



AGRICULTURE SECTOR BRIEF

VIETNAM



Country Overview



Viet Nam, officially the Socialist Republic of Viet Nam occupies the easternmost position on the Indochinese Peninsula. Viet Nam shares its land borders with China to the north, and Lao PDR and Cambodia to the west, and shares maritime borders with Thailand in the Gulf of Thailand, and the Philippines, Indonesia, and Malaysia through the South China Sea, so geographically the country is a cornerstone of the ASEAN region. With an estimated 95.5 million inhabitants in 2019, Viet Nam is the 15th most populous country in the world. The capital city is Hanoi in the northern region, while the most populous city and largest commercial hub is Ho Chi Minh City, close to the Mekong river delta in the south.

In the last two decades, economic growth is undiminished, with manufacturing, tourism and service industries leading the new economic system of Viet Nam, while agriculture remained a key pillar in rural communities. The economy of Viet Nam has a very high level of openness, the ratio of trade over GDP has reached 200% in 2017, nearly double the figure from 2000. During the same period, the total value of imports and exports climbed from US\$ 50 billion to US\$ 470 billion.

The expectations for Viet Nam's economic performance in 2020 were high at the beginning of the year, but the COVID-19 outbreak stopped its momentum. However, there is an expectation that the long-term positive trends will continue after the virus is defeated. In January, before the lunar new year, retail sales were up by 10%, and tourism was booming as well. The agricultural sector was underperforming slightly, mainly due to the long-term effect of the swine fever, which caused agricultural exports to decline. The long-term aspects of Viet Nam are nevertheless bright, supported by new developments - the EU-Viet Nam trade deal for example was approved by the EU Parliament in February 2020, coming into force in August of the same year.

Growth slowed in Q2 to 0.4%, the weakest level for decades. Exports and tourism plunged, while domestic social distancing measures caused a contraction in the services sector. Nonetheless, Viet Nam should have still markedly outperformed regional peers, as the effective health response allowed the swift lifting of restrictions from late April. This saw the economy recover in the tail end of Q2, as evidenced by a rebound in industrial production and retail sales in June, and the effects should be visible in annual economic figures.



INDICATORS OF THE ECONOMY WITH PRE-PANDEMIC FIGURES:

Indicator	 Population (million)	 GDP per capita (USD)	 Economic growth (GDP annual variation, %)	 Inflation rate (%)	 Trade balance (billion USD)	 Exports (billion USD)	 Imports (billion USD)
2016	92.7	2,172	6.2	4.7	11.0	177	166
2017	93.6	2,353	6.8	2.6	10.8	215	204
2018	94.6	2,545	7.1	3.5	16.5	244	227
2019	95.5	2,722	7.0	5.2	45.4	226	181

Sector Overview



In line with the overall progress of the economy, the agricultural sector of Viet Nam has also experienced remarkable growth over the last 20 years, growing by 3.5% per year between 1987 to 2017. However, as industry and services expanded at an even faster pace, agriculture's share of GDP has decreased from 24.5% to 15.3% over the same period. The contribution of agriculture to employment dropped over the same time from 62.5% to ca. 40%, which is however, still very high compared to more developed countries.

For a long time, the sector was in surplus, until 2016, when the value of imports equalled the value of exports. Total trade has increased in the last 20 years, from US\$ 5 billion around the millennium to more than US\$ 45 billion in 2019. The share of agricultural trade remained quite stable at around 10%, as other industries developed as well.

The agricultural land area made up 39.42% of Viet Nam's total land area in 2016. There are 10 products that yield a turnover of more than US\$ 1 billion each year: rice, natural rubber, coffee, black pepper, cashew nuts, cassava, vegetables, shrimp, catfish and wood and timber products. Besides these, cotton, peanuts, sugarcane, and tea production are relevant in agriculture, which shows the extremely diverse opportunities within Viet Nam. Additionally, at least 30% of exports are from crops that grow year-round, which balances the income of farmers and producers.

Despite the above, Viet Nam faces several challenges:

- Although the country produces a large number of crops, quality is low and so is the competitiveness.
- Quality can only be increased if farmers use more advanced technologies, but they lack capital to purchase, and lack experience to use modern equipment.
- Prices are falling, in line with higher production, and Viet Nam has struggled to break this vicious circle.
- Farmers are not growing to satisfy new market demands. Viet Nam is used to a more traditional market, and while new players in the competition like Cambodia, Pakistan and Myanmar might be latecomers, they often adapt more quickly to market changes.

