

**CZECH UNIVERSITY OF LIFE SCIENCES  
PRAGUE**

**FACULTY OF ECONOMICS AND MANAGEMENT**

**DEPARTMENT OF ECONOMICS**



**BACHELOR THESIS**

**FOREIGN TRADE OF VIETNAM**

**CASE STUDY OF COFFEE EXPORT**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## BACHELOR THESIS ASSIGNMENT

Thi Bich Diep Nguyen

Economics and Management

Thesis title

**Foreign Trade of Vietnam – Case study of Cofee export**

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### Objectives of thesis

The purpose of this thesis is not only to give an overview of commodity exports, that will include roles, characteristics and influencing factors, but also to analyze the export details of Vietnamese coffee, the achievements gained and the restrictions that still exist. Thereby giving some solutions to promote and improve the efficiency of Vietnamese coffee exports in the upcoming period.

### Methodology

\_ Method of data collection: secondary data collected from synthetic sources such as books, newspapers, magazines, internet, etc.

\_ Methods of data analysis: the method uses descriptive statistics from the data collected to describe the volatility of exports, prices and other factors that are influential. We will also use methods of comparing the relative and absolute numbers over the time to see the volatility of coffee export turnover in Vietnam.

**The proposed extent of the thesis**

40 – 60 pages

**Keywords**

Foreign Trade, Vietnam, Export , Coffee,

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**Recommended information sources**

ČESKÁ ZEMĚDĚLSKÁ UNIVERZITA V PRAZE. KATEDRA EKONOMIKY, – MAITAH, M. *Macroeconomics*.  
V Praze: Česká zemědělská univerzita, Provozně ekonomická fakulta, 2009. ISBN 978-80-213-1904-2.  
DORNBUSCH, R. – SCHMALENSEE, R. – FISCHER, S. *Introduction to macroeconomics*. New York:  
McGraw-Hill, 1988. ISBN 0-07-021010-1.  
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*Foreign trade and development economics*. Prague: Czech University of Life Sciences, 2007. ISBN  
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## **Declaration**

I hereby declare that I have worked on my bachelor thesis titled “Foreign trade of Vietnam - Case study of coffee export” completely on my own and that I have marked all quotations in the text and I have also mentioned all sources I have used in the Bibliography at the end of the thesis.

Prague, 30<sup>th</sup> November 2016

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Thi Bich Diep Nguyen

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**Foreign trade of Vietnam - Case study of  
coffee export**

**Zahraniční obchod Vietnamu - Případová  
studie vývozu kávy**

**Summary:**

The purpose of this bachelor thesis is to obtain the basic knowledge of foreign trade and its theories. Besides, this paper indicates the significance of foreign trade to economies, among which includes Vietnam.

Firstly, this paper analyzes the sector of foreign trade and explains why it is important and increasingly growing. Furthermore, basic theories were shown along with the world trade organization (WTO), in which Vietnam is a member. Some theories of the trade policies such as Balance of Trade and Tariff were also discussed.

In the second part, the analysis showed the WTO's impact on Vietnam economy in general and particularly in agriculture sector of Vietnam. After this section, there will be an overview of the coffee world markets and trade, as well as analysis of the rapid growth of coffee exports in Vietnam during the last 20 years.

Finally, some recommendations were given based on the recent development of Vietnam's coffee export in order to compete with other countries such as Brazil and Colombia.

**Keywords:**

Foreign trade, coffee, Vietnam, tariff, nontariff, barriers, balance of trade, WTO.

**Shrnutí:**

Cílem této bakalářské práce je představit čtenářům základní poznatky o mezinárodním obchodu. Dále se může čtenář dočíst o významnosti mezinárodního obchodu pro ekonomiku státu, mezi nimiž patří i Vietnam.

Tato bakalářská práce v první řadě analyzuje sektor mezinárodního obchodu, její podstatu a důvody jejího růstu. Kromě toho, základní teorie byly ukazovány spolu se Světovou obchodní organizací (WTO), ve kterém je Vietnam členem. Práce také popisuje základní teorie, např. teorie Obchodní bilance a tarifu.

Druhá část této práce analyzuje nejdříve celkové dopady spolupráce mezi Vietnamem a Světovou Obchodní Organizací WTO a dále jejím hlavním zaměřením je zemědělství. Po této části následuje přehled o celosvětovém trhu a obchodu s kávou, a také analýza rychle rostoucího vývozu s kávou ve Vietnamu v období za posledních 20 let.

A konečně, některá doporučení byly sestaveny na základě nedávného vývoje ve Vietnamu, pokud jde o vývoz kávy, aby mohly soutěžit s ostatními zeměmi, jako je Brazílie a Kolumbie.

**Klíčová slova:**

Zahraniční obchod, káva, Vietnam, clo, tarif, překážky, obchodní bilance, WTO



## Table of Contents

<b>1. Introduction.....</b>	<b>12</b>
<b>2. Objectives and Methodology.....</b>	<b>13</b>
2.1 Objectives.....	13
2.2 Methodology .....	13
<b>3. Literature review .....</b>	<b>14</b>
3.1 Foreign Trade .....	14
3.1.1 Definition of Foreign Trade.....	14
3.1.2 Function of Foreign Trade .....	14
3.2 The growth of World Trade .....	14
3.2.1 The macroeconomic reasons.....	15
3.2.2 The microeconomic reasons .....	15
3.2.3 The political reasons.....	16
3.2.4 Changes in the Commodity of World Trade .....	16
3.3 The World Trade Organization-WTO.....	17
3.4 Trade Theories.....	18
3.4.1 The Mercantilism.....	18
3.4.2 Why Nations Trade: Absolute Advantage.....	19
3.4.3 Why Nations Trade: Comparative Advantage.....	19
3.5 Balance of Trade .....	20
3.6 Barriers of International Trade .....	21
3.6.1 Tariff.....	21
3.6.2 Tariff Quota .....	23
3.6.3 Non-Tariff Barrier (NTBs) .....	23
3.6.4 Technical Barriers to Trade (TBT).....	23
<b>4. Case study of Vietnamese Coffee Export.....</b>	<b>24</b>
4.1 Impact of WTO on Vietnam.....	24
4.1.1 Vietnam’s Commitment on Trade to the WTO .....	24
4.1.2 The Impact of the WTO on Exports and Imports of Vietnam.....	25
4.1.3 Opportunities and Challenges for Vietnamese Agriculture after accessing WTO.....	28
4.2 Coffee: World Markets and Trade .....	29

4.3 Vietnamese Coffee Exports.....	34
4.3.1 Comparative Advantage in Production and Exports .....	34
4.3.2 Vietnam’s Coffee Industry .....	36
4.3.3 Coffee Export by Markets .....	43
<b>5. Conclusion .....</b>	<b>45</b>
<b>6. References .....</b>	<b>46</b>

## List of Tables

Table 1: Global merchandise exports and imports .....	15
Table 2: Total Goods: Vietnamese Trade flows and balance 2005-2015 .....	27
Table 3: Top Trading Partners of Vietnam 2015 .....	27
Table 4: Top 10 Countries Arabica Coffee Production 2011/12-June 2016/17 .....	31
Table 5: Top 10 Countries Robusta Coffee Production 2011/12-June 2016/17 .....	31
Table 6: Top 10 Countries Coffee Production 2011/12-June 2016/17 .....	32
Table 7: Top 10 Countries Coffee Consumption 2011/12-June 2016/17 .....	33
Table 8: Top 10 Countries Total Coffee Exports 2011/12-June 2016/17.....	33
Table 9: Top 10 Countries Total Coffee Imports 2011/12-June 2016/17.....	34
Table 10: Approximate Vietnam's Coffee Area by Provinces 2013/14-2016/17 (unit: ha) .....	41

## List of Figures

Figure 1: A supply and demand graph showing the effect of a tariff on imports. ....	22
Figure 2: Vietnam's Tariff Commitments under the term of its WTO Accession (%) .....	24
Figure 3: World Arabica Production Ratio Forecast to Rebound 2008/09-2016/17 .....	29
Figure 4: Supply/Demand Balance 2012/13-2015/16.....	30
Figure 5: Vietnam is the world's lowest cost coffee producer .....	35
Figure 6: Top Producers Coffee 2012/13-2015/16 .....	36
Figure 7: World Coffee Production by Species 2012/13-2015/16.....	37
Figure 8: Coffee Production in Vietnam by Species (thousand 60kg bags) .....	38
Figure 9: Top Producers of Robusta Coffee 1960-2016.....	38
Figure 10: The Province Dak Lak (old) in Vietnam .....	40
Figure 11: Total Vietnam Coffee Production 1986-2016 .....	42
Figure 12: Total Vietnam Coffee Consumption 1990-2016 .....	43
Figure 13: Top the Export Destination of Vietnamese Coffee H1/2016 .....	44

## 1. Introduction

In the context of globalization and integration, foreign economic activity is an indispensable important role in the national economy, serve for the development of the developing countries, whose economy is open. Concurrent with the birth and growth of the economy under the market mechanism is the development these years of foreign trade, mainly import and export activities of the national goods.

History has proved many countries around the world have developed successful economies by way of external economic policy more tolerant open-closed isolation and envy-doubt. Typical in northeast Asia (Japan, Korea and China), some ASEAN countries (Singapore, Thailand) through their outward activity has rapidly grown to become the "dragon economy". From the experience of other countries, before and after accessing WTO, Vietnam is organizing, restructuring the economy, directing the external economic and cooperating technology transfer scientific-technical level. Since accessing the WTO, many tariff barriers have been reduced, creating favorable conditions for Vietnam to expand the market. However, besides that there are also challenges that Vietnam has to face.

