

# Strategy for Markets of AgroForestry products of Vietnam in the next Decade

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## I. Overview of Vietnam's Agriculture

Over the last decade Vietnam's agriculture has developed at a high growth rate, averaging 4.5% annually. The GDP in agriculture increased 5.3 times from 1990 to 2000, while the share of the extended agricultural sector (including agriculture, forestry and fisheries) in total GDP decreased from 38.7% in 1990 to 24.1% in 2003. Grain output has increased over 1 million tons each year. Its average reached 408 kg in 1998 while this figure was only 281 kg in 1987. This ensured a solid basis for the national food security. From a rice importer, Vietnam has become the second largest rice exporter in the world. Export turnover in total value of agricultural products increased rapidly from 16.2% in 1990 to 35.4% in 2003 (Table 1).

Specialized regions in agriculture have formed. Agricultural products were produced abundantly to meet domestic food demand and to export. The proportion of agricultural commodities has increased rapidly of which rice accounted for 20% of its output; coffee, 95%; ruby, 80%; and tea, 60%. In 2003, total agricultural export turnover of the whole country achieved over 3 billion USD.

The agricultural sector has had significant growth but agricultural commodities with high quality are still limited. Export goods are mainly in raw forms with low values. Comparability of agricultural commodities in the region and in the world market is weak and agricultural markets are not stable. Commercial infrastructure supporting consumption is constrained; market systems do not operate smoothly. Trade efficiency is not high and imbalances occurred in profit distribution among the partners participating in the market of each product and in each region market.

Price fluctuation in agricultural commodities is very complicated (Figure 1). Currently, export prices of Vietnam agricultural commodities are equivalent to only 30-40% of the world market price. This urges us to think about ways to improve our product quality to meet world demands and to reduce marketing costs in order to increase profit from exports. This will be investment capital for industry sector in the future.

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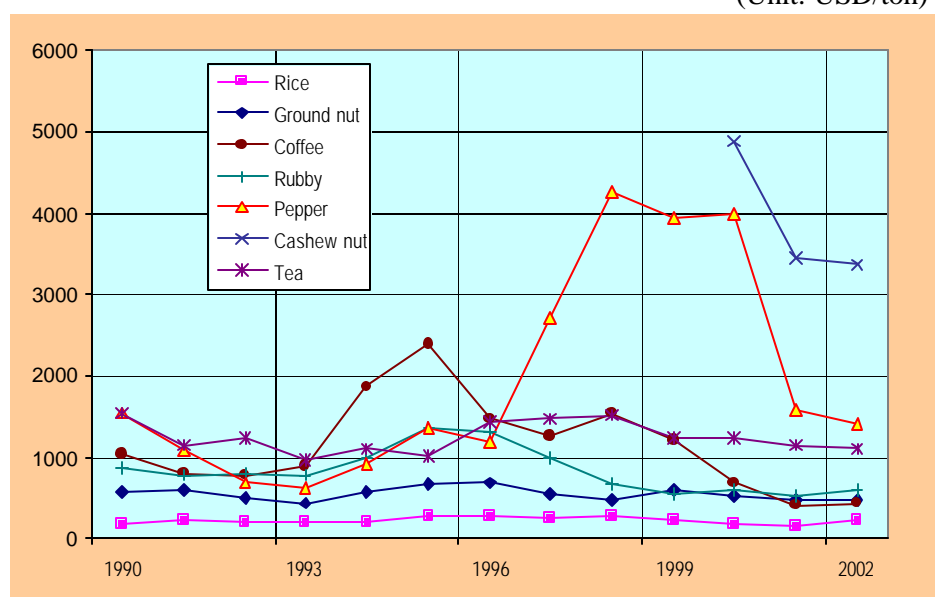
Table 1: Gross output and export turnover of agriculture, forestry and fisheries in 1990, 1995 and 2003

Item	Unit	1990	1995	2003
1. Gross output of agriculture, forestry and fisheries	Bill.VND	74,921.7	100,864.7	133,964.3
of which: - Agriculture&forestry	Bill.VND	66,786.5	87,340.8	113,766
- Fisheries	Bill.VND	8,135.2	13,523.9	2,098.3
2. Export turnover of agriculture, forestry and fisheries	Mill.USD	1,106	2,521.1	4,308
of which: - Agriculture&forestry	Mill.USD	910	1,899.7	2,833
- Fisheries	Mill. USD	196	621.4	1,475
3. Share of agri-products export value in total gross output	%	16.2	27.5	35.4

