

## Factors Affecting Vietnam's Agricultural Trade

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**ABSTRACT:** The process of globalization is taking place strongly in the world and has a great impact on Vietnam's agriculture. The growth of international trade must first be attributed to the great contribution of trade in agricultural products. The article analyzes the factors affecting Vietnam's agricultural trade to clarify the context of the agricultural market in recent years, aims to provide information for strategic and policy making process related to agricultural product trade, especially the export of Vietnam's agricultural, forestry and fishery products, helping to overcome difficulties and take advantage of market opportunities. Through the analysis in the article, it also helps readers have a deeper insight into the advantages and disadvantages of exporting Vietnamese agricultural products to countries in the region and in the world at present.

**Keywords** -Agricultural trade, agricultural products, food security, climate change, Covid-19.

### I. INTRODUCTION

From the beginning of 2020, the Covid-19 pandemic broke out and began to spread worldwide. To prevent the spread of the disease, countries have applied many measures such as social distancing, city blockade, border closure. These measures have had a profound impact on the global socio-economic. The agricultural sector, especially the agricultural trade, is also not outside the scope of the pandemic, although the agricultural sector is considered to be more resilient than many other sectors [1].

In the short term, the Covid-19 pandemic has affected both supply and demand, causing fluctuations in production and a decline in agricultural trade. In the medium and long term, the Covid pandemic is forecast to affect production, trade and consumption patterns, alter consumption behaviors and trends, thereby reshaping supply chains [2] [3]. After three years of the outbreak, global agricultural trade has been shaped into a "new normal". Accordingly, besides difficulties, the pandemic also opens up opportunities if countries have appropriate strategies and policies. Many major agricultural importing countries, including the US and many European countries, have higher regulations on product standards and quality and apply strict control processes to ensure imported agricultural products are virus-free. causing diseases, making it more difficult for agricultural products to be exported to these markets. In contrast, the demand for agricultural products, especially fruit and seafood, has increased rapidly, providing a larger market opportunity.

### II. RESEARCH METHODS

The study uses desk research methods and descriptive statistics to synthesize, analyze, and evaluate the current situation and prospects of the agricultural market. The study uses secondary information from many sources, especially from the International Trade Center (ITC), the Food and Agriculture Organization of the United Nations (FAO), the General Statistics Office of Vietnam (GSO), General Department of Vietnam Customs, the US Department of Agriculture (USDA) and the Organization of Industry Associations, etc to collect necessary information on the production, consumption and trade of agricultural products.

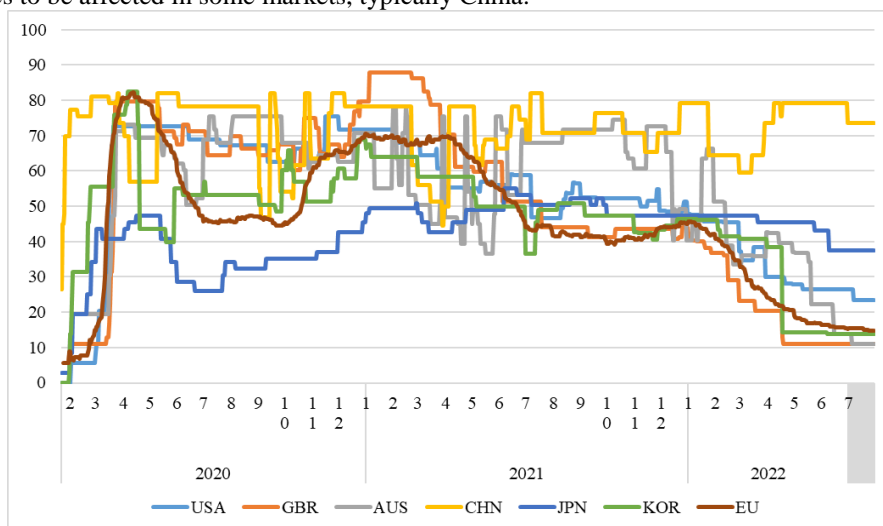
Specifically, the desk study helps to review and evaluate outstanding issues that may affect agricultural production and trade to clarify the context of the agricultural market in recent years. The descriptive method shows the fluctuations of Vietnam's agricultural exports in recent years.

