Vietnam's Coffee Export Industry: An Analysis of the Potential Long-term Macroeconomic Impacts

By

Noah Thomas Best

A Thesis Submitted to
Saint Mary's University, Halifax, Nova Scotia
in Partial Fulfillment of the Requirements for
the Degree of Bachelor of Arts (Honours), International Development Studies

May 2014, Halifax, Nova Scotia

Approved: Dr. Gavin Fridell
Thesis Supervisor

Approved: Dr. Anthony O'Malley
Reader

Date: May 1st, 2014

Vietnam's Coffee Export Industry: Potential Long-term Macroeconomic Impacts

By: Noah Thomas Best

Abstract

Coffee, as a globally traded primary commodity, has historically been and continues to be one of the most valuable economic resources that is exported from the Global South. Vietnam has become the second largest and one of the fastest growing coffee exporters in the world all within a relatively short period of time. This particular export industry has expanded and developed to become an integral part of the Vietnamese national economy. The trajectory of Vietnam's long-term macroeconomic development rests, to a large degree, on the future growth and direction in which this national industry pursues. This paper discusses and evaluates the degree to which Vietnam relies on coffee for its overall economic development as well as potential next steps for this particular industry to take in order to further guarantee it can continue to contribute to the long-term balanced and sustainable national macroeconomic development plans of the country.

Contents

Chapter I: Introduction

The production and export of major primary commodity products has been an essential component within most developing countries. This economic pattern has had varying results between each country and each industry. In many instances, these primary industries account for a large proportion of the national economies and, therefore, economic development, and potentially social development, can be largely dependent on the overall success of these primary export industries to provide substantial returns and facilitate further overall economic growth. With this economic dependency come many potential issues and problems that can present serious long-term negative social and economic effects for the developing countries in question.

This thesis will focus on a case study of one country and one industry it has increasingly promoted and devloped. The coffee export industry in Vietnam has grown exponentially within the past 3 decades and, as a result, Vietnam has become one of the largest coffee producing countries in the world (almost overnight relatively speaking). Coffee itself, has grown to become a leading primary trading commodity in the 20th and 21st centuries surpassed only by oil in terms of globally traded commodities from the South (Fridell, 2013). Like Vietnam, many other countries within the Global South have endeavoured to establish themselves as major suppliers of the world's coffee, resulting in increased competition. Whether or not these changing circumstances have resulted in different prospects for coffee supplying countries such as Vietnam remains to be analyzed. Like all aspects of public policy and development strategy, careful and measured discussion and analysis is necessary to make informed final decisions regarding the well-being of a state's citizenry. Since the coffee export industry is so important to Vietnam's economy, perhaps more than ever, it is important to sufficiently analyze its effects in order to adequately assure that responsible policy can be recommended, which will ensure continued economic and social progress for the country as a whole. Insufficient discussion and analysis on this particular topic can have disastrous effects on Vietnam's overall development that can be difficult, if not seemingly impossible, to recover from.

Macroeconomics and Development

Although, there are a number of areas in development studies, this thesis focuses primarily in the area of macroeconomics, as this has historically been an important area in development studies research. Economic development has always played a crucial part in development studies since modern development theories were established from the post-war era and onwards. Although, other strands of development have steadily gained more importance most recently, economics, and more specifically, macroeconomics has continued to play a crucial role in determining how well countries and regions of the world are developing. Especially given that societies live in a highly globalized world where capitalism is a hegemonic ideology dictating our language and thinking, macroeconomics promises to remain a highly important strand of development studies for the foreseeable future. People who are engaged in macroeconomic development are primarily concerned with finding strategies and policies that will help to inspire short and long-term economic growth within a specific region of the developing world. Economics has long been established as a crucial factor in ensuring that proper development can take place where everybody's relative standards of living will begin to increase. As a result, people who are concerned with this area of development face multiple issues including low income, high unemployment, income inequality, etc. These concerns are the primary focus of every economic policy maker in developing countries. These issues were also the basis of early development theories in the post-war era of the 20^{th} century. Both modernization theory and dependency theory are primarily concerned with economic policy above all else. According to both theories, economics were the only things that mattered in terms of development and everything else was secondary. Although economics is now not seen as the only dimension of development policy, it still maintains a highly important role in theory and practice. As a result of being one of the more historically important strands of development, economics has a greater wealth of overall data and information than other newer dimensions of development may offer providing more complete detailed contexts. This is important in research when trying to use data to provide as complete a picture of development as possible. In summation, for reasons of keen interest and ease of accessibility to more empirical data than other strands, the focus this thesis will be in the area of macroeconomics.

Macroeconomics, Trade, and Development

There are many specific ways in which economic policy is enforced, interpreted, and examined. Some avenues to examine may include: fiscal policy, taxation, industrial planning, trade, etc. My primary interest and focus will be on trade. Trade is a very basic form of economic policy and development that has existed, even in its most primitive forms, throughout human history. Trade is one of the most basic forms of human interaction that has both spurred and facilitated the growth of every single greatest civilization. It is also a necessary human behaviour in order for human specialization and innovation to have occurred. In the modern context, trade remains a crucial element on the macroeconomic scale for creating growth and development. Perhaps most interestingly, trade has been both an important mechanism of not only development, but exploitation as well. Most development policies advocate that sufficient and balanced trading amongst national economies is crucial in creating sustainable economic growth. Where these theories differ is in how this balanced trading can be established. If it is not established, exploitative relationships between producers and consumers on the macro level can occur and whole national economies could be left in worse shape than they were before. For my thesis, I am interested in examining the trading relationship of one particular country, Vietnam, with the rest of the world and I intend to focus on one specific export industry, coffee, that is important to its national development. This will help to ensure my line of questioning can be focused and adequately answers the right questions as well as poses new ones that are relevant.

How this thesis examines trading relationships and what type of methodology it uses is an important step to clarify. Since trade is primarily part of the economic strand of development, it only makes sense that trade can be examined and evaluated most accurately and effectively through economic terms and data. Success of trading relationships can be determined through specific macroeconomic indicators such as GDP growth, GDP per capita, etc. In addition to this there are also important questions that only trade specific data can provide answers to such as the gross value of import/export ratios, export shares of GDP, export growth, etc. These types of indicators will be necessary in painting as clear a macroeconomic picture as possible and answering important questions such as: "What is the size and types of exports this country is producing on an annual basis and how has that changed?", "How much is this particular export industry growing by each year and how is this growth comparing to overall national economic growth?", "Which countries are these exports going to and which countries will be major importers of these exports in the future?". These are just a few of the questions that will be asked and are important in determining the profile of Vietnam's coffee export industry and its trading relationship with the rest of the world. Other factors such as land ownership and distribution, privatization, resource allocation, and ecological degradation are all issues and areas that should be explored and questioned to help paint a an even more complete picture of this particular development situation, however, they are issues that cannot be covered altogether in one thesis and must be given their own separate and undivided attention.

Macroeconomics of Trade in Primary Commodities and National Development

Trade in primary commodities is of particular interest and importance to development studies scholars as well as national development policy makers within developing countries. Primary commodity industries have constituted a relatively major source of national exports for developing countries throughout the 19th, 20th, and 21st centuries, and as such, the growth and development of this important facet of global trade has been paramount to the overall development of many countries that make up the Global South. Ostensibly, this particular area within trade and development studies has particular importance and, thus, conclusions drawn from these specific studies can have relatively strong weight and importance within development studies as a whole. As such, the results of this trend have presented varying results by each country and each industry.

Macroeconomics of Vietnamese Coffee Export Production and National Development

As previously stated, the geographic focus of this research is a case study of Vietnam and its trading relationship with the rest of the world. Vietnam is a particularly interesting case primarily due to its economic history over the latter half of the 20th century and continuing into the 21st century. Vietnam has transitioned from a protectionist, authoritarian state with strong Soviet economic influences at the end of the

American war to an export-oriented market socialist economy that is still ruled by an authoritarian communist government today. At first glance, it appears not much has changed in the political landscape since the end of the American war for Vietnam but its economic policies have gone through quite the transformation since the 1980s. In terms of trading, Vietnam was once a relatively closed off economy from the rest of the world, but it is now a very active player in the global market exporting resources and products all over the world. The exact effects it has had on the macroeconomic development of the country is a complex answer that remains to be fully seen, however, this thesis attempts to answer that question in part by thoroughly researching and analyzing one of Vietnam's most important export industries, coffee, through this period of major economic transformation.

The Vietnamese coffee export industry is a particularly interesting case as it has not been a traditionally important industry to the national economy of Vietnam. Even as a consumable product, coffee has not been traditionally important to Vietnamese culture until very recently. Coffee was introduced to Vietnam in the 1850s by French colonialists but remained relatively unimportant throughout much of the 19th and 20th centuries up until the 1980s. Major economic policy reforms lead by the communist government as well as major developments taking place within the global coffee industry itself inspired rapid growth of this national industry in Vietnam beginning in the 1980s and continuing into the 2000s. During this short period of time, Vietnam's coffee industry grew so fast that it overtook Colombia and is now firmly in place as the second largest producer of coffee in the world (ICO, 2013). Vietnam is also now a huge coffee exporter, however, significant fluctuations in global coffee prices has complicated overall effects this export industry has on the national economy. These sharp fluctuations in prices and general market instability was facilitated in large part by the increase in major suppliers and competitors such as Vietnam as well as significant deregulatory measures of the global coffee market through the abandonment of market regulation mechanisms, most notably the International Coffee Agreement. This is a fascinating story of the global coffee industry, which has transpired within a matter of a few decades and continues to develop, has been a major factor and influence for development in many countries, especially Vietnam.

Research Question

Like with any critical piece of research, discussion, and analysis, a principal research question is crucial in order to provide direction and focus as well as provide a more concrete framework around the topic of discussion. In this specific case, the research question, in itself, provides an answer as to what exactly needs to be found out about Vietnam's coffee export industry and its trading relationship with the rest of the world. The research question that this thesis will attempt to answer is stated as such: "Does Vietnam's coffee export industry have the potential to contribute to long-term balanced and sustainable national macroeconomic development?" This question provides an accurate framework for the research, discussion, and analysis to be guided upon. The scope is narrow enough for the research to remain focused and on track but broad enough to leave enough avenues of exploration providing a set of full and thoughtful answers as well as recommendations to conclude upon. The way in which the research question is phrased gives a basic framework of how thesis is structured as well. The whole notion of macroeconomic development that is 'long-term balanced and sustainable' can be seen as ambiguous if not properly defined. In the context of this research, long-term balanced and sustainable national development of a macroeconomic dimension will require that

Vietnam’s economy is not too reliant on one particular national industry to influence its growth and stability. In other words, an acceptable degree of economic diversification will have to have been achieved or, at least, be progressed towards in order for macroeconomic development to be deemed long-term balanced and sustainable. With regards to coffee, how effectively this particular industry is helping to achieve this objective is evaluated and the essence of principal research question.

Chapter II: Literature Review

Macroeconomics and Development

A central issue within development economics is whether or not macroeconomic development can necessarily translate into not only long-term balanced and sustainable economic development, but provide an effective catalyst for social forms of development through examples like poverty reduction. Macroeconomic development has been an important facet of nearly every major strategy for national and regional development of countries, both developed and developing countries, in the modern world. By stressing macroeconomic development as a key component to its national development plan, there have been many countries that have successfully increased the size of their economies exponentially, allowing them to more effectively compete with any other nation in the world. However, the issue remains as to whether or not this emphasis on macroeconomic development necessarily helps or inspires greater social development in addition to more balanced economic development, especially in developing countries. Proponents of macroeconomic development as the primary method of greater social development often argue that macroeconomic development is necessary in order for wealth to trickle down to the lower classes in any given society. Certain scholars contend that although macroeconomic growth and development strategies tend to only affect the rich classes and their incomes directly, they also affect the poor classes and their incomes indirectly. This is because the income of the poor is intrinsically linked to the income of the rich. As a result, proponents of trickle down economics contend that the incomes of the poor will rise more rapidly with the incomes of the rich in a developing society (Norton 2002:275).

