

# THE ADJUSTMENTS IN THAILAND'S AGRICULTURAL TRADE POLICY AND IMPACT ON AGRICULTURAL TRADE BETWEEN VIETNAM AND THAILAND

Dr. Tran Quang Phu, Dr. Nguyen Thi Phong Lan  
*Ho Chi Minh National Political Academy*

## Abstract

*Thailand is Vietnam's second largest trading partner in ASEAN. Vietnam's main exports products to Thailand are crude oil, computers, electronic products and components, seafood, coal and plastic products. The trade of agricultural products between Vietnam and Thailand has also thrived. Agro-products currently account for 14-15% of the total trade volume between the two countries. In recent years, Thailand has made many changes in the policy of trade in agricultural products in the direction of modern, high technology associated with the restructuring of agriculture. These changes affect the trade of agricultural products between Vietnam and Thailand on both positive and negative aspects. This paper focuses on analyzing the current situation of this change and proposing measures to boost Vietnam's agricultural trade in the coming time.*

**Key words:** Agricultural commodities trade; Thai Agriculture; Trade policy of agricultural products in Thailand.

## 1. The current status of adjustment of trade policy of agricultural products in Thailand and affecting the export and import of agricultural products between the two countries

In the context of trade liberalization, the Thai government has set a target for agricultural development orientation to increase productivity, yield, food security and farmers' income, restructure, sustainable development of agriculture and encourage the production of biofuels. Accordingly, Thailand's agricultural trade policy has changed a lot. Detail:

Thailand has implemented a policy of attracting foreign direct investment (FDI) into the agricultural sector. FDI projects in agriculture are entitled to 50% reduction of import duty on machinery and equipment. Thailand is targeting FDI in the exploitation of specialties of each region, even the most difficult areas. With investment projects in special difficult areas and export products, they are exempted from income tax for 5 years. This policy has enabled Thai agriculture to have advantages of quality and price in the world agricultural market and create a good brand.

Thailand Government also promulgate the policy of developing linkages is strongly encouraged. In Thailand, the state, scientists, traders and farmers work closely together, making production stable, effective and keeping price higher. The "Four Partners" relationship is based on a harmonious combination of interests. Scientists study super-yielding crops, improving seed quality through genetic engineering, breeding techniques,

genetic engineering and tissue culture technology. Improving the quality of agricultural products in the direction of sustainable development has been solved by scientists using biotechnology. More importantly, these research are recognized by the Thailand government and applied in the production and processing of agricultural products.

In rice exports, this linkage flourishes. The government has introduced policies to encourage rice production and export, as well as investors when the rice market is unstable by buying rice from exporters, bear the costs of storage, Shipping when world rice prices fall. The state also helps farmers by implementing a number of rice agreements with foreign governments.

**Table 1. Rice export volume of Thailand and the world**

*Unit: Mil. tons*

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The world's rice export	28,0	32,0	29,6	31,4	31,8	30,4	38,4	37,4	50,0	41,3
Thailand's rice export	7,5	8,5	10,0	8,6	6,9	4,2	7,1	7,1	10,0	9,8
Thailand's share of the world (%)	26,8	26,6	33,8	27,4	21,7	13,8	18,2	18,7	20,0	23,7

*Source: VIETTRADE.COM.VN*

Tax and credit policies have also changed. The Thailand government has given more incentives for capital and increased insurance for farmers, and the agricultural tax was abolished. Rice farmers also enjoy other supportive policies, such as: buying fertilizers at low prices and free fertilizer transportation; suppling high yielding varieties; Borrowing capital with low interest rates from agricultural banks. For key crops such as durian, longan, litchi and rambutan, the government have price support to encourage farmers to focus on growing. In order to promote the production of processed agricultural products, Thailand has applied the policy of income tax exemption, business tax and profit tax for newly established processing establishments.

Trade promotion policy has many changes. Thailand has a strategic orientation for agricultural production is export, trade promotion policy has mobilized resources from many sides (the State, enterprises and individuals) to expand the market. The state plays most important role. The government launched large-scale trade promotion programs for Thailand agricultural products, such as: programs to build commercial centers abroad for Thailand agricultural products. The government also sponsor global advertising programs through fairs and media. For example, the program described "Thailand fruit is the best in Asia" has achieved much success and helped export of Thai agricultural products to the world market. The government also actively supports marketing programs, seeking export market for post-harvest and processing products through the government contracts.

