

## CHALLENGES WITH VIETNAMESE AGRICULTURAL PRODUCTS JOINING WTO

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### *Abstract*

*At 07 November 2006, Vietnam has become member 150 of World Trade Organization (WTO). In such large play field including 150 states worldwide, in which the economies have intensified integration via agreements and commitments such as abolition of tax barriers on many commodity items, application of conditions of the most - favored nation (MFN) for the states of every organization and etc and the shared rules and regulations, the markets for commodity sale are extreme large. This is the consequence of two directions, in particular, Vietnam may do export into more many countries worldwide, but at same time, Vietnam must accept competition pressure from international commodities in Vietnam market. This is the advantage, at same time it is the difficulty and challenge over every state. In relation with Vietnam where its agriculture get the big ratio of economical structure, the abolition of state supports for agricultural products after WTO entry, has become the urgent issue of current affair.*

**Key words:** export, World Trade Organization, trade mark, integration, agricultural products, Vietnam

### INTRODUCION

#### Domestic producers

They are often of small size and disperse. They have no shared strategy on production procedure, seeds for domestic animals and plants, and this leads to difficulty in agreeing for trade mark, quality, appearance and prices. In addition, company small size always accompanied with weak financial capacity, shortage of capital to improve production technology and low labor productivity. After WTO's entry, image of peasant with buffalo in small rice fields still can be seen everywhere. Meantime, in countries with developed agriculture, agricultural production are conducted on large farms, application advanced production and harvest technology with cut cost for production. In addition, tremendous difficulty of peasants is their restriction in access to information on modern science and technology and poor awareness about Vietnam participation in international economical organizations that is the setback for proper improvement. After WTO's entry, peasants still consider this step is the state affair simply, not consider that abolition of state supports including the price grants for agricultural products export on WTO's regulations will affect and lower the competitiveness of Vietnam agricultural products. Take Vietnam rice for example, Vietnam still currently ranked third place worldwide on rice export after USA and Thailand, but Vietnam rice price is also lower due to uneven quality of Vietnam rice. According to Mr Truong Thanh Phong, Chairman of Vietnam Food Association, Thailand experience is to build trade mark for export rice beginning from the seed work. Thailand peasants have almost all used the approved seeds, better way than Vietnam peasants have often used the harvest rice for next season seed, mixing many kinds of seeds. This case related not only to rice

item but to many other items of agricultural products. In addition, Vietnam has to sell its products on low price in global markets and this ensure only low profit and expose Vietnam producers on facing the dumping suits. This is also the trouble issue.

“After WTO's entry, Vietnam may penetrate global markets for agricultural products with revenue volume US\$ 548 billion per year. Vietnam agricultural and water products export will get the lowest tax rates, many non-tax barriers to be abolished, but peasants will suffer the most” one economical expert said about outlook of Vietnam agricultural products. According to Vietnam Chamber for Trade and Industry, even on reduction of import tax for agricultural products on agreement with USA, in particular, on beef meet, pork meet, domestic products to face fierce competition, due to high cost for the breeding at home. In addition, many processed agricultural products imported from other countries, especially from China, are high competitiveness and Vietnam agricultural products are not easy to beat them. Doctor Vo Mai, Chairman Vietnam Fruits Association made remark: “Currently, peasants almost all have no awareness about WTO. They have only the simple thought that WTO's entry is the state affair. With such awareness, how to compete amid integration?

To compete, at first, to begin from production quality, to make high quality products to ensure the competitiveness. But in Vietnam today situation, the production is disperse, products quality is too low. Even before WTO's entry, Vietnam fruits has to face high competition pressure by foreign fruits.

On processors and distributors

After Vietnam's entry into WTO with commitments on abolishing state supports for agricultural products export, the export companies to be affected directly. I recall Vietnam commitments on export of agricultural products as follow:

363. The representative of Viet Nam initially said that Viet Nam did not provide any export support in the form of direct transfers from the State budget. However, Viet Nam had begun granting direct budgetary export subsidies in 1998. Subsidies took the form of interest rate support; export bonuses; support to cover losses for enterprises exporting rice, pork and coffee; and support to exports of vegetables and fruit.

364. Some Members were concerned that Viet Nam had introduced and maintained export subsidies for agricultural products. Their expectation was that Viet Nam would not use agricultural export subsidies on any product after accession to the WTO. These Members asked Viet Nam to provide details of the steps it would take to eliminate export subsidies. A member requested information on export bonuses paid for range of products including rice, coffee, canned vegetables and canned fruit and pork in 2001.

365. The representative of Viet Nam replied that bonuses contingent on export performance had been paid to enterprises exporting rice, coffee, pork, canned fruit and canned vegetables in 2001 in accordance with Decision No. 65/2001/QD-BTC of 29 June 2001 of the Ministry of Finance. The export bonus program had been continued in 2002, and extended to also cover beef and poultry meat; fresh, dried and semi-processed fruit and vegetables; tea; peanuts; pepper; and cashew nuts (Decision No. 63/2002/QD-BTC of 21 May 2002). Detailed information on subsidy per unit was provided in document WT/ACC/VNM/13/Add.2, pages 20–22. He added that Vietnamese farmers had faced particularly difficult conditions during 1999–2001 with large fluctuations in commodity prices, and his Government had therefore provided support, including export subsidies, to stabilize production and foster the development of the agriculture sector. However, his Government had recently taken measures to bring support measures closer to WTO rules. Support had been shifted to trade promotion activities and the export bonus regime had been amended in 2003–2004. Export bonuses were now based on the annual turnover increase rather than on the export turnover. He considered the level of Vietnam's export subsidies negligible and with no significant distorting effects on international trade.