However, there are also plenty of scholars on the other side of this issue who argue against strictly macroeconomic growth and development strategies, such as trickle down economic policies, as a means of creating greater social development. They argue that macroeconomic growth has not always positively affected social development and has, on many occasions, even made situations worse by widening income gaps and creating greater inequality, not only in developing but developed countries as well (Greenwood and Holt, 2010).

Finally, there are scholars who take a more middle of the road approach and argue that these strategies of macroeconomic growth and development have a varied impact on a case-by-case basis in terms of their effect on various segments of the population. They argue that macroeconomic growth and development can be very deceptive when looking at its face value, however, can still be very beneficial under the right conditions, so it is thus important to analyze the micro-level effects as well as the macro-level effects of these development strategies (Ravallion, 2001). For all intents and purposes, this thesis will tend to lean closest to this point of view in regards to macroeconomic development by stating that macroeconomic growth strategies and policies can be helpful, but only under the right policy conditions, do they substantially reduce poverty and serve to crucially inspire greater social development. The effects of these macroeconomic growth strategies on other dimensions of development, although is not the primary focus of this thesis, should still be studied thoroughly in any case to ensure that macroeconomic growth is helping and not hurting social development, which encompasses many important facets of development such as inequality, access to essential services, and many other factors.

Primary Commodities Trade, Economic Diversification, and Development

For this thesis, the most pertinent and central issue at the level of macroeconomic trade and development is whether or not trade in primary commodities can be used as a vehicle for more balanced and sustainable macroeconomic development and economic diversification under favourable conditions and what those favourable conditions would constitute.

Many scholars argue that trade liberalization policies under free trade agreements will produce the right conditions for trade to be an appropriate mechanism towards macroeconomic growth and development in developing countries. Proponents of trade liberalization policies often argue that trade liberalization is necessary in an increasingly technologically improved and fast-growing and competitive global economy. They argue that trade liberalization can be effective in promoting these trends within developing countries and thus allowing them to become and remain competitive within the global markets. According to these proponents, a global economy with fewer trade barriers will ultimately increase global competition and produce a more fair market through the elimination of unnecessary regulations. In addition to that, a less regulated global economy with fewer trade barriers would allow for greater foreign direct investment to take place. This would thus create greater opportunities for technological sharing and modernization to take place where it otherwise might not have, in particular, developing countries. A key concept that trade liberalization proponents refer to is comparative advantage, which they argue is a natural and positive side effect of trade liberalization. Comparative advantage holds the idea that economies are able to specialize in the production of very particular goods or services, of which other national economies are unable to specialize in to the same degree due to possible geographic and economic constraints. Increased instances of comparative advantages can produce countries specializing in particular products that will contribute to the overall global economy, according to trade liberalization proponents. However, they also contend that trade liberalization would promote economic diversification (Ho, 1971).

On the other side of the debate, opponents of trade liberalization argue that it does not always lead to positive benefits such as economic diversification or comparative advantage, which is supposed to allow countries to become more competitive in the global market according to the trade liberalization proponents. Scholars often point to real world examples that demonstrate how trade liberalization policies have had overwhelming negative effects on economic as well as social development. In fact, opponents of this argument contend that trade liberalization can actually decrease economic diversification and production within key national industries. This has been proven to be especially true among smaller developing states that are unable to compete with much larger foreign competition in the global economy (Connell and Soutar, 2007). This unfair competition that exists under these supposed 'free trade' agreements is exacerbated by the fact that protectionist policies are still implemented at will by much larger developed states to protect their own domestic industries from the threat of foreign competitors, which often comes from developing countries. In essence, there is an unfair practice taking place in which national industries from developed countries are not actually having to compete with foreign competition, while those same industries from much smaller developing countries are having to compete, all under the guise of 'free trade' and a 'fair global market' (Chang, 2008).

With regards to this issue, this thesis will position itself more closely along the lines of opponents of extensive trade liberalization and free trade regimes citing the fact that smaller developing countries have often been put at a competitive disadvantage to much larger developed states, which continue to employ strong protectionist policies to protect their own domestic industries. This thesis also disagrees with the idea that the elimination of trade regulation mechanisms will necessarily create a more fair global market.

Another concerning issue with primary commodities trade as it pertains to macroeconomic development is representation within international forums such as the World Trade Organization on the part of smaller states. This controversial issue concerns whether or not certain small states and their interests are being adequately represented within these large international forums that are responsible for setting global trade regulation. Critics argue that not enough is being done in order to promote the interests of small states within international forums such as the WTO. They therefore suggest that small developing countries would best be served by launching a coordinated effort at the WTO to attain the necessary resources and abilities to their interests pushed within the international forum (Grynberg, 2006). This issue is very important when considering the wider context of how global trade liberalization is structured and, perhaps, which countries interests are best being served and which are not. This thesis will align itself closely with the position that global trade regulation, which is enforced by internationally governing bodies like the WTO, is generally aimed at serving the interests of larger and more powerful developed countries. As a result, it would be advisable for smaller developing countries to work more cooperatively together in order to push their collective self-interests in international forums and thus more effectively achieve more fair terms of global trade for primary commodities, which will further enhance macroeconomic development.

Since primary commodities often constitute a significant proportion of exports and overall economic impact for national development in many countries, there are a number of important issues to consider when analyzing these particular trading relationships. Unlike other, more specialized and complex, types of trading relationships, primary commodities trading can have very particular negative effects for national development.

A major issue that has hampered development in many developing countries that rely heavily on primary commodity exports is price volatility and market instability. Many developing countries invest a huge part of their economic resources and development into primary commodities export industries because it can be a strong and relatively easy means of creating massive and wide-spread economic growth and development. However, primary commodity export industries are not always the safest and most reliable industries to produce constant economic benefits and sustained long-term growth. Many primary commodities have proven historically to produce great fluctuations in their global market prices thanks, in large part, to rapidly changing supply and demand patterns. With world prices on many primary commodities constantly changing so drastically, an element of uncertainty may become present towards the economic futures of many developing countries and, as a result, long-term economic planning can become nearly impossible for policy-makers. Examples of this price volatility and its associated effects can be found in many specific industries including mining (Davis and Cordano, 2013), wheat, coffee, and bananas (Fridell, 2013).

Solutions to this particular problematic have had varying effects but have been important in the progress towards establishing more consistency and certainty towards economic growth and development. Policies aimed at state market regulation have been widely used in these instances to help stabilize commodity prices and ensure more sustained economic development. Historical and contemporary examples of these policies can be found in many primary commodity industries that originate from the Global South including: coffee, tea, tin, bananas, cotton, etc. Many states have successfully attempted taking more control of theses particular industries and consequentially, controlling their overall supply of exports to their partners, thus, influencing world prices for these commodities and achieving more stable returns on their exports. However, importing countries, usually coming from the Global North, have often resisted these protectionist policies and implemented counteractive measures to many of these policies to ensure they are not paying more than perhaps the market demands for these primary exports. As a result, one can see a constant swing back and forth with the terms and balance of power in these primary commodity-trading relationships between import and export countries throughout any given period. An excellent example of this can be found with the Brazilian coffee industry's boom and bust cycles throughout the 19^{th} and 20^{th} century (Fridell, 2013).

Another important issue to consider within primary commodities trading and development is uneven growth within various sectors of the national economy. Economic trends and concepts such as the 'Dutch Disease', where national economies are reliant on one or a small handful of industries to support them, are very common among primary export dependent economies. As mentioned before, primary export industries within developing countries can experience constant cycles of boom and bust creating unstable conditions and economic uncertainty, however, it can have negative effects on other sectors of the economy as well. More specifically, primary export booms can create rises in real incomes and may force reallocation of the factors of production among various sectors of the national economy towards the booming export industry. In addition to this, a large influx of foreign exchange could affect the economy through the balance of payments. These two trends could cause other industries, such as manufacturing, to decline and thus causing a process of deindustrialization to occur during periods of boom. Although, the primary export industry in question may be producing substantial short and medium-term economic gains, it comes at the risk of producing real long-term economic problems for the country (Davis and Cordano, 2013). Proactive awareness of these economic trends must be made a priority in countries like this so that experts and policy-makers can develop and implement appropriate strategies to successfully thwart these disastrous trends.

Although, the magnitude and exact circumstances of these issues are always in question depending on the primary export industries and developing countries, the basic nature of these problems can be found in almost any situation where national economies have become increasingly dependent on primary export industries.

Vietnamese National Development

As a developing country, Vietnam has undergone significant economic transformations since the postwar period began in 1975. This, of course, has resulted in a rapid transition of the characteristics of its national development as well and brought along new debates and issues in how Vietnam's national development should be foreseen.

Perhaps, the largest issue that has continued to play an important role toward national development is what role the state should play in the economic development of the country. More recently, this issue has come up in popular debate within the country since it switched over to a more market-oriented economy in the mid 1980s following the country's economic and social crisis that took place. Unsurprisingly, the views within this debate are quite varied. There are those who argue that the state must play a decisive role as planner and promoter of economic development and at the other end, there are those who argue that the role of the state is minimized to taking on only what the private sector does not want to do or cannot do (Tuan Anh, 1994). Although this debate is hardly unique to any country or region of the world, it takes even more precedence in the overall political economic debate within Vietnam given its most recent history of economic trials and transitions.

In actuality, Vietnamese leadership has historically tended to lean towards more of an interventionist role for the state within the national economy as a means of fostering greater economic development. Although more recent trade liberalization and other deregulatory measures may suggest otherwise, Vietnam has followed suit with many other developing countries by expanding the role of the state within the economy in a number of key areas. This could have been greatly influenced by the relative success Vietnamese policy-makers and leadership witnessed with some of its closest Asian neighbours such as Japan, South Korea, Taiwan, and Singapore, where the state played a major and deciding role in many economic activities. Despite this, similar interventionist strategies have been employed by other nearby countries as well with much more limited success creating further uncertainty about the viability of increasing the state's role within Vietnam itself (Tuan Anh, 1994).

This debate will continue to play a key role in defining success of Vietnam's national economic development, particularly when taking a look at some of the country's relatively primary export industries, which have steadily grown in economic importance since the beginning of the postwar period. For the purposes of the discussion, this thesis aligns itself with the position that the expanded role of the state has enjoyed a strong relative degree of success for Vietnam's development and that a strong interventionist state is necessary for a more controlled and balanced expansion of industry and economic development.

Vietnamese Trade in Primary Commodities and National Development

Vietnam has increasingly grown the investment of its economy towards exports, and more importantly, primary commodity exports. The growth in these particular industries has facilitated both great economic costs and benefits spurring on debate about how to develop and/or move on from these primary commodity export industries so as to facilitate the greatest possible and most balanced economic development in the long-term for the country. The structure of Vietnam's primary commodities trading relationship to the world has, thus, undergone terrific scrutiny by experts and scholars alike, trying to determine causalities and what must be done next.