In Vietnam, the export of agricultural products has brought huge income serves for the construction and development of the country. The famous products have brought to Vietnam position in the export of agriculture are rice, coffee, pepper, cashew, etc especially coffee products. When people think of coffee, they probably think about Brazil, Colombia or Indonesia but the world's second largest coffee exporter is Vietnam. Coffee was firstly introduced in Vietnam in the middle 19 century, during 3 decade the market share jumped up from 0.1% to 20%<sup>1</sup>, so what factor affect to this significantly increase? The comparative advantage theory will answer this question.

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<sup>1</sup> <http://www.bbc.com/news/magazine-25811724>

<sup>2</sup> <http://www.dictionary.com/browse/trade>

## **2. Objectives and Methodology**

### **2.1 Objectives**

The purpose of this study is to provide basic understanding of foreign trade, its developments and importance to for the world economy in general and Vietnam in particular. Besides, this paper also aims to figure out the effects of one of the largest world trade organizations (WTO) to Vietnam export, especially when the tax barriers have to be reduced or removed as a result of being WTO members. In addition to that, this paper focuses on the rapid growth of coffee in Vietnam during the last 20 years to find out what are comparative advantages of Vietnam in coffee production comparing with other countries.

### **2.2 Methodology**

The thesis collects the second data through books, internet resources, reports and articles. The method uses descriptive statistics from the data collected to describe the volatility of exports and other factors that are influential. The method of comparing the relative and absolute numbers over the time is used to illustrate the volatility of coffee export turnover in Vietnam.

The main data was import and export index of not only Vietnam foreign trade but also the coffee industry as a case study. These data were collected from 1960 to 2016.

### **3. Literature review**

#### **3.1 Foreign Trade**

##### **3.1.1 Definition of Foreign Trade**

From the perspective of a nation, the term international trade and foreign trade can be used interchangeably. Both terms refer to the import and export of goods, services and capital across international borders.

Foreign trade can be understood simply as “the act or process of buying, selling, or exchanging commodities between countries”.<sup>2</sup> For example: Vietnam exports coffee to USA, EU. Thailand exports rice to Africa, the US companies hire Vietnamese companies garment processing.

Foreign trade as an important component of world economic output had increased from around 2% in the early 19 century to nearly 35% in the year 2000 (Pigman, 2016, p. 1).

##### **3.1.2 Function of Foreign Trade**

Foreign trade has important role not only for a country’s economy but also enterprises and consumers. The conditional developable enterprises can expand the market to other countries, create opportunities for healthy competition with domestic products of that country. The imported goods help buyers have many choices in purchasing, comparing and making a reasonable expenditure. It also promotes local businesses to invest and grow to be able to compete with products coming from abroad (S Chirag, 2016).

#### **3.2 The growth of World Trade**

Since Second World War, the economic growth has increased at a faster speed than any other period in the history because of a gradual reduction in the level of trade barriers. An increase in world trade grew faster than an increase in world output even with not increase in world output (Grimwade, 2000, p. 1). In 1950, the global export trade volume was approximately 61.81 billion

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<sup>2</sup> <http://www.dictionary.com/browse/trade>

U.S. dollars. In the year 2014 they were 18 936.41 billion U.S. dollars more than 306 times higher than 64 years ago.<sup>3</sup>

### 3.2.1 The macroeconomic reasons

Two countries can increase the total quantity of good consumed. For example, Britain produces more efficiently than Portugal; however, Portugal is more efficiently with wine. Therefore two countries can make benefit by exchanging. This law can also apply for one country which is more efficient in both producing. They will be more beneficial when spending their limited resources to produce the most effective products. Moreover, one country can import a cheaper product from another country which produced it less costly (Flower & Ebbers, c2002, p. 5).

### 3.2.2 The microeconomic reasons

The global merchandise exports and imports in Table 1 shows the dramatically increase in both import and export from 1970 to 1999.

**Table 1: Global merchandise exports and imports**

	1970	1980	1990	1999
Merchandise Exports				
USA	43	226	394	695
Japan	19	130	288	419
Germany	85	193	410	540
France	18	116	217	299
UK	19	110	185	268
Rest of world	131	1199	1832	3361
Total global exports	315	1974	3326	5582
Merchandise Imports				
USA	43	226	517	1059
Japan	19	141	235	311
Germany	30	188	346	473
France	19	135	234	287
UK	22	116	223	318
Rest of world	96	1095	1866	3377
Total global imports	229	1901	3421	5825

*Note: Total exports do not equal total imports because of data collection problems. Source: IMF, International Financial Statistics, cited at: Flower & Ebbers, c2002*

<sup>3</sup> <https://www.statista.com/statistics/264682/worldwide-export-volume-in-the-trade-since-1950/>

There are many factors which influenced this rapid. They import things that cheaper extern and export the things that their sale more rapidly than the growth in their home market. In addition, the decrease in transportation costs, the productivity of companies is improving continuously, higher living standards in emerging economies has certainly increased the willingness of enterprises trade (Flower & Ebbers, c2002, pg 6).

### **3.2.3 The political reasons**

The World Trade Organization was established in 1995 is an important milestone in contributing to the development of the world economy. Its mission is trade negotiations, implementation and monitoring, dispute settlement, building trade capacity, outreach.<sup>4</sup>

### **3.2.4 Changes in the Commodity of World Trade**

From 1960 to 1995, both manufactures and primary commodities trade had grown faster than output as a whole. However, trade in primary commodities grew more slowly.

#### **3.2.2.1 Primary Products**

“Primary products are any products which has been extracted from the earth or sea or from crops grown on the earth or from animals but which have not been processed or only subject to minimal processing” (Grimwade, 2000, p. 14).

There are two main type: agricultural products (foodstuffs and agricultural raw materials) and mining products (ores and minerals, fuels and non-ferrous metals).

They accounted 53.5% in 1955 compared with 22.3% in 1995 of primary products of world trade (Grimwade, 2000, table 1.6). One of the reasons for decreasing is that a fall in price of primary commodities in world trade relates to the price of manufactures. For example, the improvement of quality in goods caused the increase in the price of manufactures, which reflects the change in the selling price of different goods.

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<sup>4</sup> [https://www.wto.org/english/thewto\\_e/whatis\\_e/what\\_we\\_do\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/what_we_do_e.htm)



### **3.2.2.2 Manufactures**

“A manufactured good is a product that has been subject to some element of refining or processing from its raw material state. In practice, some refined or processed goods are classified under primary products” (Grimwade, 2000, p. 14).

They are two main types: finished manufactures and semi-finished manufactures.

Manufactures accounted 44.7% in 1955 compared with 74.4% in 1995 of manufactures of world trade. (Grimwade, 2000, table 1.6). This increase in the share of manufactures could be explained by the rapid rise in the volume of trade in manufactures and a rise in the unit value of manufactures relative to primary products (Grimwade, 2000, p. 19).

## **3.3 The World Trade Organization-WTO<sup>5</sup>**

“The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business” (World Trade Organization).

The WTO was established in 1995, continuity and expand the scope of international trade regulatory organization's predecessor, the GATT - the General Agreement on Tariffs Trade, was born after World War II. Regarding the organizational structure, the WTO now has 164 countries and territories members, the budget is 196 million Swiss francs for 2011 and located in Geneva, Switzerland.

WTO is closely held, operated under the 5 principles:

*Trade without discrimination*

+ Most-favoured-nation (MFN): treating other people equally. Each member should give the product to another member by treatment no less favorable than the members of a third country.

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<sup>5</sup> <https://www.wto.org/>

+ National treatment (NT): Treating foreigners and locals equally. Each member should treat equally domestic products and foreign products.

*Freer trade: gradually, through negotiation*

This principle of the WTO to ensure that trade between countries more and more freely through the process of negotiations to lower trade barriers to promote trade.

*Predictability: through binding and transparency*

These are intended to bind the member obliged to ensure the stable and predictable in the international trade.

*Promoting fair competition*

To limit the negative impact of the measures unfair competition such as dumping, subsidies or privileges reserved for a certain number of enterprises.

*Encouraging development and economic reform*

These preferences are expressed through enabling members, which are developing countries, a number of rights and not the implementation of a number of rights as well as a number of obligations or longer transition time to the policy.

### **3.4 Trade Theories**

#### **3.4.1 The Mercantilism**

Mercantilist theories were developed in Europe between the 16<sup>th</sup> and 18<sup>th</sup> centuries. According to Geringer et al., (2012, p. 29), the main content of this theory is that every country wants to achieve prosperity in economic development, they must increase the volume of currency in foreign trade development. Each country can only benefit from trade if the trade balance is positive signs (or value of export is larger value of import). It is beneficial because the surplus between export and import will be paid in gold and silver, whereas the gold and silver are considered as currency, a sign of wealth. For a country that has no gold or silver mines, the only way is to rely on the development of foreign trade.

Despite of the primitive content and simple elements which represent only one side and do not provide the deeper understanding of this economic phenomenon, it was the first thought of the classic economic study on the benefits of foreign trade which realized the important role of the state in managing, operating and directing economic activity of society through tariff tools, domestic trade protectionism. To protect nascent industries, import controls, export promotion (Geringer et al., 2012, p. 29).

### **3.4.2 Why Nations Trade: Absolute Advantage**

In many of his works, the most famous book "The Wealth of Nations" in 1776, Adam Smith has emphasized the role of trade, especially trade had effect of accelerating the development and economic growth of the country. He said that trade had a very big role, but it was not the only source of wealth. Wealth is not by trade, it is by industry, wealth is brought from production activities rather than active circulation. According to him, economic activities (including production and circulation) must be carried out freely, due to supply/demand and market price fluctuations regulations. What production? How production? Whom producer? Those are the question needed to solve in the market.

According to Adam Smith, the power to make the economy grow is due to the free exchange between countries, so each country needs expertise in the manufacturing industry that has the absolute advantage. That means the manufacturing industry can produce products with the smaller costs compared to other countries and gain the biggest amount of the products, and then the price will be symmetrical at price greater than equilibrium price. The price disparity due to increased demand in other countries makes the economy grow.