Source: General Statistics Office, 1990 and 2003

The domestic market for agricultural products is young and its performance is not professional with a high operational cost. Agricultural export is facing a serious competition in the transition to WTO in the next years. Relevant policies for agricultural and forestry commodities are limited and domestic and foreign trading partners operate not well. Proportions of agricultural processing and forestry products are small and these products are not diversified leading to weaknesses of competitive ability of agricultural and forestry products.

Figure 1: Price fluctuation of agricultural commodities in Vietnam (1990 - 2002)  
(Unit: USD/ton)



Source: Center for Market and Price Research, Ministry of Trade, 2003

Table 2. Share of agricultural processing products of Vietnam (%)

Item	1990	1995	2000
<b>Milled rice</b>	42	75	85
Of which: by modern technology	5	15	26
<b>Coffee</b>	17	30	57
Of which: wet processing	-	5	12
<b>Ruby</b>	85	90	95
Of which: complete processing ruby	7	10	15
<b>Tea</b>	47	85	78
Of which: by modern technology	6	23	37
<b>Sugar cane</b>	25	57	82
Of which: by modern technology	-	10	22
<b>Cashew nut</b>	85	93	97
Of which: by modern technology	37	58	85
<b>Fruits and vegetables</b>	<1	5	7
Of which: by modern technology	-	-	3
<b>Meats</b>	0.5	1	2
Of which: by modern technology	-	0.3	0.7
<b>Timber</b>	14	27	35

*Source: National Institute of Agricultural Planning and Projection (NIAPP) and Institute of Electrics and Mechanics for Agriculture, 2003*

Data in Table 2 shows that agricultural commodities such as rice, tea and cashew nut have high processing proportions while other products such as fruits and vegetables and meats are rarely industrially processed. This situation is stagnant even over a ten year time span.

## II. Strategy for Agricultural and Forestry Markets

### 2.1. Specific Objectives

In the next years, Vietnam needs to achieve the following specific objectives: (i) Sustain an annual growth rate of 7 to 7.5% in specialized agricultural production regions, (ii) Generate an output of 2,500 USD per year per rural laborer, (iii) Obtain income of 4,000USD per ha of agricultural land, (iv) Meet people's demand of foods and foodstuffs with high quality, and (v) Continue exporting agricultural and forestry products with a target of 5-6 billion USD per year in order to have an investment capital source for the industrial sector in hopes of Vietnam becoming an industrial country in 2020.

### 2.2. Strategy for specific products

#### Rice

In Vietnam, rice is produced in two river deltas (The Red and Mekong River Deltas), exported, and consumed throughout the country. Vietnamese rice has been exported for over 10 years and its markets are quite stable. However, Vietnam rice export price is not as high as compared that of other exporters. Normally, Vietnam's export rice price is equal to about 70% of the world market price. Vietnamese rice is mainly exported to Asian countries such

as the Philippines, Indonesia, Iraq and also African countries according to agreements signed by governments. In the domestic market, rice price is quite stable except during harvest times. Milled rice price fluctuates from 3-4 thousand VND/kg and paddy rice price fluctuates from 1.7 to 1.9 thousand VND/kg.

To strengthen rice markets in the next years, Vietnam needs to: reorganize collecting systems to facilitate producers; form big markets for rice in main producing regions of the country such as the Red River and the Mekong River Deltas; organize distribution network to remote areas (i.e., mountainous, border and island areas); ensure appropriate rice prices in different regions for favorable buying and selling.

Trade activities should be promoted, traditional rice export markets should be consolidated, and exhibitions should be made throughout the country and internationally to stabilize rice export markets of Vietnam.

A center should be created for testing and evaluating quality of market information to provide updated information on world rice market for producers and traders. Processing and marketing should be incorporated with production to improve rice production efficiency of the country.