Since Vietnam has pursued a policy of limited but extensive trade liberalization as part of its policy for development, it is important to examine whether or not these policies have had a positive effect. Certain experts argue that overall trade liberalization has been fairly positive in terms of macroeconomic growth and poverty reduction within Vietnam. These proponents argue that since Vietnam has pursued more trade liberalization policies, they have had a fairly positive impact on employment. With an increase in exports, employment within Vietnam has increased dramatically, which in turn has had a fairly positive impact on important social factors such as poverty reduction. They also contend that trade liberalization policies have helped to promote economic diversification as well as creating more advanced and specialized export industries within the country in which even more segments of society such as the poor are employed. However, it is worth noting that many scholars acknowledge the fact that Vietnam has pursued relatively limited trade liberalization in comparison to many other developing countries. This is important to clarify when considering how Vietnam has been able to maintain a relatively diverse export economy (Jenkins, 2004). This thesis maintains the position that overall trade liberalization has had a relatively positive impact in terms of macroeconomic growth and development as well as social development within Vietnam.

Of course, there is a big hole to notice in this analysis and its conclusions of poverty reduction that had taken place. There is a problem in simply stating that poverty reduction and, thus more broadly speaking, social development is an implied consequence of increased employment. By establishing this apparent chain of logic without thoroughly explaining how it works and then going onto explain in detail the growth of trade and employment within the country, the argument being made has a huge hole within itself that has not been addressed. Fixating on empirical evidence that documents export/import growth as well employment growth within various segments of industry as well as the population does not necessarily mean it will directly correlate into poverty reduction and other forms of social development. This is a serious flaw as there is a case to be made that increases in employment does not even translate into higher standards of living. When talking about employment growth as a result of increased trade flows, it is important to dissect and analyze the nature of the increased employment and what effects it is having on people. Areas such as income growth and distribution must be explored in order to tell a more accurate story of the situation and to better determine whether poverty is actually decreasing or not as a result as determined previously in this paper by other scholars (Ravallion, 2001). This all comes back to the central issue of distribution within macroeconomic development and how certain scholars may interpret development on the macroeconomic level. Other than this one shortcoming, the argument is very strong in its interpretation to the relatively recent developments in Vietnamese trade policy and its direct effects.

Other proponents of trade liberalization in Vietnam argue that it has been successful in promoting poverty reduction and social development in four distinct ways: first of all, trade liberalization has created economic growth as evidenced by rising per capita GDP over the years; secondly, it has directly benefitted the poor by creating more employment for this segment of Vietnamese society and increased the wages for them as well; next, income and substitution effects have helped reduce domestic prices on importable goods as well as increasing domestic prices of exportable goods; finally, trade liberalization has increased government revenue, which could then be used to help social security and subsidies for the poor. These stand as the four legs of the argument that trade liberalization has been beneficial in reducing poverty and inspiring greater social development within Vietnam. However, these experts also acknowledge that this growth spurred on by trade liberalization has created greater disparity between the rural and urban populations with the rural populations at a distinct disadvantage (Heo and Doanh, 2009).

This argument more adequately addresses the issue of poverty reduction as it relates to trade and development within Vietnam than the previous argument does. However, both arguments are essentially taking the same side of this debate, which is essentially arguing that trade liberalization has been a positive step towards poverty reduction overall in Vietnam. In fact, as of right now, the majority of arguments that have been put forth have taken the position that overall trade and development has been a relatively positive process in terms of the economic development in Vietnam.

Vietnamese Coffee Export Production and National Development

The secondary level of this empirical focus concerns the specific export industry of coffee in Vietnam and how it has had an effect on macroeconomic development within the country. The coffee industry is very important to the overall export industry within Vietnam and, therefore, this particular industry carries a lot of weight in an export industry that already plays a relatively large role in the national economy.

Vietnam's coffee industry has not been the sight of much attention by either researchers or the Vietnamese government until relatively recently and so it has gone through quite a transformation within the last 30-40 years. There are a great deal of scholars who have come out with work that tracks this evolution in the industry by examining the early growth that characterized the beginning of the national export industry's entrance into the global market and has continued to take place. More importantly, scholars examine the issues of whether or not the Vietnamese coffee export industry has and can contribute positively to balanced macroeconomic growth and development within the country. Certain scholars have found that there is little evidence to suggest that further expansion or maintenance of the coffee industry will or can correlate to balanced macroeconomic growth and development. Experts point to examples such as agricultural crop changing as strategies to more viable industries that could be pursued in comparison to coffee production, which would lead to better economic diversification. They therefore argue that the coffee industry is no longer an adequate export industry within Vietnam that is capable of delivering substantially balanced macroeconomic growth and development as well as guaranteeing greater social development (Ha and Shively, 2008). These arguments appear well grounded in evidence at the micro-level of what is actually happening to small and medium-sized coffee producers

However, the suggestions that are being made to combat this trend do not appear to fully encapsulate the nature of the problem. This is because they do not really take into account what has been taking place on the global scale, which is that since coffee prices were globally deregulated, the prices have dropped to their market value considering the influx of suppliers that had also taken place over the past few decades. (Reinecke et al., 2012). This means that the market value of coffee is highly susceptible, especially given that the unstable nature of coffee production practices will only lead to an extremely unpredictable overall supply of coffee on a year-to-year basis. This problem is very much a global one in terms of its scale; however, certain experts are suggesting a local action to take care of a global issue (Ha and Shively, 2008), which does not really appear to be an effective strategy. Local price stabilization techniques would not be conducive to long-term growth for Vietnamese coffee producers. A broader more global (or at least regional) strategy would have to be pursued in order to permanently reverse these effects that have taken place. If that cannot be achieved, then disinvestment in the coffee industry would perhaps be a prudent move in the end, which is essentially what they are advocating when they suggest increasing rural opportunities to create more economic diversification for these Vietnamese smallholders.

Chapter III: Data Collection & Case Study – The Vietnamese Coffee Industry

Given that the overall debate surrounding this research area has been covered and the hierarchy of issues relevant to the research question has been laid out, the framework of information and data is now able to be adequately discuss and analyzed for these pertinent issues.

Macroeconomic Growth and Development

Although the debate around whether or not macroeconomic growth can lead to long-term balanced and sustainable development is contentious, it is the opinion of this paper that it can in fact do so. To be put more succinctly, it should be argued that macroeconomic growth in it most basic sense can correlate towards greater social development, and therefore, it should absolutely be pursued as part of a means towards that end. This is not to say that macroeconomic growth by itself can correlate with social development or that it will always correlate with social development in every single instance. However, there is strong enough data to suggest that this specific correlation is common, and thus, macroeconomic growth deserves great importance to any strategy for long-term balanced and sustainable development.

Measures of GDP growth and other social indicators have reinforced this argument, particularly in lower middle-income countries such as Vietnam. For example, average annual GDP growth in lower middle-income countries was 6.2% from 1990-2000 and 8.0% from 2000-07 according to the World Bank (2009). This represents a relatively strong macroeconomic growth trend and consistently stronger growth in the size of these economies. This strong economic performance has coincided with favourable social development trends as well in many specific areas. Under this extended time period for 1990 to 2007, lower middle-income countries have experienced positive signs in social development such as: increased female participation in the labour force, lower unemployment relative to upper middle-income and high income countries, increased rates of enrollment within primary education, increased primary completion rates, increased youth literacy rates among both males and females, increased access to improved water and sanitation facilities, decreased fertility rates, decreased prevalence of undernourishment, increased life expectancy, and decreased infant and adult mortality rates (World Bank, 2009). All of these social indicators point to an overall increase in the general quality of life and greater social development during this timeframe. The fact that it coincided with impressive macroeconomic growth and development supports the point that the two components can be intrinsically linked or, at the very least, strongly influence each other and that macroeconomic growth can encourage other dimensions of development such as social dimensions. Therefore, macroeconomic growth and development should be regarded as a major factor that can facilitate greater social development in addition to long-term balanced and sustainable economic development.

As a lower middle-income country, this strong positive correlation between macroeconomic growth and social development could be useful to Vietnamese development experts and planners who are trying to balance the importance of macroeconomic growth to other forms of development. If anything is clear from this analysis of the data provided by the World Bank's *World Development Indicators,* it is that macroeconomic growth does not always lead to deteriorated social conditions or decreased quality of life and, therefore, it should continue be given great overall importance to development planning.

Vietnamese National Development

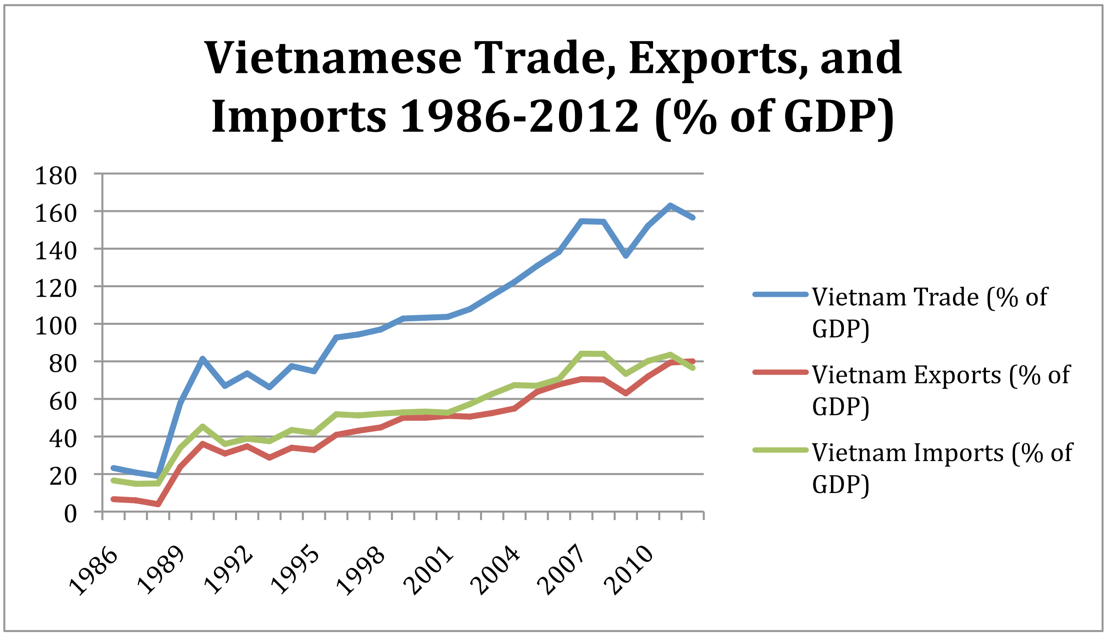
Vietnamese economic development has been relatively rapid and fuelled, in large part, to its ever-increasing integration into the global economy. This process has taken place within a very short period time historically speaking

Immediately following the end of the American war in the 1970s, the communist government enforced strict economic policies of central planning and economic isolationism. Throughout the 1970s and early 1980s, the economy of Vietnam was tightly closed off from the global economy and trade accounted for a very small proportion of the country's GDP (World Bank, 2012). These economic policies were met with severe negative effects on the economic development of the country, and eventually lead to an economic crisis in which average standards of living suffered and a mild famine resulted.

