

Agricultural Economy and Policy Report: Vietnam

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Political Situation

The Socialist Republic of Vietnam is one of few remaining communist countries. However, even though the Communist Party remains firmly in power, the economy is increasingly market driven. The Chief of State is Nguyen Minh Triet and the Prime Minister is Nguyen Tam Dzung. When compared with Vietnam's far-reaching economic reforms over the past 20 years, political reforms have been much slower. Nevertheless, improvements in civil liberties and the rule of law have been made in recent years. Culturally Vietnam is relatively homogeneous with 86 percent of the population ethnic Kinh.

Economic Situation

Vietnam is a densely populated developing country with a young population, but one that is making rapid economic gains. For much of the last century until the late 1980's Vietnam was plagued by military conflicts. Additionally, the espousal of a centrally planned economy in the 1970's and 1980's proved disastrous. The economic situation changed in 1986, when following the example of China, Vietnam initiated its market-liberalization program, "Doi Moi" (renovation), while at the same time the low-level conflicts with China and Cambodia finally ended. Since then growth has been remarkable, averaging over 7 percent per annum, second only to China in Asia. In 2007, GDP totaled about \$73 billion, with a growth rate of 8.5 percent, the highest in the last 10 years. Growth for 2008 is forecast at 8.5 to 9 percent.

Agricultural Situation

With a population of 86 million, Vietnam faces significant constraints on its agricultural production resources. Arable land per person is low even by Asian standards. Vietnam is already a significant importer of feed and feed ingredients and these should continue to grow as Vietnam's rapidly developing economy leads to further increases in consumption of livestock products. Vietnam also needs to import most, if not all, its domestic consumption of wheat, cotton, wood, hides and skins, and dairy products. Much of this goes into processing for re-export.

Notwithstanding the land constraint, Vietnam makes good use of what agricultural resources it has. Indeed, it might well be considered a model for how to use agricultural trade to realize comparative advantages. Vietnam is a major exporter of rice and such tropical products as coffee, cashew, pepper and rubber, and has taken advantage of its ample rainfall and extensive network of waterways and estuaries to develop an expansive aquaculture system that supports its very large fish and seafood export industry.

In spite of its success in agricultural trade, Vietnam persists in maintaining programs for protectionism and import substitution. The government continues to hold unrealistic expectations for development of domestic corn, soybean, cotton and dairy production. In general though, the amount of resources that the government can harness to promote these industries is minimal. The most significant program maintains a floor price for cotton through a state company, but this program has not been able to set a price high enough to meet growth targets. Domestic cotton production still only accounts for less than 10 percent of consumption. State

companies also control rice exports and the government will cover these companies' losses to a limited extent in bad years.

Government provided agricultural services are weak. Government extension workers, though numerous are ill-paid. Basic agricultural research is limited and as the Avian Influenza outbreaks showed, animal and plant health and food safety are very poor. Improvements have been made in recent years, in large part with foreign donations. It will be important for Vietnam to maintain and build on these gains with the additional financial resources that the government should be able to draw on domestically as a result of Vietnam's recent rapid economic growth.

Trade

In 2007, Vietnam's total exports reached \$48.4 billion and imports were \$60.8 billion. With total GDP estimated at only \$73 billion, this shows how important trade is to the country. Trade between the United States and Vietnam has experienced rapid growth since resumption of trade between the two countries twelve years ago, albeit heavily in Vietnam's favor. The United States was Vietnam's biggest export partner in 2007, accounting for \$10.2 billion or 21 percent of Vietnam's total exports. Vietnam's imports from the United States, by contrast, were less than 5 percent of its total imports. Agricultural trade between the two countries mirrors total exports, though somewhat less lopsided in Vietnam's favor. In 2007, the United States exported a record \$623.5 million in agricultural, fishery, and forest products to Vietnam. Even at an increase of 110 percent, U.S. agricultural exports were still less than half Vietnam's \$1.4 billion in agricultural exports to the United States.

With trade as important to agriculture as it is to the economy in general, Vietnam is usually inclined toward opening its market. Most government officials realize that Vietnam not only needs imports of agricultural goods to sustain comparative advantages in aquatic, tropical and labor-intensive manufactured goods, but that it also needs to be open to imports in order to assure market access for its agricultural export plans.

Vietnam joined the WTO in January 2007, and with this began significant cuts in agricultural tariffs that will continue through 2012. Unexpectedly, beginning in August 2007, Vietnam either speeded up WTO tariff reductions or went beyond final promised cuts on a wide range of foods and feeds. Some of these cuts, namely for beef, poultry and pork, were reversed in October 2008.

Vietnam is also part of the China-ASEAN Free Trade Area, and it appears Vietnam is committed to maintaining some degree of tariff preference under this FTA, and also seems interested in extending free trade areas particularly to South Korea and Japan.

Vietnam has concerns about other countries' non-tariff restrictions on its exports. With regard to the United States, Vietnam is finding U.S. approval for imports of several of its tropical fruits a very slow process. They also question U.S. anti-dumping findings in the past several years against Vietnamese basa fish and shrimp.

Regulatory Framework

Vietnam has progressed in making its import procedures and requirements less burdensome, but concerns remain. Health registration for processed food imports is cumbersome; meat imports require three-month import permits; and customs

valuation, though generally based on invoice values, sometimes relies on a list of arbitrary reference prices. Although not yet implemented, a new law also requires special permits and labeling for biotech imports.

Still, Vietnam has shown flexibility recently. It has lifted its BSE ban on U.S. beef to allow not only boneless beef, but bone-in beef as well as offal. Vietnamese officials often note the importance of OIE and other international standards and indicate their willingness to abide by them on SPS issues.