This standpoint expresses the basic views on content of the theory absolute advantage in international trade. A country is considered to have absolute advantages compared with other countries in the specialization of production A when the same resources could produce more production A than the other country (Luu, 2007).

### **3.4.3 Why Nations Trade: Comparative Advantage**

The theory of absolute advantage above shows a country with absolute advantage in comparison with other countries on a commodity, that country will reap the benefits from foreign trade, if the

specialization of production according to absolute advantage. However, this theory did not explain why a country has absolute advantage than other countries, or countries do not have any advantage can still active in the process of cooperation and the international division of labor to develop the activities of international trade.

Overcoming the limitations of the absolute advantages of Adam Smith and also answer the questions above, in 1816, in his famous work, "Principles of Political Economy" classical economists who David Ricardo came up with the theory of comparative advantage, in order to explain more accurate overview of the mechanism appeared benefits of international trade. Content included:

- All countries will benefit when participating in international division of labor, because: development of foreign trade allows consumers to expand the ability of a country. The main reason is a certain number of products specialized in manufacturing, exchanged with the imported products from other countries through international trade routes.
- The country has an absolute advantage is far more than other countries, or less absolute advantage compared to other countries, can still be beneficial to participate in the division of labor and the world, because every countries have certain comparative advantages of some commodities and some less certain comparative advantages in a number of other items.

So it can be concluded that, one of the most crucial points of the theory comparative advantage is the benefits of specialization in manufacturing and international trade. Comparative advantage is a necessary and sufficient condition for the benefits of international trade (Luu, 2007).

### **3.5 Balance of Trade**

**Balance of Trade** is the difference in the value of exports and imports. If the value of imports is greater than the value of exports, there is a balance of trade deficit. If the value of exports exceeds the value of import, there is a balance of trade surplus (Maitah, 2009).

## **3.6 Barriers of International Trade**

### **3.6.1 Tariff**

A tariff is simply a tax which according to Troy et al. (2016) is “Policy instrument that drives a price wedge between what the exporters receive and what the importer pays”. There are two types of tariff including import and export tariff which is imposed on an imported and exported product respectively. However, as Carbaugh (2013, p. 106) said that the most widespread tariff is an import tariff, and the export tariff is less common.

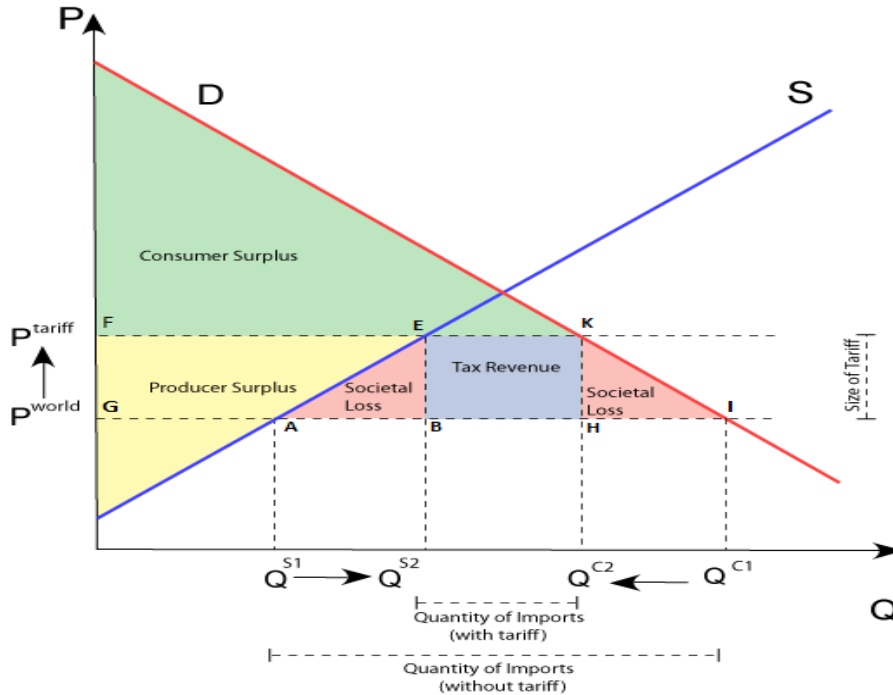
Tariffs are often created to protect domestic employment, consumers, infant industries and developing economies, but are also used by more advanced economies with developed industries (Radcliffe, 2015).

#### *Who benefits?*

The benefits of tariffs are uneven. The government can control the increase in revenue based on the imported goods. Domestic industries can reduce competition through import prices inflated. On the other hand, there are limitations for consumers, because the original price of goods are plus the imported price, making the total value of goods is higher than its true value. In short term, tariff becomes a propensity to be production support and against consumers (Radcliffe, 2015).

Figure 1 shows the impact of tariff on imports.

**Figure 1: A supply and demand graph showing the effect of a tariff on imports.**



Source: <https://en.wikipedia.org/wiki/Tariff>

Quantity of Imports (without tariff): Consumers want to buy a quantity  $Q^{C1}$  goods at world prices  $P^{\text{world}}$ , while the domestic producers only produce a number of  $Q^{S1}$  at world prices  $P^{\text{world}}$ . By importing the shortfall (the difference between  $Q^{C1}$  and  $Q^{S1}$ ) at world prices  $P^{\text{world}}$ , consumers can satisfy the entire demand at this price.

Quantity of Imports (with tariff): Domestic goods prices rise to the level of world prices plus the import duty equal  $P^{\text{tariff}}$ , stimulating domestic manufacturer production further, pushing domestic production from  $Q^{S1}$  to  $Q^{S2}$ . However, due to rising prices consumer demand fall from  $Q^{C1}$  to  $Q^{C2}$ . Obviously the price has been pushed up to the consumer to pay an additional amount equal to the area of the rectangle FKHG to buy quantity  $Q^{C2}$ . This additional partial payments (in the area of EKHB-Tax Revenue) is transferred to the government in the form of import duties collected, the part (in the area of FEAG-Producer Surplus) is transformed into profits of domestic producers so that this two parts does not harm the overall interests of the nation. However, the area ABE-Societal Loss is the loss of social cost to the weakness of the domestic manufacturers. KHI-Societal Loss is the area of a loss when the consumer's utility is reduced: instead of  $Q^{C1}$  can consume goods, due to import duties they only can consume  $Q^{C2}$  (Figure 1).

### **3.6.2 Tariff Quota**

Tariff quota, also called import quota, is a regulation of a country on a limited quantity of merchandise or a group of merchandise into a country at a reduced duty rate in a certain time by license form.<sup>6</sup>

### **3.6.3 Non-Tariff Barrier (NTBs)**

NTBs arise from different measures taken by governments and authorities in the form of government laws, regulations, policies, conditions, restrictions or specific requirements, and private sector business practices or prohibitions that protect the domestic industries from foreign competition (Troy et al., 2016).

### **3.6.4 Technical Barriers to Trade (TBT)**

TBT ensure that standards, technical regulations applied to imported goods in order to assess the conformity of imported goods, in order to limit processing unnecessary obstacles to trade.<sup>7</sup>

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<sup>6</sup> <http://www.businessdictionary.com/definition/tariff-rate-quota.html>

<sup>7</sup> [https://www.wto.org/english/tratop\\_e/tbt\\_e/tbt\\_e.htm](https://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm)

## 4. Case study of Vietnamese Coffee Export

### 4.1 Impact of WTO on Vietnam

Vietnam is WTO's 150<sup>th</sup> member in 2007, after 12 years of preparation, including 8 years of negotiation.

The WTO accession has created more opportunities and advantages to the Vietnamese economy, also brought serious challenges, requiring Vietnam's economic sectors to open the door to increased foreign competition (Unknown, 2010, p. 85).

#### 4.1.1 Vietnam's Commitment on Trade to the WTO

*Commitment to open markets:*

- Vietnam is considered acceptable non-market economy in 12 years, not later than 31.12.2018.

**Figure 2: Vietnam's Tariff Commitments under the term of its WTO Accession (%)**

	2005 (pre-accession) <sup>(1)</sup>	2007 (accession)	2019 (final tariffs)	Implementation timeframe
<b>Mean</b>	<b>18.5</b>	<b>17.4</b>	<b>13.6</b>	<b>Up to 12 years</b>
<b>Agricultural produce</b>	29.4	27.3	21.7	Up to 5 years
<b>Non-agricultural products</b>	17.0	16.0	12.5	Up to 12 years
- Steel	9.7	17.7	13.0	Up to 2 years
- Oil	14.6	27.2	27.1	Up to 2 years
- Textiles-apparel	36.6	13.6	13.5	Upon accession
- Shoes	45.0	35.8	27.2	Upon accession
- Cars	63.6	84.8	58.7	Up to 12 years
- Motorcycles	100.0	100.0	74.3	Up to 12 years
- Electronic equipment	13.3	13.9	9.5	5 years
<b>Maximum tariffs</b>	<b>150</b>	<b>150</b>	<b>85</b>	
<b>No. tariff lines</b>	<b>10,689</b>	<b>10,444</b>	<b>10,444</b>	

Source: IMF (2007)

(1) Most-favoured-nation (MFN) tariffs applied to most of the countries excluding ASEAN.

Source: IMF, 2007. Available at:  
<https://www.google.cz/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&cad=rja&uact=8&ved=0ahUKEwi27cmG1bfQAhWHaxQKHV2iCCEQFgg8MAM&url=http%3A%2F%2Fen.dial.ird.fr%2Fcontent%2Fview%2Ffull%2F51024&usg=AFQjCNGuCjjD-jVuZ6ZGuJhAtWVAkhlb3w&sig2=srAKycOZBsiqIEzRCR7Ghg>



- Vietnam agrees to bind its tariff on most of the bound rates (10,689 lines) from 17.4% on average in 2007 to 13.6% in 2019, agricultural products from 27.3% to 21.7% up to 5 years implementation (Figure 2).

