

Review of Vietnamese Agricultural Policy

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Abstract: Vietnam has an important agricultural sector with a need for new agricultural technology and an increased demand for imports. This paper provides an overview of the importance of Vietnam's agricultural sector. It then discusses its agricultural policy and trade development, concluding with a discussion of opportunities and challenges in the sector and their implications from a global perspective.

Key words: Vietnam, agricultural economics, agricultural policy, development

1. Introduction



Figure 1. Map of Vietnam

Asia is the largest continent in the world, consisting of thirty-eight countries, which extends from Africa and Europe in the west to the Pacific Ocean in the east. As one of Asian nations, Vietnam is among the countries with total population of more than 85 million, which lies in the Southeast Asia; where China, Laos, and Cambodia are its neighbors (Figure 1). Asia includes both developed and developing countries such as Japan, Singapore and China. It also includes both the wealthiest and poorest countries in the world. Vietnam as one of developing countries in Asia consists of 64 provinces, with Hanoi as its capital city. It is shaped like a letter "S", where an entire area of the country is about 330 thousand km². The country has as many as 60 different ethnic groups; the majorities are Vietnamese, followed by Chinese, Hmong, Thai, Khmer, Cham, and mountain groups. Since its reform in the 1980's, Vietnam has been one of the fastest growing economies in the world with growth rate exceeding 7 % since 2000. In 2008, Vietnam's Gross Domestic Product (GDP) growth is predicted to be slightly lower than the last year because of its implementation of a stabilization package. Vietnam's agricultural, fishing and forestry industries together generate over \$3 billion of goods annually. As the industrial sector continues to grow, agricultural GDP may gradually decrease. It is estimated that, by 2010, Vietnam's agricultural sector will still contribute about 15% to the economy as a whole.

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In spite of its decline of the agricultural GDP to the economy, this paper argues that Vietnam has a need for agricultural technology. There is an increased demand for imports as a large amount of population and employment in a limited arable agricultural land. The paper starts with an overview of the importance and characteristics of the Vietnam's agricultural sector. It will then discuss its policy and trade development. The paper will be concluded by opportunities and challenges in agriculture to Vietnam as well as implications from a global perspective.

2. Importance of the agricultural sector

As a predominantly rural society with more than half of its workforce committed to the countryside, Vietnam's development to certain extent relies on its agricultural sector. Since the late 1980's, Vietnam has launched its economic reform called Doi Moi (renovation), which shifted Vietnam from a centrally-planned economy to market economy with its socialist orientation. The reform legalized private ownership and promoted trade by establishing foreign investment regulations. This section looks at the important and characteristics of the agricultural sector in Vietnam starting from a historical review.

2.1. Historical brief

Historically, Vietnam's agriculture has been a significant contributor to the economy. By the end of 2007, this sector (including forestry) employed with more than 50 percent of the population (Figure 2). Vietnam's reform has been caused by its internal and external factors for a long time. The agricultural sector in Vietnam has been an important part since its early history impacted by China. The history of Vietnam began with the Chinese commander from the South. A kingdom of Nam Viet was established when China's Qin dynasty collapsed in 206 B.C. Since then, China has had a lot of influence on Vietnam's economic and agricultural development.

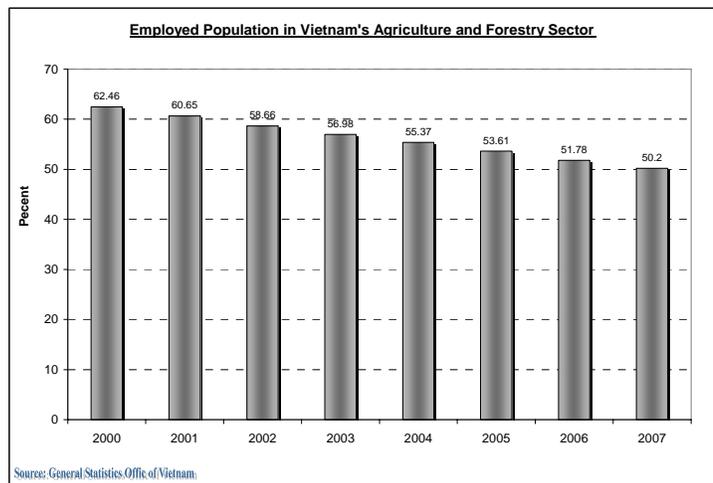


Figure 2. Employed Population in Vietnam's Agriculture and Forestry Sector

Among the great dynasties for Vietnam's economic and agricultural expansion includes Ly dynasty (1009-1225), the most stable and strongest time for development in the history. In the later periods followed, Vietnam was divided, and then transformed into a communist system in the North and anti-communism in the South. Vietnam's separation between North and South blocked its economic and

agricultural growth. The French and Japanese occupied the country, but the most significant effect on economy in the history was the Vietnam War that broke out in 1965 with the U.S. and other countries.