Main products and segments - crops

Due to its geographical capabilities, Viet Nam's agriculture is specialised by region, with rice in the Mekong and Red River deltas, coffee in the central Highlands, tea in the north-western mountainous part of the country and aquaculture and fruits again in the Mekong Delta.

Rice

In 2019, milled rice production was 27.77 million metric tons, virtually unchanged from 2017 and 2018. Paddy production in 2019 was 43.4 million metric tons, a little bit less than expected due to unfavourable weather in the autumn harvest season.

In 2019, the total rice exports of Viet Nam reached 6.3 million metric tons, 58% of which (3.68 million metric tons) was exported to other Asian countries. 2.13 million metric tons went to the Philippines, (33.5% of the total rice exports), followed by Malaysia with 551,500 metric tons.

Coffee

Coffee has been a major source of income for Viet Nam since the French introduced the plant to the central mountains. The Vietnamese coffee industry developed through the plantation system, and after the Viet Nam war, production rose again, making coffee second only to rice in terms of value of agricultural export. The liberalisation of land ownership under Doi Moi reforms in the mid-1980s, and incentives for farmers made an explosive growth in coffee production, and Viet Nam became the world's 2nd largest exporter after Brazil. This rapid growth, however, left little room for high-quality coffee. Some of the country's production is Robusta, and although Arabica coffee production has been increasing in recent years due to the expansion in growing area and yield improvement, it still accounts for very little of the overall coffee production in Viet Nam. Nowadays ca. 25 million sacks are exported each year, which is nearly 20% of the world's coffee trade. An estimated 2.6 million people live directly from coffee production and trade in Viet Nam.

Tea

For most of its history, tea in Viet Nam was a garden crop while the tea culture that developed among Vietnamese nobility was mainly influenced by China and Chinese teas. The development of an organised tea industry towards the end of the nineteenth century was inspired by French colonialists who saw an economic opportunity to satisfy domestic demand, as well as that of their North African colonies.

Despite its long tradition, and ambitious plans earlier in this decade, tea exports halved in the five years before 2017. In 2018, the Ministry of Industry and Trade had to announce further decreases in exports both in volume and value. The reasons behind this struggle are structural, including poor quality, weak management, and lack of proper branding, which contribute to prices which are 60-70% below the world average. There are plans to grow more green tea, but this is not enough to change the overall growth pattern in the sector.

Horticulture

Viet Nam is South East Asia's 4th largest producer of fruit, but the sector is relatively underdeveloped, offering excellent opportunities for investors. Growth in the sector will be driven by fresh fruits and downstream value-added products that can reach high-value markets, including Korea, Japan, and Singapore.

There is a recent phenomenon that many farmers in the Mekong Delta have switched from rice to more lucrative fruits, especially Thai jackfruit. These fruit trees can be planted close to each other compared to other plants, allowing up to 1,000 trees per hectare. Under current price conditions, this could mean increasing farmer incomes two- or threefold. Producing dried jackfruits can mean even more profits for farmers.

Another recent adaptation and switch from rice is lemon grass. This has more to do with climate change, than a decision made on economics. While coffee, pepper and sugarcane are affected by altering climate patterns and prices remain low, lemon grass has been recommended by many farmers' associations, used to produce essential oils.

The COVID-19 pandemic came to South East Asia in spring 2020, leading to a sharp fall in fruit exports. As markets slowly opened again, traders from Singapore started to search for new suppliers in Viet Nam to fill up their stocks, showing that the future of horticulture in Viet Nam is bright, with potential future growth. Over the past few years, China has been the largest market for Vietnamese fruits and vegetables, but as the pandemic affected China, other countries like Thailand, Lao PDR, Taiwan and Russia have taken market share from Viet Nam, doubling their trade in the process.

Main products and segments - livestock and fisheries

Pork

Increasing income usually means increasing animal protein consumption, and Viet Nam is no exception. Viet Nam's pork chain has changed a lot in the last 10-15 years. Rising domestic consumption has led to increasing demand for quality farm inputs and improvement of farm productivity. Business opportunities in the Vietnamese pork chain are broad, from processing, packing of meat, to breeding and supplying technology.

