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Research on Opportunities and challenges on Vietnam's agricultural trade in the context of Covid-19 pandemic and policy recommendations

**Policy brief:
Improving Resilience and Sustainable Development of Vietnam's
Agricultural Trade in the Context of the Covid-19 Pandemic**

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1. Introduction

The Covid-19 pandemic has brought about unprecedented impact on the world's economy in 2020. Measures to control the disease including social distancing, lock down and closure of schools and factories have had a profound impact on all socio-economic activities. Trading activities, especially international trade, are therefore influencers. Statistics show that agricultural trade – both exports and imports – declined in 2020, but the decrease in agricultural import and export turnover is lower than the decrease in total merchandise imports and exports. In other words, the agricultural sector is more resilient to the effects of the pandemic.

Vietnam's agricultural exports and imports show a small increase in 2020. Agricultural trade surplus kept stable at US\$10 billion, contributing over 50% to the country's total merchandise trade surplus last year (TCHQ, 2020). However, by agricultural sub-sector, except for rice, wood and wood products, and rubber, exports of other key agricultural commodities all dropped due to the delay in production and disrupted supply chain caused by the pandemic. In the medium and long term, the pandemic is forecast to affect production, trade and consumption patterns, bring changes in consumption behaviors and trends, thereby reshape supply chains (OECDa; OECDb, 2020). Global agricultural trade is expected to enter a “new normal” state after the pandemic, opening up great opportunities for countries if appropriate strategies and policies are in place. This means that alongside difficulties and challenges, the pandemic provides an opportunity for the agricultural sector to restructure its production and market structure; to transform the traditional supply chain; to promote the application of science and technology; and to improve production and business models. Having comparative advantage in the agricultural production and being a major exporter of agricultural products, such changes are highly necessary for Vietnam to compete well in the post-pandemic period.

In this context, this study aims to provide inputs for the policy-making process to effectively respond to challenges and take full advantage of opportunities that Vietnam's agriculture sector gained from the pandemic. Specifically, the study focuses on analysis of opportunities and challenges for agricultural trade through (1) understanding the fluctuations in agricultural trade globally and in Vietnam, (2) a review of adjustments in agricultural policies and agricultural trade policies worldwide, and (3) case studies of production and trade of three major agricultural products including rice, fisheries, and fruits and vegetables in the context of the Covid-19 pandemic.

2. Main findings

2.1. Opportunities and challenges from an analysis of fluctuations in agricultural trade

Statistics by ITC (2020)¹ show decreases in international imports and exports of agricultural products in 2020 compared to 2019 and the decreases are higher than those in 2019 compared to 2018. However, the agricultural trade reduced at a lower rate than the reduction in the total merchandise trade, leaving a bigger share of agricultural trade in the total merchandise trade. The main reason is that agricultural products are necessities, thus having a low income elasticity.

As for Vietnam, agricultural exports and imports in 2020 increased slightly, according to Vietnam Customs (2020). Exports is about US\$41 billion and imports is roughly US\$31 billion while the figures for 2019 are US\$40 billion and US\$30 billion, respectively. Therefore, the surplus in agricultural trade remains at US\$10 billion. Exports of rice, wood and wood products, and rubber kept increasing last year. Besides these encouraging numbers, exports of other key products, including fisheries, fruits and vegetables, coffee, pepper, cashew, and tea all decreased. In particular, the export turnover of fruits and vegetables experienced the largest decrease of over 13%.

An analysis of fluctuations in exports by agricultural sub-sector shows a significant increase of rice. The main reason for this is that rice is essential for food security, making its demand – both domestic and international – expand. However, statistics show that Vietnam mainly exports rice at low prices to low and medium quality markets such as China, the Philippines, and Ghana. This means that although there exist opportunities for rice exports, there are challenges in entering new markets since they require improvements in production to produce high quality rice and changes in market approaches that meet regulations and practices in these markets.