## **Coffee**

Ninety percent of the total annual production of coffee in Vietnam is exported, of which 99% of the yield is from Arabica variety. Coffee exports increased from 1996-2000, averaging a volume of 400,000 tons per year and reaching 694,000 tons in 2000. Estimated coffee yield in 2005 will be 757,000 tons, domestic consumption will be 70,000 tons (9% of the total production), and the rest will be processed and exported.

Vietnam coffee export markets are wide but not concentrated on some major trading partners. The markets do not have stable quantity, price, or trading partners. Coffee exports from Vietnam are usually not direct to the ultimate customer.

Improving the quality of coffee will increase export volume into European markets such as Switzerland, Germany, France, Italy and England. Expanding superlative coffee markets in Japan, Korea, and E.U countries as well as reconnecting markets of SNG, Eastern Europe and China will increase export volume.

A limited number of specialized systems of export and processing companies should be established to avoid scrambles for buying and selling and difficulties in testing quality of product. Import price of materials is based on F.O.B price, therefore the State needs to use a common price that is defined by its fluctuation in the market.

Guaranteed price should be based on tax collective sources in the years that its price in the world market is high to set buying price of raw material from farmers in years that coffee prices drop sharply. Specifically, take into account the average price in the world market for many years to identify buying price of the raw material.

## Pepper

Of total pepper production, 90-95% was exported. In 2000, export turnover of pepper reached 140 million USD (ranked fourth after rice, coffee and ruby). Vietnam dominates the world pepper market.

Table 3. Pepper Export Volume of Vietnam, 1996 - 2000

Year	Export volume of pepper (tons)	
	Total	FOB (at Saigon Port)
1996	25,300	24,776.8
1997	24,700	20,815.5
1998	23,000	17,699.8
1999	34,500	28,594.2
2000	38,000	35,900.0

*Source: NIAPP*

Vietnam has established export channels for pepper in some big markets. Some pepper business enterprises have easily accessed these markets and have improvably met their product standard requirements.

New markets should be promoted so that Vietnam pepper can compete well in the world market. Long-term trade with big markets such as E.U, America, Japan and China should be maintained since Vietnam pepper occupies a big share of the world market.

Accessibility to world market information and advertisements should be strengthened. Production, collection, processing and exporting should be incorporated closely to harmonize interests of participants in the market.

## Ruby

During 1980s, natural ruby of Vietnam was marketed mainly in Eastern Europe but in the period of 1990-1994, its major importers were China and South Asia. Since 1995, Vietnamese ruby has been exported increasingly again to Europe but its share is less than 2% of the total imported volume of this market. Northern Asia markets including Japan, South Korea, Taiwan and Honking have great potential but Vietnam supplies only about 1.5% of their total demand. The North American market has a demand of over 1 million tons of natural ruby but Vietnam's share is very small (about 0.02%). South Asia's market has a high demand but the share of Vietnam in this market is less than 4%.

In recent years, over 75% of exported Vietnamese natural ruby has been exported to China. As a result, Vietnamese ruby prices are highly dependent on this market.

From 1997-1999, ruby prices had a decreasing trend to a 30-year low. In late 1999 the price began to recover gradually. In 1999, the price of ruby 3L fluctuated from 570-680 USD/ton (F.O.B.).

## **Tea**

After the political events of former Soviet Union and Eastern Europe in 1991, these tea markets of Vietnam were lost and seeking new markets was very difficult. Vietnam tea export recovered and in 1997 it opened a new perspective. Vietnam's current tea importers are Iraq, Libya, Algeria, U.K., France, Poland, Russia, Japan, Hong Kong, Taiwan, U.S., and others. Vietnam occupies only 3% of the world tea market, exporting to 30 countries. These trading partners of Vietnam are not big and stable.

Vietnam exports mainly black tea; green tea occupies only a small share. Domestic tea market occupies about one third of the total production with current tea consumption in Vietnam is about 0.26 kg/person/year. Preference of tea consumption is different among the regions (i.e., in the North people like drinking green tea, the people in Central and South like drinking bag tea and fragrant teas).

Vietnam tea export prices varied following its fluctuation in the world market, but not the same frequency since a part of Vietnam tea export was for debt payment agreement between two Governments. Vietnam tea price is lower than its price in the world market due to lower quality and weak competitive ability.

