



**Agri-Food  
Past, Present & Future Report  
Vietnam  
January 2007**



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# Vietnam

## Past Present & Future Report January 2007

### Overview

Since Vietnam began its transition towards a market based economy its economic performance has been remarkable. Over the past 5 years, Vietnam's growth has been second only to China in the Asian region and many believe that growth could match or exceed China's if infrastructure development and privatization keep up with economic expansion.

GDP growth is trickling down to the average consumer as average spending power has increased substantially. Urban consumers have much higher levels of income and are increasingly looking to new retail outlets for new products that meet their evolving lifestyle. Increasingly, Vietnam is turning to imports to address the growing needs of its ever expanding consumer base.

### Canada - Vietnam Relations

Canada - Vietnamese relations have been expanding considerably since diplomatic relations were formally established in 1973. Since 1994, the Canada-Vietnam relationship has developed greatly due in part to a series of high level diplomatic missions by both countries. This expanding relationship has led to significant increases in bilateral trade, facilitated by a bilateral trade agreement implemented in 1997, an Agreement on the Avoidance of Double Taxation, and an economic co-operation agreement. Additionally, Vietnam and Canada are both members of La Francophonie which has allowed leaders from both countries to conduct less formal yet fruitful meetings.

Since 2000, bilateral trade between Canada and Vietnam increased from roughly \$270 million to reach over \$750 million in 2005. In fact, two-way trade increased by \$200 million from 2004 to 2005 alone.

<b>Canada - Vietnam Bilateral Trade</b>	
<b>Vietnam Total Trade</b>	
Exports	\$32.2 billion
Imports	\$36.9 billion
Trade balance	(\$4.7 billion)
<b>Canada- Vietnam Trade</b>	
Exports	\$200 million
Imports	\$560 million
Trade balance	(\$360 million)
<b>Canada - Vietnam Ag Trade</b>	
Exports	\$104.6 million
Imports	\$154.4 million
Trade balance	(\$49.8 million)

- Canada's 2005 exports to Vietnam were valued at \$200 million, nearly double 2004 levels and triple those of 2002.
- Canada's exports were comprised of primarily: wheat, potash, machinery, fish and seafood, pharmaceutical products, paper and paperboard.
- Canada's imports from Vietnam were valued at \$560 million in 2005 up from \$440 million in 2004 and \$330 million 2003.
- Canada's imports were comprised

of primarily: fish and seafood, cashew nuts, coffee, wooden furniture, garments, footwear, woven apparel, spices, coffee and tea.

## **Agricultural Trade**

Traditionally, Vietnam had been a difficult agricultural market to access due to strict import regulations and high duties and tariffs. However, this import situation, particularly involving agricultural goods, could improve to the benefit of imported consumer goods. Vietnam is poised to join the WTO as early as the end of 2006. In order to gain membership, Vietnam has already agreed to remove all agricultural export subsidies, implement a 30% reduction in tariffs over a five-year period and put an end to all export subsidies.

The key staples of the Vietnamese diet (fish and rice) are produced in abundance domestically and have naturally limited agricultural imports in the past. However, the makeup of agricultural imports is changing as more affluent urban consumers seek more variety and convenience options. In turn, the processing sector is looking to imports to supply this rapidly expanding industry.

In 2005, Vietnam imported US\$3.7 billion worth of agricultural goods. Vietnam's primary agricultural import suppliers include China, Australia, Thailand, New Zealand, ASEAN countries, Argentina, the EU and the US. Key agricultural imports for the consumer sector include dairy, tobacco and grain (wheat), while other major agricultural imports, such as fertilizer, animal feed and pesticides, support Vietnam's significant agricultural sector.

Vietnam's top five agricultural imports in 2005 along with their corresponding supplier in brackets were: cigarettes US\$155 million (Singapore), non-durum wheat US\$121 million (Canada), soybean oilcake US\$104 million (Argentina), skim milk powder US\$77 million (US), and milk and cream powder > 1.5% fat US\$66 million (New Zealand).