- Tariff reserved the right to apply to the sugar, eggs, tobacco and salt.

*Agricultural subsidy commitments:* Vietnam has committed to apply for subsidies of agricultural products in line with the Agreement on Agriculture.

*Export support:* grants program for exporters is the free, direct tax relief, tax deductions based on the interest rates suffered from bank loans; direct financial support, especially for first-time exporters, the export to new markets, export bonuses. Shortly after joining the WTO, Vietnam has removed direct subsidies for exports of agricultural products.

*Standards and Technical Barriers to Trade:* Vietnam is taking steps to ensure that all procedures assessing compliance with the standards, technical regulations completely consistent with the new international standards.

#### **4.1.2 The Impact of the WTO on Exports and Imports of Vietnam**

The purpose of this section is to give an analysis of Vietnam's foreign trade during the period from 2005 to 2015 in terms of the overall trends in exports and imports, Vietnam's foreign trade balance.

Table 2 below presents Vietnam's exports and imports in either values or percentage changes from 2005 to 2015. Generally, it is clear that Vietnam's exports and imports kept accelerating after accession to the WTO in either values or percentage changes. Specifically, Vietnam's total trade (exports plus imports) have increased from €81,230M in 2007 to €340,022M in 2015, 6 times greater than 2005 (€55,629M).

##### *Exports*

In 2014 Vietnam exported €107,67M (Table 2), making it the 22th largest exporter in the world.<sup>8</sup> During the last seven years the exports of Vietnam have increased at an annualized rate of

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<sup>8</sup> [https://www.wto.org/english/res\\_e/statis\\_e/its2015\\_e/its2015\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2015_e/its2015_e.pdf)

21.1%, from €35,43M in 2007 to €107,67M in 2014. The most recent exports are led by Machinery and transport equipment which represent 32.4% of the total exports of Vietnam, followed by Miscellaneous manufactured articles, which account for 30% in 2014.<sup>9</sup>

The top export destinations of Vietnam are USA (€31,13M), EU 28 (€27,24M), China (€19,5M) and Japan (€12,4M) in 2015 (Table 3).

### *Imports*

In 2014 Vietnam imported €108,813M, making it the 22st largest importer in the world.<sup>10</sup> During the last seven years the imports of Vietnam have increased at an annualized rate of 17.1%, from €45,8M in 2007 to €108,813M in 2014. The most recent imports are led by Machinery and transport equipment which represent 37.2% of the total imports of Vietnam, followed by Manufactured goods classified chiefly by materials, which account for 23.5%.<sup>11</sup>

The top import origins of Vietnam are China (€65,8M), South Korea (€27,53M), Singapore (€12,558M) and Japan (€12,422M) in 2015 (Table 3).

### *Trade Balance*

It is also obvious that trade balance of Vietnam deficit had experienced an upward trend together with the increase of trade size. Trade deficit has increased from €3,467M in 2005 and picked at €12,257M in 2008 due to World's economic crisis and leveled off at €658M in 2012 (Table 2).

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<sup>9</sup> [https://www.gso.gov.vn/default\\_en.aspx?tabid=626&idmid=&ItemID=15485](https://www.gso.gov.vn/default_en.aspx?tabid=626&idmid=&ItemID=15485)

<sup>10</sup> [https://www.wto.org/english/res\\_e/statis\\_e/its2015\\_e/its2015\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2015_e/its2015_e.pdf)

<sup>11</sup> [https://www.gso.gov.vn/default\\_en.aspx?tabid=626&idmid=&ItemID=15485](https://www.gso.gov.vn/default_en.aspx?tabid=626&idmid=&ItemID=15485)

**Table 2: Total Goods: Vietnamese Trade flows and balance 2005-2015**

Period	Imports		Exports		Balance		Total Trade	
	Value Mio €	% Growth*	Value Mio €	% Growth*	Value Mio €	% Growth*	Value Mio €	% Growth*
2005	29,548		26,081		-3,467		55,629	
2006	35,753	21.0	31,719	21.6	-4,034	16.4	67,472	21.3
2007	45,797	28.1	35,433	11.7	-10,364	156.9	81,230	20.4
2008	54,877	19.8	42,620	20.3	-12,257	18.3	97,497	20.0
2009	50,150	-8.6	41,006	-3.8	-9,144	-25.4	91,156	-6.5
2010	62,884	25.4	52,667	28.4	-10,217	11.7	115,551	26.8
2011	75,079	19.4	66,725	26.7	-8,354	-18.2	141,804	22.7
2012	86,893	15.7	86,235	29.2	-658	-92.1	173,128	22.1
2013	97,135	11.8	95,361	10.6	-1,774	169.6	192,496	11.2
2014	108,813	12.0	107,670	12.9	-1,143	-35.6	216,483	12.5
2015	193,119	77.5	146,903	36.4	-46,216	3943.4	340,022	57.1

% Growth: relative variation between current and previous period

Source: IMF. Available online at: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113463.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113463.pdf)

**Table 3: Top Trading Partners of Vietnam 2015**

	Imports			Exports			Total trade		
	Partner	Value Mio €	% World	Partner	Value Mio €	% World	Partner	Value Mio €	% World
	<i>World</i>	193,119	100	<i>World</i>	146,903	100	<i>World</i>	340,022	100
1	<i>China</i>	65,804	34.1	<i>USA</i>	31,130	21.2	<i>China</i>	85,302	25.1
2	<i>South Korea</i>	27,533	14.3	<i>EU 28</i>	27,241	18.5	<i>USA</i>	38,141	11.2
3	<i>Singapore</i>	12,558	6.5	<i>China</i>	19,498	13.3	<i>EU 28</i>	36,504	10.7
4	<i>Japan</i>	12,422	6.4	<i>Japan</i>	12,403	8.4	<i>South Korea</i>	35,567	10.5
5	<i>Hong Kong</i>	9,807	5.1	<i>South Korea</i>	8,034	5.5	<i>Japan</i>	24,825	7.3
6	<i>EU 28</i>	9,263	4.8	<i>Hong Kong</i>	5,382	3.7	<i>Singapore</i>	15,510	4.6
7	<i>Taiwan</i>	9,040	4.7	<i>UAE</i>	4,172	2.8	<i>Hong Kong</i>	15,189	4.5
8	<i>Thailand</i>	8,698	4.5	<i>Malaysia</i>	3,952	2.7	<i>Thailand</i>	12,003	3.5
9	<i>USA</i>	7,011	3.6	<i>Thailand</i>	3,305	2.2	<i>Taiwan</i>	11,096	3.3
10	<i>India</i>	5,292	2.7	<i>Australia</i>	3,041	2.1	<i>Malaysia</i>	8,366	2.5

Source: IMF. Available online at: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113463.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113463.pdf)

### **4.1.3 Opportunities and Challenges for Vietnamese Agriculture after accessing WTO<sup>12</sup>**

#### **4.1.3.1 Opportunities**

##### *Expand markets*

Since accessing the WTO, Vietnam is enjoying the statute NT and MFT, provided by WTO members, with more preferential import tariffs, tariff and non-discrimination. This creates favorable conditions for Vietnamese agriculture expansion into markets of developed countries.

##### *On science & technology*

Participating WTO is an opportunity to help Vietnam expand the understanding of science, technology, engineering and capacity building to help them improve productivity and product quality in order to compete with the world market.

##### *To create pressures to self-develop and enhance the competitiveness of domestic enterprises*

Vietnam is gradually abandoning its policy of agricultural subsidies, as this runs counter to the WTO rules. Therefore the enterprises especially state-owned enterprises will have to effort to compete for their products. Besides, Vietnam is also opening up the market, offering incentives for products of others WTO members.

#### **4.1.3.2 Challenges**

Besides those advantages, Vietnam also faces many challenges, specifically:

- Vietnam is opening markets, reducing tariff quotas, removing tariff barriers, some Vietnamese agriculture will compete in danger of weakness due to low productivity, and the quality is not commensurate with the price. This may affect the decline of the amounts of agricultural labor due to shrinking production if enterprise is too weak to compete with imported goods.
- Compared with developed countries in the world, Vietnam is still a poor country with backward technologies and equipment. Thus meeting the requirements of foreign markets remains a big challenge.

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<sup>12</sup> [http://siteresources.worldbank.org/INTRANETTRADE/Resources/WBI-Training/viet-strategies2access\\_bong.pdf](http://siteresources.worldbank.org/INTRANETTRADE/Resources/WBI-Training/viet-strategies2access_bong.pdf)

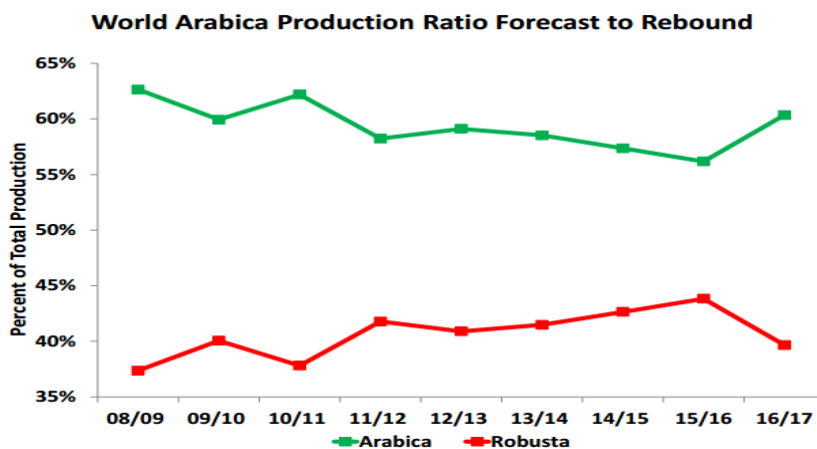
- Some weaknesses of Vietnam are low infrastructural system, transport system is not fixed, legal and services are many loopholes. Besides the requirements for food safety have not been thoroughly controlled.

