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UNIDO Country Office in Viet Nam

Viet Nam in post WTO

Current situation and
future challenges for the
agro-industry sector

-August 2014 -

OVERVIEW

The aim of this study is to give an accurate overview of the situation of the agriculture business in Viet Nam following the implementation of various trade agreements and particularly, its accession to WTO in 2007 and the implementation of the ASEAN Free Trade Agreement in 2009.

It will focus on one core product of Vietnamese exports (catfish) in order to comprehend specific problems that have arisen linked to SPS measures, following the implementation of new tariff and non-tariff barriers.

Finally, this study will discuss the issue of international aid. By identifying how donors actually support Viet Nam in addressing current challenges, recommendations will be made to Viet Nam and international donors in order to help maximize the benefits of economic integration.

Methodology used for this study is (i) literature review, (ii) data analysis and (iii) qualitative interviews with experts and concerned actors.

Acknowledgements

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LIST OF ABBREVIATIONS

ACCSQ:	ASEAN Consultative Committee on Standards and Quality
ADB:	Asian Development Bank
AFTA:	ASEAN Free Trade Agreement
AoA:	Agreement on Agriculture (World Trade Organization)
ASEAN:	Association of South East Asian Nations
BTA:	Bilateral Trade Agreement
CIDA:	Canadian International Development Agency
EU:	European Union
FDI:	Foreign Direct Investment
FTA:	Free Trade Agreement
GAP:	Good Agricultural Practices
GCF:	Global Competitiveness Facility
GDP:	Gross Domestic Product
GOV:	Government of Viet Nam
HACCP:	Hazard Analysis Critical Control Point
IPCC:	International Plant Protection Convention
JICA:	Japan International Cooperation Industry
LDC:	Least Developed Countries
MARD:	Ministry of Agriculture and Rural Development
MIT:	Ministry of Industry and Trade
MNF:	Most Favored Nation
NAFIQAD:	National Agro-forestry-fisheries Quality Assurance Department
NTB:	Non-Tariff Barriers
OECD:	Organization for Economic Co-operation and Development
OIE:	World Organization for Animal Health
QUATEST:	Quality Assurance and Testing Center
SOE:	State owned enterprises
SPS:	Sanitary and Phytosanitary
STAMEC:	Directorate for Standards, Metrology and Quality
TBT:	Technical Barriers to Trade
TPP:	Trans-Pacific Agreement
UNCTAD:	United Nations Conference on Trade and Development
UNIDO:	United Nations Industrial Development Organization
USA:	United States of America
USAID:	United States Agency for International Development
USD:	United State Dollars
VASEP:	Vietnamese Association for Seafood Exporters and Producers
VietGAP:	Vietnamese Good Agricultural Practices
VJEPA:	Vietnam – Japan Economic Partnership Agreement
WTO:	World Trade Organization



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INTRODUCTION

A growing liberalized economy

As Viet Nam entered its third year of relative economic stability in 2012 according to the World Bank, its GDP growth of 5% was the slowest that year since 1998¹. Hence, Indonesia and the Philippines are now growing faster than Viet Nam since 2010 (World Bank, 2013). This weakening growth is the consequence of a lack of broad structural reforms. With a GDP of USD155.8 billion in 2012, Viet Nam is considered to be a lower middle income country² by the World Bank.

In 1986, the Government Viet Nam initiated a set of reforms (known as “Đổi Mới”³) aiming to modernize and liberate economic policies. This market-orientated strategy resulted in the country’s accession to the World Trade Organization in 2007 and its integration in an increasing number of free trade agreements (FTA) such as AFTA (ASEAN Free Trade Agreement).

By doing so, the country wishes to expand its economy and increase investments by facilitating and encouraging trade with economic partners. Thus, the recent multiplication of trade agreements is a logical step in the ongoing process of the integration of Viet Nam’s economy in the world trading system and the global economy. Indeed trade has been, according to the OECD (2012), the engine of Viet Nam’s growth for over two decades: the volume of trade flew from 5 billion USD in 1990 to 205 billion USD in 2011.

If Viet Nam’s net exports turned positive in 2012 thanks to strong performance and reduction of imports, the crude oil and agriculture exports that represented 44% of total export value in 2002 only represent 19% today. Indeed, an increasing regional and global economic integration has led the country to further diversification, with an impressive growth of hi-tech (phones, computers) and industrial products (machinery, transport), as shown in *figure 1*.

¹ The average growth rate in Viet Nam has been of 7% for the last 25 years.

