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12. VIETNAM

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PRODUCTION AND TRADING OF AGRICULTURAL PRODUCTS, AND PROBLEMS FACING AGRIBUSINESS ENTERPRISES IN VIETNAM

After 15 years of restructuring, the socio-economic situation of Vietnam has undergone many positive changes. Agricultural production and trade, in particular, has attained relatively strong growth and now contributes an important share of the national economy.

In the year 2000, the total volume of agriculture increased by 4.9 percent compared with the target of 3.5-4.0 percent. Agriculture continues to achieve good results in foodgrain production, the breeding, planting and cultivation of nut-trees, the development of the farming sector, preserving and expanding forestry production, and fisheries production.

The agriculture sector accounts for 25 percent of total annual exports (the major commodities are rice, coffee, rubber, tea, fruit, seafood, pepper and cashew nuts), thus playing an important role in the export extension strategy of Vietnam.

Rice

Rice is the main food commodity of Vietnam. In recent years, the agriculture sector of Vietnam has recorded great achievements. From being an importer of foodgrains, Vietnam is now not only self-sufficient but has also built up national reserves. Also, in recent years, Vietnam has been exporting large quantities of food. However, apart from advantageous elements that have made possible the intensive development of agriculture, the sector in general and rice in particular still face big challenges that include:

(a) many difficulties, ranging from inadequate and outdated infrastructure to the lack of processing technology, which hamper production. The development strategy and policy regarding such aspects as financial, marketing and export support do not correspond with the scale of demand and development trends;
(b) extensive demand for training that will provide employment opportunities for the rural workforce. Rural labor accounts for 75 percent of the national workforce, but those who receive specialized training only account for 15 percent of the total skilled labor of the country;
(c) a relatively small portion of rural land is suitable for agriculture, thus making extensive application of modern technology very difficult;
(d) poor and inadequate infrastructure and transportation;
(e) low capacity for post-harvest processing;
(f) poor availability of consistently high-quality seeds; and
(g) a lack of modern equipment, requiring farmers to largely resort to manual labor and resulting in low harvest output. In some cases, harvested rice is of very poor quality.

Coffee

Geographic and climatic conditions in some areas of Vietnam are suitable for producing fragrant coffee that is in high demand in export markets. After two decades of development, coffee has become an important export commodity for Vietnam, annually earning some US$500 million in export revenue.

Vietnamese coffee ranks third in terms of production after India and Brazil, and second in terms of exports after India. Even markets with strict quality standards have become regular customers of the Vietnam Coffee-Cocoa Association. Recently, Brazil, the leading coffee producer, began importing coffee from Vietnam for use in processing activities.

The main problem now facing Vietnam is that storage and processing capacity are unable to keep up with the rapidly expanding output of coffee.

Only a few enterprises have been able to import core coffee-processing lines. The other enterprises are operating equipment that is obsolete and non-standard, and therefore inefficient, as a result of using different supply sources. There are only 50 core coffee-processing lines in the whole country, of which 14 have been imported from Brazil and the United Kingdom. The remaining 36 lines were manufactured domestically, mainly to equip state farms and state-owned enterprises. About 80 percent of the coffee production is processed by the farmers themselves, using small-scale, basic equipment.

Research and development, supervision and exchanges of market information in and between the enterprises are weak. The coordination of information exchange among Vietnamese coffee exporters is still sporadic and out-of-date, and is thus unable to create an impact on the market or protect the benefits of enterprises and farmers. In addition, the competitiveness of Vietnamese coffee enterprises is very low, particularly in terms of financial resources, compared to international companies.

The most prominent feature of the coffee market at present is that supply exceeds demand, and the coffee price is only 30 percent of the price in past years, which is the lowest level in the past decade. This is having an adverse effect on the farmers' income and creating difficulties in maintaining production levels.

In order to improve the market price, coffee-producing countries are planning a temporary coffee reserve. Vietnam had to reserve at least 20 percent of the coffee export volume of the 1999/2000 crop (about 680,000 mt). Therefore, the temporary reserve must be 136,000 mt, which at recent prices will cost US$80 million. According to Association of Coffee Producing Countries (ACPC), the temporary reserve period will have to be for two years, pushing up the cost of maintaining the reserve to US$15 million. However, Vietnam can neither meet such a large financial requirement nor provide the necessary storage facilities.

