Executive summary

Doi Moi, or "Renovation", reforms launched in the mid-1980s marked the beginning of the transition of the Vietnamese economy away from central planning towards greater market orientation. Since then, a long series of policy changes have continued to move the economy in this direction by opening markets, establishing private land use rights, reducing the role of state-owned enterprises and encouraging private investment.

The results to date have been impressive. Strong economic growth has lifted real incomes in both urban and rural areas, reducing poverty and combatting undernourishment. Poverty levels fell in Viet Nam further than in any country in the world except for China. Viet Nam's progress in combatting undernourishment was similarly remarkable. The proportion of undernourished in the total population fell from 46% in 1990-92 to 13% in 2012-14. This represents a decrease of 72%, which is one of the highest rates for all countries.

These reforms also created conditions for a strong agricultural supply response to growing domestic demand and improved international market opportunities. Agricultural production more than tripled in volume terms between 1990 and 2013, with agro-food exports soaring. Viet Nam is now the world's largest exporter of cashews and black pepper, the second largest exporter of coffee and cassava, and the third largest exporter of rice and fisheries.

New challenges are emerging, however. Production growth rates are slowing for a number of commodities. A good part of the past revenue growth was due to higher commodity prices in the 2000s. Prices of many commodities have declined over the last two-three years and are projected to fall in real terms over the next decade. Land available for further expansion is also limited and there is increasing evidence of negative environmental impacts which are constraining production growth. Moreover, agricultural labour costs will increase if non-agricultural job creation carries on along its recent path. While rising labour costs will open opportunities to adopt new technologies and encourage larger farms, they may also reduce the sector's overall competiveness, particularly if newer labour-saving techniques are not readily accessible or adaptable to the dominant small-scale farming.

Private investment in agriculture is increasing, but several constraints still deter investors. Land fragmentation limits scale economies and various restrictions on land use rights raise costs. Large investors can have difficulty accessing long-term financing while small-scale producers continue to rely to a large extent on informal credit. Basic rural infrastructure has significantly improved over the past decade. But this investment has not kept pace with economic growth, resulting in serious infrastructure bottlenecks. Finally, the weak role played by farmer organisations obliges investors to interact with numerous small-scale producers. This increases transaction costs and compounds the uncertainty created by weak contract enforcement.

Viet Nam's agricultural policy seeks to achieve high quality output and competitiveness, raise rural incomes and maintain food self-sufficiency. The Ministry of Agriculture and Rural Development has the primary role in developing and implementing policies to achieve these objectives, but a number of other central government ministries and agencies also have significant roles.

Agricultural producers are supported by a range of input subsidies on irrigation, seeds and credit, amongst others. The budgetary cost of these measures has grown rapidly since the mid-2000s. Several initiatives have been introduced to deal with disease outbreaks and natural disasters. A direct payment per hectare began in 2012, but this is tied to maintaining land in rice production. Irrigation accounts for a relatively large proportion of government spending on agriculture, while other agricultural infrastructure and agricultural research and development remain underfunded. Government funded extension services remain top down driven.

Viet Nam has taken steps to reform its border protection and improve trade openness. Tariffs on agro-food imports have fallen. The average MFN applied tariff has dropped from 24% in 2000 to 16% in 2013, and is significantly lower for imports from ASEAN countries and China. However, tariffs remain relatively high for some commodities, including sugar cane, meat and some fruits and vegetables. Import monopolies, licensing requirements and export restrictions on agricultural products were removed in various stages over the 1990s and early 2000s. However, import requirements imposed for sanitary and phytosanitary reasons are becoming more stringent. They are often implemented in a non-transparent manner and add to the cost of importing. On the export side, concerns exist over the current system for controlling rice exports which reduces competition in the market and potentially works against incentives to grow higher quality rice.

The level of support to farmers as measured by the share of the policy-driven transfers from consumers and taxpayers in gross farm revenues (percentage Producer Support Estimate, %PSE) averaged 7% in 2011-13. Since 2000, the level of support has often varied strongly from one year to the next. This is the result of the government's efforts to stabilise domestic prices and to balance the interests of producers and consumers in the context of price volatility on international markets.

The total value of transfers arising from support to agriculture was equivalent to 2.2% of GDP in 2011-13, one of the highest across all countries covered by this measurement. This shows that for a developing country with a large agricultural sector and low GDP, even if the level of agricultural support as measured by the %PSE is low, the cost of support to the economy can be relatively high. This also highlights the potential burden of the current policy mix on the public budget and the need to ensure that the money is spent effectively.

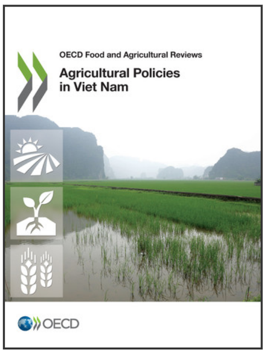
Key policy recommendations

I. Improve the enabling environment for agriculture

- *ease the re-allocation of factors of production across sectors*
- *ease constraints on investment*
- *improve agricultural institutions and governance systems.*

II. Improve agricultural policy performance

- *pursue food security through a broader range of measures*
- *enhance farm restructuring*
- *improve the efficiency of resource use to minimise negative impacts on the environment*
- *reinforce agricultural innovation systems*
- *further integrate into international agro-food markets.*



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