



Vietnam's Policies on Agricultural Restructuring

Dr. Tran Cong Thang and Dinh Bao Linh (MA)¹

Vice Director General
Institute of Policy and Strategy for Agriculture and Rural Development
No.16- Thuy Khue Street- Hanoi- Vietnam

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INTRODUCTION

Rationale:

Since the Renovation (“*Doimoi*”) with significant agricultural reform transpired, Vietnam has transformed itself from being a food importing country to one of the world’s largest exporters of agricultural products such as pepper, coffee, rice, cashew nut and catfish.

Despite these impressive achievements and substantial contributions to national food security, poverty reduction, trade and social stability, Vietnam has not benefited fully from its potential and advantages in the agricultural sector. The agricultural production in Vietnam is still described as low with unstable profitability; low-quality products; insignificant value addition; high rate of postharvest losses; natural resource degradation and low competitiveness. Therefore, export price of Vietnamese agricultural products is often lower compared to other exporters like Thailand and Brazil.

To handle these above fundamental limitations, on 10th June, 2013, the Prime Minister of Vietnam issued Decision no. 899/QD-TTg approving the plan of restructuring the agricultural sector towards improving added value and sustainable development (Agricultural restructuring plan-ARP). The Plan is aimed at maintaining growth rate, raising efficiency and competitive

¹ Deputy director of the Institute of Policy and Strategy for Agriculture and Rural development of Vietnam

capacity through productivity, quality and value addition; satisfying the needs of domestic consumers and boosting exportation.

Objectives:

This article aims to:

- Provide a brief review of the context and the reason for the implementation of the ARP
- Analyze key restructuring contents and solutions in the ARP
- Recommend further tasks of policies on agricultural restructuring in Vietnam

VIETNAM AGRICULTURAL RESTRUCTURING

Context of the agricultural restructuring:

Key success:

In the period 2000 - 2012, the output value of agriculture, forestry and fisheries continued to increase with the average rate of 5.1% / year. In terms of value-added of agriculture, compared to other Asian countries, the average growth rate of 3.7%/year of GDP in that period is relatively high and stable (vs. China 4.1%, Philippines 2.9%, Thailand 2.8%).

The structure of agricultural production has gradually shifted to the higher efficient sector which is associated with market demand. From 2000-2012, the share of seafood rose from 16.3% to 22.4% while the share of cultivation and livestock declined from 80% to 74.9% of the total value of production of agriculture, forestry and fishery.

Agricultural production has gradually improved to meet domestic needs. Despite market fluctuations, natural disasters, complicated epidemics, food production continues to grow (in absolute value), average cereals per capita increased from 445 kg in 2000 to 546 kg in 2012, contributing to poverty reduction in the country.

Vietnam and Thailand are leading rice exporters, contributing significantly to world food security.

Agriculture, forestry and fisheries are the only sectors of Vietnam to have consecutive trade surplus, even in the phase of difficult economic state. It shows the evident comparative advantages of Vietnam's agriculture; demonstrating the important role of agriculture in the balance of payments of Vietnam's economy.

Big difficulties and challenges:

Despite great achievements, agriculture and the rural sector are facing serious difficulties and challenges. Average agricultural GDP growth fell from 4%/year in the period of 1995 - 2000 to to 3.8%/year in the period 2001-2005 and 3.4%/year in the period of 2006-2012. The proportion of value-added in total value of agricultural production (GDP/production value) decreased from 45.6% in 2000 to 38.1% in 2012 (at constant prices in 1994). Productivity

growth of key crops including rice, and coffee has slowly dipped down. In the animal husbandry and aquaculture sector, diseases became widespread which seriously affected both the productivity and income of farmers.

Agro-processing industry is still underdeveloped and creates small added value. Vietnam mainly exports raw materials with low value. So far, only very few trademarks and geographical indications of agricultural products are built and accepted in the international market. Infrastructure and postharvest services (packaging, warehouse, yard and transportation, outdated technology, system of customs clearance procedures, quality testing and control system) are still poor leading to high transaction costs, high postharvest losses and become bottlenecks in the value chain. For these reasons, the quality of agricultural products is not assured during the supply chain.