Tea

Tea exports by Vietnam amount to only 3 percent of total production. Tea is exported to only a few countries (France, Hong Kong, Hungary, Iraq, Japan, Libya, Poland, the Russian Federation, the United Kingdom and the United States).

The weak point of tea cultivation in Vietnam is that cultivation and harvesting skills are poor. Many farmers only consider how to gain easy financial benefit and do not follow the standard methods for growing and harvesting tea. Often, they cultivate the wrong type and/or size of tea crop, over-exploit the tea fields, and continue to use bushes that are too old. The result is low levels of productivity.

The equipment used in processing tea is mainly too old and inefficient. Tea processing is undertaken as a minor handicraft resulting in low quality. The product is therefore unable to satisfy the strict requirements of export markets and makes it difficult to create a strong market position.

It will therefore be necessary to improve and expand the processing capacity of industrial tea producers. In addition, the size and quality of the area under tea cultivation is a critical factor in the future of Vietnamese tea.

Rubber

According to a Ministry of Agriculture and Rural Development assessment, Vietnamese rubber will become relatively competitive in the next 3-5 years (after rice and coffee) as one of the focus commodities of Vietnam. Since 1990, Vietnamese rubber has been exported to 40 countries (13 in Western Europe, six in Eastern Europe and four on the American continent). For example, in the lowest production year, rubber exports to China still accounted for 32 percent of total rubber exports, while at their peak in 1995 they reached 75 percent.

Rubber production in Vietnam is very small compared with other countries in the region. Of the total production, 80 percent is SVR3L (Standard Vietnam Rubber 3 Light) rubber (not ribbed smoked sheets [RSS] rubber or SR [synthetic rubber] technique rubber). Currently, only 20 percent of dried latex rubber is processed. The low volume of output has considerably limited the ability of Vietnam to attract major customers with stable purchasing power.

The technological level and capacity processing equipment in the factories in Vietnam are still low compared to that of the region and the world. The annual renewal index of equipment is about 7 percent per year, which is equal to between one-third and one-half of the minimum level in other countries.

In order to increase turnover and efficiency in exporting rubber in the coming years, it will be necessary to:

(a) focus on intensive cultivation and increase productivity of the available area under rubber cultivation in order to reduce the price;
(b) install new machinery or upgrade current equipment at latex processing factories in order to diversify export products and create market opportunities (e.g., increase exports to the United States and European markets, reducing the dependency on the market in China);
(c) introduce the right policies for attracting foreign direct investment in rubber processing (at present, in the whole of Vietnam, there is only one rubber planting project, 15 rubber processing projects and four rubber tire manufacturing projects); and
(d) develop the processing industry, increase production and boost domestic and export market demand (at present, domestic consumption only accounts for 10 percent of rubber production in Vietnam).

Pepper

Pepper production in Vietnam has reached about 35,000 mt annually. So far, Vietnam has exported 34,000 mt a year. The export target is 50,000 mt per year, worth about US$200 million.

In general, the production and export of pepper is efficient owing to its low price, highly competitive production method, and stable market demand.

Cashew Nuts

In the last nine months of 2000, 150,000 mt of raw cashews were produced, of which 110,000 mt were processed to give 21,700 mt of cashew nuts for export at a value of US$110 million. This boosted the export earnings of the cashew subsector to US$165 million for 2000, an increase of US$45 million over the earnings in 1999.

Ranking fourth among export items after rice, rubber and coffee, cashews have been regularly exported by Vietnam to China, Europe, Japan, the United States and countries in South-East Asia.

Currently, more than 60 cashew nut peeling and splitting plants are in operation in Vietnam with a total processing capacity of 250,000 mt of raw cashew per year, which ensures that the total cashew nut harvest can be processed. Although the peeling and splitting equipment is all manually operated and priced at only one-tenth of similar Japanese equipment, Vietnam is able to process products up to export standard (Vietnam's technology has previously caused great concern among some African partners). In fact, Vietnam's processing technology can satisfy world demand, even in such hard-to-please markets as Europe, Japan and the United States.

At present, the difficulties facing the sector are mostly domestic. One of the main problems is that cashew cultivation is very unpredictable; cashew growers can easily cut down the plants and shift to other types of crops. As a result, cashew supplies are low and unreliable. Other problems include unsuitable selection and development of cashew strains, and inadequate instruction of night-watch techniques, which results in relatively low productivity levels. In addition, cashew fields can easily degenerate under such conditions.