In 1976, South Vietnam was reunited with the North and formed a Socialist Republic. The new government established a development stage, which turned out to be an economic crisis. Externally, the reforms from China, Vietnam's neighbor nation, seem to be positive on economic development. Under this circumstance, a group of liberal socialist leaders in Vietnam concluded that reform to change major economic policies is a need to overcome this economic disaster. In the 1980's, an attempt to reverse past failures was made and the economic renovation was put into practice. Since then, millions of dollars made it possible to begin Vietnam's development process in both public and private sectors.

2.2. Characteristics of Vietnamese agriculture

The Doi Moi reform since the 1980's has helped Vietnam move from a centrally-planned economy to a market orientation. The critical elements of the reform included decentralization, market development, open policy, land use rights, private ownership and foreign investment and trade. Since the Doi Moi reform, Vietnam's economic and agricultural development has become remarkable. The percentage of share in GDP for agriculture (including forestry and fishing), industry and services in 2007 are about 25%, 40%, and 35%, respectively. Vietnam's GDP per capita is about \$804 in 2007. The following characteristics of the Vietnam's agricultural sector reveal why and how its agriculture has been developed to be an important sector.

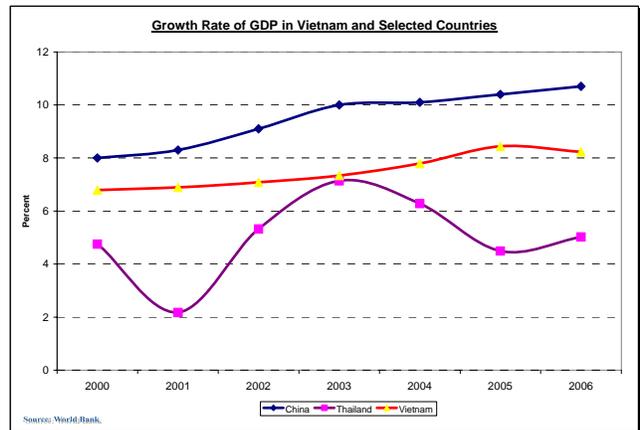
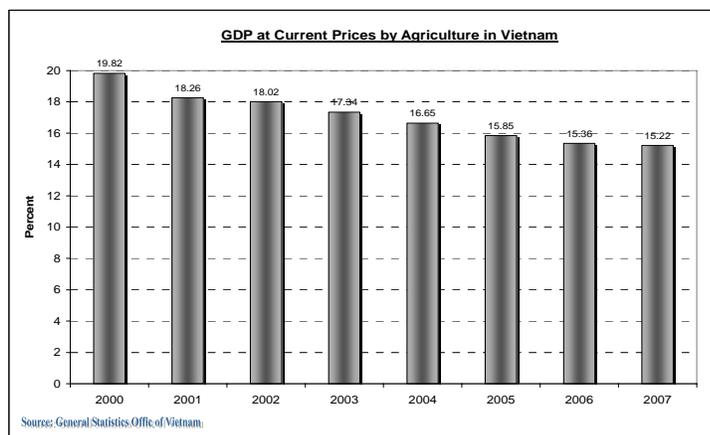


Figure 3. Growth Rate of GDP in Vietnam, China and Thailand

2.2.1. Transition from a centrally-planned to a market-oriented sector

Vietnam, like China, initially has a state-managed, centrally-planned economy. Until 1986 agricultural production in Vietnam was organized in cooperatives following an annual plan put forth by the state. As in China, this agricultural system under state planning called for reform. Starting in 1986, the agricultural sector transferred to replace a centrally-planned model with an opened and market-oriented system.