Due to a long time of focusing only on increasing quantity, nutrition security has not been guaranteed, the problem of malnutrition, nutritional imbalances remain serious issues in Vietnam.

Agricultural growth in Vietnam is based on intensive natural resource, misuse of fertilizers, plant protection drugs and veterinary medicines. While achieving economic targets, agricultural production causes adverse environmental effects, imbalance and depletion of natural resources (soil, groundwater, surface water, minerals, biodiversity, etc.). Weaknesses in the management of water resources and agricultural residues also cause increasing pollution and greenhouse gas emissions.

Diseases on crops and livestock is more and more complicated while plant protection and veterinary control have not been adequately invested. Business registration, applicable technical standards, audit and assurance labeling, traceability of origins have been neglected. Technical barriers have not been fully established to protect domestic producers.

Requirement of policy reform to overcome difficulties and challenges and catching opportunities

Over the past 20 years, with small amounts of investments, about 7% of total social investments (of which 50% was invested by the state, focusing mainly on building new hydro projects which promises big profit), agriculture in Vietnam can still maintain its GDP growth of 3-4%/year. If Government gives worthy investments and stimulate private resources for agriculture, including investments on science and technology, market information, trade promotion, materials for agricultural production, agro-processing industry and infrastructure, agriculture in Vietnam could surely achieve further growth, especially in the area of value-added products and services.

As basic resources for agricultural productions become increasingly scarce, a new higher price level of agricultural products will be formed in the future. This trend will create favorable conditions for countries having advantages in agriculture like Vietnam, but also give the warnings about the competition in natural resources use for agricultural growth.

Along with joining the WTO and other trade agreements, Vietnam is integrating deeply into the region's economy and the world, to build and strengthen international trade relations, investments and multilateral cooperation through trade agreements and bilateral agreements, to become the largest exporter of agricultural products in the world. The opening of markets and increased agricultural prices present a great opportunity for countries having advantages in agriculture, such as Vietnam.

However, changes in food distribution and consumption around the world with strong development of supermarkets have tremendous impact on world agricultural production. Owners of supermarkets are increasingly concerned about the standards of environmental protection, reduction of transportation costs, limitations of carbon emissions to meet the general trend of consumers worrying about the quality, hygiene, food value and environmental protection requirements.

To adapt to new trends in both domestic and international markets, agricultural production should be restructured to create and facilitate new value chain in order to meet the diversification of market stages, improve quality, assure hygiene and safety, increase added value and the socio-cultural values. This is pressure to accelerate the shift from primary agricultural production to large-scale commodity agriculture. It also opens up opportunities to make breakthroughs in the structure and organization of new agricultural production.

Policies issues

Objectives of the ARP:

The ARP has main objectives as follows:

- Sustain the growth, raise the efficiency and competitiveness by increasing productivity, quality, and added values; satisfying the demands of consumers in Vietnam and boosting exports. The growth of GDP of agriculture reaches 2.6% – 3% during 2011 – 2015, and 3.5% - 4% during 2016 – 2020;
- Improve income and living standards of rural residents, ensure food security (including nutrition security) in both the short term and the long term basis, contribute to the reduction of poverty ratio. By 2020, income of rural households will increase by 2.5 times in comparison to 2008; 20% of the communes meet the standards of new rural areas by 2015, and 50% of communes will meet such standards by 2020;
- Enhance natural resource management, reduce greenhouse gas emission and negative impacts on the environment, utilize environmental benefits, raise capacity for risk management, enhance disaster preparedness, increase forest coverage to 42% - 43% by 2015, and 45% by 2020; contribute to the National Green Development Strategy.