The very poor socio-economic conditions the country was found under forced the government to abandon the Soviet-style centrally planned strategies and adopt new economic policies that could better facilitate economic growth and development. This state-led economic transition process formally began with the adoption of a series of economic reforms known as *Doi Moi,* which translates into 'renovation' in English, in 1986. Although the specific aims of these reforms were varied and complex, the overall theme of the transition was to effectively open up the Vietnamese economy and expand its integration into the global economy. At the time of *Doi Moi's* adoption by the government, exports accounted for less than 7% of national GDP while overall trade accounted for approximately 23% of national GDP. These were very low figures, especially compared to other Southeast Asian economies at the time, which were far more active in trading on the global market. Under the new economic reforms, exports grew to approximately 80% of national GDP and overall trade rose to nearly160% by

2012 (see Figure 1). This was a massive and unprecedented increase in trade and exports in their importance to the Vietnamese economy.

Figure 1:



Source: World Bank

This growth in trade was facilitated by a number of specific economic policies as part of *Doi Moi*. These measures of encouraging trade included but were not limited to:

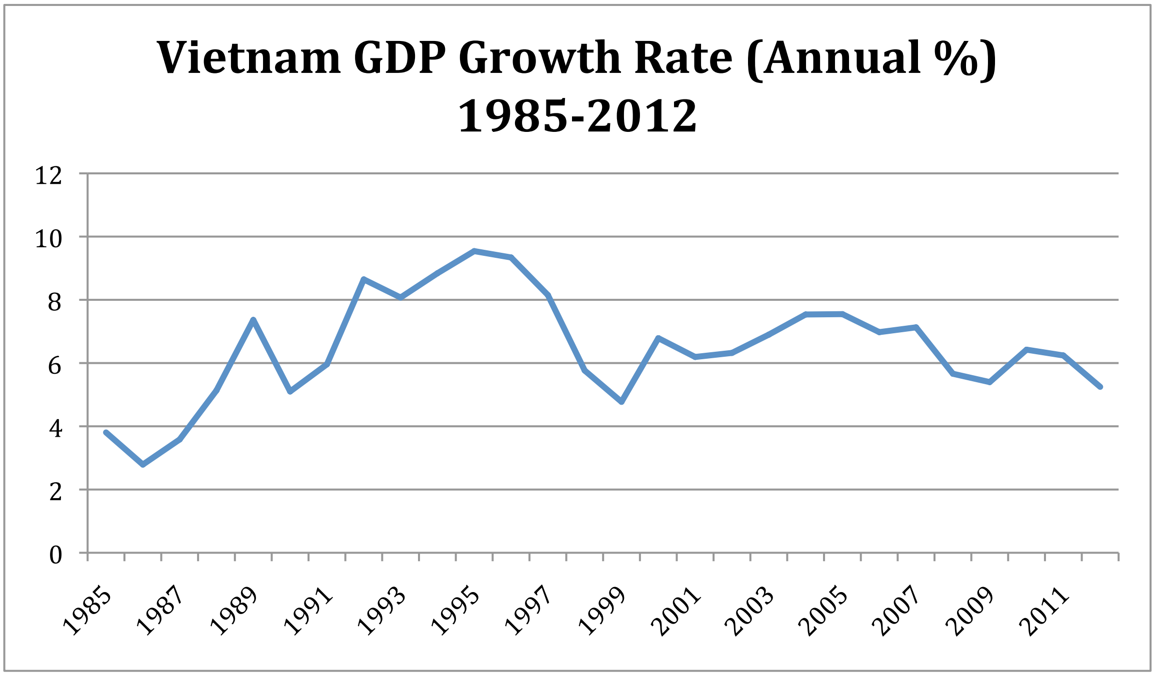
- The removal of most export taxes
- The removal of non-tariff barriers and the negotiation of various trade agreements – ASEAN Free Trade Area (AFTA); agreement with the EU (1992); Bilateral Trade Agreement with the US (2000)
- Various measures to encourage exports – import duty rebates; establishing export-processing zones

Under these new measures, trade between Vietnam and the rest of the world was able to grow substantially (Jenkins, 2004).

During the 1980s and 1990s, Vietnamese trade underwent a rapid transformation not only in its overall size, but also in its structure and characteristics. As new markets for major exports and imports opened up to Vietnam, the products and types of trade that the country engaged in on a major scale were redefined significantly. Manufactured goods, specifically, experienced substantial growth as a proportion of Vietnam's exports. From 1991 to 1999, manufactured goods increased their share of total exports from 14 percent to 37 percent (Institute of Economics, 2001). The agriculture industry decreased in relative size accounting for roughly 40% of national GDP in 1985 to less than 20% of national GDP in 2012 (World Bank, 2014). Labour-intensive industries began to take more predominance within the import and export industries of Vietnam creating greater overall employment from Vietnamese foreign trade industries. This growth in employment has been regarded as mostly positive towards the overall national development picture. This was largely due to the fact that growth in trade and employment in Vietnam was under tight control from the government and was not part of a more aggressive strategy of outright liberalization (Jenkins, 2004).

During this time period of increased trade and global economic integration, Vietnam experienced significant and stable economic growth. The introduction of *Doi Moi* and controlled liberalization of foreign trade lead by the Vietnamese government coincided with this strong and stable macroeconomic growth to the point where Vietnam is now the 39th largest economy in the world (CIA, 2014). Vietnam's GDP – in current US dollars – rose dramatically during this time period going from 14.09 billion USD in 1985 to 141.7 billion USD in 2012. During this same time period, per capita GDP rose substantially from 239 USD per capita to 1755 USD per capita. The overall economic growth rate of Vietnam during this time span has also been quite noteworthy. In 1985, the GDP annual growth rate was a comparable 3.81% and rose to an all-time high in 1995 with 9.54% before declining and stabilizing to where it stands at 5.25% as of 2012 (see Figure 2).

Figure 2:



Source: World Bank

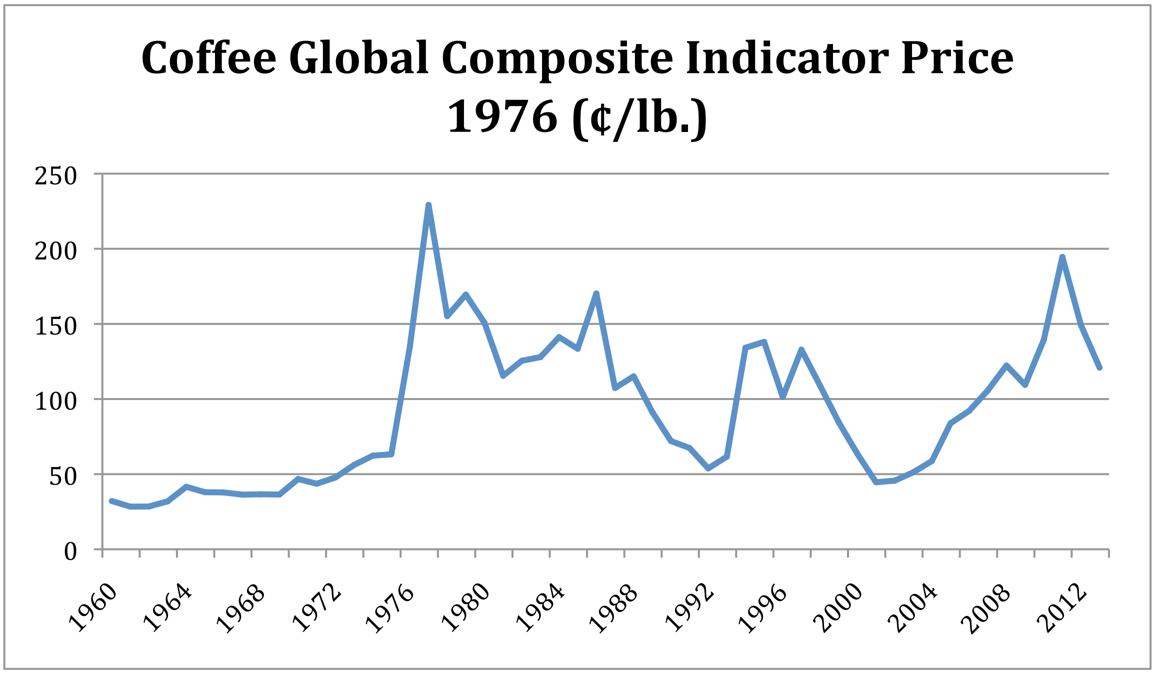
Social development in Vietnam has also appeared to follow suit with economic development according to the most basic social indicators. More specifically, most health indicators have been on the rise since the introduction of *Doi Moi* and its associated period of economic growth. From 1985 to 2011 the average life expectancy at birth increased significantly from 68.9 years to 75.5 years. The mortality rate per 1000 people has remained relatively low compared to the global average and comparable to most high and medium-income countries. It decreased only slightly from 6.9 to 5.6 deaths per 1000 from 1985 to 2011.Other important socio-economic indicators such as poverty rates have also appeared to be on the decline since the early 1990s. In 1993, 85.7 percent of the Vietnamese population was living on $2.00 or less per day. By 2008, the proportion of the population living below this poverty line had dropped significantly to 43.4 percent. Income inequality has been virtually unaffected during this period of economic growth hovering around 35.68 percent in 1993 to 35.57 percent in 2008 – comparable to most high and middle-income countries today (World Bank, 2014).

Global Coffee Industry and Development

The global coffee industry has historically been one of the most important industries to economic and social development for the Global South. Coffee is now the second most valuable legally exported commodity from the Global South behind only oil. Its development impacts are huge and far-reaching as it provides a livelihood for over 25 million coffee producing families, the majority of whom are spread across the globe in countries that constitute what is often known as the 'coffee bean belt'. Despite the vast size and immense value produced from this global primary commodity industry, the broad majority of coffee producers live in relative poverty (Fridell, 2013).

The reasons for this relative poverty, although wide-ranging, are predominantly a result of the industry's inconsistent historical development. The growth and development of the global coffee industry historically has been unpredictable and the global coffee market has been wildly unstable throughout much of the 20th century, which has continued into the 21st century. This is evidenced by the historical fluctuations of the global coffee prices, which in the past 40 years have ranged as high as $2.29/lb in 1977 to as low as $0.44/lb in 2001 (see Figure 3). This price volatility has created great uncertainty on both the microeconomic level for individual farmers who depend on strong and stable coffee prices in order to survive and on the macroeconomic level for entire national economies that have become reliant on strong coffee prices to fuel much of their GDP growth and national budgets. The extreme uncertainty in coffee prices has produced major development problems for farmers and exporter countries around the world for decades.

Figure 3:



Source: UNCTAD

The historical volatility of the global coffee market can be attributed to a number of key factors that have compounded to exacerbate this problem. First and foremost, the introduction and emergence of a greater number of major coffee producers has served to increase the global supply of coffee quite dramatically and uncontrollably. For example, as one of these new major coffee producers, Vietnam went from being virtually insignificant on the world stage to becoming the second largest producer in less than 20 years (ICO, 2013). Many other countries grew to become major producers exporters of coffee as well as part of the neoliberal trend towards more open market economies and a more globally integrated trading system that encouraged Global South countries to produce and sell more of their primary commodity resources, such as coffee, on the global market. This overall increase in international competition for the supply of coffee was a substantial change from the virtual monopoly in which countries like Brazil had over the global coffee supply near the beginning of the 20th century, in which it had over 80% control of the global supply market share at the height of its dominance (Fridell, 2013).

However, even with the increase in global competition from other countries such as Vietnam, Indonesia, Colombia, and Ethiopia to supply coffee throughout the 20th century, prices were able to be kept relatively stable for the most part thanks to quota systems and market regulatory mechanisms that were mutually agreed upon by both coffee producer and consumer countries. These agreements came in the form of the International Coffee Agreement (ICA) and its predecessor, the Inter-American Coffee Agreement (IACA). Although far from perfect in their implementation and enforceability, these international agreements served to give quotas that limitd the amount of coffee that each member country could produce and export on an annual basis so that supply could more adequately reflect demand allowing producers and consumers to be able to more accurately predict where coffee prices would be on a year-to-year basis.