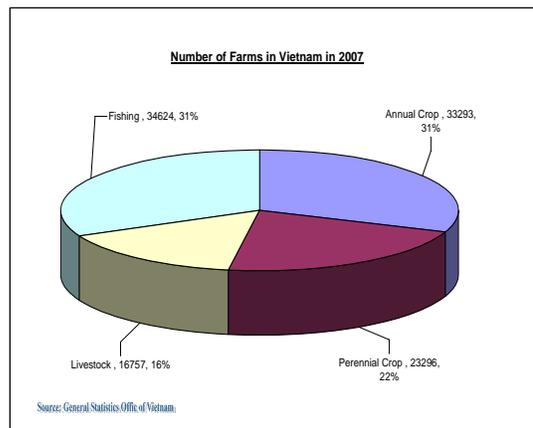
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As a result, Vietnam's rate of growth, since 1991, was at an average of 7.5 per cent, which is the second to China and exceeded to Thailand in the Asian countries (Figure 3). In 2007, the total value of agricultural production was 231, 282 billion VND, increasing 3.4 per cent compared to the previous year, which contributed significantly to the growth rate of the economy (Khoi, 2008).

2.2.2. Stimulation of investment and consumer spending

The population of Vietnam increased middle and upper income group representing a sizeable consumer base. Since the reform, a class of higher-income, younger and more westernized consumer has been apparent. Food distributions are also changing with supermarkets expanding in the urban areas. In 2007, Vietnam has a growth of 8.3% with its foreign investment increased rapidly. Many countries in the west re-established relationship and trade with Vietnam. In the meantime, the GDP growth in agricultural sector and whole economy in Vietnam have been trickling down to consumers as average spending power increased. In particular, the urban residents have higher levels of income to consume qualified agri-food products and are increasingly looking to retail outlets for products that meet their evolving lifestyle.



2.2.3. Development under a market-oriented agricultural policy

Over the past decades, Vietnam has had a rapid growth in agriculture as of its effort to construct a series of market-oriented agricultural policies for development. Since the 1980's, Vietnam has developed a number of agricultural, especially land reform policies to encourage farmers to increase agricultural production. In terms of a share of GDP by the agricultural sector, it was an average of about 18% between 2000 and 2007 (Figure 4). Many believe that the growth could match or even exceed China's if its policy reform with infrastructure, technology development and privatization keeps up with economic expansion. Apart from the gains that Vietnam earned from the reform, the country still incurred problems because of its orientation under state intervention, which requires the policy makers to further reform.

2.2.4. Economic growth with a comprehensive base in the agricultural sector

Vietnam's success in the agriculture sector follows an overall success of the economy. As indicates above, average growth rates of GDP in Vietnam for the last several years exceeded 8%. By 2007, total numbers of farms in Vietnam was over 116 thousand (Figure 5). The remarkable growth in Vietnam has been toward its general population. While Vietnam is still one of the Asia's poorest countries, GDP (PPP) has tripled since 1990. The percentage of the population that lives in deep poverty (less than US\$1 per day according to the World Bank) has dropped from 50 per cent of the population in 1990 to less than 10 per cent to date. Secondary school enrollment has doubled during the same period and today over 60 per cent of appropriate aged children are enrolled in secondary school. The statistics demonstrated that over the last decades Vietnam has passed India, China and the Philippines in terms of percentage of population living out of poverty.

3. Policy and trade development

Agricultural development in Vietnam is essentially related to its policy reforms. Vietnam is situated close to the equator, which makes the climate hot all year long. This results in many kinds of food, natural resources, and agricultural products. Looking at Vietnamese economic system and agricultural sector, it seems influential by Chinese due to the fact that a lot of people migrated to the country. We have seen a rapid growth of Vietnamese agricultural production and trade. However, the performance in Vietnam is still not enough efficient because of its institutional system. The transition from a Communist state with public ownership to a market system with private ownership may take time. Vietnam is issuing more reform movements to do better economically. Its re-established relationships with other non-Communist countries become a start to transition. This section discusses Vietnamese economic policies and trade developments with a focus on the agricultural sector.

3.1. Policy environment

Vietnam's agricultural success mirrors an overall economic success of the country within a practical policy environment. The country used to be a net importer of food, while today it has become one of the world's largest exporters of rice and coffee. Tea exports also continue to rise. Pepper, nuts and spices are all major exports. This sector is quickly becoming a dominant player in a number of product categories. Although the agricultural sector's share of the overall economy shrinks in the face of the performance of the industrial sector, the farmer harvests continue to grow and exports are on the rise. In general, the sector has built its policy objectives with a practical environment to allow agriculture to be very important to the success of the country.