### III. RESULTS AND DISCUSSION

From 2020 to now, the outstanding issues affecting Vietnam's agricultural trade are (1) the Covid-19 pandemic, (2) the implementation of the European-Vietnam Free Trade Agreement (EVFTA) and The UK-Vietnam Free Trade Agreement (UKVFTA), (3) rising input and transport prices, (4) the effects of climate change, and (5) the super-cycle of increasing agricultural prices on the worldwide scope. In the near future, these factors are expected to continue to be the main drivers of agricultural trade. The multidimensional impact of these factors on trade in agricultural products will be analyzed in detail below.

#### A. Covid-19 pandemic

The Covid-19 pandemic began in January 2020 and continues to evolve complicatedly until the end of September 2021. To prevent the spread of the disease, countries around the world have taken many measures to control the disease. control the spread of disease such as isolation, blockade, ban/restriction of movement within the country, region, even the whole world. Figure 1 shows that disease control measures were applied at a high level (over 50) in most of Vietnam's major agricultural product importing countries from early 2020 to mid-2021. As of mid-2021, the level Most of these countries' control is reduced to China and Australia. Currently, China still maintains 80% control. Australia has sharply reduced the level of control since the beginning of 2022. For Japan, the level of control is only about 50, but the level of control in 2021 will increase, not decrease compared to 2020. This means that agricultural trade has been affected. affected by the many policies implemented to control the epidemic. Currently, although the disease has been controlled globally, agricultural trade continues to be affected in some markets, typically China.



**Figure 1: Covid-19 Control Index**

Source: Blavatnik School of Government - BSG [4]

Note: The Covid-19 control index is a composite index calculated from indicators on disease response policy, epidemic policy implementation, disease control and medical support, and economic support, the risk of market opening; see details at <https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker>. This indicator fluctuates from 1 to 100 with 100 being the most strictly controlled.

Short-term measures to respond to the pandemic, such as isolation, blockade, restriction or ban on movement, immediately have multi-dimensional, even contradictory, effects on supply and demand and trade in agricultural products. On the demand side, the demand for essential agricultural products, especially food, increased due to (1) the fear of increasing stockpiling and (2) more household consumption at home. In contrast, non-essential agricultural products, mainly consumed in restaurants, decreased not only because people were forced to stay at home but also because of limited employment opportunities, reducing income. Consumption of non-essential agricultural products has higher price and income elasticity of demand than essential goods, so demand will fall more.

On the supply side, due to concerns about food security, the supply of agricultural products increased as countries increased purchasing and stockpiling. On the contrary, due to the distance, isolation, interruption of agricultural production and transportation of agricultural products, the supply of labor is reduced, making it difficult to supply agricultural inputs, affecting the supply of agricultural products. and post-harvest stages, including preliminary processing, preservation, processing and distribution of goods. The closure of borders, blockade of seaports, and increased quarantine for goods, vehicles and transport participants, which prolong the transit time, also negatively affect the supply of agricultural products.

In the medium term, in order to adapt to the "new normal" when the epidemic persists, commercial production must still be maintained and countries still have to strive to ensure food security, control measures to

ensure food security. Disease control will be eased in both exporting and importing countries. Therefore, the supply of agricultural products is more secure thanks to measures to support production and transportation. Demand also improved as job opportunities stabilized, helping to improve incomes.

Due to the above-mentioned multi-dimensional impacts and the importance of food security for most countries in the world, including developed countries, many countries have adjusted their agricultural trade policies to ensure food security. national food security as well as limit the negative impacts of the pandemic on agriculture and trade in agricultural products. It can be seen that most of the countries importing agricultural products from Vietnam, especially China, have measures to control trade in agricultural products. Import policies are dominant and the number of policies restricting imports is also large - similar to the policy of encouraging imports. This again illustrates the complex impact of the pandemic on agricultural trade. For reasons of disease control, many countries restrict imports, but also because of the epidemic, concerns about food security increase, so they increase imports to ensure the supply of agricultural products.