These agreements were relatively successful in this regard for much of the 20th century until changing political economic climates and the emergence of neoliberalism as a hegemonic ideological paradigm influenced the abandonment of many forms of social and market regulation mechanisms including the ICA. Proponents of its dismantling argued that the value of coffee, like many other commodities, should be left up to the market to decide and that market forces could serve to more efficiently regulate and stabilize the global supply and demand for this particular primary commodity. By having a regulatory mechanism such as the ICA, neoliberal proponents argued that coffee prices were always artificial and not reflective of their real value preventing farmers from interpreting accurate price signals and further diversifying their own personal income through other crops and revenue-generating activities. However, as Fridell states, this argument rests on some highly dubious assumptions such as: small farmers are assumed to have adequate information about international market trends (which is rarely true); they are assumed to be able to make fairly effortless transitions into growing other commodities (this is usually to costly for small farmers to do); alternative, more viable crops are assumed to exist (which is also rarely true); and farmers are assumed to be able to make transitions into viable, urban jobs (whereas sufficient urban jobs frequently do not exist, or rural migrants lack the required skills, leading to poverty and unemployment in urban shantytowns or tenuous illegal labour abroad) (Fridell, 2013). As a result of these important misplaced assumptions, the enhanced system of deregulated market forces control supply, demand, and prices for coffee did not, and still has not, achieved the goals it was believed it could achieve by its strongest supporters and small coffee farmers across the world have suffered from lack of certainty in coffee prices and volatile markets.

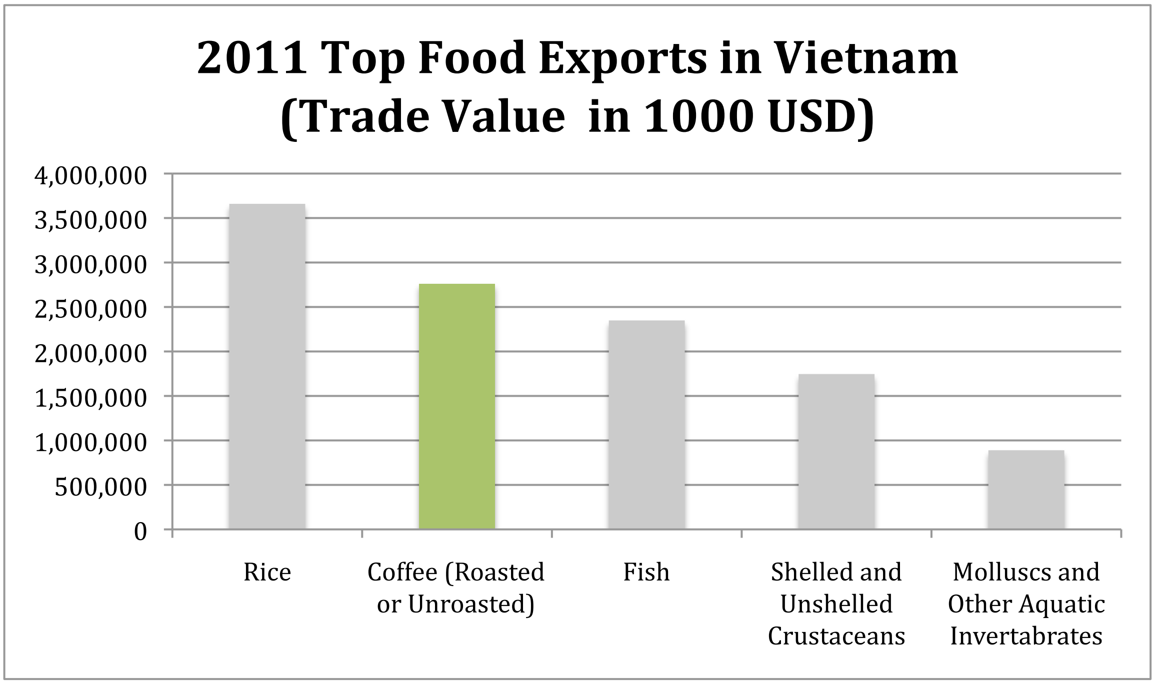
As a result of these major shortcomings in the post-ICA and free market world, governments, nongovernmental organizations, producers, and consumers have resorted towards smaller scale, market driven solutions that work coincidentally with the established free trade regime that immediately followed the ICA. The most popular and accepted of these solutions is the 'fair trade' concept, in which farmers sell to independent or semi-independent third party verification apparatuses that will typically buy and sell at a higher price than what the market is determining, especially if the market price is very low. Although the resulting impacts of 'fair trade' systems on producers are highly varied, in essence, it has acted as a safeguard for farmers by not allowing their income to reach below a certain point if the global market is in a downspin. Ostensibly, this restores, at least to some degree, greater certainty for small farmers after each crop year on how much income they will be able to generate from their harvest. However, as successful as ‘fair trade’ has been in this regard, it remains less of a solution to the shortcomings of the neoliberal free trade regime and more of a remedy aimed at correcting its symptoms. Furthermore, the overall scale of impact that ‘fair trade’ movements have had remain relatively small in comparison to the entire coffee industry and growth on a much larger scale has failed to really take place. As such, the disastrous effects of the free market system in the post-ICA coffee industry have remained persistent and volatile market fluctuations are still a great concern for the millions of small coffee farmers around the world and dozens of small coffee-producing countries that depend on coffee for their economic development.

Coffee Trade in Vietnam and Development

The Vietnamese coffee export industry has become largely important to Vietnam’s economic development. As a pivotal focus of the *Doi Moi* reforms, coffee exports have become one of the largest and fastest growing primary commodity industries in the country. Coffee is the second largest food/beverage annual export behind only rice (see Figure 4) and is the sixth largest overall export from the country accounting for approximately 10% of all Vietnamese merchandise exports (UN COMTRADE, 2011). In 2011, Vietnam produced over 24 million bags of coffee, of which only 1.5 million approximately were produced for domestic consumption. Coffee accounted for over $2.2 billion (USD) in exported trade value, which constituted approximately 2.34%

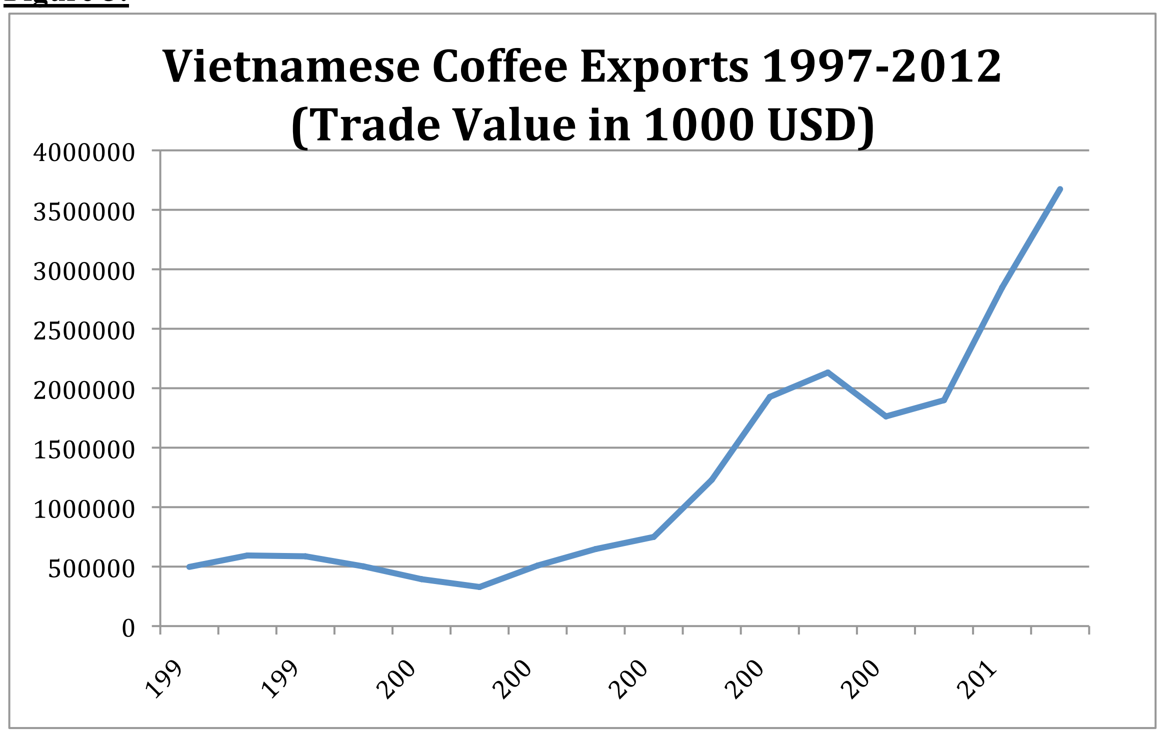
of the value of all Vietnamese merchandise. Altogether, coffee accounted for approximately 1.83% of Vietnam's national GDP (ICO, 2011).

Figure 4:



Source: UN COMTRADE

Figure 5:



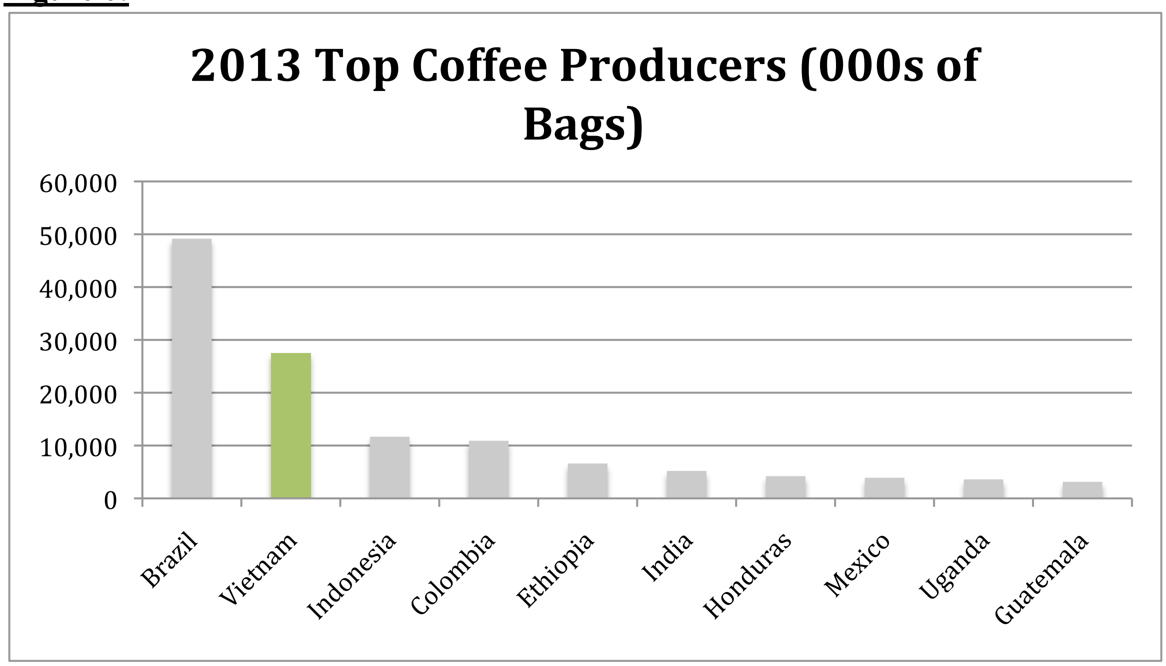
Source: UN COMTRADE

Compared to most other coffee exporting countries, coffee accounts for a relatively average proportion of Vietnam's national economy at 1.83% of GDP. For example, coffee accounts for a much higher proportion of total GDP in many smaller economies such as: Honduras with 7.37% of total GDP, Nicaragua 6.1% of total GDP, and Ethiopia 2.59% of total GDP. However, many of the top coffee producers and some of the largest economies in the developing world have much smaller proportions of their GDP devoted to coffee including: Brazil with 0.35% of total GDP, Indonesia with 0.08% of total GDP, and Colombia with 0.86% of total GDP (ICO, 2011).