Exports of fisheries and fruits and vegetables decreased in 2020. China is the largest export market of Vietnam's fruits and vegetables, accounting for nearly 60% of the total exports despite a sharp decline in 2020. China is one of the three largest fisheries importers of Vietnam. Last year, fisheries exports to China decreased, but to the US and UK markets increased. Fruit and vegetable exports to non-China markets increased, especially exports to Thailand. This means the pandemic offers high-end market opportunities for these products. However, similar to rice,

¹ ITC records trade numbers of 161 out of 247 states and countries worldwide.

challenges to changes in production and market access come along. Our analysis finds that the pandemic has changed the consumption structure towards products for home consumption which requires higher processing levels and is diversified. This poses a challenge for the processing industry which is currently suitable for processing products in hotels, restaurants, and canteens. In addition, shipping to markets outside of China requires a better infrastructure system, particularly facilities for a cold chain, which Vietnam is lacking.

2.2. Opportunities and challenges from an analysis of adjustments in agricultural policies and agricultural trade policies.

60 countries worldwide have adjusted their agricultural trade policies in response to the pandemic (ITC, 2020). Although these countries account for only a quarter of the total number of countries worldwide, they include both underdeveloped, developing and developed countries. Specifically, five largest importers of agricultural products, namely the US, China, India, Russia, and South Korea, that cover 30% of the global agricultural imports, are included.

Export policies mainly aimed at reducing exports to ensure food security. Major rice exporting countries including Vietnam, Cambodia, and Myanmar temporarily banned their rice exports in 2020 for this purpose. Import policies are adjusted in two directions. Many countries that are not self-sufficient in food increase imports and some restrict imports to control the disease due to the fear of spread and contacting the disease from imported agricultural products. Examples include the Chinese ban on imports of meat, fish, and fisheries and the requirement of disease-free certificate by Indonesia for imported live animals. The Philippines serves as a special case when it halted rice import in the short term to support domestic rice production given it is a major rice importer.

Policy adjustments can affect exports of agricultural products, particularly rice, in two directions. Import restrictions of importing countries, especially large importers, create demand volatility, causing difficulties for Vietnam's exports. Exports control by countries competing with Vietnam in the world market leaves opportunities for Vietnam to enter the markets that these countries have left open. However, taking advantage of these opportunities requires consistent policy actions. In fact, Vietnam could not take advantage of the opportunity to export rice to markets that are left open by Myanmar and Cambodia in 2020 since the country also banned exports at the same time. Unusual fluctuations in agricultural trade caused by short-term temporary policies such as import or export bans or regulations on disease-free

imported agricultural products also raise the issue of a better management of agricultural trade and thereby to be proactive in production.

An overview of agricultural policy adjustments shows that during the pandemic, both agrarian countries and developed countries provide support for the agricultural sector (IMF, 2020). Various Asian countries such as Bangladesh, Cambodia, India, Pakistan, the Philippines, Thailand, and Myanmar support farmers and agri-businesses since they are key stakeholders in the agricultural value chain and are thus directly affected. Support is provided for short-term and medium and long-term impacts. Provision of credit and material inputs (e.g. seeds and fertilizer) is an immediate support to respond to the pandemic in the short term. In the medium to long term, investments in the agricultural sector, especially in infrastructure for agriculture such as ports, storage facilities, and specialized logistics equipment, help improve the sector's resilience to pandemic-like shocks.

The Vietnamese government has introduced a variety of fiscal and monetary policies to support workers, households and businesses from all economic sectors including agriculture but none is specifically designed for agriculture. While many countries provide support for agriculture, it is irrational when Vietnam offers no support. With a small scale production, more vulnerable than other industries due to the impacts of climate change and natural disasters, the absence of effective support makes it even more difficult for agri-businesses and farmers to manage in the pandemic, resulting in bigger impacts on agricultural production.

2.3. Opportunities and challenges from case studies of major agricultural sub-sectors.

Rice, fisheries, and fruits and vegetables are selected sub-sectors for case studies since they are three of the ten leading exporting agricultural products. These sub-sectors are main livelihoods of a major part of rural dwellers. Rice is a particularly important commodity for food security. In addition, during the pandemic, these three commodities receive diverse impacts, facilitating a multidimensional analysis and policy recommendations.

