Comparative advantage of Vietnam in the coffee industry

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**Abstract**

Over the last decade, the Coffee industry in Vietnam has improved to become the second largest export. This is due to several actions, which the government has initiated in the last years. This study therefore, intends to analyze the comparative advantage of Vietnam Coffee industry. It also lo0ks into other markets based on their performance to establish the competitiveness of the coffee industry in Vietnam compared to other markets. In order to complete the research the qualitative and secondary research methods, will be used to collect the data. The data to be analyzed scientifically using SPSS and Excel to get accurate result.

**Introduction**

Traditionally, coffee has never been an important agricultural product for the Vietnamese until very recently. It is a new product in the Vietnamese industry and major economic policies have been enacted to streamline its operational. The coffee industry has emerged number two export product after rice and therefore, it contributes highly to the economic development of the country (Leon, 2017). It was introduced in Vietnam when the coffee was flourishing in the world trade and therefore, since 1994, it has become a major export product with an estimated value of US 2 billion annually. According to Tat (2017), coffee has contributed to the industrialization, economic integration and modernization of Vietnam. Studies have also established that Vietnam is the second largest producer of coffee globally after Brazil and therefore, coffee is a significant product to the economic growth of Vietnam. As stated by Best (2014) coffee has brought a great opportunity for the people of Vietnam and over the last year it has brought products closer to the people. However, despite the enormous growth it has brought to the country, coffee industry is also faced with some challenges, which hinder its growth. Some of these challenges are lack of policies to address the coffee challenges being faced by coffee farmers and to stabilize income.

However, the global coffee market has become very competitive and known coffee producers’ nations like Brazil, Columbia and Ethiopia are applying different methods to increase their competitiveness in the market. The global coffee trade has realized a remarkable improvement from 1995, with high level of fluctuation being realized. It is estimated that the production of coffee increased between 1995 and 2015 by 65% from 87 million of bags to 147 million of bags of coffee. This is a remarkable improvement in the industry and therefore, coffee became one of the biggest contributors to the GDPs of several countries in the world. In Vietnam, passes other products to become second after rice and therefore, the economic impact of coffee is huge. Investigating the comparative advantage of the Vietnamese coffee industry is significant. This study therefore, analyzes the competitiveness of Vietnamese coffee to in the EU market and what has been done to achieve the high competitive advantage.

It is also important to point that between 2010 and 2016, known coffee producers like Brazil, Columbia, Indonesia and Ethiopia have increased their production level (Michalel & Patterson, 2017). The global coffee market is therefore, filled with highly produced coffee. In the global coffee trade, the trade has increased significantly from $12 billion to $30 billion worth of trade. However, in 2011 the global trade experienced decline in trade due to challenges being experience by farmers and the market competitiveness. As a result the global market experience decline in export but market has regained its market performance. It is therefore, clear that several challenges exist in the coffee industry and every producer implement unique strategies to maintain competitive advantage in the market. Therefore, this study focuses on the comparative advantage of Vietnamese Coffee industry.

**Statement of the problem**

Coffee is an essential agricultural product and part of global trade. Even though its production is exceptionally concentrated, it majorly sold to developed markets. This has created lean market for coffee from around the world and this make the market to be very competitive (Balassa, 1999). Most coffee from developing and emerging economies such as Vietnam are sold either in Europe, and the United States and this make the market to be very competitive. The Vietnam coffee industry therefore, must have a better competitive advantage to compete with coffee with Brazil, Ethiopia and other countries. Recent study indicates that Columbia and Brazil are the biggest exporters of coffee and there are also other emerging exporters like Ethiopia, Uganda and Honduras (Raynolds, Murray, & Heller, 2007). With several countries producing coffee for global market, the market competition is therefore, very stiff and this has also surge the prices of coffee as well. There also unreasonable specialization methods or pattern being used by different countries to produce coffee (World Bank, 2019). It is also evident that there are stability and duration tests, which indicate a significant charging trend and this means fierce competition in the coffee market.

**Purpose of the study**

The main purpose of the study is to examines the actual potential competitive advantage of Vietnam coffee industry. It also look at the performance of the Vietnam coffee in the world coffee market and the reason for its better performance compared to coffee from other countries. Studies have shown that Vietnam is blessed with favorite land and climate for agricultural development (TẮT, 2017). Most farmers use high technology and this has been essential in making a breakthrough in rural area where coffee is doing better. It is therefore; investigate the competitiveness of the coffee industry with the focus on Vietnam as one of the largest coffee producer (Ho, 2018). This study, test the hypothesis whether the high and quality technology is a competitive advantage in the coffee industry. It is noted that Vietnam coffee farmers have adopted high technology in the production of coffee, the focus of the study is to established what impact it has created to the Vietnam coffee industry in the global market. This research also focuses on the competitiveness of Vietnamese coffee being exported to the European Union market (True Priice, 2017). The span of the research centers on the competitiveness of coffee being exported to the EU market scope and this mainly focus between 2010 and 2016 period. It also narrates the navigation, which provides several solutions for the problem being faced by the industry.