### **B. EVFTA and UKVFTA**

EVFTA is a new generation free trade agreement (FTA)<sup>1</sup>, effective from August 2020. EVFTA is considered to help open up great market opportunities for Vietnamese agricultural products but also poses many challenges due to This is a market with strict standards and strong competitors. Specifically, the main positive impacts include (1) expanding export markets with strategic and advantageous agricultural products thanks to tariff reduction commitments, (2) diversifying raw material supply. inputs for agricultural production and (3) diversifying potential overseas investment markets for Vietnamese businesses as well as creating opportunities to attract foreign investment options in the agricultural sector to help improve High product quality and production efficiency. In contrast, exporting agricultural products may face many difficulties related to non-tariff commitments (SPS/TBT, regulations on traceability, intellectual property, labor, information transparency, social responsibility, environment,...) closely in the EU market. Domestic trade will be subject to greater competition from imported agricultural products, especially livestock products, as tax barriers to imports into Vietnam are gradually reduced.

Table 1 lists the advantages and disadvantages of the EVFTA that some key export industries may face. Basically, the challenge comes from non-tariff measures because the production and processing capacity of Vietnamese agricultural products has not yet met the high quality requirements of the EU market. This makes it difficult to compete with other exporters in the EU market. Taking advantage of opportunities from this market will not be easy.

**Table 1: Opportunities and challenges from EVFTA for some key agricultural products**

<b>Industries</b>	<b>Opportunities</b>	<b>Challenges</b>
Rice	The EU grants a quota of 80,000 tons/year and liberalizes broken rice to increase competitiveness with Thailand, but the EU is not the main market	Competing with Thailand on standards, quality certification
Coffee	Immediately eliminate 100% of tax lines, favorable for instant coffee and deep-processed coffee; helping to attract FDI into domestic coffee production and processing; easy access to main markets for export fresh coffee are Germany and Spain)	The quality is not high, the percentage of area applying sustainable farming techniques 4C, Rainforest Alliance is limited, the market share of deep processing is mainly held by FDI enterprises
Seafood (shrimp, pangasius)	EU is the main market. Nearly 50%, about 840, the number of tax lines with the base tax rate of 0-22%, of which the majority of tax rates are high from 6-22%, will be reduced to 0%. About 50% of the remaining tax lines have a base tax rate of 5.5-26%, which will be reduced to 0%	Competing with Argentina, India, Thailand, Bangladesh, many SPS/TBT fences, traceability requirements, eco-labels. With EU caught seafood, there are strict regulations against illegal, undeclared and unregulated (IUU) fishing

<sup>1</sup> The new generation FTA has broader and more comprehensive commitments. In addition to commitments on free trade in goods and services, the new generation FTA has a tax cut rate of almost 0%, has a strict enforcement mechanism, and covers areas such as labor, environment, state-owned enterprises, government procurement, transparency and investment dispute settlement mechanism (For details, please refer to <https://trungtamwto.vn/thong-ke/12065-tong-hop-cac-fta-cua-viet-nam-tinh-den-thang-112018> and <https://trungtamwto.vn/an-pham/15709-cac-hiep-dinh-thuong-mai-tu-do-the-he-moi-va-tac-dong-doi-voi-kinh-te-viet-nam>).