Imports of consumer oriented goods continue to grow. In 2005, it was estimated that US\$330 million worth of consumer ready food products were imported into Vietnam. This was an increase of more than US\$70 million over 2003 levels. Actual import totals continue to be difficult to accurately list as border and reporting issues continue.

Despite impressive growth in consumer-ready imports, bulk commodities continue to dominate the Vietnamese agricultural import market, a trend that will likely continue over the next five years due to three key factors.

- First, high value and processed goods are in very low demand throughout the country.

There are niche markets present, particularly in the country's two key cities, but a majority of the population is still unable to afford processed or imported goods.

- Second, the government is working very hard to build a viable, modern food processing sector able to process the country's vast ag-resources and imported bulk items for the domestic and regional market.

Given the country's success in other ventures of this nature, it is fully expected that the it will succeed.

- Finally, despite significant growth and expansion in the retail sector, Vietnamese food purchases continue to be made in outdoor, informal wet markets.

Food purchases made in modern supermarkets sit at roughly 10% of total purchases. While some processed goods can be purchased at wet markets they are often sold by the case and a constant supply and reliable distribution is less than guaranteed.

Despite these factors, growth in semi-processed and high-value commodity imports has been very strong since 2000. Furthermore, due to the rapid increase in the number of young, affluent, urban Vietnamese consumers, this cannot be ignored as a viable niche market.

### **Canada Vietnam Agricultural Trade**

Bilateral agricultural trade between Vietnam and Canada was valued at \$259 million, over 40% of total trade. This was an increase of \$90 million over 2004 and \$130 million over 2003 levels.

Canada exported \$104 million worth of agricultural goods in 2005, an increase of \$81 million over 2004 figures. Canada's agricultural exports are typically dominated by wheat and 2005 export growth was bolstered by a \$69 million increase in wheat exports. This increase has been carried through 2006 as wheat exports through August have already exceeded \$66 million. Growth in 2005 also came from significant increases in hide and skin exports which grew by more than \$10 million over 2004, and seafood exports which increased by almost \$3 million over the same period.

- In 2005, wheat accounted for 71% of total agricultural exports, raw hides and skins 11%, crab 4%, canola oil 3% and tobacco 2%.
- Canada's agricultural exports were dominated by bulk commodities, namely wheat. Canada also exported \$2 million worth of tobacco and \$900,000 worth of barley. Growth in bulk exports exceeded 1000% over 2004
- Growth in intermediate exports exceeded 70% over 2004, but exports decreased in diversity. Intermediate exports were comprised mainly of raw hides and skins, canola oil and worked barley.
- Exports of consumer oriented goods were valued at over \$2 million in 2005, a 100% increase over 2004 levels. Consumer oriented exports were dominated by animal or vegetable fats and oils, frozen pork and frozen beef.

Canada's imports of agricultural products from Vietnam were valued at \$154 million in 2005, a 3% increase over 2004. Imports were dominated by fish and seafood, namely shrimp at 39% of total exports. Other significant imports include cashews (\$25 million), coffee (\$18 million) and frozen fish fillets (\$17 million).

<b>Canada's Top 5 Agricultural Exports to Vietnam (2005)</b>	
Wheat, nes	\$74.2 million
Bovine hides	\$11.3 million
Snow crab	\$4.2 million
Canola oil	\$3.5 million
Barley	\$2.1 million

## **Economy**

The Vietnamese have experienced incredible growth and development over the last six years. Average GDP growth rates for the period have exceeded 7%. Rates for 2005 and 2006 exceeded 8%, and 2007 and 2008 projections are in line with the period as a whole at 7.2% and 7.4% respectively.

Much of the country's growth has come thanks to a rapidly expanding export sector. Export growth since 1990 has exceeded China's and Vietnam is now challenging even the most dominant countries in their "Bread and Butter" exports, such as with Brazil and coffee, India and tea, and Thailand and rice.

The truly remarkable aspect of this growth is the trickle down to the 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% of the population in 1990 to less than 10% to date. Secondary school enrollment has doubled during the same period and today over 60% of appropriate aged children are enrolled in secondary school. Life expectancy has jumped and infant mortality has plunged. Statistics like these have demonstrated that over 15 years Vietnam has passed India, China and the Philippines in terms of percentages of population living out of poverty. The country has better life expectancy and infant mortality rates than much richer countries like Thailand, and school enrollment is better than all of the above.