Traditional export markets such as Middle East, Russia and Eastern Europe should be maintained. Vietnam's share of the markets in the U.S, Japan, Taiwan, China and Pakistan should be expanded through improved quality and competitive price, meanwhile expanding domestic market. The target export volume in 2005 is 80,000 tons and domestic consumption is 40,000-50,000 tons.

In the next years, it is necessary to enhance and expand the network of commercial representatives for tea in foreign markets, and monitoring their demand, preference, information and advertisement. Tea export companies have to be attentive to tea quality and sanitization to guarantee Vietnam tea trademark and to maintain its markets. Beside that, the State needs to issue strict regulations of tea quality for export to limit export of low quality tea. For the domestic market, it needs to expand the network of wholesale and retail agents and to improve style and packaging to attract customers and to ease use. Vietnamese tea should be popularized through mass media to increase consumer knowledge.

## **Cashew nut**

Vietnam exports cashew nuts to 20 countries in the world and holds about 20% of the world market. Vietnam exported 15,800 tons of cashew nuts in 1999 and 35,000 tons in 2000. Vietnam cashew nut quality is appreciated throughout the world. Besides the traditional markets, Vietnam can expand to SNG and Eastern Europe markets. With an annual growth rate of 6%, its export volume is forecasted about 200,000 tons in 2005.

The price of cashew nuts had an increasing trend in the period from 1974 to 2000 with an annual average of 4%. Average price in this period was 4,800 USD/ton. In 2000 it increased to 4,900 USD/ton. However, in 2001 the price dropped sharply to 3,300 USD/ton since India -- a major exporter with 45% share of its world market -- offered with a very low price. Cashew nut export dropped due to the price of raw cashew nut in domestic market. In 2000, the price of raw cashew nut was about 10-11,000 VND/kg. In 2001 the price dropped to 6.5-7.5 VND/kg, strongly affecting the income of cashew nut growers. The forecasted

export price for the next years will fluctuate around 4,000 USD/ton and its raw price will be about 8.5-9.0 thousand VND/kg.

Total production of cashew nut in 2005 is estimated at about 157,000 tons, of which processed volume is 40,000 tons, for export about 36,000 tons (90%) and total export turnover will reach 130-144 million USD. Estimations for 2010 for total export turnover will be 190-240 million USD and major importers of Vietnamese cashew nuts will be U.S (30%), Europe (30%), and China and Japan and other markets (40%).

Capacity building should be enhanced for Vietnamese cashew nut association to help the growers process, market and export their products efficiently. Export markets should be sustained and expanded for cashew nut by improving its quality and the State needs to establish a foundation for cashew nut export if possible.

## **Fruits**

With a high population in the cities (about 16 million people) who have an increasing demand of fruits, this is a promising and stable market. The survey on fruit consumption demand in Hanoi and Ho Chi Minh Cities showed that consumption demand of fresh fruits is about 40-50kg/person/year. Therefore, cities and urban areas need 600-700,000 tons of various fruits of which Hanoi accounts for about 70-80,000 tons.

In addition to the domestic production, Vietnam has to import fruits from many countries in the world. Fruits imported in Vietnam are mainly subtropical fruits. According to estimates of the General Custom Bureau, each year Vietnam has to import about 20-30,000 tons of fruits, of which 8000 tons of apple, 3000 tons of pear, 340 tons of dried grapes with an import value of 5.71 million USD. A large volume of fruit such as orange, tangerine, apple and pear is also imported from China through small border gates.

In 1999, Vietnam exported about 40,000 tons of fruits, of which a portion was processed fruits. We exported about 10,000 tons of fruits (mainly mango and litchi) to China. Pineapple, banana, mango and litchi are exported mainly to markets such as Hong Kong, Taiwan, China via non-trade channels.

The domestic consumption demand is increasing rapidly. According to the forecast to 2010, Vietnam population will reach to 85 million people of which its urban areas will be 31 million inhabitants. By 2010, the objective is to meet 80-100kg of fruits per person per year. This combined with a forecast of 8 million foreign visitors to Vietnam leads to a total demand of fruits at 7.6 million tons of which 2.4 million tons will be for urban areas and industrial zones.

Natural juice fruits with reasonable prices and processed and canned fruits will be produced and consumed more strongly. Demand for fresh fruits will increase rapidly in the next decade and the consumers will require strict quality and safety standards.