When comparing coffee as a percentage of total merchandise, Vietnam ranks substantially lower with coffee accounting for approximately 2.34% of total Vietnamese merchandise. Compared to the same countries as mentioned before, coffee accounts for roughly 17.7% of Honduras' total merchandise, 19.3% of Nicaragua's total merchandise, and 31.5% of Ethiopia's total merchandise. This is a huge difference compared to the top coffee producers and much larger economies such as: Brazil with coffee accounting for 3.4% of total merchandise, Indonesia with 0.3% of total merchandise, and Colombia with 5.0% of total merchandise (ICO, 2011).

Although, coffee exports appear to account for a fairly average, while still hugely significant, proportion of Vietnam's national economy, it is important to consider still that Vietnam's coffee export industry on the global stage represents a huge proportion as it is, by far, the second largest producer of coffee globally producing more than twice as much coffee on an annual basis than the next highest producer, Colombia, although it is still, by no means, close behind the largest producer of coffee in the world, Brazil (see Figure 6). This growth most recently has taken place on unprecedentedly rapid scale. In 2008, Vietnam produced approximately 18.44 million bags of coffee and by 2013, that figure had risen dramatically to roughly 27.50 million bags of coffee. In comparison, the other top producers experienced very insignificant change in their production levels. In 2008, Brazil produced approximately 45.99 million bags and that figure rose far less substantially to 49.15 million bags in 2013. Indonesia's production rose much more significantly, but still not as significantly as Vietnam's, from 9.61 million bags to 11.67 million bags of coffee during the same time period. To put this more clearly, From 2008 to 2013, Vietnam's coffee production grew by roughly 49.15% while Brazil's grew by only 6.87%, and Indonesia's grew by roughly 21.38% (ICO, 2013). These figures, perhaps better than anything illustrate just how fast Vietnam's coffee industry has grown in proportion to its top competitors.

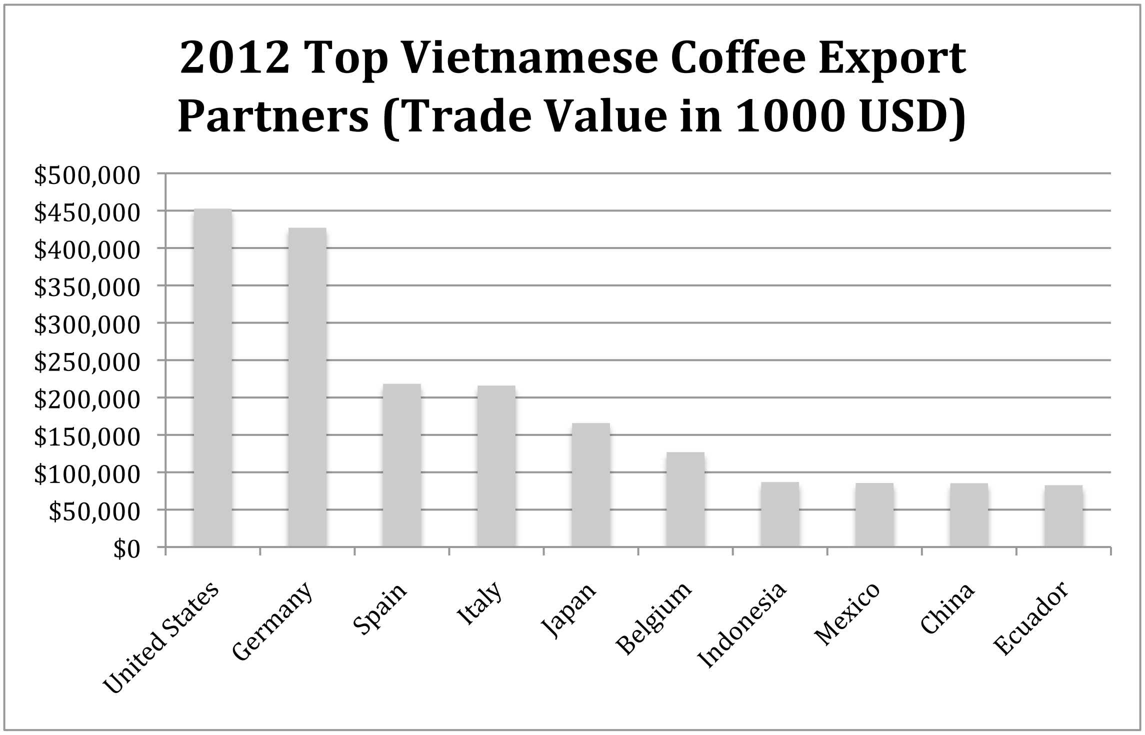
Figure 6:



Source: International Coffee Organization

As a major producer and exporter, Vietnam exports its coffee to a wide variety of major importing countries. Of particular note is the fact that the majority of Vietnam's top export partners are considered developed countries. In 2012, the top five export partners for Vietnam's coffee were the United States, Germany, Spain, Italy, and Japan. However, developing countries make up 4 of the next 5 top export partners for Vietnamese coffee (see Figure 7).

<u>Figure 7:</u>

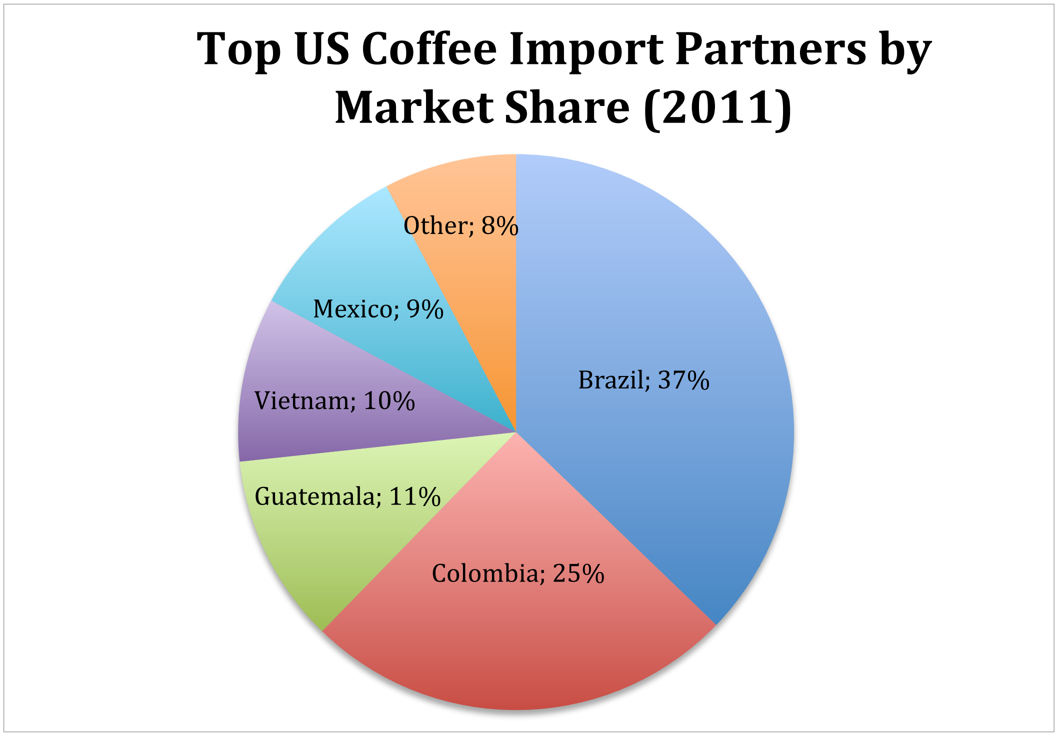


Source: UN COMTRADE

These figures are fairly reflective of the global import market today, in which the European Union is the leading importer of coffee in the world by a substantial margin, followed behind the United States and subsequently Japan. In most of these top import markets, Vietnam holds a relatively substantial share of the import market, however, in most cases, it is usually far less of a share than the global leading exporter, Brazil. For example, in the world's top import market, the European Union, Vietnam holds a fairly significant 15% share while Brazil holds a much more significant 49% share. However, despite the substantial size of the European Union's import market and holding a 15% share is hugely to Vietnam's coffee industry, there appears to be little prospect for anymore significant growth within this market relative to other markets around the world. The European Union experienced its most substantial period of growth between 2002-2011 increasing its coffee imports by approximately 408.16% reaching an all-time high of 13.11 billion USD in estimated trade value. However, since then, imports within this market have declined by approximately 10.81% as of 2012. Possible factors into this decline may include the most recent economic downturn, which has taken place within Europe. In spite of this, growth remains to be relatively unsubstantial within this market and there appears to be little potential for this market to experience the same degree of growth it has experienced in the past. Nonetheless, this coffee import market remains the largest in world by a wide margin and the 15% share Vietnam holds in it remains a substantial portion of the country's overall coffee exports (UN COMTRADE, 2012).

The same can be said, for the most part in the United States import market where Vietnam holds 10%, meanwhile, Brazil holds a much more dominant 37% share. Colombia also holds a fairly substantial share in this market with 25%. Even Guatemala, as just the 80th largest economy and a relatively insignificant producer of coffee ranked at 10th largest in the world, barely holds onto a larger share of market than Vietnam with 11% (see Figure 8). However, current trends in coffee imports suggest that the United States may be beginning to fade away in its overall coffee imports or at least, may be stabilizing in it global demand for demand for coffee. Immediately following the global financial crisis in 2009, United States coffee imports experienced some of the sharpest growth in decades increasing by approximately 102.56% and reaching an all-time high of 7.84 billion USD in estimated trade value. However, this was immediately followed by one of the sharpest coffee import declines in their recent history decreasing by approximately 30.27%. Regardless, this remains to be a fairly substantial share at 10% in this market as this particular share accounts for the highest proportion of Vietnamese coffee exports (UN COMTRADE, 2012).