To collect primary data, surveys were implemented in 2 big cities, Hanoi and Ho Chi Minh, and 5 provinces in the Mekong River Delta including Soc Trang, Can Tho, An Giang, Dong Thap, and Ca Mau. Interviewees were categorized into three groups. Group 1 consists of representatives from central and local government agencies involved in agricultural production and trade and representatives from different commodity associations. Group 2 includes representatives of agri-

businesses and cooperatives. Group 3 includes farmers cultivating rice, fruits, vegetables and fisheries farmers. Surveys tried to collect current information about pandemic impacts, responses and support as well as forecasts about future impact, future responses, and the need for support to the agricultural sector and stakeholders along the value chain.

The survey results show that the pandemic affects production, exports, and domestic trade in agricultural products. The pandemic provides market opportunities for rice and non-China market opportunities to export fisheries and fruits and vegetables. However, as discussed above, such market opportunities come with challenges in improvements in production that meet quality standards, disease-free requirements, deep processing and diversified demand.

Regarding agricultural production, the pandemic brings an impetus for innovation in production. Labor scarcity due to the imposition of disease control measures requires acceleration in mechanization, application of science and technology to reduce manual labor use. Products need to be more diversified and better processed to meet changes in demand structure. Disruptions in the supply chain due to the pandemic induces demand for investment in storage facilities. The pandemic prompts the transformation from traditional face-to-face trade to online shopping. However, given the fact that almost all farmers have tiny farm-size, 90% of agri-businesses are small or micro (VCCI, 2018), and most of them do not receive support to respond to the epidemic due to limited support and the unavailability of support that meets their needs according to survey results, such impetus implies substantial barriers for farmers and businesses to improve their production.

The pandemic is found to bring more challenges than opportunities for the domestic trade of agricultural products. The domestic rice market is forecast to be stable as supply and demand are unlikely to fluctuate. In the domestic market, there exists fierce competition from imported fruits. The domestic market for fisheries products being exported, particularly pangasius, is small because they do not have the habit of consuming these products. Therefore, occupying the domestic market requires conscious communication campaign, proper tools for collection and analysis of market information, demand and demand structure forecast to navigate production that meets domestic demand. This will help avoid farm produce rescue and hoarding disorder that happened in the context of Covid-19.

3. Policy recommendations

From the above analysis of opportunities and challenges, the following policies are recommended to overcome the challenges and take advantage of the opportunities posed by the pandemic for agriculture.

First, agricultural trade policy needs to be managed consistently. The policy should take into account not only domestic but also international economic and political benefits to make the most of market opportunities brought about by the pandemic or similar shocks.

Second, investment cooperation in agricultural production between Vietnam and the importing country need to be developed to curb the negative impact of the short-term unusual policy adjustments of the importing country on agricultural trade. This means the relationship between the exporter and the importer will be transformed into a relationship between the investor and investment receiver. As a result, agricultural trade becomes more stable and production becomes more proactive.

Third, investment in infrastructure for agriculture, primarily storage systems and cold chain, should be promoted in order to minimize negative impacts caused by supply chain disruptions on agricultural trade. Such investment also facilitates exports of products to distant and high-end markets, reducing the heavy dependence on one or some particular markets.

Fourth, processing industry is required to improve to meet the demand of deep processing and diversified products in high value-added markets.

Fifth, the agricultural sector, primarily farmers and agri-businesses, should be supported. However, support needs to be designed to match their needs, capabilities and business cycle. In addition, support must be delivered in an easy-access manner.

Sixth, entering new markets brought about by the pandemic requires thorough understanding of the regulations and practices in the markets. Therefore, it is necessary to maintain a rich database system that regularly updates production and market information, to improve data analysis, forecasting capacity, negotiation and dispute resolve skills, trade promotion skills of designated agricultural agencies, to implement origin traceability system for exported agricultural products.

Seventh, linkages between farmers and farmers and between farmers and agri-businesses should be promoted to overcome the biggest limitation in agricultural production which is small-scale. Improvement in production scale serves as a basis

for mechanization process, application of science and technology, production according to quality standards and disease-free requirements, and the development of the processing industry thanks to the stable supply of raw produce.

In short, despite challenges, the pandemic provides opportunities for improvements in production towards higher efficiency and offers new markets for agricultural exports. The above solutions are not mentioned for the first time, but the pandemic further highlights the weaknesses of agricultural production and trade and emphasizes the importance of prompt and effective implementation of such solutions.

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