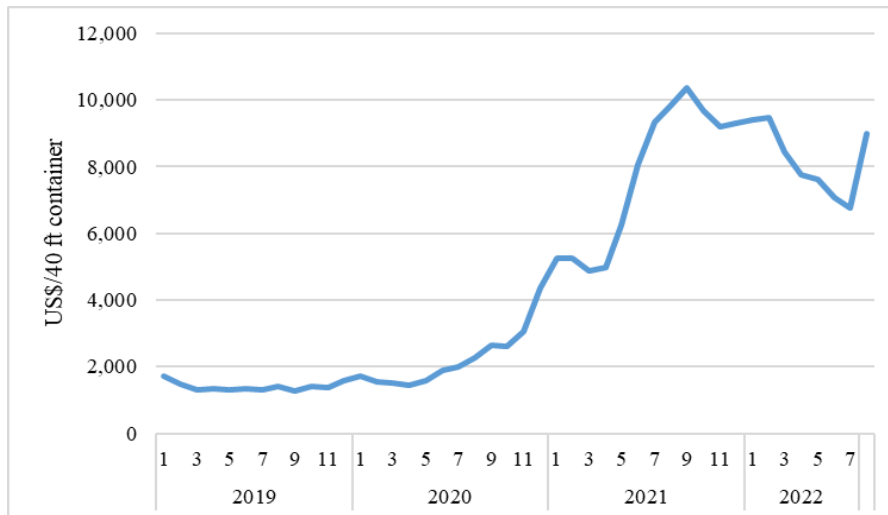
	after 3 to 7 years. Particularly for canned tuna and fish balls, the EU gives Vietnam tariff quotas of 11,500 tons and 500 tons, respectively	
Vegetables	Product demand is diverse and the EU immediately removes 100% of tariff lines	Strict requirements on food safety, disease safety, origin, growing area code, certification
Cashew	There are not more opportunities because the tax before EVFTA is not high or has basically gone to 0%	Strict requirements on food safety, disease safety, origin, growing area code, certification
Pepper	There are not more opportunities because the tax before EVFTA is not high or has basically gone to 0%	Strict requirements on food safety, disease safety, origin, growing area code, certification
Wood and furniture	83% of tariff lines will be eliminated immediately and 17% will be eliminated in 3-7 years (chipboard/fiber, plywood...)	Trace the origin of raw materials and verify the legality of wood; packaging, labeling
Natural rubber	There are not more opportunities because the tax before EVFTA is not high or has basically gone to 0%	Processing capacity is weak, selling through intermediaries is the main thing

Source: Compiled from MOITA [5]

The UKVFTA officially took effect on May 1, 2021. According to the assessment of the Ministry of Industry and Trade [6], the UK is currently a large market for a number of key export industries of Vietnam. In 2020, cashew nut exports to the UK reached more than 16,000 tons, worth more than 92 million USD, accounting for 71% of the market share; pepper exports more than 5 thousand tons, accounting for nearly 40% of the market share; exported nearly 30,000 tons of coffee, accounting for nearly 5% of the market share of coffee imported into the UK. With more than 94% of the total 547 tax lines on fruits and vegetables and fruit and vegetable products exported to the UK being reduced to 0%, this agreement creates a competitive advantage for many Vietnamese agricultural products entering the UK compared to the UK. similar products originating from countries that do not have an FTA with the UK such as Thailand, Malaysia, Indonesia, South Africa or India. Similarly, for the seafood industry, import tax on most of Vietnam's raw shrimp (fresh, frozen, chilled) into the UK will be reduced from the basic tax rate of 10-20% to 0% as soon as the agreement comes into effect. force. The groups with the earliest advantages in the aquatic products group are shrimp and some fish (pangasius). Vietnam will have an additional competitive advantage over strong rivals from China, India, Thailand, Malaysia, Indonesia, the Philippines and Myanmar, which have no prospect of signing an FTA with the UK in the near future.

### C. The cost of transportation and input materials soars

Besides the adjustment of agricultural trade policies, one of the major impacts of the pandemic on trade in general and trade in agricultural products in particular is the fluctuation of international freight rates. Along with causing disruptions in the supply chain, in logistics and international transport due to measures to restrict movement and trade, the pandemic also caused a serious imbalance of supply and demand, leading to large fluctuations in freight rates. international download. In addition, the impact of the blockage of the Suez Canal, which is an important route to bring Vietnamese imports and exports to Europe, in March 2021, caused sea freight rates to skyrocket, nearly 7 times times over two years ago, to above US\$10,000/40ft container in August 2021 compared to below US\$1500 in August 2019 (Figure 2). Sea freight rates will cool down in early 2022 but remain high and will therefore cause many difficulties for international trade in the near future.

