Transforming Vietnamese Agriculture: Gaining More from Less

Progress Achieved, Yet Unfinished Business

Over recent decades, Vietnam’s agricultural sector has made enormous progress, realizing major gains in productivity and output and contributing to national goals related to food security, poverty reduction, social stability, and trade. Vietnam’s gains in smallholder rice productivity and intensification are a source of envy for many developing countries. During the same period, Vietnam has emerged as one of the world’s leading exporters of agro-food commodities, ranking in the top five for aquatic products, rice, coffee, tea, cashews, black pepper, rubber, and cassava. Nevertheless, there are growing concerns related to the quality and sustainability of Vietnam’s agricultural growth and related patterns of development.

A comparatively low quality of growth is manifested by low smallholder farmer profitability, considerable under-employment among agricultural workers, mixed or uncertain product quality and food safety, generally low value addition, and limited technological or institutional innovation. Growth rates in agricultural GDP and total factor productivity have been slowing. Several patterns of development within the sector have come at the expense of the environment in the forms of deforestation, biodiversity loss, land degradation, water pollution, and greenhouse gas emissions. In most locations, agricultural growth has involved either an increase in cropping areas or intensities and ever higher uses of inputs and natural resources. Hence, more output has come from more and more inputs and increasing environmental costs.

Facing a Turning Point

The agricultural sector now faces growing domestic competition—from cities, industry, and services—for labor, land and water. Rising labor costs are beginning to inhibit the sector’s ability to compete internationally as a low cost producer of bulk undifferentiated commodities. The consequences of over-intensive input and natural resource use—both for the environment and for farmer profitability—are being increasingly recognized. Vietnam’s agriculture will need to generate ‘more from less’. That is, it will need to generate more economic value—and farmer and consumer welfare—using less natural, human, and other resources. And, it will need to increasingly compete on the bases of reliable supply, predictable quality, assured food safety and value addition.

But change is needed not only in the growth model for agriculture, but also in the structural patterns of production and supply chain organization. These are currently highly fragmented, with limited collective action at farmer level and weak vertical coordination. This has contributed to unnecessary transaction costs, unrealized economies of scale in certain functions, and poor incentives to produce and maintain higher quality produce and raw materials. Change is also needed in the model of state management in the sector—in the technical and regulatory services provided by the state, in public investments and expenditures in the sector, and in the policies applied to foster farmer and agribusiness investment.

The Vietnam Development Report 2016 highlights the opportunities and challenges facing Vietnam’s agriculture as the country continues to advance as a middle income country and beyond. The report benchmarks the recent performance of Vietnamese agriculture against regional peers, examines past and
expected future changes in the structure of primary production and the overall agro-food system, lays out a vision for the modernization of this system and identifies priority near term policy reforms and medium and longer term needs for the strengthening of public and private institutions for a more demand-driven agriculture. The outlined vision is consistent with that laid out in the (revised) 2011-2020 Agriculture and Rural Development Strategy and the 2013 Agricultural Restructuring Plan. The reform and investment agenda laid out in the VDR is informed both by Vietnamese experience and examples of good international practice.

Medium Term Expectations and Aspirations

What would a “modern” agriculture and food system look like in Vietnam ten to fifteen years from today? Based on experiences elsewhere and the conditions and assets of Vietnam, one can envision that Vietnam’s ‘agro-food complex’ will be:

- Contributing around one-fifth of GDP, with 6 to 8% accounted for by primary agriculture, and 12-14% by a combination of agro-industry, food distribution and logistical services and other services closely linked with agriculture. The role of agriculture will be relatively more important in some regions (i.e. Mekong Delta and Central Highlands) than in others.
- Providing the major source of direct livelihood or employment for between 25 and 35% of the population, providing a middle class standard of living for those fully engaged in the sector and even higher living standards for households combining agricultural employment with income from higher paying industries and professions.
- Reliable: playing a major role in meeting national requirements for food and nutritional security, servicing increasingly diverse food demands and meeting domestic consumer expectations for safety, quality and price through well-functioning value chains and varied retail and out-of-home eating formats.
- ‘Green’, applying agronomic, natural resource management, waste management, and energy other methods which yield considerable growth while preventing environmental degradation and contributing positive ecosystem services. Dimensions of Vietnamese agriculture will be recognized for their ‘multi-functionality’—including their protection of landscapes, role in eco-tourism, etc.
- Highly competitive: among the world’s top twenty exporters of medium to high value agricultural commodities, intermediate products, and consumer food products, taking advantage of its location, diverse agro-ecological conditions, high productivity, and major investment which found Vietnam to place a competitive role in global and regional value chains.

Implications for Policy

Farmer and private enterprise initiative and investment will be critical in the transformation of Vietnamese agriculture and in the modernization of its food system. Yet, how efficiently these processes occur, how inclusive they are, and whether it is a relatively smooth or disruptive path will depend upon public policy and functionality. Government will need to play an important role in facilitating a more active agricultural land market, the development of a market for mechanization services, and the revitalization of the agricultural innovation system. The government will need to deploy an effective combination of regulations, incentives and facilitative services to stimulate and monitor a greener agriculture and a system for food safety and consumer protection which inspires confidence. There will be greater demands for information, technical and financial instruments to better manage risks associated with agriculture, and government can facilitate these types of services. Improved educational and vocational training services will quicken the adoption of improved farm and post-harvest technologies and provide the basis for the next generation of farmers. Creating and maintaining a favorable enabling environment for agribusiness investment and operations will also be critical for adding value to Vietnamese and ‘rebranding’ it in quality
and sustainability terms.

The Vietnamese government has played a major and, in some areas, a leading role in the past development of agriculture. Some of its past functions—including those of land use planner, manager of farms, commodity trader and technology supplier—will be less important or even detrimental in the movement toward a more flexibility, market-driven, and knowledge-based agriculture. Government can undertake less direct investment in agriculture if it is effective at facilitating private investment, including through public-private partnerships. That should free up resources to achieve excellence in the application of important regulatory services. Overall, the modernization of the Vietnamese agro-food system will occur more smoothly if the government’s approach involves leading less while facilitating more.