Cashew nuts are a seasonal cash crop, but problems remain regarding the shortage of capital shortage, inadequate storage and drying facilities, inefficient collection methods and a badly organized purchasing system.

Fruit and Vegetables

Vietnamese fruit and vegetables are delicious and very diverse. Due to management improvement, and the upgrading of equipment and plants in recent years, the country's fruit and vegetable products (e.g., frozen and canned pineapple, dried fruit, lichees, longans, banana and pineapple powder, rambutans and fruit juices) are popular among domestic and oversea consumers.

However, because the workforce is not well trained in maintenance, storage, packing and marketing techniques, production and business management efficiency is still low. Production is of a self-supply nature without specialized areas for producing large volumes of export commodities. Production is scattered among households and quality is therefore inconsistent. Consequently, it is difficult to apply modern scientific and technological advances to improve productivity and reduce production costs.

As financial capacity is limited, insufficient capital is invested in post-harvest storage and processing. Meanwhile, fruit and vegetables are highly seasonal products and deteriorate easily, resulting in post-harvest losses of between 20 percent and 25 percent.

At present, there are nearly 20 fruit and vegetable processing factories in Vietnam, but most of them have outdated and obsolete equipment, and use poor quality packaging. For this reason, their products are not internationally competitive in terms of quality. Eighty

percent of the raw materials are supplied by farmers, with the remainder coming from other sources such as plantations. In the meantime, fruit and vegetable strains supplied by farmers vary considerably, leading to inconsistent product quality.

The prices of Vietnamese fruit and vegetables on the world market are currently low despite high production costs and product quality problems arising from manual harvesting. The low prices are also due to weak marketing and advertising strategies that do not include either research and development or the application of advanced technology. Excessive stockpiles of agricultural products are also attributed to weak market forecasts and planning.

Seafood

The seafood industry has been identified by the government as a leading economic sector in the export strategy of Vietnam. The objective of the industry is to get the top position in the region.

However, many challenges still face the industry. The level of investment is inadequate and lacks focus. The fisheries infrastructure is not sufficiently funded, and most of the country's fishing ports and markets are overcrowded and in poor condition. Most fishing boats and ships have low capacity, while the exploitation level and processing capacity are weak.

Superior seafood processing factories need to be constructed, and existing plants need to be upgraded in order to meet hygienic foodstuff and safety standards required by the ISO quality management system. In addition, new fish strains need to be introduced, and current areas used for aquaculture need to be expanded.

Pork

Although the livestock industry, including pig raising, has recorded a relatively high annual growth rate of 4-5 percent, Vietnam's pork exports remain uncompetitive. This is due to following reasons:

(a) Pig raising is not export-oriented. The method used most widely is household production, which prevents the reduction of costs and wide dissemination of knowledge about methods. Meat quality remains low with a high fat content; and
(b) The processing technology used is still very unsophisticated. Only two of the many processing factories nationwide meet export standards.

OBJECTIVE ORIENTATION FOR AGRICULTURE AND RURAL DEVELOPMENT

The production value of the entire sector (agriculture, forestry and fisheries) has increased by 4.5-5.0 percent, of which the growth rate of the agriculture subsector is 4.1-4.7 percent. The growth rate of the forestry subsector has risen to 1.7-2.3 percent, while that of the fisheries subsector has increased by 7.2-7.6 percent.

A number of crucial measures need to be taken towards the industrialization and modernization of agriculture and rural areas in general. These measures include:

- introducing new technology and crop/aquaculture strains.
- upgrading post-harvest storage, maintenance, processing and advanced cultivation methods.

- promoting the shift towards an agricultural, forestry and fisheries production structure that is suited to each ecological region.
- improving the average income per agricultural land unit.
- investing in new transportation and irrigation infrastructure, electricity and water supply systems, and environmental protection.
- developing traditional village occupations, and generating job opportunities to attract labor to the areas.

Agriculture

Among the most urgently needed measures that are specific to agriculture are:

- development of food processing to ensure national food security. It is estimated that the value of major crop output will reach US$35 million (rice, US$33 million; and maize, US$2 million).
- development of output and specialization of export cash crops to cover a total of 8,000 ha for coffee, 10,000 ha for rubber and 20,000 ha for cashew nuts. Annual output is projected to reach 650,000 mt of coffee, 285,000 mt of dry latex rubber, 70,000 mt of tea, 650,000 mt of fruit and 140,000 mt of cashew nuts.
- encouragement of livestock raising. Current meat output is estimated to be 2.1 million mt and 57,000 mt of milk.