The Vietnamese economy has a number of notable strengths, such as key natural resources including oil reserves and an expanding educated workforce. In fact, 75% of Vietnam's population was born after 1975 and the country's median age is only 25.9.

<b>Gross Domestic Product (2005)</b>	
GDP	US\$44 billion
GDP growth	8.4% (2005) 8% (2006e)
GDP/ capita	US\$550
GDP/ capita (PPP)	US\$3,200

### **Current**

- GDP growth has been at 7% or higher for almost 10 years.
- FDI is growing at more than 30% per year, and is focused in the industrial sector and services, particularly hotels and tourism.
- Ho Chi Minh City is the commercial centre of Vietnam.
- Privatization continues, but government targets are not being met.

- Overall, economic development has not been even. Urban economies are much stronger than rural. Urban PPP remains much higher than rural PPP. Economic disparity is also visible on a province by province basis.
- The government continues to be the country's largest employer.
- Agricultural goods contribute to over 40% of Vietnam's exports, while oil accounts for roughly 20%.
- Industry contributes 41% of the country's GDP and employs 37% of the labour force. Agriculture contributes 21% of the country's GDP and employs 57% of the labour force. The service sector contributes 38% to the Vietnamese economy and employs 6% of the labour force.

#### Forecast:

- GDP growth for 2007 and 2008 is expected to remain at the 7% average of the preceding 10 years.
- Long-term objectives include global economic integration through membership in APEC, ASEAN free trade and the WTO.

Despite glowing reviews on progress and an amazing performance over the last 15 years there are notes of caution from key economic pundits.

- Political stability hinges on continued economic success. One million young Vietnamese enter the workforce every year and one million more Vietnamese move to the cities annually. Serious issues could arise if jobs dry up.
- Recently, Vietnam has benefited from high prices for its key commodities. Serious drops in any of these categories could negatively affect future growth.
- WTO accession will affect two key industries (agriculture and clothing manufacture). Both sectors are of high importance to the Vietnamese economy in terms of the work force and GDP, and it is unclear how they will perform without protection.
- A regional slowdown or worse, an economic bust, would deeply impact this economy.
- Infrastructure development is barely keeping up with growth. Any slowdown here will cause problems for future growth.
- Currently, state owned enterprises are acting like an anchor on the economy. They are monopolizing funds and are not creating new jobs. Privatization while reportedly at the top of the government's plans for the future has seen politically motivated delays. Currently only 5% of jobs are in private industry.
- Over 70% of banking is controlled by Vietnam's six state-owned banks and lending practices favour non-performing loans to state-owned enterprises.
- Further improvements to the investment environment will be necessary if Vietnam is to become a prime destination for international investment dollars. Current limitations to foreign ownership and a lack of transparency in internal deals have put off some investors.

## **Consumer Market**

### Overview

Despite everything positive at a national level, Vietnam remains a very poor country. The consumer base in this market is very limited. However, it is growing rapidly and is projected to become a regional force in the next five years.

- Disposable income is increasing very quickly and income increases are not yet being eroded by higher costs of living.
- National per capita GDP is US\$550 / GDP PPP is US\$3,200.
- Ho Chi Minh City is the commercial centre of Vietnam.
- GDP growth rates in Ho Chi Minh City are 3% to 4% higher than the national average.
- GDP / PPP in the Ho Chi Minh area is reportedly as high as US\$9,000.

#### High-value consumers

- A growing number of tourists are driving developments in the hotel and foodservice industry, and are leading growth in high-valued consumer foods.
- Expatriates are an increasingly important niche consumer group.
- There continues to be a strong French influence in some cooking.
- Despite an increase in awareness of health quality standards, this is still a price sensitive market.