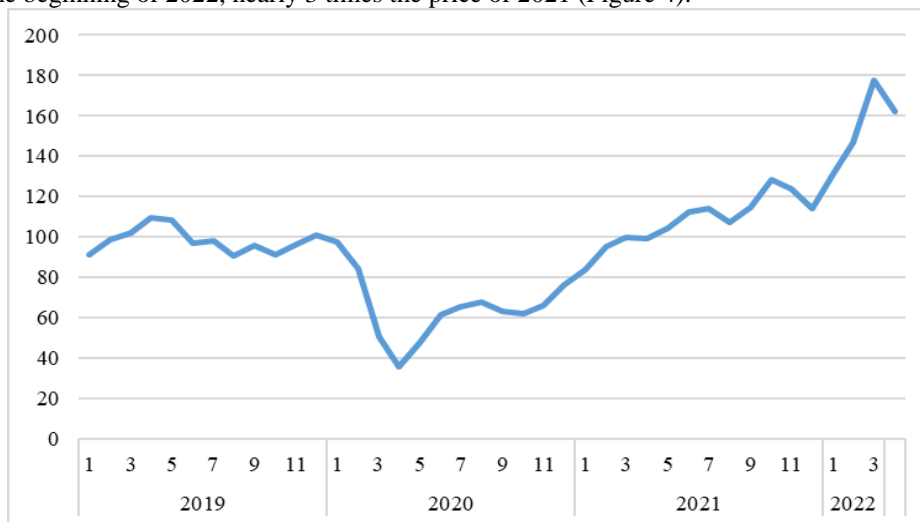


**Figure 2: International Freight**

Source: Statista[7]

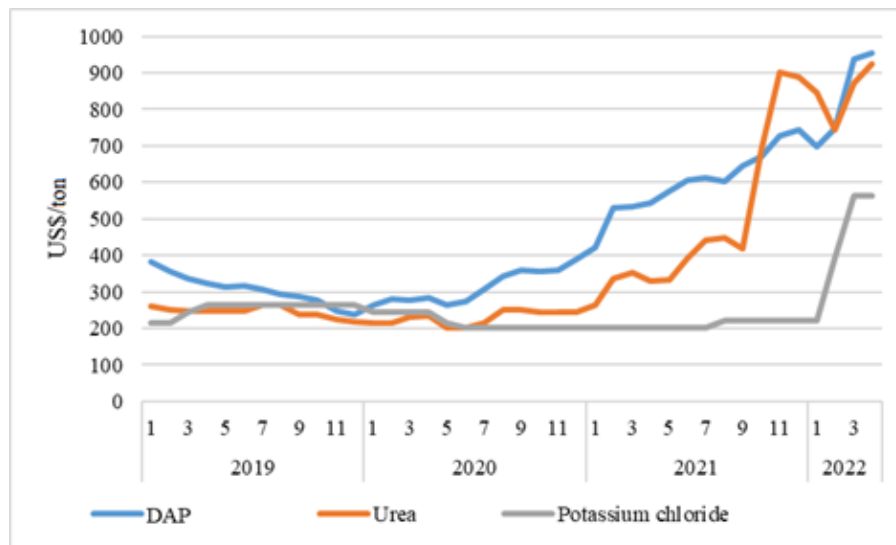
Note: The price is the average price of the last five business days of the last full week in each month; The price is calculated based on the freight cost of 40ft container through 8 main routes, including spot price and short-term contract price.

The price of crude oil and fertilizer both reached record highs in 2022, causing many difficulties for the production and export of agricultural products. Starting in mid-2021, crude oil prices started to gain momentum due to increased demand for crude oil as the pandemic began to be under control and continued to increase sharply in early 2022 when the Russia-Ukraine war began in February 2022 (Figure 3). As an important input of all production and business industries, rising oil prices cause an increase in input prices for agriculture. Specifically, the price of urea reached a peak at the end of 2021, more than twice the price of 2019. The price of phosphate continuously maintained its upward momentum from the beginning of 2021 and continued to maintain its upward momentum until the beginning of 2022. The price of potassium chloride increased non-stop from the beginning of 2022, nearly 3 times the price of 2021 (Figure 4).