The recent outbreak of swine fever in Viet Nam hit the sector hard, and there were concerns about a shortage of supply. At the end of 2019, to assuage market fears, the Prime Minister announced that the country still had 25 million pigs and there was no shortage. Vietnamese pork production is however, not enough to satisfy domestic demand and by 2019, pork imports to Ho Chi Minh City alone had grown by 120%, compared with the year before, according to the city's trade department. Even the EU exports to Viet Nam, though the price of European frozen pork is double the price of local production.

Chicken and other livestock

In 2019, poultry production had the highest year-on-year growth with 16.5% while pork production decreased by 13.8%, caused by the swine fever epidemic. As Viet Nam faced a potential pork shortage for several years, the country increased its cattle, poultry, and aquatic breeding to compensate. Poultry production reached 393.8 million heads, and cattle reached 5.8 head, or 349,000 tons. Viet Nam also produced 95,000 tons from buffaloes.

Dairy

Although fresh milk production has increased in the last 10 years, due to low cow quality, and inadequate farming technologies used, yields are lower than in developed countries. Local production remains a small part of domestic demand, and there is a self-sufficiency rate is 27%. There is room for improvement at every level of the value chain.

Fish and seafood

This very important segment of the agriculture of Viet Nam, can be divided into four distinct sections: shrimp, pangasius, tuna and marine fish.

Shrimp

Viet Nam has two main species – black tiger shrimp and white leg shrimp according to the Vietnam Association of Seafood Exporters and Producers (VASEP). Viet Nam is the leading producer of black tiger shrimp in the world with a production of 300,000 tons per year. This has been the traditional species for many years, while white leg shrimp has been cultivated in different provinces in the country since 2008. Farming areas are concentrated in the Mekong Delta provinces. According to statistics from the Ministry of Agriculture and Rural Development, in 2018, the area of brackish water shrimp farming nationwide was 736,000 hectares, an increase of 2% over the same period in 2017. The total production of brackish water shrimp reached 809,300 tons, up 8.2% from 2017.

According to VASEP, the country exported seafood worth US\$ 8.6 billion in 2019, which is lower than the goal of US\$ 10.5 billion. This decline was due to large stockpiles in major markets, and increased supply from competitors.

Pangasius

Pangasius have been raised and developed mostly in 10 Mekong Delta River provinces of Viet Nam. The provinces of Can Tho, An Giang and Dong Thap are the leading Pangasius farming regions, accounting for over 75% of the total national production. The pangasius industry is self-controlled in raw material, working towards a sustainable production chain. According to the Directorate of Fisheries, in 2018, the farming area of pangasius in the Mekong Delta region alone was estimated to reach 5,400 hectares, up 3.3% compared to 2017, and expected to reach 6,000 hectares by 2020. Output was estimated to reach 1.42 million tons, up 13% compared to 2017.

Tuna

Tuna is concentrated mainly in central Viet Nam and the central East Sea. In 2018, the total production with three types, using fishing, surrounding, and luring methods in Viet Nam's exclusive economic zone is about 120,000 tons compared with the sustainable production limit of 200,000 tons. Striped tuna accounted for 91,528 tons (76%), Yellowfin tuna and Bigeye tuna were 24,704 tons (20%) and 4,301 tons (4%) respectively. Overall, compared to the production of tuna in Viet Nam in 2017, total production in 2018 increased by 7%, while production of Bigeye tuna and Yellowfin tuna increased by 19.6%, concentrated mainly in 3 provinces of Binh Dinh, Phu Yen, Khanh Hoa and some neighbouring provinces. Viet Nam has been active in adopting international rules on sustainability such as EU "Illegal, Unreported and Unregulated" (IUU) rules or "Dolphin Safe" labelling. In 2018, Viet Nam's tuna exports contributed around 7.4% of total national seafood exports.

In 2018, Viet Nam exported tuna to 105 markets, earning US\$ 652.9 million, up 10% from 2017. The top eight markets are USA, EU, Israel, ASEAN, Japan, Canada, China and Mexico, accounting for 87 % of the total export value.

Marine fish

With 3,260 km of coast line, Viet Nam has 2,038 species of marine fish, in which there are 130 species having commercial value, with 30 species regularly caught. Viet Nam has fisheries stock of 4.2 million MT and maximum sustainable yield, (MSY) of 1.7 million MT per year. In the last five years, the Ministry of Agriculture and Rural Development (MARD) has built five major fishing centres in five provinces, namely Hai Phong, Da Nang, Khanh Hoa, Ba Ria - Vung Tau and Kien Giang. Total capture output in 2018 was estimated at 3,590.7 thousand MT, up 5.9% compared to 2017.