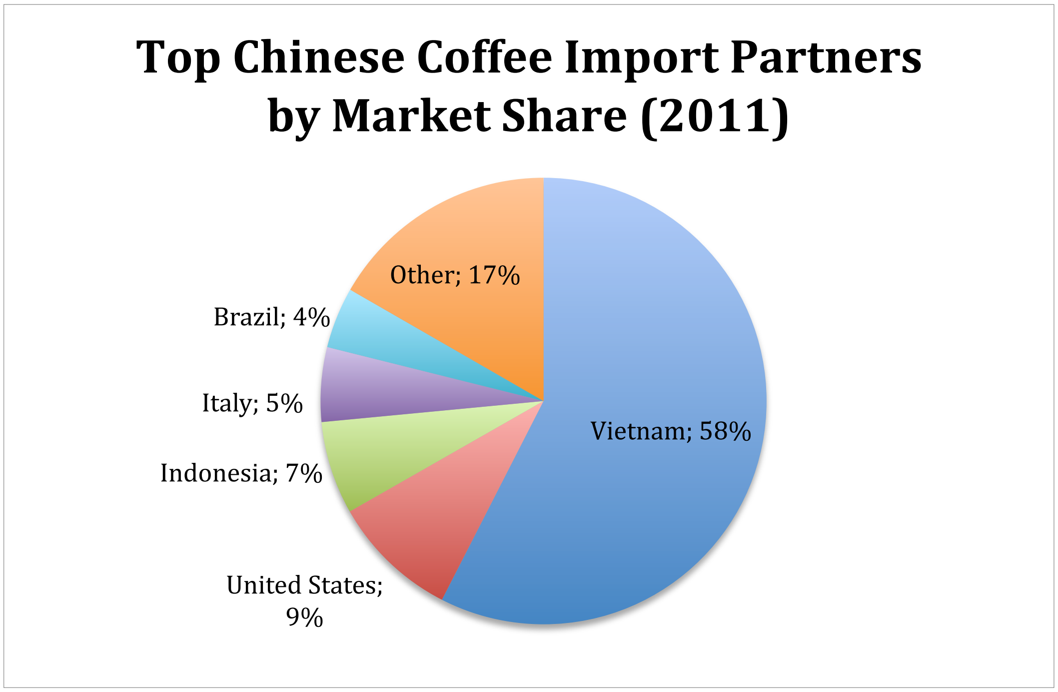
Figure 8:



Source: UN COMTRADE

There are import markets, however, in which Brazil does not hold a dominating share and, in fact, Vietnam holds it instead. China serves as a great example for this. Vietnam, perhaps unsurprisingly given their historically strong economic trading relationship, holds a commanding share of the Chinese import market with approximately 58%, while Brazil holds a fairly small 4% share in this particular market. In fact, after Vietnam, the next highest stakeholder in the Chinese coffee market is the United States with a 9% share (see Figure 9). This gives Vietnam a very strong and influential position overall and relative to the rest of its global competitors within the Chinese import market.

Figure 9:

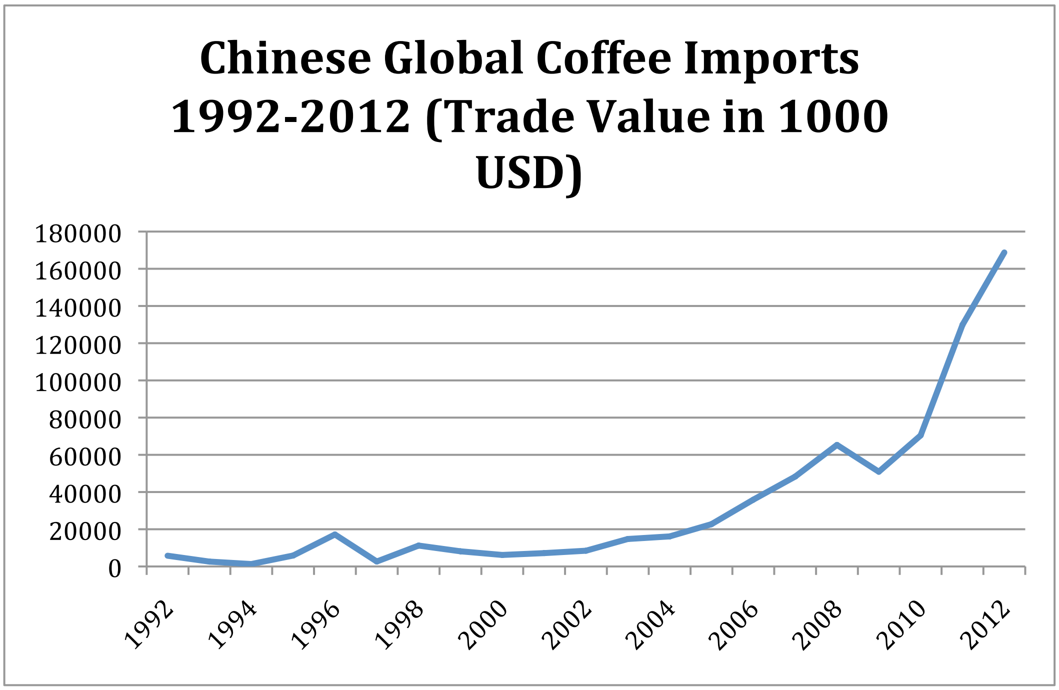


Source: UN COMTRADE

This market dominance may appear insignificant today considering that China's global coffee imports remain relatively small as only the 29th largest importer in the world. However, its growth has been dramatic considering that it was only the 61st largest coffee importer in the world in 2000 (UN COMTRADE, 2012), therefore, control of this market is much more significant, given the rapid rise in China's global coffee imports since the turn of the millennium. Although many Asian countries have not historically been huge coffee consumers, this trend has changed most recently and, in particular China is fast becoming a major coffee consumer with the potential to become on par with most of the top consumers in the world. This growth in coffee consumption may be a result of China's rapid economic development and part of a greater overall trend as it moves towards becoming more of a developed country with greater consumption needs that mirror more closely the Western world. Since 2000, China's coffee imports have grown from a mere 6.18 million USD in estimated trade value to a massive 168.77

million USD in 2012. That is an astonishing growth rate of approximately 2630.10% within a matter of 12 years. This massive growth in coffee imports appears to show no signs of slowing down either. Between 2009-2012, immediately following the global financial crisis, China experienced its fastest growth in coffee imports posting a growth rate of 231.52% (see Figure 10).

Figure 10:



Source: UN COMTRADE

Russia, as the only other BRIC country that does not mass-produce coffee, has also experienced substantial growth in its coffee imports most recently, and Vietnam's share within that import market remains substantial as well. Between 2000 to 2012 Russia's coffee import market grew from being the 33rd to the 14th largest in the world. It experienced it most dramatic growth in coffee imports from 1998 to 2012 increasing its global coffee imports by approximately 4915.15%. Vietnam's share in this large and rapidly growing import market is fairly large, although not the largest, with 25% as of

2012. Brazil still barely holds a higher share of this import market at 26% (UN COMTRADE, 2012).

This growth is significant for two of the four largest newly industrializing economies in the world and maintaining a substantial share in their coffee import market could result in substantial and balanced growth for any coffee export industry.

This growth in coffee trade towards less traditional coffee consumers can best be described as part of broader trend in the growth of overall trade between developing countries instead of developed countries. This is because more developing countries are becoming greater consumers that are closer on par with most developed countries in terms of their consumption habits. Between 1980 and 2011, South-South trade increased from 8% of global merchandise trade to more than 26% and has surpassed North-South trade, which accounted for roughly 20% of global merchandise trade in 2011 (UNDP, 2013). In essence, the move towards greater investment into trading partnerships with the less-traditional but rapidly growing Global South economies can be viewed as an important step towards greater and responsible economic development through new opportunities. By following this broad economic trend in the arena of coffee exports, Vietnam appears to be following suit with the rest of the developing world in this regard.

Chapter IV: Discussion & Analysis

Before analyzing the data provided, it is important to consider the underlying questions that need to be answered in order to more accurately and effectively answer whether or not Vietnam's coffee export industry has the potential to contribute to the country's long-term balanced and sustainable macroeconomic development. To help guide this important discussion, the following questions will be answered in the following order.

- How has the coffee export industry grown and developed historically in Vietnam?
- How important are coffee exports today in relation to the rest of the Vietnamese national economy?
- Which countries does Vietnam focus its coffee exports on and how does this affect the strength and stability of this export industry's growth?
- How much does the historical and current instability of the global coffee market affect Vietnam's economic development?

The first question concerning Vietnam's historical growth and development in coffee exports is important in helping to determine the relative speed and rate of growth this particular national industry has experienced. It may also give further evidence into how much this export industry could possibly grow into the future.

The vast majority of the evidence clearly demonstrates that Vietnam's prominence within the global coffee industry has been relatively short-lived and in the grand context of the industry's global history, Vietnam has not been one of the major traditional coffee producers or exporters. This is most evident by the fact that coffee, as harvestable plant and primary commodity, was not present in Vietnam until it was introduced by French colonizers in the mid-1800s. Furthermore, after its introduction, coffee never rose to become a significant economic industry within the country throughout much of the 19th and 20th centuries until the mid-1980s, when major economic reforms, introduced by the communist government, inspired and commenced a period of major growth for this industry that has continued to take place and has showed little sign of slowing down. To provide further context of this industrial growth to other countries, Vietnam went from being a virtually insignificant coffee producer over 30 years ago to becoming the 2nd largest national coffee industry today, ahead of traditionally strong and important coffee producers such as Colombia and Ethiopia by a large margin (ICO, 2013). This extraordinary growth cannot be understated as it means that Vietnam, although one of the largest in the world, remains relatively new and inexperienced coffee producer compared to many of its closest competitors. This historically unprecedented industrial growth may be cause for either concern or praise depending upon how exactly it has played itself out in relation to the rest of Vietnam's economic development over the same time period.

The next question covers exactly this topic, which is how Vietnam's coffee exports industry has developed coincidently with the rest Vietnam's overall economic development during this period of industrial growth from 1986 onwards. In essence, the answer to this particular question attempts to solve how economically diversified Vietnam's economy has or has not become during this period of major economic development. A relatively diversified national economy would mean that coffee has been part of a successful overall national economic development plan in Vietnam where the country is not reliant on this primary commodity export to support much of its economy. As has been stated before, this is a major issue in particular for many small economies that rely on too few export commodities to support their growth and development and they encounter problems such as fiscal instability on an annual basis due to highly fluctuating global commodity markets.

Again, the vast majority of evidence appears to suggest that Vietnam's national economy has become relatively diversified during this period of time where coffee exports grew into a major national industry. Several key points allude to this argument. First and foremost, Vietnam's economic growth was major during this time period from 1986 to today. The economy increased in size to become the 39th largest in the world (CIA, 2014). This is important and very promising considering that lack of economic diversification is typically a development problem for much smaller economies. Furthermore, this growth in coffee production and trade coincided quite fittingly with overall trade and exports as a proportion of the economy. Other export industries experienced similar growth rates compared to coffee in Vietnam since 1986 effectively ensuring that the country was establishing a relatively diverse portfolio of global exports and that trade would not be limited to very basic staple commodities. However, there are a few indicators that may lead some to believe that Vietnam's coffee exports perhaps still constitute too much of a proportion of the country's overall exports and economy. For instance, coffee still represents a substantial proportion of Vietnam's total merchandise exports at 10% (UN COMTRADE, 2014). In addition to this, coffee as a whole represents a fairly substantial proportion of Vietnam's total GDP at 1.83%, although, this is not nearly as high as many other smaller economies that depend upon coffee heavily (ICO, 2014). The majority of large coffee producers have coffee accounting for less than 1% of their total GDP, which is likely where Vietnam should be ideally considering the relatively large size of their economy.

The third question begs a highly thorough analysis of Vietnam's current global trading relationship with coffee and attempts to evaluate how effective it is and can continue to be to generate a stronger and more stable global demand for its coffee in the long-term future. Ensuring strong and stable demand for Vietnam's coffee is crucial to ensuring that the industry can continue to grow steadily and responsibly.

Unsurprisingly, Vietnam's top export partners are largely reflective of the current top importers in the world, which is positive. This means that coffee exports are going to a diverse set of markets around the world and the industry is not just reliant on the stable demand from just one or a few particular markets. In essence, Vietnam's resources into investments of particular consumer markets for its coffee are adequately allocated fairly well based on current trends on how important each market is in the world. In other words, the bulk of coffee exports are focused and spread across today's largest import markets such as the United States, the European Union, etc..