## 4.2 Coffee: World Markets and Trade

Coffee is most important non-alcoholic beverages in the world trade and is the second most important item in trade, after petroleum with revenues of nearly 10 billion US dollars annually. Therefore coffee has become the backbone industry of more than 50 developing countries, with 80% of total income countries in foreign currencies in some countries, such as Uganda (Nair, 2010).

There is a significant amount of the world production in coffee for the agriculture year between 2016 and 2017. Specifically, the total amount is forecast to raise 2.4 million bags from the previous year to 155.7 million bags (60 kg per each) as a result of Arabica output in Brazil is more than offsets lower Robusta production in Brazil, Vietnam, and Indonesia. After five years of being low in quantity, the total output of Arabica production is expected to increase up to 60 percent of total production.<sup>13</sup> World exports are expected to slip from last year's record primarily due to lower shipments from Indonesia, Vietnam, and Brazil.

**Figure 3: World Arabica Production Ratio Forecast to Rebound 2008/09-2016/17**

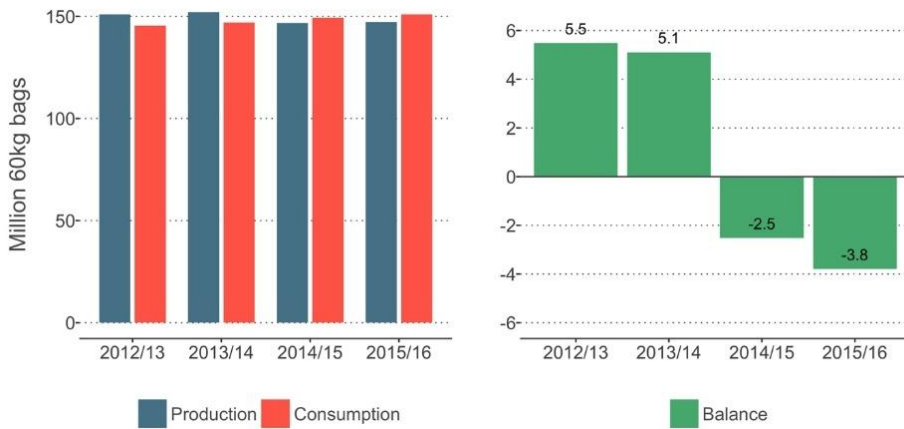


Source: USDA, *Coffee: World Markets and Trade*, 2016

<sup>13</sup> <https://apps.fas.usda.gov/psdonline/circulars/coffee.pdf>

According to the Figure 4, the balance of production and consumption was surplus in 2012/13 and 2013/2014 by 5.5 and 5.1. However in two consecutive year 2014/15 and 2015/16, it estimated a deficit by -2.5 and -3.8.

**Figure 4: Supply/Demand Balance 2012/13-2015/16**



*Source: International Coffee Organization Blog, 2016*

Brazil and Colombia are the two leading countries in production of Arabica coffee, however the gap between the two countries is very large. Colombia is 13300 thousand 60-kilogram bags in June 2016/17, Brazil is larger more than 3 times 43850 thousand 60-kilogram bags (Table 4).

**Table 4: Top 10 Countries Arabica Coffee Production 2011/12-June 2016/17**

(Thousand 60-kilogram Bags)

Nation	2011/12	2012/13	2013/14	2014/15	2015/16	Jun 2016/17
Brazil	34700	42100	41800	37300	36100	43850
Colombia	7655	9927	12075	13300	13600	13300
Ethiopia	6320	6500	6345	6475	6500	6500
Honduras	5600	4725	4400	5100	5700	6100
Peru	5200	4300	4250	2900	3500	3800
Guatemala	4400	4000	3500	3125	3275	3300
Mexico	4100	4450	3750	2980	2300	2100
Nicaragua	2100	1925	2000	2100	2000	2100
India	1690	1643	1703	1630	1490	1420
Costa Rica	1775	1675	1450	1400	1400	1400
<b>Total</b>	<b>84497</b>	<b>92572</b>	<b>92340</b>	<b>86638</b>	<b>86283</b>	<b>94066</b>

*Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples. Coffee marketing year for non-producer countries begins in October. Source: USDA, Coffee: World Markets and Trade, 2016*

Vietnam is the key producer of Robusta coffee, followed by Brazil but it is only a half of Vietnam production (Table 5).

**Table 5: Top 10 Countries Robusta Coffee Production 2011/12-June 2016/17**

(Thousand 60-kilogram Bags)

Nation	2011/12	2012/13	2013/14	2014/15	2015/16	Jun 2016/17
Vietnam	25200	25600	28658	26350	28200	26225
Brazil	14500	15500	15400	17000	13300	12100
Indonesia	7000	8800	7850	9200	10400	8700
India	3540	3660	3372	3810	3810	3750
Uganda	2200	2800	3000	2800	3600	3000
Cote d'Ivoire	1600	1750	1675	1400	1650	1700
Malaysia	1450	1400	1500	1500	1500	1500
Thailand	1000	1000	1000	1000	1000	1000
Cameroon	645	485	375	525	575	575
Laos	450	460	475	485	525	550
<b>Total</b>	<b>60625</b>	<b>64046</b>	<b>65438</b>	<b>66617</b>	<b>67009</b>	<b>61631</b>

*Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples. Coffee marketing year for non-producer countries begins in October. Source: USDA, Coffee: World Markets and Trade, 2016*

Coffee production in the top 10 countries accounted for nearly 90% of world coffee production. The two countries have increased yields spectacular are Vietnam and Colombia. Brazil leads, but crop yields 2015/2016 dropped down from three seasons ago, then dramatically rose to nearly 56 thousand in June 2016/17 (Table 6).

**Table 6: Top 10 Countries Coffee Production 2011/12-June 2016/17**

( Thousand 60-kilogram Bags)

<b>Nation</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>Jun 2016/17</b>
Brazil	49200	57600	57200	54300	49400	55950
Vietnam	26000	26500	29833	27400	29300	27275
Colombia	7655	9927	12075	13300	13600	13300
Indonesia	8300	10500	9500	10470	11750	10000
Ethiopia	6320	6500	6345	6475	6500	6500
Honduras	5600	4725	4400	5100	5700	6100
India	5230	5303	5075	5440	5300	5170
Peru	5200	4300	4250	2900	3500	3800
Uganda	3075	3600	3850	3550	4500	3700
Guatemala	4410	4010	3515	3185	3350	3375
<b>Total</b>	<b>145122</b>	<b>156618</b>	<b>157778</b>	<b>153255</b>	<b>153292</b>	<b>155697</b>

*Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples. Coffee marketing year for non-producer countries begins in October. Source: USDA, Coffee: World Markets and Trade, 2016*

Coffee consumption of 10 market leading 81% of total coffee consumed in the world in June 2016/17 season. Excluding the European Union, the US market is the most consumed variety of coffee (Table 7).



**Table 7: Top 10 Countries Coffee Consumption 2011/12-June 2016/17**

(Thousand 60-kilogram Bags)

<b>Nation</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>Jun 2016/17</b>
European Union	45250	43275	41475	43820	43100	43900
United States	22946	23027	23811	23573	24767	25150
Brazil	20025	20110	20210	20420	20500	20520
Japan	7050	7565	7750	7825	8285	8325
Philippines	3660	4405	3630	4320	5475	4775
Canada	4170	4230	4605	4495	4200	4400
Russia	3865	4130	4230	4050	4450	4375
Indonesia	2355	2635	2750	3040	2750	3110
China	1045	1621	2195	2463	2850	3000
Ethiopia	3050	3130	3120	2985	2972	2975
<b>Total</b>	<b>141665</b>	<b>141952</b>	<b>142796</b>	<b>145987</b>	<b>149090</b>	<b>150806</b>

Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples. Coffee marketing year for non-producer countries begins in October. Source: USDA, *Coffee: World Markets and Trade, 2016*

Coffee exports of 10 leading markets accounted for 91% of world coffee exports in June 2016/17 season, in which the three markets Brazil, Vietnam and Colombia accounted for 66% (Table 8).

**Table 8: Top 10 Countries Total Coffee Exports 2011/12-June 2016/17**

(Thousand 60-kilogram Bags)

<b>Nation</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>Jun 2016/17</b>
Brazil	29843	30660	34146	36573	36000	35230
Vietnam	24495	24643	28289	21530	28050	27200
Colombia	7360	8855	11040	12420	12240	12390
Indonesia	7475	8935	7840	8720	9960	7940
Honduras	5290	4480	3940	4760	5200	5700
India	5223	4858	5013	4897	5305	5105
Uganda	3000	3575	3600	3400	4000	4000
Peru	5140	4100	4100	2750	3275	3600
Ethiopia	3140	3500	3285	3500	3520	3525
Guatemala	3840	3770	3175	3070	3010	3010
<b>Total</b>	<b>118050</b>	<b>121527</b>	<b>126536</b>	<b>123745</b>	<b>132495</b>	<b>129055</b>

Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples. Coffee marketing year for non-producer countries begins in October. Source: USDA, *Coffee: World Markets and Trade, 2016*

Coffee import of 10 leading markets accounted for 90% of total imports of coffee in the June 2016/17 season. Three leading markets are the European Union, the US and Japan account for 76% of imports of coffee in the world (Table 9).