**Background of the study**

Studies have indicated that Vietnam has a competitive advantage in the coffee industry (Giovannucci, Lewin, Varangis, & Swinkels, 2004). Vietnamese farmers have introduced innovative techniques to ensure that they produce high quality of coffee, which can compete with the coffees in the global market. It also has favorite land and climate, which have facilitated the growth of coffee industry in the country (Phuong, 2017). Despite other challenges which the coffee industry has faced in the past, Vietnamese coffee industry still remains competitive due to policies, which the government has implemented to stabilize the coffee industry and to ensure that its coffee can compete in the global market (Juong, 2014). The question is what has the Vietnamese done to make its coffee more competitive? Studies have established that the government provides incentives to farmers and loans and therefore, this improved coffee production hence high market competitiveness (Stockman, 2015). This therefore, has made the coffee industry to thrive. It is pointed by Stockman (2015) that coffee has started to replace rice in most part of rural areas and this is because of the support it gets from the government. It is therefore, means that many farmers produce high quality of coffee hence it gives Vietnam an edge in production. Researched has indicated that Vietnam is the third largest producer of coffee and this gives it an advantage in the market. (Ibrahim, 2010)

This study therefore, focuses in testing the hypothesis whether government incentives and high quality of technologies applied by farmers is a key to comparative advantage. Based on the previous research, coffee farmers receive 60% support from the government and this has become an important factor in the growth of coffee in Vietnam (Truong, 2014). It is therefore evident that the government of Vietnam has played a critical role in ensuring that the industry grows to compete in the global market. Research shows that Vietnam has shifted from being a known rice producer to a coffee producer within a span of two decades (Boansi & Crentsil, 2013). The study therefore, established the impact of such shift in production of rice to coffee and what made such action among the farmers as some of the comparative advantage Vietnam has over the rest of coffee producer.

**Objective and Aim of the study**

The main aim of the study is to establish the performance of Vietnam coffee industry and its competitive advantage over the rest of the coffee producers.

**Research Question**

The research question of the study focuses on the competitive advantage of the Vietnam coffee industry. The study will therefore, test whether the high and quality technology applied by coffee farmers in Vietnam has impact in the global coffee market. “Does the high and quality technology being used by farmers have impacted the position Vietnam Coffee in the global market?”

**Methodology**

The research will be conducted using qualitative and quantitative research method. In order to achieve the objective of the study, secondary research method will also be used. According to Pavlov (2015), qualitative research method is the scientific method of collecting opinions, and views of people using a scientific method. It can be done through groups or individual interview. In this research, the questionnaires or survey will be used to collect the views of various stakeholders in the coffee industry. The questionnaire with research questions will be sent through an email to selected participants. The selection of participants will be based on age, gender, profession and years of experience in the coffee industry. The research will be completed using 150 participants drawn from different companies, farmers and even the government officials. The data obtained from would be analyzed using scientific techniques and applications. It will be analyzed using SPSS and excel and the result obtained would be articulate for future use.

The Secondary research method will also be used to complete the study. This will involve the use of different databases to obtain appropriate and relevant journals for the research. The Google Scholar, Pre-Quest and other relevant databases to be used. In order to get relevant information various subjects or topic such as comparative advantage of coffee industry in Vietnam to used to conduct search. The data obtain will be analyzed and few shall be used to complete the research.

**Limitation of the study**

The research was encountered some challenges and some of these challenges delayed the completion of the study. The time frame and finances required for the research to be completed was limited. This provided limited time and resources and therefore, it took much time to complete the research. The funds were required to facilitate transport, collection of the data, and analysis.

**Ethical Consideration**

The study intends to respect the privacy and secrecy of information obtained from participant for the purpose of this study.

**Conclusion**

It is therefore, essential to point that Vietnam coffee industry has received support from the government, and policies realignment. This paper, therefore, intends to investigate the comparative advantage of Vietnamese coffee industry. It also intends to test the hypothesis whether high quality technologies being applied by farmers give the Vietnamese coffee more advantage in global market. It investigates impact of these competitive advantages in the coffee market. The study to be conducted using qualitative and the secondary research method in order to answer the research question and the hypothesis of the study.

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