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The government of Vietnam has openly emphasized the importance of agricultural sector to the national economic development since its reforms. As mentioned before, Vietnam has a broader labor force for the agricultural sector. The government carries a set of programs throughout the country to train people for agricultural jobs. According to the statistics, among its population of Vietnam, about 38 million are current in the labor force, and the majority of those in the workforce are between the ages of 24-44. Approximate one million people enter the work force each year. The government policy and programs to educate and train people has been effective. Since 2000, Vietnamese literacy rate has been approximately 93.7%, while its minimum wage in Hanoi and Ho Chi Minh City is about US \$45 per month, and US \$35-\$40 per month in other provinces.

Vietnam continues to improve efficiency and productivity. The country demands for innovative, cost-effective production. Many economists seek for the drivers and further solutions for Vietnam's rural sector where the overwhelming proportion of the population. Application of science and technology, and diversification of crops are mainly acknowledged for greater growth and poverty reduction in the agricultural sector and rural areas. Relevant to a scientific development, food safety, both for domestic and export markets, has been an increasingly important issue in Vietnam. The country is actively pursuing investment in science and technology for the agricultural sector as a way of building its competitive advantages.

In general, the orientation and objectives of the policy reforms for the agricultural development in Vietnam is to build a strong agricultural sector with diverse commodities of high quality, efficiency and sustainability. This needs to base on the promotion of its comparative advantages and the use of scientific and technological achievements to meet the domestic demands. It also needs to enhance competitiveness to get into the world market.

3.2. Supports to agriculture

Since the 1980's, Vietnam has undergone several major economic and trade reforms – a process which is still not completed. At the same time, Vietnam started to reconsider its support to agriculture when opening its economy. Vietnam became a member of the ASEAN Free Trade Agreement (AFTA) in 1995 and World Trade Organization (WTO) in 2007. The positive result of this reform and opening process became visible in the early 1990s when poverty in the rural area declined to a large extent. Since then, the Vietnamese agricultural sector has also experienced high growth and impressive export achievements. Let's look at Vietnam's support policies, to what extent, contributed to its economic growth, especially in the agricultural sector.



Figure 6. Vietnam's Support to Agriculture

These commodities are the main agricultural products and exports of Vietnam. The shares in total output exceed 70% allowing for a generalization of the calculated PSE, thus roughly representing the whole agricultural sector. Since the mid 1990s, Vietnam's support to agriculture has increased - but still reached only rather low levels. At its peak, the percentage PSE for the agricultural sector was 25.6, which is moderate compared with other countries.

The agricultural sector in Vietnam was initially protected compared to other economic sectors. Vietnam's policy instruments recently adopted to assist agriculture include price supports and linking agricultural production and agro-industries. Among these, the input subsidies are major part of its support to agriculture. The main input subsidies in Vietnam are for irrigation and fertilizer. Approximately half of the cultivated land in Vietnam is irrigated. Farmers pay a subsidized fee for irrigation water. The irrigation fee is set by each province under the guidelines of the Ministry of Water Resources (IFPRI, 2007). In Vietnam, the use of fertilizer has grown significantly since the 1980's. Its consumption, amounting to 263 kilograms per hectare of cropland in 1999, is high compared to the Asian average consumption or the worldwide average (ibid, 2007). A large part of the fertilizer used is imported. Fertilizer importers have access to subsidized credits and companies that produce fertilizer and pesticides can obtain allowable loans.

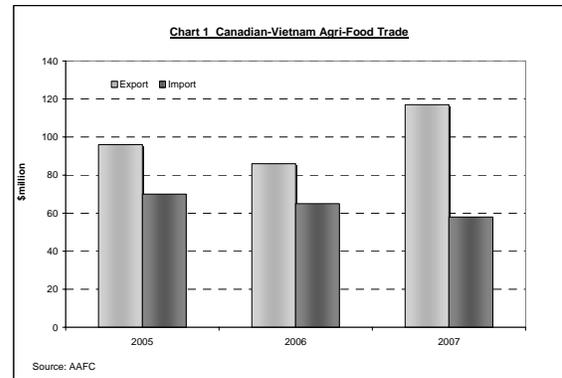


Figure 7. Canadian Agri-Food Trade with Vietnam

In Vietnam, most agricultural products were taxed in the mid-1980s until mid-1990s. This was often due to large inefficiencies in the production and processing of agricultural commodities, the dominance and monopoly position of the state-owned sector, restrictive trade policies like import and export quotas and licenses, and distorted markets and prices in the country. Since the early 1990's, the domestic reform

process, opening of the economy and shift from an import-substitution strategy towards export-promotion have impacted on the gaps between the domestic and international prices (Nguyen, et al, 2004).