366. The representative of Viet Nam agreed that, upon accession, Viet Nam would bind its agricultural export subsidies at zero in its Schedule of Concessions and Commitments on Goods, and not maintain or apply any export subsidies for agricultural products, without prejudice to Viet Nam's rights and obligations arising from existing WTO rules. The Working Party took note of this commitment.

However, this is not too great difficulty versus these companies because, according to opinions of insiders, the state supports for agricultural products have showed low effect in the past and the companies for long time did not expect much from the supports. Only certain

number of state companies for agricultural products export, that got much benefit from the support programs, will face serious challenges stemming from application of WTO rules. The companies are often low effect ones, with heavy and slack organization, not capable to operate on market impacts.

On labor force

Generally, the companies have the low level of labor force. Cadres of many companies are in shortage of necessary knowledge of modern science, technology and management so they have the limited vision. Many cadres are not excellent on foreign languages, informatics, and business administration. The issues on trade mark are not solved on good way. Many companies have been established and operate based on individual relations with the authorized officials of state management organizations, not based on real competition capacity. This is big setback versus the companies wishing move forward amid epoch of growing transparent and professional business rules.

Company small size: most agricultural companies have small size. Near 60% agricultural and forestry companies have capital below VND 10 billions. So, their competitiveness and business performance are restricted.

Actually, in Vietnam trade mark and market for agricultural products particularly, not many companies with famous trade mark. Without strong trade mark, Vietnam companies to deliver goods on low prices. Take rice case as example. Since years of decade 1990s, Vietnam rice had been exported from Can Tho City by foreign companies into many other countries under trade mark „ARI“, on price up to US\$300 per ton. Meantime, the similar kinds of rice exported by Vietnam companies got the price below US\$ 200 per ton, even impossible to sell on the price level!”

Vietnam will reduce tax on agricultural products by about 20% with current MFN's level within 3–5 years (from 24.5% currently to near 20%). Certainly, to be differences on degrees of tax reduction between products or groups of products. Products groups to suffer most tax reduction are meats, milk, processed fruits and vegetable, processed food stuff, fruits of temperate zone.

In addition for market opening, Vietnam undertook to widen rights for export and import, delivery rights to foreign companies. So, the international corporations with strong financial capacity, delivery system, information, management level and etc are real big challenges over Vietnam companies when they enter Vietnam market, so Vietnam companies are required to do renovation quickly, move forward for purpose of existence and effect operation.

The companies lack the necessary knowledge about international laws. This is huge setback amid Vietnam entering the global markets. Without good knowledge about international laws, Vietnam companies face risks on losing suits. May see this via cases in which Vietnam

companies suffered suits on dumping fish Tra, fish Basa, shrimp in USA market, the suit case on dumping leather shoes made by Vietnam companies in which EU's companies were plaintiff. Vietnam often the loss in these suit cases due to lacking the necessary knowledge about international laws.

In relation with companies processing agricultural products, quality of inputs is one serious issue. Because quality of these products do not meet the standards, so the processing companies always are in state of shortage or not ensuring raw materials and this cause high cost and low quality.

Moreover, according to the specialist assessments of Ministry of Trade and Industry Vietnam, the cancellation of tax quota for agriculture products in which Vietnam has low competitive advantages will take bad effects on farmers, particularly in situation that Vietnam's agriculture is still a small and distributed

systems with low quality and productivity, while the average land per head is too little with agricultural value on a hectare is approximately 30 million VND.

Specifically in Vietnam's sugar and salt sectors, the product quality is low while the cost price is high that increases the smuggling products from neighbor countries which has much lower price. In 2006, Vietnam has imported about 185,000 tons of sugar and 118,515 tons of salt, while the committed quota for Vietnam to join WTO is 55,000 tons of sugar and 150,000 tons of salt.

These factors show that the application of tax quota for such products will have unpleasant effects on the "go to market" plan of importers as well as farmers.

**Table 1: Commitment to reduce import tariff regarding to some staples**

Commodities	Tax MFN (%)	Commitment with WTO		
		Tax before joining WTO (%)	Final tax rate (%)	Duration for implementation
1 Beef	20	20	14	5 years
2 Pork	30	30	15	5 years
3 Raw milk	20	20	18	2 years
4 Milk products	30	30	25	5 years
5 Processed meat	50	40	22	5 years
6 Beer	80	65	35	5 years
7 Wine	65	65	45-50	5 - 6 years
8 Cigarettes	100	150	135	3 years
9 Cigar	100	150	100	5 years
10 Animal food	10	10	7	2 years

Source: www.wto.org

**CONCLUSION**

Clearly, Vietnam has to accept competition on agricultural products of WTO's members in Vietnam's and global markets. Vietnam's agriculture is still outdated, low productivity and quality of the products, high cost and, especially, the weakness of processing industry are the huge challengers over Vietnam's agricultural products.

As Vietnam get in-depth integration into global economy, export of agricultural products will become more sophisticated work than in the past. Global international integration is the long time process, where opportunities have always accompanied with challenges. Only one way to go in international markets is that Vietnam's agricultural products have to prove their competitiveness. The work is not only the responsibility of producers, processors, but the responsibility of the state authorities planning strategies.

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*Received for publication on April 15, 2008*

*Accepted for Publication on May 12, 2008*

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