (increased 3.29 percent compared with the number in 2006). There were 26.56 million pigs and 226.03 million poultry (increased 5.3 percent compared with the previous year). The number of poultry has increased significantly due to the successful control of the H5N1 virus.

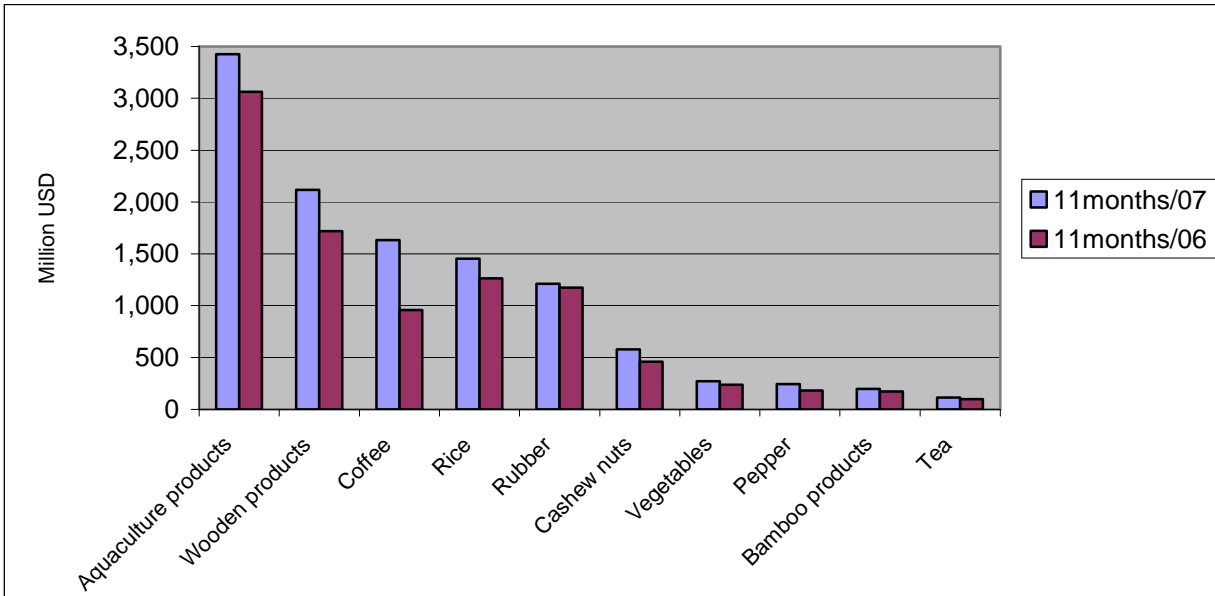
Despite having suffered some severe storms in 2006, the fishery sector managed to grow. In the first ten months of 2007, the total aquaculture product was 1,748,900 tons (reaching 87.4 percent as planned and increasing two percent compared with the same period of 2006).

In 2007, the total value of agricultural production was 231,282 billion VND (increasing 3.4 percent compared with 2006) which contributed 0.61 percent to the growth rate of the economy.

Agricultural export

Agriculture is regarded as the industry that has been influenced the most after Vietnam became a member of the WTO. However, all the key agricultural export commodities have maintained their proportion in the world highly competitive market.

Figure 1: Key agricultural export commodities in the 11 months of 2007



The total agricultural export value (11 months of 2007) was estimated to be approximately 11.5 billion USD, which increased 19.5 percent compared with the same period of the previous year and was 5.6 percent higher than the planned figure for 2007. This included 5.7 billion USD of agricultural products (increased 24 percent), 3.4 billion USD of aquaculture products (increased 11.8 percent), and 2.3 billion USD of forestry products (increased 20 percent) (Figure 1).

By the end of 2007, all the major agricultural export products have exceeded the previous year record. Some of them have increased dramatically such as coffee (increased 1.7 times compared with the previous year) and peanut (increased two times). In 2007, agricultural export has broken the record, earning more than 12 billion USD for the Vietnamese economy. Key commodities included aquaculture products (more than 3.6 billion USD), wooden products (about 2.5 billion USD), coffee (about 1.7 billion USD), rubber (about 1.4 billion USD), and rice (about 1.4 billion USD).