3.3. Agricultural trade and policies

A few decades ago, Vietnam was a difficult agricultural market due to strict regulations and high duties and tariffs. In order to gain a membership of World Trade Organization (WTO), Vietnam agreed to remove export subsidies, implement a 30% reduction in tariffs over a five-year period and put an end to all export subsidies. While the key staples of the Vietnamese diet (fish and rice) are produced in abundance domestically, the makeup of agricultural imports is changing as more urban consumers seek variety options. In turn, the processing sector is looking for supplying this expanding industry.

Trade growth in Vietnam is largely dependent on agriculture with relevant policy developments. Major exports in Vietnam include crude oil, marine products, rice, rubber, tea, and shoes. Because of its policy reforms, Vietnam has become one of the largest exporters of rice. Its important trading partners include China, Japan, Germany, Australia and the US. As one of the world's largest exporters of rice and coffee, Vietnam has appreciated that these two staple commodities of rice and coffee together account for almost half of the country's agricultural export revenues. In terms of imports, Vietnam imported US\$3.7 billion worth of agricultural goods in 2005. Its key agricultural imports for the consumer sector include dairy, tobacco and grain (wheat), while other major imports, such as fertilizer, animal feed and pesticides, also support Vietnam's significant agricultural sector.

Vietnam is turning to agriculture and agri-food imports with Canada in order to address the growing needs of its ever expanding consumer base. In 1973, Canada - Vietnam diplomatic relations were established. Since 1994, Canada-Vietnam relationship has been developed greatly due in part to a series of high level diplomatic missions by both countries. This expanding relationship led to significant increases in bilateral trade, particularly in the agricultural sector, which has been facilitated by the Agreement on the Avoidance of Double Taxation and an economic co-operation agreement in 1997. Since 2000, bilateral trade between Canada and Vietnam increased from roughly \$270 million to reach over \$750 million in 2005.

The bilateral agricultural trade between Vietnam and Canada was valued at approximately \$250 million in 2006, more than 40% of total trade, and almost double the \$130 million level of 2003 (AAFC, 2007b). Canada exported \$117 million worth of agricultural goods to Vietnam in 2007 dominated by products such as non-drum wheat, whole beef hides, barley, animal feed and whey. In Canada, the imports of agricultural products from Vietnam were valued at \$58 million in 2007, a slight decrease from the previous year (Figure 7). Imports were led by shelled cashews, coffee, nutgs and seeds, natural rubber and peppers. Among these, shelled cashews accounted for 36% of the total, valued at \$21 million.

Much of Vietnam's growth has come thanks to its policy development for an expanding export. The growth in exports in Vietnam since 1990 has exceeded China's. The country is now developing policies to challenge the most dominant countries in their "Bread and Butter" exports, such as with Brazil for coffee, India for tea, and Thailand for rice. As Vietnam is eager to increase its agri-food exports, however, further investment in processing and relevant technology will be a priority. Foreign direct investment from Canada has been limited and currently only one company from British Columbia has established a cashew-nut processing facility in the area of Ho Chi Minh City.

Land Policy Reform in Vietnam

Vietnam's agricultural development is closely linked to its land policy reform. In Vietnam, land is owned by the state, so it is impossible for people to sell and own land. The land for agriculture and arability is very limited. People have right to use, inherit, and rent out the land. They are also permitted to use land for farming, with this right guaranteed.

After the end of the war of reunification in 1975, Vietnam's economy in general, and agriculture in particular, suffered heavily from policies based on the central-planning model and collectivization of agricultural land. Under such policies, it is a serious lack of incentives for individuals to contribute to production and gross output of agriculture increased annually at a low rate of 2 per cent.