#### Retail

- Supermarkets are rapidly increasing from 2 in 1999 to over 100 today.
- Modern retail outlets/supermarkets account for roughly 10% of food sales.
- Consumers generally shop daily.
- Supermarket shoppers are increasingly looking for pre-made ready to cook meals. Local industry is currently meeting this need, but this trend is illustrating an opportunity for future growth.
- Wet markets continue to dominate food shopping. Processed goods are becoming increasingly available at wet markets. Many exporters have found this an interesting entry point for processed products (non-perishables).

#### General preferences

- Fresh food is preferred and/or required due to daily food shopping habits and low levels of refrigerator ownership.
- Fruit is an important component of the Vietnamese diet.
- Pork has traditionally been the country's meat of choice.
- Issues with chicken safety have led to supply issues which have opened the door to beef. While current sales have been limited to high-end consumers (e.g. hotels, restaurants, etc.) beef has been introduced to some of the larger local supermarkets.
- Alcohol sales, in particular beer, are growing rapidly.
- Vietnam has been described as a "snack-happy" society. Since imported snacks are subject to some of the highest import rates, Western producers are moving toward domestic production to meet consumer needs and introduce new brands and products.
- Consumer confidence in Western products is high and there has been a notable fascination amongst younger consumers with Western-styled goods.
- Brand recognition and loyalty is very low for imported or Western foods.
- Key consumer imports include: dairy products, fresh fruit, confectionery products, chilled and frozen meat, snacks, and general canned goods (e.g. meat, fruits and vegetables, etc.).

## Opportunities

- Dairy products (powder and fresh). Imports are being targeted at general consumers and the processing industry. Canada has had success in the past with powder exports.
- Beef is still a niche product, but recent issues in the poultry sector have pushed this product onto restaurant menus and supermarket shelves.
- Imported fresh and canned fruits are growing in popularity, particularly apples and grapes.

## Competitors

Vietnam's Southeast Asian neighbours are the dominant food exporters in this market. Their products are recognized, have the advantage of proximity and price and in some cases can avoid logistical issues by circumventing borders (illegally). With regards to bulk products and processed goods commonly produced by Canada, competition comes chiefly from Australia and New Zealand. The EU and the US have also established a strong presence in Vietnam.

Australia and New Zealand have focused a great deal of time and effort advertising and promoting their national foods in the region, in particular Vietnam, and have been rewarded. In addition, the modern hotels and restaurants in Vietnam are dominated by Australian and European managers and chefs who have shown a preference for their home products. The food retail industry has a strong French presence and while retail stores are not yet importing directly, they may show similar favouritism.

The US is an increasingly important player in the country and now controls 28% of the consumer oriented food import market in Vietnam.

Vietnam has an established and growing domestic agri-food industry that features familiar products at very competitive prices, and increasing quality standards make Vietnamese products very competitive in this market.

## Access Issues

### Overview

With WTO accession on the horizon the access picture in Vietnam should improve considerably. However, as it stands there are common complaints of changing regulations, lack of transparency, high tariffs and duties and corruption from companies doing business in the country.

For more detailed information on the import regulations in Vietnam visit:

[www.infoexport.gc.ca](http://www.infoexport.gc.ca)

- High tariffs and non-tariff barriers on food items. Processed goods face import tariffs from 20% to 50% while alcoholic beverages faces 65% import tariffs.
- Food import requirements, particularly animal imports, can be lengthy and difficult.



- Foreigners are not permitted to import or distribute food in Vietnam. A local importer is the best way to enter this market.
- Tariff and inspection issues are handled by two separate agencies.
- Legal issues can be very complex, a local lawyer is considered essential.
- Refrigeration infrastructure is improving but is still weak and does cause spoilage issues with fresh and frozen products.

## **Agriculture Sector & Policies**

### Overview

Vietnam's agricultural success mirrors the overall economic success of the country. Only 15 years ago Vietnam was a net importer of food, while today the country has become one of the world's largest exporters of rice and coffee. Tea exports continue to rise and pepper, nuts and spices are all major international exports. Even more impressive has been the recent performance of the fisheries industry. This sector is quickly becoming a dominant player in a number of product categories. Despite impressive developments, the value of Vietnam's agricultural exports continue to be very susceptible to international price fluctuations due to the fact that exports are largely commodity based. Rice and coffee account for about half of agricultural export revenues.