Restructuring contents:

Moving from agricultural commodities with low value and competitiveness towards those with high value and competitiveness

- Remove constraints by fixing 3.8 million ha of paddy land. Protect agricultural land, but allow flexible change of land use between paddy and other crops. Move paddy land with inefficient production toward animal feed crops (such as potato, maize, cassava), fruits and vegetables, aquaculture, and other higher value production activities. Apply sustainable practices of rice production to reduce the overuse of chemical inputs, save water use and apply mechanization in land preparation and harvesting to enhance consistencies of product quality.
- Develop land use planning and stabilize areas of specialized production zones of crops (coffee, rubber, tea, pepper, cashew-nut) with high competitiveness and market potentials in appropriate regions. Apply sustainable and intensive farming practices, develop value chain integrations and ensure equal benefit sharing among stakeholders in the value chains.
- Develop specialized production zones of fruits and vegetables with sufficient conditions to monitor food hygiene and safety standards.
- Develop land use planning for livestock production (and associated animal feed production). Move livestock production from areas with low population density to specialized areas far away from cities and residential areas. Develop livestock according to the specific advantages of each ecological region in two ways: (i) promote large-scale and intensive production in specialized and industrialized areas with high-tech applications; (ii) maintain household livestock production with encouragement to apply technologies and protect biosecurity. Encourage linkages among value chain stakeholders to reduce costs and increase efficiency and value added. Enhance disease control and prevention along with improved veterinary services and biosecurity protection. Promote hygienic production models with high technology and effective management of polluting wastes.
- Increase areas of productive forestry land and reduce the areas of protective and special-use forestry land. Increase value of forestry production, improve capacity and the effectiveness of environment and biodiversity protection, respond effectively to impacts of climate change and contribute positively to livelihood improvement of mountainous habitants. Develop intensive forestry products with good comparative advantages in appropriate regions, establish specialized material production areas with medium and large scales, meeting the criterion of sustainability and supplying material wood for industrial production.
- Increase investments in infrastructure to support concentrated commercial aquaculture, and investments to facilitate aquaculture breeding systems, environmental monitoring and warning systems, and epidemic surveillance systems. Increase investments in projects on fishing harbors, navigation locks and storm shelters for fishing boats and ships. Seek private investments and/or co-management in fishing harbors, landing sites, and associated marketing infrastructure.

- Apply agricultural zoning approaches, supporting more flexible land use management linked to evolving market opportunities rather than using administrative measures.

Moving from agricultural production to further value addition of agricultural value chain

- Move irrigation investments and management services from government budget toward multi-functionality—able to support multiple crops, aquaculture, rural water supply, and industry
- Develop special favorable policies to support private investments in the production of agricultural inputs and agro-processing industries.
- Support basic infrastructure for private investments in agro-industrial clusters/parks.
- Prioritize government investments in technology innovation of postharvest and processing segments.
- Increase government investments in basic infrastructure and human resources for the agricultural market information and forecasting system. Establish research systems and information networks to ensure market-oriented forecasting and regular supply of essential price, supply and demand information for producers and investors.
- Prioritize private-public partnership investments in agricultural marketing storage, trade facilities, specialized railways and seaports for agricultural exports.
- 2.2.3. Moving from supply push to quality and food safety control
- Prioritize programs/projects on pests and diseases surveillance, prevention and control, and food safety assurance.
- Reduce and remove tariffs and domestic technical trade barriers by regularly engaging in bilateral negotiations (animal health, plant protection, food safety) with trading partners to ensure laws and regulations governing trade comply with WTO obligations, and meet Codex, World Organization for Animal Health (OIE) and International Plant Protection Convention (IPPC) standards.

Moving from resource-intensive to technology-intensive agricultural growth

- Increase investments in agricultural science and technology. Prioritize investments for research institutes and collaborating entities;
- Establish clusters of high technology research-training- production centers for different ecological regions in the country.
- Innovate the R&D system in the direction of autonomy, self-responsibility for universities and research institutes, and attract investments from all economic sectors, especially foreign organizations in R&D activities.
- Strongly decentralize extension activities for farmers' organizations and enterprises. Focus on increasing the roles of farmer organizations and industry in articulating research priorities. Improve the system of research monitoring and evaluation.

- Strengthen the linkages between research, training and extension activities. Also, strengthen the linkages between medium and short-term weather forecasting and crop advisory services to ensure better farmer crop/varietal choice decision-making, and more efficient utilization of irrigation water.