Vietnam currently has no big and stable export market of processed fruits. In the coming years, advertising to establish export markets is very important for every production industry of Vietnam. Potential importers of Vietnamese fruit are Russia, China, Japan, U.S. and Europe. Products that can be exported in large volumes are processed pineapple, fresh

banana, litchi, longan, mango, dragon fruit, mangosteen and avocado fruit. Special fruits and their processed products will generate an annual export value of 350,000 USD.

There are several strategies to strengthen domestic consumption in the coming years. Domestic demand for fresh and processed fruits is predicted to increase as income and population increases. Moreover, fruit trees will become productive so their prices will reduce considerably during harvest times. This will lead to an increase in domestic demand that may reach to a growth rate of 10% in consumption. Domestic demand in 2005 may be 5 million tons or 58 kg/person/year. Vietnam should organize a network of collection, wholesale, transportation and distribution for ease of domestic consumption, and establish big trading centers for fruits in regions, provinces and districts.

World market of tropical fruits is still small but is forecasted to develop quickly. This leads to an opportunity for expanding fruit export markets for Vietnam. First, fruit quality must be improved and infrastructure must be built for processing, cooling storages, transportation means and export procedures. Fresh fruit export volume will reach to 100,000 tons and processed fruits will be 20,000 tons by 2005 with an export value of 200 million USD.

### **Pork**

Vietnam should maintain and develop export markets of this product such as Russia (it is forecasted that Russia will import about 50,000-70,000 tons by 2010), Hong Kong, Singapore and Malaysia since these markets are stable. Vietnam should strive to export to Japan which has an annual imported volume of 70,000-80,000 tons of meat. Southern China market also absorbs our piglets via small export volumes due to good quality. Southeast Asia markets are close markets with competitive advantages in transportation, price and high demand.

The pork industry needs to build material areas for export towards commodity production through high-tech applications of variety, veterinary and feeds with large scale to reduce production cost. The Government needs to enact subsidized policy for export meats. State and individual enterprises of meat export need to reorganize under associations. Therefore, state and individual enterprises should keep in mind the investment for good material areas to ensure quality of the products, to consolidate market and stabilize its prices. However, these markets require high quality and high sanitation so we need to sign an agreement with neighboring countries on veterinary issues to facilitate meat export enterprises.

### **Wood and wooden products**

With various reasons, forest area of Vietnam has decreased from 14 million ha in 1945 to 9 million ha, of which 8 million ha are secondary forest and 1 ha is natural forest. Beside environmental significance, forests have culture and traditional features of remote areas and ethnic minority. Annually, forests are exploited to provide materials for making paper, furniture, artists, etc. Demand on wood, processed wood and forest products in domestic and world market increase continuously. Annual domestic demand for mine poled wood is 200 thousand m<sup>3</sup>. Material wood for making paper may reach 5 million m<sup>3</sup> and a big quantity for construction, furniture, etc. Vietnam also imports wood materials from Lao, Indonesia and Malaysia to produce goods such as timber and modern furniture.

Processed wood products (wooden outdoor and indoor furniture), floor-wall-ceiling timbers, wooden artists and rattan products of Vietnam are very favorable. In 1998, Vietnam exported about 120 million USD of which 90 million USD were from artist handicrafts and 30 million USD were from wood. In 1999, export of forest products obtained 240 million USD; this figure in 2010 will reach over 1.5 billion USD.

In the next decade, it needs to continue implementation of the afforestation program of 5 million ha with an average area of 450-500,000 ha per year, to assign land and forest to farmers and to help them develop marketable products generating high income such as indigo, nacre, small bamboo, etc.

In conclusion, Vietnam agro-forestry market in the coming years has big difficulties and challenges, especially their competition in the world market. Agro-forestry commodities of Vietnam have their own strength and potential which need support and facilitation for production, commercial promotion and investment from Government such as rice, tea, coffee, ruby, fruit, pork, timber and its products, and other goods that can replace imported commodities (i.e., sugar, cotton, etc). General policies mentioned here are to complete a market information system, to set a network of domestic agents, to support exports, to reduce marketing cost, and to enhance compatibility of agro-forestry commodities in order to exploit the potential of Vietnam agro-forestry commodities.

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