The agricultural sector's share of the overall economy continues to shrink in the face of the performance of the industrial sector; however, farmer harvests continue to grow and exports are on the rise. The sector had gone from a 25% share to 21% in 2005. By 2010 it is estimated that agriculture will contribute 15% to the economy as a whole. Despite this numerical recession, the sector in general will continue to be very important to the success of the country.

Vietnam's agricultural, fishing and forestry industries together produce over US\$3 billion of goods annually. The government has openly emphasized this great importance to the national economy of developing this sector. Agriculture employs roughly 60% of Vietnam's workforce, farm products account for over 50% of the country's income, and 55% of all of its exports are related to the agricultural, fisheries or food processing industries.

Key agricultural commodities include: rice, coffee, rubber, cotton, tea, soybeans, cashews, sugar cane, peanuts, bananas, poultry, fish and sea food.

Used and low cost machinery is common and there continues to be a demand for innovative, cost-effective production techniques which improve efficiency and productivity, but do not require large investments in capital equipment. Many economists and policy makers seek solutions for Vietnam's rural sector where the overwhelming proportion of the population lives and works. Crop diversification, rural industrialization, increased farm size, greater mechanization, application of science and technology, and diversification of crops are all ideas for greater growth and further poverty reduction in rural areas. Food safety, both for domestic and export markets, is an increasingly important issue in Vietnam, but overall standards continue to lag behind Western levels.

The Vietnamese government is actively pursuing investment in the agri-food sector as a way of building on competitive advantages in agri-food exports. Food

processing is expected to expand in several commodity areas, such as rice, coffee and cashews, particularly as further liberalization of these markets takes place. Demand will increase for technologies in production, processing and storage facilities. Over the past decade, only 5% of FDI in Vietnam has been directed toward the agri-food sector, mainly for commodities such as sugar.

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Web site: <http://vietnamembassy-canada.ca>

## Key Resources

Vietnam exporter guide – FAS – 2006

<http://www.fas.usda.gov/gainfiles/200610/146249199.pdf>

Retail food sector – FAS – 2005

<http://www.fas.usda.gov/gainfiles/200511/146131626.pdf>

Forecast – Economist – 2006

<http://www.economist.com/countries/Vietnam/profile.cfm?folder=Profile-Forecast>

Fact sheet – Economist – 2006

<http://www.economist.com/countries/Vietnam/profile.cfm?folder=Profile-FactSheet>

Good morning at last – Economist – 2006

[http://www.economist.com/displaystory.cfm?story\\_id=7252940](http://www.economist.com/displaystory.cfm?story_id=7252940)

Vietnam Country Brief – Australian Department of Foreign Affairs and Trade – 2006

[http://www.dfat.gov.au/geo/vietnam/vietnam\\_brief.html](http://www.dfat.gov.au/geo/vietnam/vietnam_brief.html)

Fact Sheet - Australian Department of Foreign Affairs and Trade – 2006

<http://www.dfat.gov.au/geo/fs/viet.pdf>

Vietnam Country Brief – New Zealand trade and enterprise – 2006

<http://www.marketnewzealand.com/common/files/vietnam-cb.pdf>

Vietnam World Fact Book – CIA – 2006

<https://www.cia.gov/cia/publications/factbook/geos/vm.html>

Agri-food Profile Vietnam – InfoExport – 2005

<http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=57721>

Viet Nam is “Star of Southeast Asia” in term of economic growth says ADB – Asian Development Bank – 2006

<http://www.adb.org/Documents/News/VRM/vrm-200612.asp>

Canadian Agricultural Trade Statistics – Vietnam – 2006

<http://www.ats.agr.gc.ca/stats/data-e.htm>

Vietnam Fact Sheet – Agri-Food Trade Service – 2006

[http://www.ats.agr.gc.ca/stats/vietnam\\_e.pdf](http://www.ats.agr.gc.ca/stats/vietnam_e.pdf)

Economic Overview – Hanoi – Vietnam – InfoExport – 2005

<http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=19086>

Economic Profile – Vietnam – InfoExport – 2005

<http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=64670>