**Table 9: Top 10 Countries Total Coffee Imports 2011/12-June 2016/17**

(Thousand 60-kilogram Bags)

Nation	2011/12	2012/13	2013/14	2014/15	2015/16	Jun 2016/17
European Union	43950	45070	44650	45110	45000	44500
United States	23825	23700	24915	24010	24950	25000
Japan	6680	8405	7870	8075	8335	8325
Canada	4170	4230	4605	4495	4200	4400
Russia	3865	4130	4230	4050	4450	4375
Philippines	3280	3880	3185	3845	5000	4300
China	1093	1624	1794	2015	2725	2750
Switzerland	2140	2310	2300	2420	2450	2500
Korea South	1785	1825	2160	2305	2370	2450
Algeria	2270	1945	2300	2195	2230	2280
<b>Total</b>	<b>111626</b>	<b>116408</b>	<b>117243</b>	<b>118212</b>	<b>121047</b>	<b>120265</b>

*Coffee marketing year for producer countries begins either in October (Colombia), April (Indonesia) or July (Brazil), as examples. Coffee marketing year for non-producer countries begins in October. Source: USDA, Coffee: World Markets and Trade, 2016*

## 4.3 Vietnamese Coffee Exports

### 4.3.1 Comparative Advantage in Production and Exports

#### *Suitable climate and soil conditions*

Vietnam is located in the tropical zone Northern Hemisphere, stretching from 23°22' to 8°30' North latitude. Climatic conditions, geographic and land suitable for coffee development has given Vietnam's coffee a unique taste and originality.

Climate: Vietnam is located in the tropical zone, high temperature and humidity all year around. Climate in Vietnam is divided into two major regions. Southern Vietnam is hot, humid tropical climates suitable for Robusta coffee. Northern Vietnam with cold winters and drizzle is suitable for Arabica coffee.

Land: Vietnam has basaltic red soil with high natural fertility and thick soil layers suitable for coffee allotted throughout the territory of which are concentrated in Western Highland provinces, some Southeastern provinces and some Central Coastal areas (Doan, 2001).

Thus coffee tree needs two basic elements are water and land, both of which are available in Vietnam. These makes Vietnam the advantage that other countries do not have.

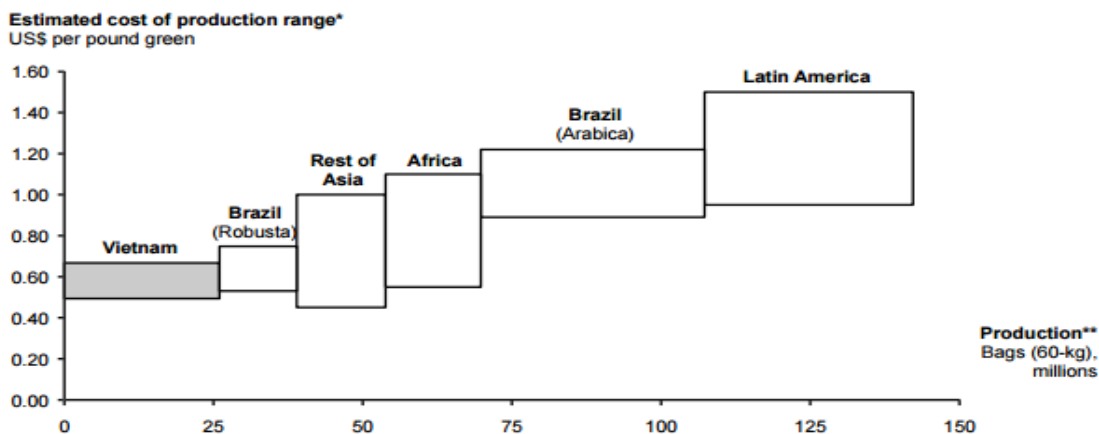
*Policies of government*

The government has launched policies such as multi-section economy orientation and shifting, process land right to farmers, investment and loan policies, and reforestation. Besides, there are other government policies to encourage foreign investment (Doan, 2001).

*Cheap Labor*

The labor force of Vietnam is estimated at around 42 million of which around 45% are younger than 35 years of age.<sup>14</sup> One of the reasons makes Vietnam is the world’s lowest cost coffee producer is due to this abundantly labor force (Figure 5).

**Figure 5: Vietnam is the world’s lowest cost coffee producer**



\* Excludes cost of verification / certification; lower bound of range does not value family labor contributions; upper bound of range assigns value to family labor (but not the opportunity cost of time or land) and considers less efficient producer archetypes  
 \*\*Vietnam (97% Robusta), Rest of Asia (>70% Robusta), Africa (>50% Arabica), Latin America (<5% Robusta)  
 Source: interviews with international coffee trade; Macquarie; USDA; TechnoServe analysis for IDH

Source: Available at <https://www.google.cz/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwiUv5GQpbXQAhUJLsAKHSsxDi4QFfgaMAA&url=http%3A%2F%2Fwww.sustainablecoffeeprogram.com%2Fsite%2FgetFile.php%3Fid%3D211&usg=AFQjCNHQ0sv3IefEMCJg9HbSg9cx8M0EgA&sig2=DczkCdpTno-rdlorrGRPfw>

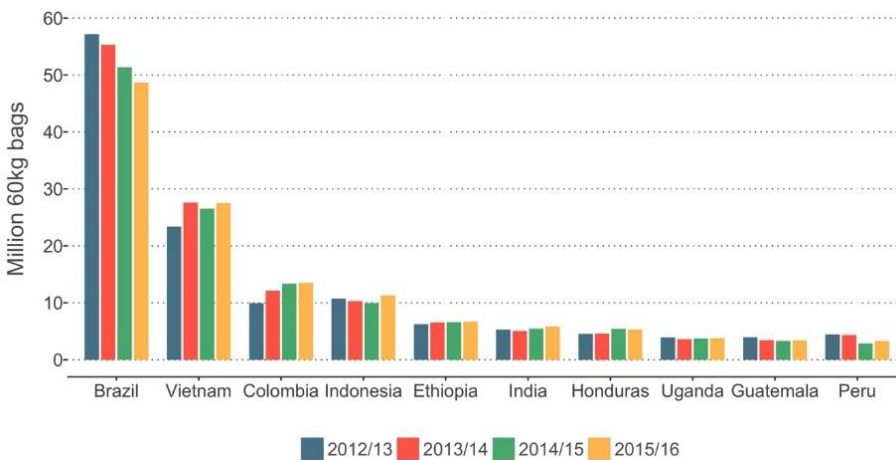
<sup>14</sup> <http://www.vietnam-ustrade.org/index.php?f=news&do=detail&id=35&lang=english>

### 4.3.2 Vietnam's Coffee Industry

From the study of comparative advantage theory of Ricardo and the others theories, Vietnam has identified its advantage is agriculture. Vietnam mainly focused on exporting agricultural commodities such as rice, coffee, rubber, items do not process crude (oil, coal, etc).

The world's second largest coffee exporters and producers today is Vietnam. However the distance between Brazil and Vietnam is really far, the production of Brazil is bigger than Vietnamese production double time. While Indonesia was the 3<sup>th</sup> largest coffee exporter in 2012/13, Colombia replaced that position since 2013/14 (Figure 6).

**Figure 6: Top Producers Coffee 2012/13-2015/16**



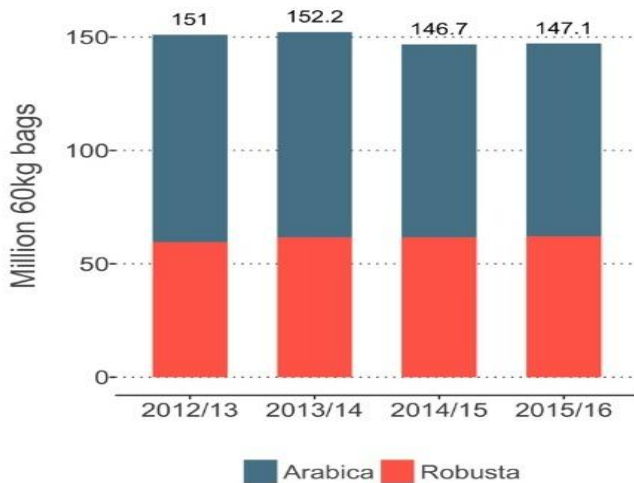
Source: *International Coffee Organization Blog, 2016*

#### 4.3.2.1 Coffee by type

Coffee is a sensitive industrial tree to extreme temperature or cold or sudden temperature changes. There are two main types of coffee are Arabica and Robusta, yielding 2-3 years after planting and economic efficiency up to 30 years, depending on growing conditions. Arabica grow in temperatures between 15-24 degree C and at an altitude of 1200 to 1800 compared to the average sea level, whereas Robusta is suitable in warmer temperatures 24-30 degrees C, compared to 600m above average sea level. The ideal areas are light, deep, well drained, loamy, slightly acidic, and rich in humus and exchangeable bases, especially K (Nair, 2010).

On average from 2012/13 to 2015/16 crop year, the productions of two types of coffee slightly change. According to the chart Figure 7, Arabica coffee production is mostly unchanged, while Robusta coffee production tends to increase, estimated 0.9%.

