Viet Nam WTO Accession and Implications for Agriculture

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Vietnam’s WTO accession is a watershed event for the economy. It will offer unprecedented external market opportunities, but also unique opportunities for domestic reform. Our results indicate that external and domestic reform must go hand-in-hand if their full potential is to be realized.
Quantity of Growth can be influenced by trade opening.

Quality of Growth depends on many other policies.

Important qualitative growth characteristics:
1. Diversification
2. Modernization
3. Poverty alleviation
Vietnam is far from realizing its trade potential.
Domestic and External Reform

Examples of how domestic reform can facilitate readiness for WTO accession include, but are not limited to:

1. Harmonization of standards for commercial activity, including licensing, contracts and other legal standards.
2. Uniform and transparent product quality standards, including SPS and other health safety.
3. Removal of administered price systems and greater transparency in fiscal mechanisms.
4. Clear delineation of property rights, including uniform standards for ownership and transferability.
5. Agriculture-oriented policies that promote productivity, including consolidation, technology transfer/adoption, and credit markets.
6. Uniform and transparent labor standards and residential policies.
7. Public-private parity in credit access and price.
8. Improved transparency and reporting of national economic data.
10. Financial sector reform and regulatory standardization, especially in commercial banking, insurance, and asset markets.
Policy makers need visibility. Economic models can make a lasting contribution to this under three conditions:

1. They incorporate advanced data and methods.
2. Their results are transparent.
3. They are locally implemented.

In order to achieve these three goals, we developed a modeling facility with a user-friendly interface and a sophisticated analytical kernel.
Schematic Modeling Facility

Development

Simulation

Analysis

Social Accounting Matrix
Econometric Parameter Estimates

Policy Scenarios
Baseline Calibration Data

CGE Model

Numerical Results
Graphical Output

Box Color Key to Software Implementation:
Green – Microsoft Excel
Yellow – GAMS
Scenarios

1. Baseline: calibrated trends without reform or WTO.
2. WTO: External reform only, via WTO accession.
4. Reform-UTL: Domestic reform with unilateral removal of all Vietnamese import protection.
5. AgK: Reform, WTO accession, and 2% annual capital productivity growth in agriculture.
6. AgTFP: Identical to AgK, except Total Factor productivity in Vietnamese agriculture grows by 2% annually.
Trade and Economic Growth: Real GDP to 2020

Indexed to year 2000=100.
Real Agricultural Output

(percentage changes from Baseline in 2020)
Poverty and Market Access 2: Dual Initial Conditions

Poverty is more common in remote areas.

Yet most of Vietnam’s poor live near markets.
Doha Holds Little Potential for Vietnam without WTO Accession

Doha has a negligible but regressive effect, since there are few trade gains for a nonmember. (by province)
Poverty Rates and WTO Accession

With global reciprocity, positive export terms-of-trade and ag demand growth lead to progressive effects (by province)
Agricultural Services and WTO

- Both SPS- and TRIPS-related issues have proved to be obstacles in the negotiations.
- Vietnam has made great strides in agriculture since domestic reforms began in 1982, but much remains to be accomplished.
Priorities for Agriculture

- Tackling rural poverty
- Scale and services for smallholder agriculture
- Adding value to agriculture
- Modernizing infrastructure
- Reforming state-owned enterprises
Population density per hectare of farmland is a serious constraint on actual and potential income growth. There are two ways to overcome this, higher crop value and migration.

Estimated Revenue per Capita for Vietnamese Crops at US Prices
Farm Population and Poverty

Farm populations in middle income countries are 15-30%, in high income countries 1-15%.

Per Worker Value Added at Different Levels of Farm Population

- Farm Worker Value Added (2003 USD)
- Percent Reduction in Farm Population
Adding Value to Agriculture

• Continue to shift emphasis from quantitative targets toward quality standards.
• Facilitate greater domestic and external market participation.
• Invest in better infrastructure, research, and extension activities.
• Use external negotiation and partnerships to accelerate technology and standards adoption within Viet Nam’s farming sector.
Modernizing Infrastructure

Domestic private and public savings are a serious constraint.
Regional Public and Private Investment (Asian inbound Aid and FDI, USD Billions)

In Asia, external private savings (FDI) does much of the work.
Issues 1: Challenges and Opportunities for Viet Nam Agriculture

Challenges

• Institutional constraints
  - Price transparency
  - Cost of capital
  - Trade and transport margins
  - Small scale

• Process constraints
  - Technology
  - Diversification
  - Quality
  - Value-added
Opportunities

- Regional Cereals Demand
  - China
  - Japan
  - Korea
- OECD Fishery Demand
  - Global marine stocks are being depleted
  - Dietary shifts in protein/fat content
- Significant potential for agricultural diversification
  - Fruit
  - Salad vegetables
  - Horticulture
Issues 2: Domestic Policy Considerations

• Product markets – reduce barriers to market access/entry, especially for domestic private interests
  – Invest in infrastructure, transport, and communications
  – Reduce trade margins due to administration/regulation
  – Reduce direct and indirect financial bias favoring state enterprises

• Capital markets – greater recognition of market forces
  – More equal private/public access to domestic and external savings
  – Promote a transparent relationship between risk and return

• Labor markets – increase investments in education/training
• Fiscal policy – nondistortionary standards for taxation, uniformly applied
Issues 3: External Policy Considerations

Fuller participation in the global economy will improve efficiency, leverage domestic production capacity and employment, and accelerate modernization. To facilitate this, the government can:

- Minimize price distortions in tradable commodities
- Give more equal market access for domestic and international participants
- Liberalize direct foreign investment in all sectors and harmonize banking and financial market standards with international norms
- Share more of the burden of development risk with foreigners
- Promote Vietnamese enterprises abroad and negotiate balanced market access with trading partners
To avoid economic marginalization with trade-induced economic growth, all factor productivity must be increased and the skill base of the economy must be diversified. This can be done:

1. Publicly – extend and intensify public commitments to education, training, agricultural extension services, and standards.

2. Privately – let foreign and domestic private capital do the work. As the economy develops, so will a web of training opportunities for workers and farmers, particularly in emergent sectors with higher labor productivity and wages.
Conclusion 1

- The gains Vietnam can enjoy from external liberalization will be seriously limited unless they coincide with comprehensive and sustained domestic economic reform.
- The most important insight emerging from this analysis is the essential complementarity between domestic and external economic reform.
- Both are necessary, but neither alone is sufficient, to realize the great economic potential of Vietnam.
Conclusion 2

- Our results indicate that the current WTO offer reduces average protection levels incompletely but substantially, and such a reduction could realize about 80% of the gains from complete removal of protection.
- Thus, this first phase of trade liberalization is by far the most important for Vietnam. However, the need for complementary domestic reforms is even greater if external liberalization is incomplete.
In the absence of other policy measures, the offer will lead to intensification of Vietnam’s traditional comparative advantages. This would narrow the basis for development, modernization, and productivity growth, and not be in Vietnam’s best long term interest. It can be avoided by policies that promote economic diversification and negotiated external market access, especially intensifying bilateral and regional arrangements.
Conclusion 4

• For agriculture, policies to promote quality and productivity growth are essential.
• Without these, the agricultural sector will fall behind the rest of the economy, food imports will rise dramatically, and food exports will be diverted back into the domestic market.
• The key to food security and rising rural livelihoods is not protectionism, but promoting productivity, value added, and competitiveness.
Discussion