Infrastructure policy has also been adjusted, making an important contribution to the success of agricultural production and exports in Thailand. The state electrified rural areas, building hydropower, ensuring all farmers can access the agricultural science and new farming techniques information. Roads and marketplaces are well planned, facilitating

the production and export of agricultural products. For fruit production and export, Thailand uses “One Stop Service” through a central market. The brokers collect of fresh fruit from the farms and then returns to the processing plants. Compared with the traditional way of doing business, people grow their own trees, harvest them and bring them to the market for sale, thus reducing the transaction costs and reducing post-harvest losses. The Perishable One Stop Service Export Center (POSSEC) in Thailand can meet all the requirements for on-site delivery. This means that exporters can complete customs procedures, receive certificates of origin (C/O), certificates of plant quarantine, safety and hygiene inspection, including irradiation services, warehousing packaging, market information, regulations... at POSSEC.

Policy of research and transfer of science and technology are also paid special attention by the Government. It can be seen that in recent years, on-the-spot courses in farming techniques and technology transfer have been expanded with a number of incentives to attract and improve the level of agricultural human resources, make many changes Thailand agriculture. Due to the efforts of both the Government and the people, modern technologies in the production, preservation and processing of agricultural products are implemented and applied throughout the country. In addition, farmers also actively seek out, strictly adhere in farming and processing agricultural products. The success of Thailand farmers is based on the skillful combination of traditional farming experience and the application of advanced science and technology.

The policy of international integration is also promoted by the Government of Thailand, creating a favorable environment for import and export of agricultural products. Thailand has actively participated in FTAs with Japan, Australia, India, Chile... In particular, Thailand has signed a free trade agreement with China, effective from October 2003. Accordingly, the two sides implemented liberalization for 8 groups of agricultural products. This has made Thailand's agricultural products enter the market in general as well as the Chinese market in particular convenient. Thailand also has a policy of penetrating its newly opened neighboring economies such as Vietnam, China, Laos and Cambodia. Geographic proximity has given Thailand a certain advantage over other countries. The good integration policy has enabled Thailand agricultural products to penetrate not only the Asian market but also the European and American markets. These markets ask for quality of export products as well as the accompanying standards such as origin, geographical indications highly.

Flexible adjustments in the policy of trade in agricultural products in passing time has helped Thailand become a major exporter of agricultural products in the world, far beyond Vietnam. These have had a significant impact on Vietnam's agricultural production and exports, including positive and negative effects:

On the positive side: First, the adjustment of Thailand's agricultural trade policy has increased the flow of agricultural trade between Vietnam and Thailand. Vietnam's yearly export turnover of agricultural products to Thailand has increased at an average annual rate of 36.8% per year for the period 2006-2010. Meanwhile, Vietnam's agricultural imports

from Thailand from USD 301.6 million in 2006 to USD 779.6 million in 2010, reaching an average speed of 25.5% per year.

Second, adjusting Thailand's agricultural trade policy raises the competitiveness of Vietnam's agricultural products in two ways. First of all, under the ASEAN Free Trade Area (ATIGA), most of Vietnam's agricultural products exported to Thailand are subject to zero tariffs. Lower tariffs will directly affect the competitiveness of Viet Nam's agricultural export products to Thailand compared to agricultural products from countries not covered by this Agreement; Secondly, Thailand adjusts agricultural policies in the context of integration, and at the same time raise the sanitary and phytosanitary requirements up. Thus, Vietnam has to restructure agricultural production in the direction of increasing the processed content, raising the added value, diversifying agricultural production and raising the quality of products, thus enhancing the competitiveness of agricultural products in world market.

Third, to create a more competitive environment for Vietnam's agricultural exports compared to Thai agricultural products in the Thai market due to the reduction of import tax.

However, besides the positive effects, there are also negative impacts such as:

In short term, Vietnam's agricultural products are under competitive pressure and risk losing market share for Thailand in the domestic market. Vietnam's agriculture is at a low level of development, the quality of many raw and processed agricultural products is not high. Meanwhile, Vietnam has been cutting tariffs as well as subsidizing production under commitments, so domestic production is facing many difficulties, especially in animal husbandry and food processing industries. Meanwhile, Thailand has invested in high-tech agricultural production, has many agricultural products leading the world market and has much higher international competitiveness than Vietnam, such as, rice, tropical fruit zone, vegetable... Therefore, when doing market opening, Vietnam not only did not take advantage of the opportunity to export to Thailand, but Thai agricultural products are overwhelming and occupying domestic market share. This is detrimental to domestic agriculture. In 2016, Vietnam imported US \$ 410 million, accounting for 44.3% of the total import value of Vietnamese vegetables and fruits from the world, 10 times higher than Vietnam's export turnover of vegetables and fruits to Thailand. In the first eight months of 2017, Vietnam's vegetable and fruit imports from Thailand amounted to \$ 618 million<sup>1</sup>, much higher comparing to Vietnam export turnover to Thailand.