**Figure 7: World Coffee Production by Species 2012/13-2015/16**

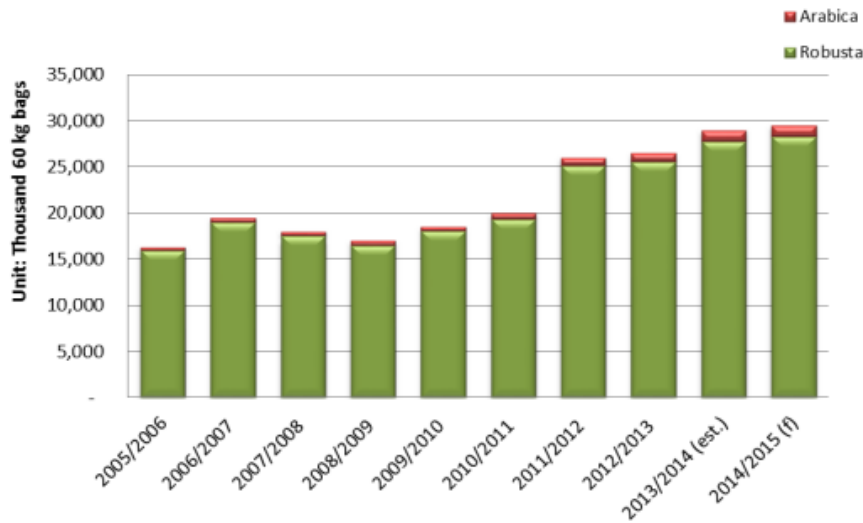


Source: *International Coffee Organization Blog, 2016*

Vietnam produces two varieties – Coffee Robusta and Coffee Arabica. – each requiring its specific ecological conditions. Vietnam is divided into two different climatic zones due to the presence of the Hai Van mountain pass (elevation above 1000m, at 16°14'N). Southern Vietnam with tropical is suitable for the development of Robusta coffee, while the north with a lower temperature is suitable for Arabica cultivation. In Vietnam 90% belongs to the Robusta variety while at world scale Robusta accounts nearly 20% of the total production of coffee (D. D'haeze et al., 2005).

Figure 8 shows that Vietnam mainly produces Robusta, while Arabica is very small percentage. 2005/06 crop year Arabica was only about 400 thousand 60 kg bags. It increased 3 times in 2014/15 crop year, but compared to Robusta coffee production, negligible.

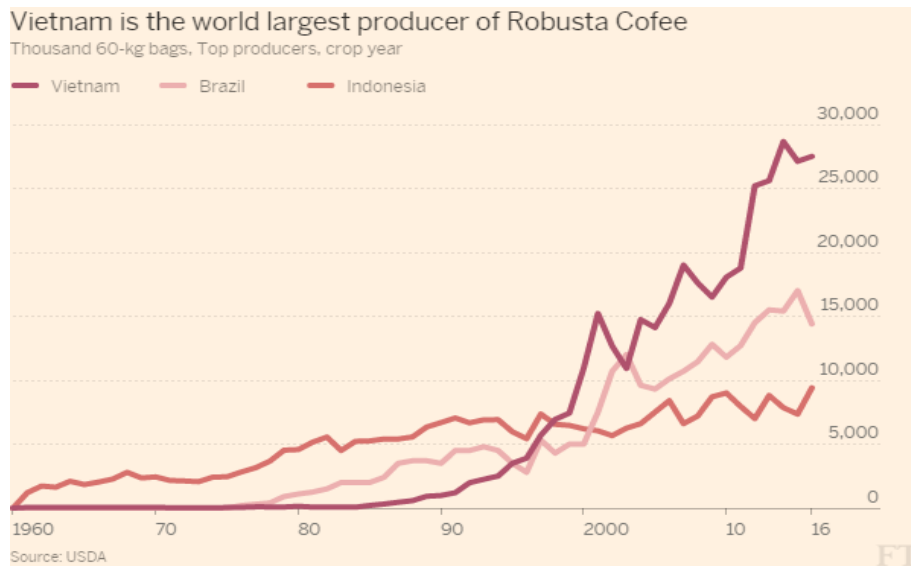
**Figure 8: Coffee Production in Vietnam by Species (thousand 60kg bags)**



Source: *USDA, Local exporters, Post Estimates, 2014. Available at: [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Coffee%20Annual\\_Hanoi\\_Vietnam\\_5-23-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Coffee%20Annual_Hanoi_Vietnam_5-23-2014.pdf)*

Figure 9 presents top producers of Robusta coffee from 1960 to 2016. Vietnam is the world's leading producer of Robusta coffee. Brazilian is the second largest but only about half that of Vietnam, followed by Indonesia.

**Figure 9: Top Producers of Robusta Coffee 1960-2016**



Source: *USDA. Available online at: <http://blogs.ft.com/ftdata/2015/10/24/datawatch-vietnam-is-the-world-second-largest-coffee-producer/>*

#### 4.3.2.2 The Rapid Increase in Coffee Cultivation

Coffee is one of Vietnam's most important agricultural exports. Coffee was introduced in Vietnam by French missionaries in 1857. The coffee cultivation area increased from several thousand ha in the early 20th century to 20,000 ha in 1975. This was further expanded through investment from and co-operation with former socialist countries. By 1994, this number was 150,000 ha, which accounted for just 1.32 percent of Vietnam's total crop area. In the late 1990s, there was a significant increase in quantity of land used for growing coffee, by an average of 20.7 percent each year, to 516.7 thousand ha in 2000, standing for 4.14 percent of Viet Nam's total crop area, and making coffee the third most widely planted crop after rice (which accounts for 61.4 percent of total crop land) and maize (5.7 percent).<sup>15</sup> In short, during the period of twenty years between 1980 and 2000, the total amount of coffee cultivation area in Vietnam has increased more than 23 times and output increased 83 times approximately.

##### *Growing area*

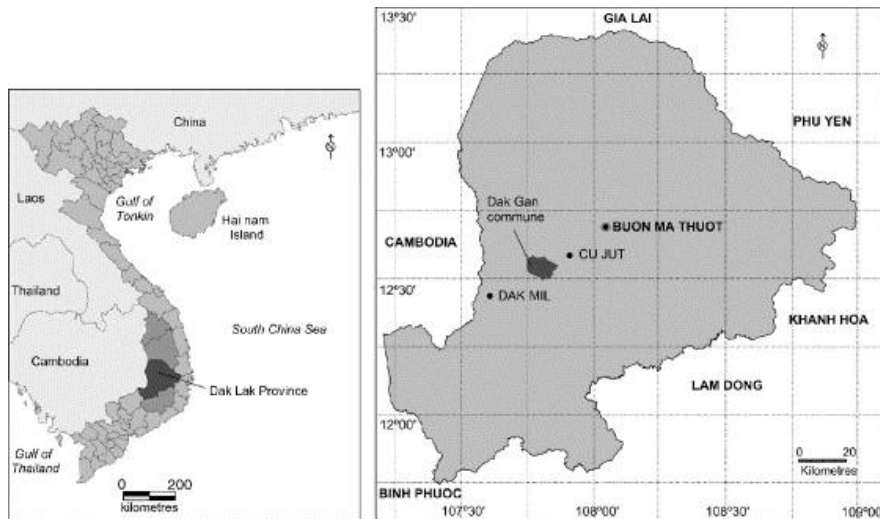
In the 1920's, suitable coffee growing areas were discovered in the Central Highlands, mainly in Dak Lak province (since 2004, Dak Lak province was divided to 2 new provinces Dak Lak and Dak Nong<sup>16</sup>). The reality coffee acreage in Dak Lak is estimated to be over 260.000 ha, accounting 60% of the national output, with 405.000 ton per year for the world market (D. D'haeze et al., 2005).

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<sup>15</sup> <https://www.scribd.com/document/52828839/The-Impact-of-the-Global-Coffee-Trade-On-Dak-Lak-Province-Viet-Nam-Analysis-and-policy-recommendations>

<sup>16</sup> [https://vi.wikipedia.org/wiki/%C4%90%E1%BA%AFk\\_N%C3%B4ng](https://vi.wikipedia.org/wiki/%C4%90%E1%BA%AFk_N%C3%B4ng)

**Figure 10: The Province Dak Lak (old) in Vietnam**



Source: <http://www.sciencedirect.com/science/article/pii/S0167880904001768>

The mainly Robusta coffee areas are Dak Lak, Lam Dong, Dak Nong and Gia Lai with the biggest areas respectively 210 thousand ha, 155 thousand ha, 128 thousand ha and 82 thousand ha in MY 2016/17. However, due to switching to black pepper production, the coffee area in Lam Dong was slightly increased. Besides, the Arabica coffee areas primarily grow in the northern mountainous areas, such as Dien Bien and Son La with about 14000 ha. In the near future the Arabica area will continually rise up to 30,000 ha according to traders (Table 10).

The total coffee area in 2015/16 is 655,817 ha, decreased over 9000 ha compared to 665,009 ha in 2014/15 due to the switch coffee to black pepper production. However, it increased back to 668,200 ha in 2016/17, due to “the fact that coffee is still the most stable cash crop for Vietnamese growers” (Michael et al., 2015).



**Table 10: Approximate Vietnam's Coffee Area by Provinces 2013/14-2016/17 (unit: ha)**

Province	Approximate Coffee Area in 2013/14	Approximate Coffee Area in 2014/15	Approximate Coffee Area in 2015/16	Approximate Coffee Area in 2016/17
<b>Dak Lak</b>	207,152	209,760	210,000	210,000
<b>Lam Dong</b>	151,565	151,565	153,432	155,000
<b>Dak Nong</b>	128,703	131,895	122,278	128,000
<b>Gia Lai</b>	77,627	83,168	78,030	82,000
<b>Dong Nai</b>	20,000	20,800	20,800	21,000
<b>Binh Phuoc</b>	14,938	15,646	15,646	16,000
<b>Kontum</b>	12,158	12,390	13,381	14,000
<b>Son La</b>	7,071	10,650	12,000	12,000
<b>Ba Ria-Vung Tau</b>	9,000	15,000	15,000	15,000
<b>Quang Tri</b>	5,050	5,050	5,050	5,000
<b>Dien Bien</b>	3,385	3,385	4,500	4,500
<b>Others</b>	5,700	5,700	5,700	5,700
<b>Total</b>	<b>642,349</b>	<b>665,009</b>	<b>655,817</b>	<b>668,200</b>