The impact of the WTO on Vietnamese agriculture

Positive impacts

Being a member of the WTO has brought several good impacts for the Vietnamese economy in general and the agricultural industry in particular. First, many policies have been changed to follow the requirements of the WTO. These changes have enabled many agricultural enterprises to improve and develop their capacities, ranging from production to processing and export.

Second, there have been changes in the business practices and organisational structures of many firms and enterprises, especially exporting ones. To be able to survive in the highly competitive world market, agricultural exporting enterprises have tried hard to improve the quality of their products. High quality rice has successfully entered 'difficult' markets such as Japan. In addition, there has been a significant increase in the number of aquaculture products exported to and met all the requirements of EU and USA markets.

Third, gaining the entry to the WTO has created an excellent opportunity for many Vietnamese enterprises to export to and integrate into the world market. Agricultural exporting products are on the lowest tariff and many non-tariff barriers have been removed. This has helped to increase prices of exporting commodities. In 2007, almost all agricultural commodities were exported with high prices. For example, the price of Vietnamese rice has equalled to and even exceeded the price of Thai rice in the world market. Recently, a brand of Vietnamese rice (25 percent broken rice) has reached 350 USD/ton, which is 8 USD/ton higher than that of Thai rice. The prices of rubber and coffee have also increased, reaching 2,390 USD/ton and 1,695 USD/ton respectively.

Fourth, becoming a member of the WTO helps to open the Vietnamese economy. The economic structure will be forced to change focusing on industries which have high competitive advantages, especially those in the agricultural sector. Agricultural resources will be used to produce high productive products which can be exported to the world market with less trade barriers. There will also be more job opportunities in these industries. These positive impacts have been seen in the agricultural sector after one year Vietnam entering the WTO.

Negative impacts and challenges

Nevertheless, the agricultural industry was under high pressure in 2007 being a member of the WTO. The industry will continue to face many challenges in the coming years, especially the removal of trade barriers for imported agricultural products and the increase in prices of inputs.

First, the infrastructure serving the agricultural industry is underdeveloped. This prevents many agricultural enterprises from increasing their competitiveness, especially price competition. It is estimated that the production costs of agricultural enterprises in Vietnam are much higher than those of their counterparts in the region (approximately five times higher than Thailand's and two times higher than China's). Consequently, Vietnamese agricultural commodities are less competitive either in the world market or even in the domestic market.

Second, administrative reforms have been slow that reduce the attraction of foreign investment, especially in the agricultural sector. In the 2006 – 2010 period, there have been 94 key national projects calling for FDI (total of 26 billion USD). However, there is only one agricultural project and four fishery projects. Vietnam has not attracted many investors from countries which have a highly developed agricultural industry such as America, Canada, and Australia.

Third, policies are falling behind the requirements of the integration process. In the past, agricultural policies were mainly focused on meeting the domestic food security (exporting only what is left). It is now shifting towards highly productive and sustainable production. Therefore, it is essential to help farmers to have access to market information and guide them through the integration process.

Fourth, most of the agricultural export products are raw commodities (about 90 percent). This results in low revenue from exporting and many commodities being under paid.

Fifth, Government's subsidies for the agricultural industry have not been enough. On average, Vietnam has total revenue of 12 billion USD from agriculture every year which means up to 1.2

million USD can be used to subsidise the industry in a year (WTO's regulations). However, Vietnam has only used about one third of the allowable amount to subsidise agriculture annually. This further decreases the competitiveness of Vietnamese agricultural products (compared with those from highly subsidised countries).

Generally, the agricultural industry has had some positive impacts after Vietnam became a member of the WTO. In the coming years, the industry will continue to enjoy good opportunities and well as face big challenges. The following section proposes some solutions for these.

Proposed solutions for the agricultural industry to take advantages as well as overcome challenges of being a WTO member

Every country wants to take advantages of being a member of the WTO. However, there will be many conditions that need to be in place before the advantages can be exploited. The following conditions and solutions need to be carried out in the coming years.