Seafood/Aquaculture

Among the most urgently needed measures that are specific to seafood/aquaculture production are:

- development of the seafood industry's advantages.
- promotion of fish raising as part of the construction program for expanding and improving the infrastructure base, as a way of helping to solve social problems in rural and coastal areas.

Seafood output is projected to reach 2.1 million mt (comprising 1.25 million mt of marine products and 850,000 mt of aquacultural products). The total value of agricultural, forestry and fisheries products is projected to reach between US$4.9 billion and US$5 billion in 2001, which is an increase of 19-20 percent over 2000.

MAJOR POLICIES AND SOLUTIONS

As explained above, the two main sources of a negative influence on agricultural performance are internal and external market factors. Solutions to help the agriculture industry overcome difficulties and achieve set objectives are outlined below.

Temporary Solutions

- Stockpile products when prices are low and hold until prices increase in order to eliminate losses to producers.
- Encourage production (e.g., the government has adopted a program for stockpiling 60,000 mt of coffee over a six-month period with 100 percent interest support).

Strategic Solutions for Achieving Structural Change and Expanding Production

Several strategic solutions can be applied to achieving structural change and expanding production. These solutions are outlined below.

- Implementation of government decisions on financing capital, tax cuts, and support in terms of strains and equipment in order to facilitate seasonal production. Of a total investment of US$90 million in the tea sector between now and 2005, 70 percent will be spent on raw materials. The money will be used to improve tea cultivation areas and to plant an additional 5,000 ha with hybrid tea strains. Productivity is expected to reach 910 kg per ha by 2005.
- The regular and frequent provision of information on agricultural products in domestic and oversea markets, especially foodstuffs, coffee, sugar and other important food commodities, in order to facilitate access by farmers to inputs and markets for their products.
- Encourage Commodity Associations to set up risk assurance funds based on voluntary and self-managed principles. Promote activities such as exhibitions, fairs and business interaction centers for commodity exchanges between areas where there is great demand.
- Develop farming models for large-scale output and product diversification.
- Make reasonable reallocation of investments for the development of technologies for breeding, post-harvest activities, processing, packaging, handling and, in particular, preservation of food commodities. The objective is to improve productivity and quality in order to boost the competitiveness of Vietnamese agricultural exports.
- Organize research into, and selection of, plant strains, taking into consideration the soil and climatic conditions of each region; implement material and area planning solutions; and set up specialized areas for producing adequate and stable supplies of a variety of raw materials in order to enable factories to operate at full capacity.
- Make major investments in updating technology, equipment and diversifying product ranges (including primary and completely processed products) at existing factories in order to meet market demand. Provide supplementary equipment to complete the production line system, and replace manual work with machinery. In the case of coffee, processing should be changed from the currently used wet method to the use of drying machinery, in order to eliminate manual labor. Cashew processing should be upgraded in combination with product diversification such as cashew peel processing. In the case of rubber, the product range should be diversified to include tires, gloves and boots for import substitution. However, implementing such changes will require the construction of new factories equipped with state-of-the-art technology and equipment. In addition, high-quality machinery should be manufactured locally so that it can be made available at competitive prices.
- Formulate and implement human resource training programs to ensure the availability of sufficient numbers of managers, technicians and skilled workers for the cash crop processing industry.
- Make extensive investment in research and development associated with agricultural, forestry and fisheries incentive policies, with the aim of speeding up and strengthening the results of research. Apply scientific and technological achievements to agro-production and agribusiness.

- Study and plan market strategies to ensure that changes can be rapidly made in production infrastructure in order to keep pace with market demand, especially in the case of processed products for export.
- Invest in infrastructure (transportation, irrigation, power and water supply networks).
- Actively reorganize specialized areas under high-quality rice cultivation for export.
- Create and enhance close cooperation between research and agricultural production.
- Train farmers to familiarize them with advanced cultivation techniques, and make step-by-step changes in the traditional method of rice production, which favors quantity over quality.
- Promote marketing and advertising activities in order to expand market demand.

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