**Figure 3: Crude Oil Price Index**

Source: OECD/FAO [8]



**Figure 4: Fertilizer Price 2019-2022**

Source: OECD/FAO [8]

#### **D. Climate change and natural disasters<sup>2</sup>**

Vietnam is one of the countries most affected by climate change. Increased temperature, increased rainfall and sea level rise make saltwater intrusion more and more widespread and increase the frequency and severity of abnormal weather phenomena such as droughts, floods, and thunderstorms. As a manufacturing industry that relies heavily on weather, Vietnam's agricultural sector is increasingly exposed to the negative impacts of climate change and natural disasters.

In 2019, there were 16 types of natural disasters in the whole country. Including 8 storms and 4 tropical depressions; 222 thunderstorms, lightning storms; 10 flash floods, landslides; 4 waves of severe cold, harmful cold; 13 heat waves; 63 heavy rains, flooding; 13 earthquakes; tides, riverbank erosion, and coastal erosion in many areas in the Mekong Delta.

The year 2020 is a year when natural disasters are complicated, fierce and anomalous in all regions of the country. There are 16 types of natural disasters in the whole country. Including 13 storms in the East Sea; 264 thunderstorms and whirlwinds; 120 floods, flash floods, landslides; especially the historic heavy rain from October 6 to 22 in the Central region; 86 earthquakes; drought, severe saltwater intrusion, riverbank and coastal erosion, sea dyke subsidence in the Mekong Delta. Natural disasters made 357 people dead and missing, 3,429 houses collapsed, more than 333 thousand houses were damaged or roofed off; over 198 thousand hectares of rice and crops were damaged; 52 thousand cattle and 4.1 million poultry were killed or swept away, with a total loss of nearly 40 trillion dong. In particular, within just 45 days from mid-September to the end of October 2020, historic heavy rains occurred in the Central region, killing 267 people and causing 35.8 trillion VND in damage.

In 2021, there are 16 types of natural disasters in the whole country. Including 12 storms and tropical depressions in the East Sea. The year 2021 is considered to be a year of "wind and rain" with much less damage than 2020. Natural disasters in 2021 leave 108 people dead, missing, 95 people injured; estimated value of damage is more than 5,200 billion dong, which is almost the lowest level ever.

In 2022, in the first 5 months of the year, Vietnam experienced 70 heavy rains, 74 thunderstorms, 24 riverbank landslides, 107 earthquakes and 2 severe and damaging cold spells. Due to the influence of La Nina, many natural disasters will be more complicated, fierce and unpredictable than in 2021, especially the upcoming stormy season. Heavy rain can be concentrated in the last months of the year, many storms are likely to have unusual orbits and intensity.

#### **E. Super cycle of increasing agricultural prices**

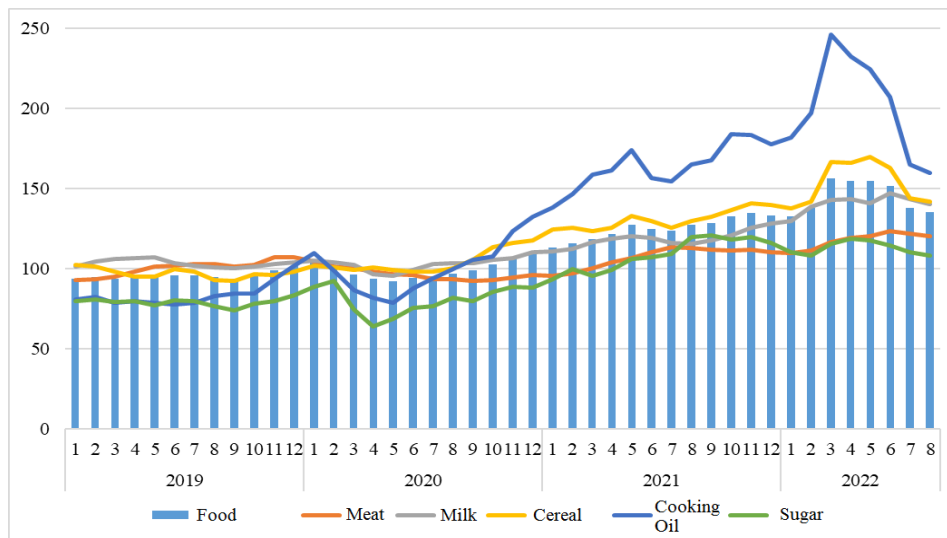
Many analysts say that there are signs that indicate the beginning of a bull super cycle<sup>3</sup>. The food price index has also been on the rise since the end of 2020 and continues its upward momentum to date (Figure 5)