*Source: Provincial DARDs, MARD, Local exporters, Local Traders. Available at:*

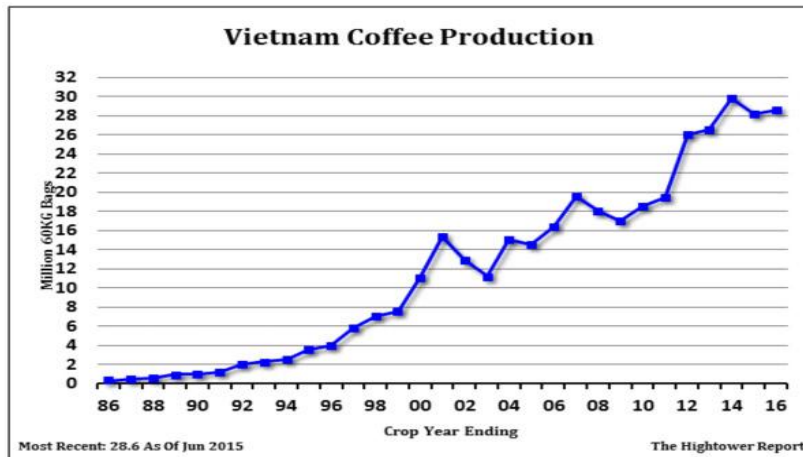
*[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Coffee%20Semi-annual\\_Hanoi\\_Vietnam\\_11-18-2015.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Coffee%20Semi-annual_Hanoi_Vietnam_11-18-2015.pdf) and*

*[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Coffee%20Annual\\_Hanoi\\_Vietnam\\_6-1-2016.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Coffee%20Annual_Hanoi_Vietnam_6-1-2016.pdf)*

### *Production*

Figure 11 presents the Vietnamese coffee production from 1986 to 2016. The coffee production has fluently increased year by year from 1986 and suddenly picked at 16 million 60-kilogram bags in 2001. However, the coffee production grew and dropped unevenly due to adverse weather conditions, it is about 29 million 60-kilogram bags in 2016.

**Figure 11: Total Vietnam Coffee Production 1986-2016**

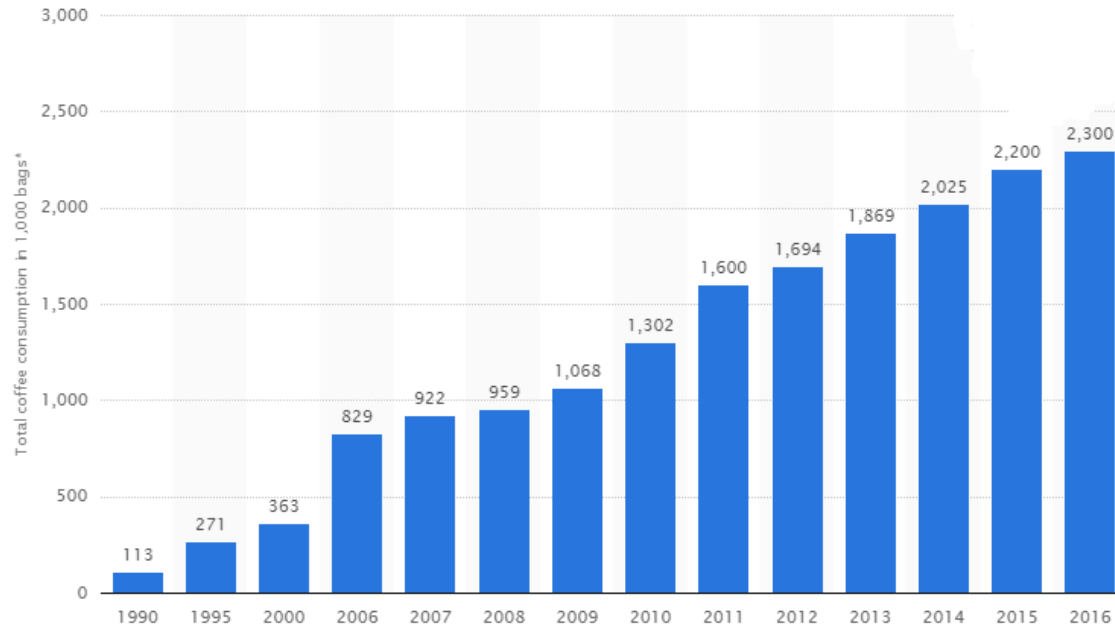


*Source: The Hightower Report. Vietnam Coffee Production, 2015*

### *Consumption*

Although the production of Vietnam is up to 30 million 60 kg bags, the consumption is only 2300 thousand 60 kg bags in 2016. However, it is significantly increasing and continuing to grow, compared to 1990 only 113 thousand 60 kg bags (Figure 12). One of the reasons is Vietnam is opening market, there are appearing of many giant companies such as Starbucks, McCafe, etc make the young people prefers take-away coffee instead of the traditional drip coffee that is more suitable for old people (Michael et al., 2014)

**Figure 12: Total Vietnam Coffee Consumption 1990-2016**

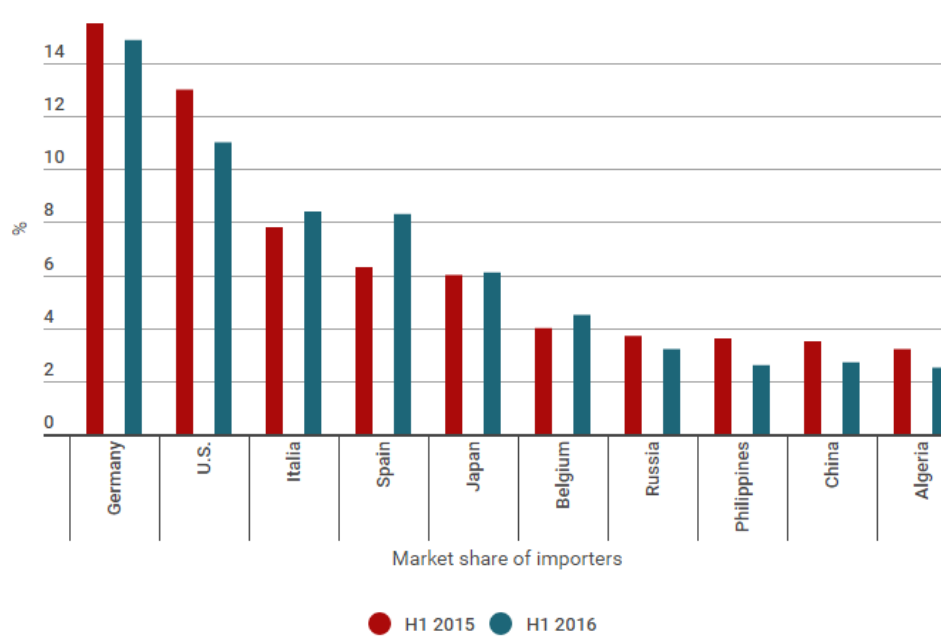


Source: <https://www.statista.com/statistics/315003/vietnam-total-coffee-consumption/>

### 4.3.3 Coffee Export by Markets

Vietnam exported coffee into 80 markets worldwide in 2015. Top ten countries import Vietnam coffee are German, USA, Italy, Spain, Japan, Belgium, Russia, Philippines, China and Algeria, which import 3/4 exported coffee amount of Vietnam. Europe becomes the key market of Vietnam coffee export, where includes 5 countries in top ten, there are Germany, Italia, Spain, Belgium and Russia. In 2015 and 2016, German is the leader of import, accounting for 15.5% and 14.87% total annual export output. The second runner up is US with 13% and 11%, followed by Italia (7.8% to 8.4%) and Spain (6.3% to 8.3%) with a significant on-year rise in value over the first seven months of this year. Totally in 2016, most of the coffee export markets of Vietnam fall. US market is the strongest decline by 2%. Japan does not change much, whereas Spain rise sharply by 2% (Figure 13).

**Figure 13: The main coffee export markets of Vietnam H1/2016**



Source: Ministry of Agriculture and Rural Development report, 2016, cited at: <http://e.vnexpress.net/news/business/vietnamese-coffee-wins-germans-hearts-3454235.html>

## **5. Conclusion**

The analysis has shown the potential for strong growth of Vietnamese coffee exports. One of the macro reasons is Vietnam's accession to the World Trade Organization WTO, helping Vietnam to expand opportunities to international market.

Firstly, the development of foreign trade was analyzed to show its importance to the national economy. A country cannot develop without opening the market, implementing the exchange of goods. Because of the fact by differences in natural conditions, environment and climate, each country has its own strength. For example, Vietnam is the biggest world's second coffee exporter but has to import machinery from the outside if Vietnam wants to increase the quality of coffee. While US, by geographical location, cannot do coffee cultivation, it is strong in exports of machinery. Therefore two countries can exchange goods to each other. However, for the mutual benefit and fair, the trade organizations especially WTO established with policies MFN, NT, tax cuts, etc. Each country imposes tariff policies, import tariffs, quotas, etc for imported goods to protect domestic enterprises, because of joining WTO, the tariff barriers are cut fall, helped the national goods have a chance to penetrate the local market better.

Secondly, it is clear that Vietnam's accession to WTO has opened up many opportunities for Vietnam to develop economic, particularly agricultural commodities, for example of coffee exports as one of the key national industries. Coffee was first brought to Vietnam in 1857 but it has had a significant rapid development in a short period of time, bringing the largest world's second coffee exporting country and the world largest producer Robusta coffee for Vietnam. Because of the micro reasons such as favorable natural conditions and cheap labor market, the macro reasons such as tax cutting, coffee plantation area has so far to nearly 670 thousand hectares with productivity of 29 million bags of 60 kg annually year. Although the US and Europe are the two largest coffee importer of Vietnam, they have quality requirements, technical procedures and food safety. Therefore, the coffee export industry wants to further growth, Vietnam needs to have strictly policies controlled. If Vietnam does not seize the opportunity, Vietnam coffee products will be rival surpassed by competitors such as Brazil and Colombia.

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