Moving from fragmented to consolidated land holdings, from agriculture to non-farm employment

- Expand the limits of land use rights transfer for agricultural land with conditions to protect agricultural lands. Create favorable conditions for agricultural land transfer and renting procedures. Create provisions that allow only specialized farmers to have the right to transfer agricultural lands.
- Apply progressive inheritance taxes based on the number of people inheriting land, in order to discourage further fragmentation of landholdings.
- Encourage land consolidation and accumulation by supporting cadastral surveys, land certificate issuance, infrastructure investments, procedures for land market transactions, including reducing the tax on land transfer.
- De-concentrate industrial and urban development to the rural areas. Develop satellite urban clusters around major cities. Move industrial zones, entertainment facilities (golf courses, botanical gardens, protected parks and resorts) and public facilities (airports, universities and research institutions) to rural areas and at the same time build associated infrastructure items (such as roads, air-routes, railway and sea-way systems) to connect to the major cities and markets with high quality services (e.g. schools, hospitals and supermarkets).
- Develop rural entrepreneurship by providing support in terms of land allocation, infrastructure, credit, technology, trade promotion.
- Formalize rural non-farm employment and provide support in terms of vocational training, employment registration, labor market information, insurance and decent housing conditions.

Key group of policies and solutions:

To attain objectives in ARP, the government proposes to revise and prepare policies in five main areas:

Improve planning quality; attach the strategy to the formulation of plans for supervising efficiency of state management of planning.

- Review, adjust, and supplement planning for agricultural production (farming and breeding) on the basis of utilizing local advantages; ensure the efficiency of green development strategy and adapt to climate change; eliminate suspended projects; improve the efficiency of resource use.

- Review and assess forest planning, reasonably sustain upstream forests and specialized forests; upgrade the mechanism and organize forest management towards raising the autonomy of households and enterprises; convert the remaining forest areas into concentrated material zones; develop and extract forests efficiently and sustainably; improve incomes and lives of woodmen.
- Review and manage environmental safety and food safety breeding zones; investigate fish farms; analyze aquaculture reserve, supervise the extent of fishing; protect the environment and resources.
- Enhance inspection and supervise the implementation of planning, especially the combination of geographical planning, sectoral planning and master plan for socio-economic development; ensure the openness and transparency of planning.

Encourage investments from private sector

- The State shall support economic sectors in investing in agriculture and rural areas; delegate the provision of some public services to the private sectors and social organizations; increase the proportion of investments in agriculture from non-public economic sectors.
- The State is responsible for land planning and issuance of certificates of rights to use land; negotiate and conclude international trade agreements and international cooperation agreements; formulate standards of public services; support infrastructure; manage dams, focal irrigation works and main channels; do agricultural research; ensure fair competition in the market; provide inspection services and protect intellectual property rights; apply national regulations and standards based on scientific foundations; ensure stable prices of essential foods to facilitate investment of the private sector.
- Develop methods of investments participated by the State and the private sector to mobilize resources for agricultural development and raise the efficiency of public capital.

Improve the efficiency of public investments

- a) Reasonably increase the proportion of investments from the State budget to serve the development of agriculture and rural areas; enhance the transparency and accountability for the management and use of public investments and other sources of investments.
- b) Review and classify project of investments, adjust the methods and investment sources to attract investments in agriculture. Improve the quality of the project selection process; eliminate scattered investments. The State budget shall focus on the investments in the fields with low probability of recouping recoup capital or that are able to attract private investments.
- c) Enhance decentralization; delegate the responsibility for public expenditure management to local governments; mobilize local resources for local minor projects. The Ministry of Agriculture and Rural Development are responsible for large-scale projects, regional projects,

inter-regional projects, national projects, and the projects with complex technical requirements.

d) The order of priority of public investments in agriculture is changed as follows:

- Aquaculture: increase investments in infrastructure for concentrated fisheries, development of aquatic breeds, warning and environment supervision system, epidemic management and veterinary system; keep investing in fishing ports, harbors, asylum harbors; support the combination of resource management and inshore fisheries; support investments in preservation and processing to reduce postharvest losses, ensure food safety and improve lives of fishermen and minor producing households.
- Agriculture: prioritize the development of productive varieties and breeds that are able to resist pests and climate change; invest in projects on pest surveillance, prevention, and control; support investment in preservation, processing, reduction of post-harvest loss, and assurance of food safety and hygiene.
- Forestry: prioritize the development of varieties serving economic forests; cooperate with private variety companies to multiply and develop the system of variety supply; invest in capacity for forest fire prevention and fighting; invest in public forest management model and forest environment services.
- Science and technology: provide training and develop the market; prioritize the investments in research institutes and training institutions; establish research-training-production complexes; invest in infrastructure and human resources for market information system and the forecast regarding demand-supply; domestic and international prices; support marketing, advertising, market development, and technology transfers.
- Irrigation: invest in multi-purpose irrigation works to serve aquaculture, farming, breeding, and water supply for lives and industrial production; prioritize investments in irrigation serving aquaculture; focus investments in focal irrigation works, dyke systems, and reservoir safety; prioritize investments in upgrading and maintenance works; build reservoirs in areas that suffer from drought; develop minor irrigation works in association with hydropower in highlands; support the application of measures for saving water; enhance the efficiency of irrigation works.

Institutional reforms

a) Keep rearranging and changing state enterprises in this sector

- Intensify rearrangement and change of state enterprises in this sector; focus on rearranging state-owned farms, plantations and forestry companies to enhance the efficiency of forests and land; raise the responsibility of irrigation companies; keep studying appropriate organization methods for converted state enterprises.

b) Develop economic cooperation

- Implement policies on encouraging economic cooperation (cooperatives and artels) and economic groups to voluntarily participate in agricultural production and business;

- Enhance the participation of farmer unions and other associations in agriculture and rural development programs; delegate some public services to associations (trade promotion, agricultural extension, market forecast, quality standards, dispute settlement, etc); keep strengthening the relationship among the State, farmers, scientists, and businesspeople.
 - Improve the capacity of agricultural cooperatives for providing agricultural services, processing, and market access.
- c) Develop Public-Private Partnerships and Public-Private Collaboration (PPP/PPC)
- The State shall join enterprises in investing in: (1) building, managing, and operating agricultural and rural infrastructures, (2) agricultural production via provision of public services (agricultural extension, scientific research, technology transfers, training, veterinary medicine, plant protection, etc.), primarily related to “line value chains”; the State shall provide guidance and better methods of safe operation, environment management, and application of new technologies; private enterprises shall join the State in organizing the production and sale of products in order to improve productivity, quality and added values of products.
- d) Keep improving the system of research, technology transfers, training, and public services,
- Keep improving the mechanism and increase the capacity of public service providers.
 - Enhance private sector involvement in the provision of some public services towards autonomy; encourage the participation of all economic sectors, especially non-public enterprises, in scientific activities, training, and the provision of other agricultural services; delegate agricultural extension works to farmer associations and enterprises; increase funding for science and technology, training, and agricultural extension.
 - Raise the roles of farmer associations and enterprises in determining prioritized research contents; complete the system of supervising and assessing efficiency of research, technology transfer, and training of human resources for agriculture.
 - Establish science centers with a large number of research institutes and scientists in agricultural production zones.
 - Support farmers in accessing research services, technological advance application and transfer; diversify the forms of vocational training together with technology transfers; multiply effective vocational training model in rural areas.
- dd) Administrative reforms
- Intensify administrative reforms: rearrange and reorganize the state management mechanism of Ministries and local governments to ensure the responsiveness, smoothness, initiatives, and efficiency; simplify administrative procedures to enable agencies and local governments to quickly resolve issues to serve production and business.
 - Improve the capacity of the system of inspection, testing, quality control, and food safety and hygiene for supplies, agriculture products, forestry products, fishery products, and salt, ensure the benefits of consumers and raise export.