When the reform started, agricultural cooperatives assigned land to farm groups and individuals. The land was still owned by the state and managed by the cooperatives. However, the reform initiative became the first step to move toward a market-oriented economy. The introduction of the reform has significant impact on the agricultural production. During the period 1981-85, Vietnam's agricultural production increased by an average of 5.5 per cent.

To further reform, the doi moi in agriculture was carried out in 1988. With this reform, the farm household was recognized for the first time as the basic economic unit. Since then, most of the means of production have been privately owned. During the doi moi, a large number of policies and laws concerning land use were issued. Among these, the most important policies were the Land Law in 1993 and the new Land Law in 2003 dealing with the regulation of agricultural and forestry land allocation.

Under the Land Law, Vietnam's farms were allocated land for long term use with five rights granted, i.e. the rights of transfer, exchange, lease, inheritance and mortgage. Land policy reform in Vietnam since the 1980's has contributed significantly to production development. Total agricultural output increased by 6.7 per cent annually during the period 1994-99 and about 4.6 per cent during the period of 2000-2003 and after.

4. Concluding Remarks

Many concern with Vietnam's economy and particularly agriculture where the overwhelming proportion of the population lives and works. Due to its reputation as a supplier of safe, quality agricultural and food products as well as relevant technology and expertise, Canada enjoys a privileged position in Vietnam's agri-food sector, and a respectable comparative advantage compared to other countries. This helps

Canadian access with its agricultural products such as wheat (bread and noodles), barley (beer) soybeans (variety of soy foods), and other carefully targeted higher processed foods and drinks. In terms of Vietnam's agricultural policy development with the implications for Canada, let's briefly conclude by its strengths, weaknesses, opportunities and threats based on above analysis.

4.1. Strengths

The government of Vietnam is now actively pursuing the development of high quality livestock and genetic products in an effort to meet domestic demands for dairy products. The country is also make efforts to position the country as a low-cost meat exporter. While competitor countries are focusing on packaging equipment for the Vietnamese food sector, Vietnam is encouraging to certify organic producers and farmers. Organic farming knowledge is a strengthened in Vietnam, as the government seeks to establish projects throughout the country.

4.2. Opportunities

Despite impressive growth in agricultural production, bulk commodities continue to be a bad demand in Vietnam. The increasing number of tourists and expatriates coming to Vietnam is driving significant development in the hotel and food service industry leading the growth in demand for higher-valued agricultural goods. Food processing is expected to expand in several commodity areas, such as rice, coffee, cashews and wheat flour and this will prompt further demand for technologies in production, processing and storage facilities. For Canadian companies, some particular opportunities may exist for dairy cattle, swine breeding and meat processing technologies.

4.3. Weaknesses

Vietnam's farmers still face many challenges with shortaged capital. The country realizes that a demand for innovative, cost-effective production techniques improves efficiency and productivity. Canada as one of the few countries signed an Animal Protocol with Vietnam for most livestock and meat products in effect since 2002 may provide technical support on this. Vietnam has the complexities of the business environment, particularly in the agri-food sector. The country's accession to the WTO may help to further its economic and policy reforms and yield a more open and predictable environment for its agricultural development.

4.4. Threats

Vietnam is a country undergoing a significant transition towards a market economy. The market is still limited by a number of factors, including a) high tariffs, even by regional standards, for processed food

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and beverage products - notably for those products where there is local production; and b) a price-competitive environment. In terms of Canadian companies, there are: a) a serious lack of familiarity and local knowledge and policies for some particular products, such as fast food franchises; and b) a great amount of shipping costs to Vietnam compared to other countries.

In summary, with its policy reforms and developments, Vietnam's agricultural sector as important part of its economy is able to produce the majority of daily food requirements. However, the Southeast Asian neighbors are still its largest source of food imports. In order to involve in Vietnam's agricultural sector, Canada needs to watch out Vietnam's agricultural policies. In Vietnam, a number of agricultural products are recognized and relatively cheap given the close proximity of their origin. In the mean time, the Bilateral Trade Agreement with the US has tariff concessions on several American products and it now controls quite a lot consumer oriented food imports. Vietnam's certain processed foods have been steadily dominated by some suppliers in other countries. Dairy products, for example, are led by France, New Zealand, Netherlands and Australia. More studies on the Vietnam's agricultural policy reforms as well as its technology acquisition are the need for its agricultural sector and global agricultural production, trade and relevant policy developments.

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