<sup>2</sup> Synthesize data from many sources, mainly from the General Department of Natural Disaster Prevention and Control at <https://phongchongthientai.mard.gov.vn/Pages/Thong-ke-thiet-hai.aspx>

<sup>3</sup> A super bull cycle is a long period of time, maybe a few years or more than a decade, during which demand is so strong that supply can't meet it, causing prices to rise. This term is used to distinguish it from the term cyclical, which is often used to refer to market changes due to supply shocks such as crop failures (For more



mainly due to the rapid increase in the price index of cereals, vegetable oils and dairy. Notably, the uptrend shows no signs of cooling down and is currently standing at a high level. Thus, it can be seen that food prices have fluctuated strongly and complicatedly since the beginning of the pandemic, which is different from the previous stable trend. These large and contradictory fluctuations partly illustrate the fact that the pandemic, in particular the disease control measures and the change in agricultural trade policy due to concerns about food security and safety, is not the case. The entire epidemic as analyzed above has caused fluctuations in the prices of food security products (cereals and especially rice) and the basic inputs for food processing are sugar and cooking oil. In addition, since the end of 2021, the increase in food prices is also due to China's strong demand for these items to recover the domestic livestock industry after the African swine fever epidemic. Also due to the pandemic, the government's stimulus packages, especially the unprecedented large stimulus packages of the US government, also contributed to a rapid increase in demand for many commodities, including agricultural products.



**Figure 5: Food Price Index**

Source: OECD/FAO [8]

Note: The Food Price Index (FPI) measures the monthly change in the international price of a basket of food commodities. The FPI is calculated as the weighted average of the five commodity price indexes. Weighted by average export share of each group for the period 2014-2016

For Vietnam, the continuous increase in agricultural product prices is expected to benefit a number of industries such as rice and sugar, and fertilizer companies also indirectly benefit from the increased demand as farmers increase production to increase production. take advantage of rising food prices. However, because Vietnam has to import powdered milk, grains and oil to produce milk, animal feed and cooking oil. These industries will face the challenge of higher input costs. An increase in the price of animal feed will negatively affect the domestic livestock industry. In addition, the increase in the price of input fuels, including oil, leading to an increase in transportation costs will also push up transportation costs, which is detrimental to trade in agricultural products.

#### IV. CONCLUSION

In the context of opening up to international economic integration, the import and export activities of countries are a measure to evaluate the results of the process of international integration and development in the interdependent relationship between countries. Each country produces and exports goods not only for the regional market but for a global market, this is a level playing field with fierce competition. That requires each country to choose for itself a number of goods in which it has an advantage over other countries to invest in the production and supply for the global market and to re-import the products it owns. inefficient production from other countries, thereby forming international division and specialization, each country's economy is closely linked to the world economy. The development independence of each country is that the dependence of that country on the world must be balanced with the dependence of the world on that country. In addition, the signing of bilateral and multilateral trade agreements and accession to international economic organizations will create favorable conditions for export agricultural products to penetrate and expand the market.

information see at <https://www.bloomberg.com/news/articles/2021-02-26/when-does-a-commodities-boom-turn-into-a-supercycle-quicktake>)

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