However, it is important to also consider future trends in global coffee import markets and where coffee consumption and imports appear to be growing substantially. These include non-traditional markets where coffee has not been a culturally important and widely consumed commodity but is now growing in popularity and consumption on a much more grand scale. Examples of these markets that were discussed included two of the commonly referred to BRIC countries, China and Russia. In both of these markets coffee imports have grown substantially over the past decade and show strong signs of continued growth well into the future. These two markets represent important potential investments for Vietnam as they represent two of some of the largest economies in the world, where overall consumption patterns are growing rapidly and mirroring more closely the mass-consumption patterns of the Western world. In addition to this, both of these markets do not have the capacity to produce coffee on major scale due to unchangeable environmental climate limitations and they are, thus, forced to rely on coffee imports to satisfy their rapidly growing demands. In this regard, Vietnam appears to be headed in the right direction as well. In China, Vietnam already has a commanding share of the import market by controlling approximately 58%, which far exceeds any of its global competitors in this market. Although still relatively small, the Chinese coffee import market has grown substantially in importance from becoming the 61st largest in 2000 to the 29th largest in 2012 and its growing coffee consumption patterns show no indications of slowing down. The other important coffee market to perhaps focus future marketing and investment into is Russia. Vietnam has a substantial 25% share of this import market and barely trails Brazil, with 26%, for the lead. The Russian coffee import market has also experienced major growth rising from the 33rd largest in 2000 to the 14th largest in 2012, showing strong signs that it may become one of the world's largest coffee importers in the near future (UN COMTRADE, 2014). With the potential to become two of the largest coffee markets in the near future, building and maintaining strong market shares in both of these countries and expanding Vietnamese coffee exports to them may help to further guarantee strong and stable demand for overall Vietnamese coffee exports over the long-term future.

The historic and continued instability of the global coffee industry has lead to major development issues in many countries and, in particular, for countries that rely on exports of the commodity to support a large part of their economic development. Global coffee prices have historically been susceptible to extreme fluctuations on a year-to-year basis, which has caused continued financial uncertainty to the millions of small farmers around the world who depend upon it for their income and survival. Over the latter half of the 20th century and continuing into in this century, coffee prices have remained severely inconsistent, ranging as high as $2.29/lb in 1977 to as low as $0.44/lb in 2001, according 1976 USD value measurements (UNCTAD, 2012). The extreme fluctuations in market prices for coffee have been further exacerbated with the abandonment of market regulatory mechanisms, such as the ICA, and an overall increase in global producers competing to supply the world's coffee, such as Vietnam. Whether or not this issue represents a major obstacle to Vietnamese macroeconomic development depends heavily on how economically diversified the country has become and will continue to be. As has been mentioned before, Vietnam's level of economic diversification has been fairly average, for the most part, meaning there is strong potential for further improvement in this area. Coffee, as a commodity, represents a large and substantial proportion of all Vietnamese merchandise exports and a relatively significant proportion of the country's total GDP at 1.83% (ICO, 2013). Although these statistics are not nearly as concerning compared to the statistics presented from other countries where coffee is produced and is economically more important to their national development, there is still room for improvement in Vietnam's case and these particular figures are not as low as they should be ideally in order to guarantee an adequate level of economic diversification and independence away from coffee for national development.

Chapter V: Conclusions and Recommendations

Considering all of the issues that were covered in the discussion and analysis, there appears to be a relatively strong potential for the coffee export industry to contribute to the long-term balance and sustainable macroeconomic development in Vietnam. This, of course, is conditional that the industry follows a certain set of recommendations that give importance and weight to the above-mentioned issues.

The first important point of information to consider is the fact that Vietnam's coffee export industry has grown and developed so rapidly within a short period of time. This has largely been beneficial to their overall economic development as it has expanded, along with other national industries, to become a major contributor to the national economy and helped to influence further economic development. However, its historical rise in national economic influence can become problematic if it is overlooked and not controlled by those with the power to do so. By overlooking this fact, development planners and associated experts may run the risk of letting coffee exports account for too large a part of the national economy and progress towards optimal levels of economic diversification will be halted, if not reversed.

Fortunately, the growth and development of Vietnam's coffee export industry has been complimented quite nicely by growth in many other key national industries helping the country to avoid a deep reliance on coffee for its economic development. This issue has not been too much of concern to overcome given the relatively large size of Vietnam's economy and the likewise ease of ability for its economy to not become dependent on coffee exports for development. Despite this fact, the relative degree to which Vietnam's economy is diversified, given its overall size, is negligible and must be improved upon. Coffee constitutes too much of a proportion of Vietnam's economy when compared to other large economies that also produce coffee on a large scale (ie. Brazil). Therefore, further substantial growth of Vietnam's coffee export industry must be strictly monitored and controlled by policy-makers as well as any other associated experts. It is economically vital to Vietnam's long-term development that coffee, as an export industry, does not begin to seriously outpace other national industries in terms of its growth in importance.

In addition to this, Vietnam must continue to export its coffee to a wide variety of global markets and allocate the focus of their exports based on the large consumer and import markets of both today and in the future. More specifically, prioritizing exports and national marketing strategies on markets like the United States and European Union should remain constant, while also building stronger coffee export relationships with rapidly growing markets such as China and Russia. In following this broad trade investment strategy, industry planners will be able to more effectively guarantee that there is a strong and stable demand for Vietnam's coffee globally both now and well into the future.

Finally, in the event that planners are unable to control the growth and expansion of Vietnam's coffee export industry and the national economy is unable to effectively diversify further, proactive solutions to fixing global market instabilities of the coffee industry must be pursued by Vietnamese officials at the international level. This may be done, perhaps most effectively, by working in conjunction with major coffee producers and consumers to restore and implement responsible market regulatory mechanisms aimed at reducing price fluctuations and ensuring greater certainty to this otherwise volatile primary commodity industry. Not only will this provide greater stability to a hypothetical Vietnamese economy that is highly reliant on coffee exports, but it will also ensure greater financial certainty to the thousands of individual Vietnamese coffee farmers who depend on strong and stable coffee prices for their income.

In addressing these well-researched concerns and following the carefully thought out recommendations, Vietnamese development and industry planners will be able to more adequately ensure that the country does not encounter any major development issues in the future. Therefore, Vietnam's coffee export industry does have the potential to contribute to long-term balanced and sustainable national macroeconomic development provided it follows, at least in part, the recommendations of this thesis.

However, following these recommendations does not guarantee that it has the potential to contribute to other dimensions of Vietnam's development and other avenues of research into this industry are just as important, given development is, and ought to remain, a concept that is all-encompassing of many perspectives and dimensions. For example, problems such as social and economic inequality within the industry itself may be cause for concern and hinder or even negate any progress the industry has, thus, made towards national macroeconomic development. The same inference can be made about potential environmental issues the industry may have produced. Incredible strains have undoubtedly been produced as a result of this rapid industrial growth and, thus, sustainability, both in an economic and ecological sense will have been compromised if the degradation towards the local environment cannot be managed and responsibly planned for. These, as well as others, are important issues that must also be given adequate attention in order to better guarantee a more holistic form of development for Vietnam, which combines macroeconomics with other equally important dimensions of development.

References

Central Intelligence Agency. 2014. "CIA - The World Factbook – Vietnam". *CIA World Fact Book*. https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html

Connell, John and Lindsay Soutar. 2007. "Free Trade Or Free Fall? Trade Liberalization and Development in the Pacific and Caribbean." *Social and Economic Studies* 56 (1/2): 41-66,352,365-366.

Daphne T. Greenwood, and Richard P. F. Holt. 2010. "Growth, Inequality and Negative Trickle Down". *Journal of Economic Issues*. 44 (2): 403-410.

Davis, Graham A., and Arturo L. Vásquez Cordano. 2013. "International Trade in Mining Products." *Journal Of Economic Surveys* 27, no. 1: 74-97.

Doutriaux, Sylvie, Geisler, Charles, Shively, Gerald,. 2008. "Competing for Coffee Space: Development-Induced Displacement in the Central Highlands of Vietnam." *Rural Sociology* 73 (4): 528-554.

Fridell, Gavin. 2013. *Alternative trade: legacies for the future*. Halifax: Fernwood Publishing

Grynberg, Roman, and Sacha Silva. 2006. "Harmonization without representation: Small states, the Basel Committee, and the WTO". *World Development*. 34 (7): 1223-1236

Ha D.T., Shively G.,. 2008. "Coffee Boom, Coffee Bust and Smallholder Response in Vietnam's Central Highlands." *Rev.Dev.Econ. Review of Development Economics* 12 (2): 312-326.

Heo, Yoon, Doanh, Nguyen Khanh,. 2009. "Trade Liberalisation and Poverty Reduction in Vietnam." *The World Economy* 32 (6): 934-964.

Ho, Alfred K. 1971. "Trade Liberalization and Development". Intereconomics. 6 (4): 114-116.

Institute of Economics. 2001. An Overview of Vietnam's trade policy in the 1990s: the changes and impacts. Institute of Economics – IDRC/CIDA project "Trade Liberalization and Competitiveness of Selected Industries in Vietnam": Hanoi.

Institute of Southeast Asian Studies. 1984. ASEAN economic bulletin. Singapore: Institute of Southeast Asian Studies, *ASEAN Economic Research Unit.* http://www.jstor.org/action/showPublication?journalCode=aseaeconbull.

International Coffee Organization. 1983. Quarterly statistical bulletin: QSB. *International Coffee Organization*

International Coffee Organization. 2001. Green coffee trade statistics. London (22 Berners St., London W1T 3DD): *International Coffee Organization.*

International Coffee Organization. 2001. Processed coffee trade statistics. London (22 Berners St., London W1T 3DD): *International Coffee Organization.*

Jenkins, Rhys. 2004. "Vietnam in the Global Economy: Trade, Employment and Poverty." *Journal of International Development* 16 (1): 13-28.

Norton, Seth W. 2002. "Economic Growth and Poverty: In Search of Trickle-Down." *CATO Journal* 22 (2): 263.

Ravallion, M. 2001. "Growth, Inequality and Poverty: Looking Beyond Averages". *World Development*. 29 (11): 1803-1815.

Reinecke J., Manning S., and von Hagen O. 2012. "The Emergence of a Standards Market: Multiplicity of Sustainability Standards in the Global Coffee Industry". *Organization Studies*. 33 (5-6): 791-814.

United Nations COMTRADE. 2014. “UN COMTRADE Database.” *World Integrated Trade Solution.*

United Nations Development Programme. 1990. *Human Development Report*. New York: Oxford University Press.

United Nations Development Programme. 2013. *Human Development Report 2013: The Rise of the South: Human Progress in a Diverse World*. New York: United Nations Development Programme

United Nations Conference on Trade and Development. 1984. The least developed countries ... report. New York, N.Y.: *United Nations*.

Vũ, Tuấn Anh. 1994. Development in Vietnam: policy reforms and economic growth. Singapore: Institute of Southeast Asian Studies.

World Bank. 2009. *World Development Indicators*. Washington, D.C.: World Bank.

World Bank. 2001. "World Development Report 2000/2001: Attacking Poverty". *Development in Practice - Oxford-*. 11: 364.

World Bank Database. 2014. *World Development Indicators.* Washington, D.C.: World Bank.

World Trade Organization. 2003. World trade report. Geneva: *World Trade Organization.*