Restructure the agricultural industry with focus on the highly competitive commodities

The agricultural industry has recently been restructured with some initial successes. However, there are still many existing problems including the low quality of restructuring work and the inability of new structures to cope with the dynamics of the market-oriented economy. In addition, there has been a weak coordination between agricultural restructuring and policy making, investment, and research and development. In the integration process, it is crucial for Vietnam to identify and develop key economic sectors as well as industries which have comparative advantages. In the coming years, the agricultural industry needs to be restructured to focus on the following industries:

- Rice industry: focusing on investment and improvement of productivity and quality to guarantee food security and export.
- Cattle, poultry, and fishery industries: focusing on implementation of strategies to maintain a sustainable development of these industries.
- Forestry: balancing between the areas of protection forests and production forests (which contribute direct economic benefits to local people).

- Rural industries: building small industrial zones in areas which have traditional villages and strong rural industries development.

Maintain subsidy policies and strengthen 'green box' policies

Under WTO regulations, 'green box' policies are allowed to be implemented. In Vietnam, about 84.5 percent fund of such subsidised policies are used for building agricultural infrastructure, developing extension services, subsidising disaster areas, and maintaining food security.

Approximately 10.7 percent of this fund is used for subsidising the sugar and dairy industries, reducing interests on loan for the poor, and restructuring the agricultural industry. There is only about one to three percent of such fund used for research.

There are about 78 percent of rural households still rely on agricultural production as their main source of income. Subsidised policies can be implemented to withdraw resources out of the agricultural sector in order to change the economic structure. These subsidies are not prohibited under the WTO regulations yet they have not been carried out much in Vietnam. The Government can also pay farmers to help them with production losses and damages. The payment can be directly given to farmers under schemes such as income insurance and tax exempt.

Develop the Good Agriculture Practice (GAP)

GAP is a procedure required to ensure the quality and safety of food and agricultural products.

GAP is considered as a vital element for Vietnamese agricultural products in the process of integration. The four latest ASEAN countries (including Vietnam, Cambodia, Laos, and Myanmar) have had consideration in the issue of food safety. However, none of them has its own GAP. In Vietnam, there have been some projects (funded by Australia and Canada) focusing on GAP yet they were scattered and small in scale. If Vietnam did not develop its own GAP (Viet GAP), it would be very difficult for the country to export its agricultural products. It would even be hard for these products to compete with those imported from overseas where GAP is in practice.

Being a member of the WTO prevents Vietnam from subsidising export. However, Vietnam can still subsidise agricultural extension and develop the agricultural industry. To be able to enter the WTO successfully, it is imperative for Vietnam to develop a comprehensive Viet GAP. In addition, it is essentially important to train farmers to produce in accordance with the practice set out in Viet GAP.

Promote export activities to meet the requirements of the integration process

As committed to the WTO, the average export tariff of Vietnamese agricultural product is 21 percent. This will be reduced from three to seven percent every year depending on different types of commodities. It is now required for agricultural products to have safety certificates (e.g. hygiene certificate, quality certificate, etc). This is a big challenge that Vietnamese farmers and exporters have to cope with because they have used with the traditional way of approaching the overseas market (the way that does not have strict food safety procedures).

It would need a big effort from the agricultural industry as well as from the whole nation to overcome the above challenge. It also requires relevant policy makers to be prepared to and knowledgeable about the integration process. There will be huge opportunities for Vietnam if the country is able to integrate into the WTO successfully.

Speed up the process of renovating State-owned agricultural enterprises

Currently, the majority of state-owned agricultural enterprises is either under financial pressure or operating ineffectively. Financial shortage is the main constraint that prevents the renovation process of these state-owned enterprises. In the next few years, these enterprises will need to be disbanded or partly privatized. It will be important to reduce unnecessary regulations and make the privatisation process transparent.

Speed up the process of propagation and information dissemination

Vietnam had to participate in many difficult and lengthy negotiations before gaining entry to the WTO. The negotiation round regarding agriculture issues was one of the hardest ones.

Consequently, there are a lot of commitments and requirements that the agricultural industry has to follow. These need to be disseminated to agricultural policy makers, agricultural scientists, agricultural managers and especially agricultural enterprises. They need to know and understand the WTO requirements in order to actively join into the 'big playground'.

Conclusions

In conclusion, being a member of the WTO has brought both advantages and disadvantages to the Vietnamese agricultural industry. The advantages, however, will definitely outweigh the disadvantages. The industry will need to be prepared and make more changes to itself in order to successfully join into the WTO.

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