Regulations



The Ministry of Agriculture and Rural Development (www.mard.gov.vn) is the key actor regarding regulation of the agriculture sector in Viet Nam. Its departments, respectively the Plant Protection Department (PPD), the Department of Animal Health and the Directorate of Fisheries are responsible for SPS-related international trade regulations and their implementation. The Viet Nam Food Administration (www.vfa.gov.vn) is the agency that deals with international trade and food safety issues.

Registration and tariffs

Exporters to Viet Nam may require certain certificates depending on the nature of imported products. Registrations must be made prior to entering Viet Nam. Not all aquatic species are eligible for trade in Viet Nam, and new species should be included before trade begins, after a risk assessment procedure. In case of importing plant produce, a phytosanitary certificate is required, and must satisfy the demands stipulated in Circular 30/2014/TT-BNNPTNT issued on 05/9/2014 by the Ministry of Agriculture and Rural Development.

Tariffs were significantly lowered in the last decade, but many agricultural products are still subject to a tariff, usually between 0-20%. Tariffs on products imported into Viet Nam can be found on the website of the Viet Nam Customs Department.

As a member of ASEAN, Viet Nam is party to several free trade agreements (FTAs), respectively with China, Korea, Japan, New Zealand, Australia, and India. Individually, Viet Nam has signed similar agreements with Japan, Korea, Chile and the Eurasian Economic Union, which includes Russia and some of its neighbours. The European Union and Viet Nam signed a Trade Agreement and an Investment Protection Agreement on 30 June 2019. The European Parliament subsequently gave its consent to both Agreements on 12 February 2020 and the Free Trade Agreement was concluded by Council on 30 March 2020. Through these agreements, Viet Nam expects to boost exports and attract more FDI. In exchange, Viet Nam is committed to lowering import tariffs, eliminating quotas, increasing market access for goods and services, and protecting intellectual property rights.

Non-tariff measures (NTM)

Non-tariff measures (NTMs) are the key instruments in trade policy in recent years. The high rate of integration in the world market requires a high prevalence of NTMs imposed on products. Viet Nam as an export-led economy with the highest rate of trade openness in the region, relies on non-tariff measures to regulate its trade, especially on agricultural and food products. Although these measures have been improved over time, Viet Nam's legal system is often criticised because of the many overlapping and conflicting NTMs that lack transparency and stability. The most frequent types of NTMs are:

- Sanitary and phytosanitary measures (SPS): around 120 different measures are in this group, which covers all types of agricultural products, including animal products, plants and plant products and foodstuffs, with the aim of protecting consumers' health, and food safety.
- Technical barriers to trade (TBT) measures: this category makes up to 37% of total NTMs. Regulations are imposed on the largest number of products, including requirements for authorisation, labelling, testing, certification, transportation, and storage. 22% of the TBT measures are imposed on agricultural products.
- Export-related measures: Viet Nam requires special licences for international trading activities, such as selling, buying, processing or transiting 356 different agro-forestry or fishery products, some rare plants and certain chemicals.
- Quantity and price control measures: Viet Nam has been using this tool since the 1990s, goods may be subject to line management measures, or subject to conditional import, or simply banned from importation. These group of products are controlled under the Decree 69/2018/ND-CP dated May 15, 2018 detailing a number of articles of the Law on Foreign Trade Management.

Labelling and other requirements

There are strict labelling requirements in Viet Nam. The relevant law, Government's Decree 43/2017 went into effect on 1st June 2017, and lists all the requirements for food, beverages and agricultural inputs, both domestically produced and imported.

Labels must be in Vietnamese and cover all mandatory contents. Depending on the requirements of each type of food, the contents can be included in a foreign language but must match the Vietnamese description, with their font size no larger than the relevant language in Vietnamese. The mandatory labelling contents for food include: i) name of goods, ii) name and address of the enterprise responsible for the goods; iii) origin of goods, and iv) additional details in conformity with the nature of the goods.

Any food imported for consumption and circulation in the Vietnamese market must be labelled in either of the following ways:

- Labelling in Vietnamese, including the full mandatory labelling of contents; or
- Using secondary labels, which contain the Vietnamese translation from the mandatory information of the original label, and to supplement other mandatory information according to the nature of the commodity.

Special regulations apply for labelling food additives, irradiated food, functional food and genetically engineered food. Functional foods are categorised into four subgroups – supplementary food, health, food or dietary supplement, food for special purposes or medical food and food for special dietary use.