**Table 2. Vietnam's agriculture product export-import with Thailand in 2016**

*Unit: Mil. US\$*

		Value	Annual change 2015 (%)	Share in Vietnam's total ex-im (%)
Export	Fishery	243	12,4	6,6
Import	Fruits and vegetables	410	98,7	4,6

*Source: Customs handbook on International Merchandise Trade Statistics of Vietnam 2016, P.101*

<sup>1</sup> <http://www.moit.gov.vn>

Secondly, Vietnam's agricultural products are still discriminated against and difficult to access to markets inside and outside Thailand, such as rice. Thailand still implements high protectionist policies and excludes international and regional commitments to rice. Thus, the opportunity for Vietnam's rice exports to Thailand is very low. Many other agricultural commodities have similar conditions. Vietnam has imported most agricultural products from Thailand, however, Thailand has only officially licensed dragon fruits, fabrics and labels imported from Vietnam. Moreover, Vietnam also encountered many disadvantages when approaching the non-Thai market. As for rice, Vietnam is a direct competitor of Thailand in some Asian markets, often losing out against Thailand. In the Chinese market, Thailand has an agreement on eight categories of agricultural products, in the Philippine and Indonesia markets, Thailand has government contracts. In addition, the support of the Thailand government to the rice sector is enormous, from supporting farmer production to trade promotion. Meanwhile, Vietnam has limited resources in implementing domestic support policies for agricultural commodities under the WTO Agreement on Agriculture, which further complicates the production and export of agricultural products.

## **2. Solutions**

With the aim of implementing the industrialization and modernization of rural agriculture orientation to export, Vietnam needs to affirm quality and brand name of agricultural products, avoid losses in globally trade transactions in general and in trade relations with Thailand in particular. Therefore, the following solutions need to be implemented:

*Firstly*, to perfect the policy of import and export of agricultural products in the following directions: Agro-product export-import strategy must be built and completed in the direction of market demand and efficiency of agricultural exports on the basis of capacity domestic production. The Government, in particular the Ministry of Industry and Trade, should announce the strategic direction of agricultural product import and export so that enterprises can take initiative in developing business plans and programs in line with enterprise resource preparation in the long term, medium term. Strengthening the capacity of processing agricultural products for export. In the context of the volatility of international integration, State management agencies must be dynamic and sensitive before the actual situation to timely adjust and supplement the export management mechanism is appropriate.

*Secondly*, balance the development of domestic market and export markets. However, the development of the domestic market is not only a temporary movement, but also a process of development, from understanding the demand, establishing a distribution system, branding... State create conditions for enterprises to participate in fairs in and outside the country to promote products; To set up agricultural transaction centers in concentrated commodity farming producing areas; Propagandizing Vietnamese people using Vietnamese goods by providing full product information showing the benefits of consuming domestic natural farm, and the harmful effects of consuming genetically modified products. This is consistent with the integration commitments and is also a condition for the development of a sustainable agricultural product market.

*Thirdly*, further promote trade promotion activities. Strengthen trade negotiations to sign bilateral and multilateral trade agreements to create conditions of equality, transparency and fairness for Vietnam's agricultural products to better penetrate the world market. Continuing to have mechanisms and policies to strengthen and support agricultural associations.

*Fourthly*, to step up research and forecast on the world market more deeply in order to timely make recommendations to support producers and exporters, especially on the situation of supply-demand, the price of agricultural products. Encourage and create conditions for businesses to build their brands for agricultural products. In the immediate future, it should focus on the famous specialty products by geographical area. Develop a National Action Plan to build a national brand for agricultural product with specific content and a clear allocation of resources, linked to key agricultural products to build a brand name for agricultural products.

*Fifthly*, continue to improve the agricultural trade policy with Thailand. In the framework of organizations that both countries join together, such as WTO, ATIGA, AEC, ACFTA. It is necessary to strengthen coordination and cooperation in agricultural trade policy with Thailand. The two sides should agree to achieve harmonization and mutual recognition of standards and regulations in order to expand market in Thailand as well other countries.

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