Keep adjusting and completing policy system

a) Policies on supporting and motivating agricultural production

Provide policies to develop and diversify agricultural extension; help farmers change their farming practice and improve product quality, reduce postharvest losses, preserve and sell products. Support farmers in connecting processing facilities and sale systems; step-by-step establish a production network and supply chain that connects production, processing, distribution, and sale; connect industry and agriculture, connect producers and consumers; encourage investments in the development of processing industry towards modernization and deep processing; gradually reduce the export of unprocessed agricultural products.

b) Land policies

- Apply modern methods to land planning; review and strictly control agricultural land planning; ensure openness and transparency of planning management and land use supervision according to the National Assembly's Resolution No. 17/2011/QH13 , especially paddy land, specialized forests, protection forests, strategic agricultural products, key exports, breeding, and aquaculture; review and increase the area of production forests, reduce the area of specialized forests and protection forests but ensure disaster preparedness, biodiversity, and environment protection.

- Avoid withdrawing agricultural land to use for other purposes; apply policies to support and ensure lawful interests of owners of withdrawn lands; enable farmers to change agricultural purposes of land to reach higher efficiency of land use, including switching to other plants on paddy land without losing capacity for paddy production in the long-term.

c) Trade policy

- Improve the transparency of state agencies in charge of agricultural trade; flexibly manage export and import to both adhere to agreements with international organizations and other countries, and protect domestic production, consumers' interests, and national food security.

- Regularly update trade policies of partners, international organizations, and other countries for producers and sellers to adjust their production and business plans; contact and negotiate with partners and other countries to settle disputes or remove barrier to trade.

- Keep supporting trade promotion and market development.

- Strictly control and penalize smuggling and trade fraud.

d) Financial and monetary policies

- Apply flexible exchange rate mechanism; facilitate the export and import of agricultural products.

- Rationally increase the proportion of state capital serving agriculture and rural development; keep providing credit capital for agriculture and rural areas.

- Review, adjust the mechanism, policies, and laws on finance and the State budget; ensure openness, transparency and accountability of agencies and units that use the State budget related to agriculture and rural areas.

- Keep reviewing and adjusting fees and taxes on agriculture and rural areas to suit people's capacity and support local governments.

CONCLUSION

The ARP is an important part of the overall economic restructuring of Vietnam. It is expected to create breakthrough points in the agriculture towards improving added value and sustainable development. Some recommendations are proposed in order to realize targets of the ARP as follows:

In general, policies for realizing and supporting agricultural restructuring need to be coherent with policies in other areas.

Agricultural support should shift towards targeted investments in production innovation and institutional reform, moving away from distorting direct support on inputs and income (support in cash), in order to improve agricultural performance and competitiveness.

As agricultural growth slows down, the Government should provide an overall rescue package with efficient risk management system, for the financial debt rescheduling, in order to prevent a serious decline in agricultural production in the future.

The credit policy should be more flexible in order to ensure access to credit on the time involved in the production and trading in agricultural sector, ensuring the transparency in the credit markets while reducing and eventually eliminating the lubrication costs and credit risks.

The policy supporting development and application of science and high technology in production need more important breakthroughs, take into account the agricultural balance between the production conditions of each locality (on natural resources, climatic characteristics and the level of the farmer) and the effectiveness of the applied technology. R&D policy should focus on promoting the investments in science, technology including research and application of new seeds, fertilizers, plant protection products, agricultural machines and processing.

Regarding linkages between stakeholders in agricultural production and trade, new policy efforts should not only include incentives for enterprises to associate with farmers in production but also requires new efforts to build and strengthen the discipline in linkage models, to improve the awareness, responsibility and capacity of the farmers in applying technologies and participating in business activities.

In addition, creating mechanisms and feasible incentives to encourage all economic stakeholders to participate in developing agricultural production is necessary to establishing commodities producing regions and “large field model”, with the consistent support for the stakeholders in the whole value chain from production, processing, trade promotion and market development. Particularly, efforts to support large-scale agriculture should be complemented by helping small farmers to integrate local and regional supply chain instead of relying totally on the decision of traders.

As the inefficiency institutions in agricultural, especially of SOEs (state-owned enterprises) and cooperatives is a big problem in Vietnam, the Government need more breakthrough policies to accelerate the innovation process of agricultural enterprises, state farms and cooperatives, of which assuring the equality, transparency and real incentives for stakeholders should be the key for the policy reform.

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