Promotion

Vietrade, the Viet Nam Trade Promotion Agency is the government body responsible for business development support of local small and medium-sized companies (SME). According to the International Trade Centre, the UN organisation for international trade development, trade promotion in Viet Nam means basically the promotion of export sales for existing products. Assistance in marketing strategies, skills and know-how is still not available for companies, so the quality of trade support services needs improvement.

Other trade promotion and business networking institutions

The Viet Nam Chamber of Commerce and Industry is a national organisation which represents business community, employers, and business associations of all sectors. One of its main functions is to promote trade and business relations with enterprises abroad. The Chamber is a non-governmental, non-profit organisation.

Viet Nam Organic Agriculture Association, is a socio-professional organisation of associations, companies, farmers, Vietnamese people who actively work in the organic sector. The members of VOAA are organisations and individuals working in organic production, processing, business, services, import and export, and organic product consumption. VOAA operates based on principles of voluntarism, independence, and it protects the rights and legitimate interests of members and the community.

Participation in trade shows and trade missions may offer good opportunities to better understand the market and engage directly with potential importers, distributors, and local partners. Food and Hotel Viet Nam is the most important show for consumer-oriented products and takes place biennially in Ho Chi Minh City. Due to the COVID-19 situation, offline events are delayed or cancelled, but are expected to revive after the pandemic.

Sales Channels

According to the Viet Nam General Statistics Office (GSO), total 2019 food and beverage retail sales were estimated at US\$ 51 billion, a 13% increase over the previous year, with modern retail food channels accounting for approximately 14%. However, despite this expansion, three grocery store chains exited the Viet Nam market, including Vingroup, Viet Nam's largest grocery retailer, due to intense competition.

The figures show the remaining importance of traditional markets, rural minimarts and other small agrifood outlets in distributing basic food in Viet Nam. However, the compound average growth rate (CAGR) of sales of modern grocery retailers in the past five years reached 14.6%, versus 9.5% for that of traditional grocery retailers.

E-commerce

E-commerce has surged rapidly in Viet Nam. The total value of products purchased online grew from US\$ 4.0 billion in 2015 to US\$ 7.8 billion in 2018, and 2020 will probably reach a new record, due to the COVID-19 pandemic and country lockdown. Food and beverages are among the top ten product categories purchased online. The growth of this channel is supported by a high internet penetration rate of around 70% of the population in 2018, and the prominent role of social media – Facebook has for example, 45 million users in Viet Nam, high smartphone penetration rate and already available fast delivery services. Advertising and direct sales on social media networks have become a common practice among micro- and small companies.



Recommendations and Trends

Investment (FDI)

The Ministry of Agriculture and Rural Development (MARD) would like to improve administrative procedures and improve the business environment to attract more investments into the agricultural sector. Numerous incentives and support programmes have been granted by the national authorities, and slowly, but surely new trends are being created. There is a change in the structure of new investments, scale of production is larger, domestic firms can apply for incentives as well, and more support is now made to acquiring modern techniques and smart farming. However, total foreign direct investment remains limited and only ca. 6% of the total realised FDI goes to agricultural projects. More information on incentives and support can be found on the website of the Ministry of Planning and Investment.

Incentives for exporters

Vietnamese-owned exporting companies may benefit from a preferential corporate income tax rate of 25% instead of 32%, but even foreign-owned exporters may defer the payment of value-added tax on materials and supplies imported for the production of export goods within a certain time limit. They may find easier access to land-use rights, and can enjoy preferential land rent rates. Raw materials, spare parts and materials imported for the production of export goods are also exempt from import tax.

ASEAN level cooperation

The ASEAN cooperation targets strengthening partnerships and mutual support in building and developing sustainable and smart agriculture, adapting to climate change, ensuring food security and attracting private investments. ASEAN is also targeting local SMEs to increase their farm produce and enable agricultural products to join the global value chain.

Policy Recommendations

As a very open economy, Viet Nam's trade policy should support local SMEs that start with a handicap in regional and global competition:

- The government should help with supporting and building their own country brand, or adding a state-certified quality brand to the promotion activities. Viet Nam may initiate a broader country promotion strategy.
- Incentives should cover network building and other 'soft' market setup activities.
- Trade promotion should include providing presentation opportunities for exporters. Participating at large trade shows is more effective for large exporting countries, and smaller Vietnamese traders may need more assistance from Vietrade.