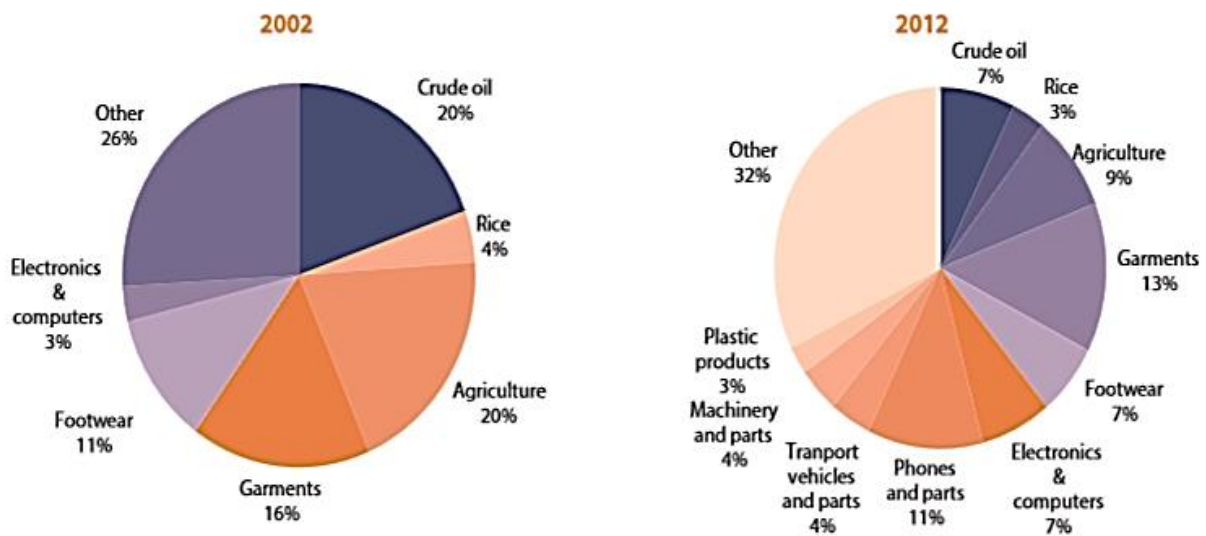
² As of 1 July 2013, the World Bank income classifications are as follows:

- Low income: GNI per capita of \$1,035 or less
- Lower middle income: GNI per capita of \$1,036 to \$4,085
- Upper middle income: GNI per capita of \$4,086 to \$12,615
- High income: GNI per capita of \$12,616 or more

³ «Doi Moi» literally signifies «change to new», which reveals the Vietnamese’s strong desire to restructure its previous economy.



FIGURE 1: EVOLUTION OF VIET NAM'S EXPORTS IN TEN YEARS



SOURCE: WORLD BANK, 2013

However, a recent growth deceleration has hit many sectors of the Vietnamese economy including agriculture. Indeed, the agriculture-forest-fishery sector has decelerated by 1.3% in 2012 compared to 2011 mostly because of unfavorable weather, disease in livestock and agricultural price decrease (World Bank, 2013)

Recent trade agreements imply Viet Nam's obligation to respect all WTO and FTA rules and requirements for all sectors, including agricultural products which must respect the WTO Agreement on Agriculture⁴ (AoA).

The importance of agriculture

Though a historically rice-based economy, the French colonization introduced the culture of coffee, tea and rubber into Viet Nam, feeding the economy's backbone of the time: agriculture. Today, rice is still the main crop in Viet Nam, accounting for 36% of the total value of agriculture production, but it is followed closely by coffee and fish.

The share of agricultural-forestry-fishery in GDP rose from 20.4% in 2006 to 22% in 2008. Agriculture represents 47% of total employment in Viet Nam (WTO, 2013) and concerns 8.9 million households. In 2011, Viet Nam was the number one producer of cashew nuts and pepper, the second largest coffee producer and one of the ten largest producers of rice, rubber, tea, pig meat and cassava in the world

⁴ Agriculture as mentioned in the WTO agreements cover four subsectors: conventional agriculture, fishery, forestry and salt production.

according to FAO data. Thanks to agricultural modernization, Viet Nam has now moved from an import substitution to an export based economy.

Moreover, a large trade surplus is observed in Viet Nam's fisheries as both catch and aquaculture have heavily developed. Until 2011, the main fish exports consisted of frozen shrimp and prawns. Since then, Viet Nam has witnessed a relevant increase of frozen fish fillets, mostly made of catfish. Additionally, if Viet Nam's fish imports stay important, it's because most imported products are directly processed and re-exported. As it can be observed in *Annex A – Figure 11*, seafood is the first export of agricultural products in value, in front of coffee and rice.

According to WTO (2013), the value of aquaculture exports has doubled between 2005 and 2011. As aquaculture represented 16% of the whole agri-forestry-fishery sector in 2002, its heavy development brought this number up to 35% in 2010, with an overall contribution of 7% to the GDP of the same year. Aquaculture is most popular for shrimp and catfish production, which respectively represent 30% and 37% of all Vietnam's seafood production in 2013. The growth of the Vietnamese fishery sector can strongly be explained by its growing domestic resources and limited needs for imported inputs.

This study will try to answer the following questions:

- To what extent FTA and WTO open new market opportunities to the Vietnamese agricultural sector?
- Do Vietnamese farmers fully benefit from these new opportunities? What reasons would make them unable to do so?
- In which ways does international aid address these difficulties?



I. EFFECTS OF TRADE AGREEMENTS ON AGRICULTURE

After applying to **WTO** in January 1995, Viet Nam officially joined the organization in 2007. By doing so, the country was aiming to expand its economy by developing trade and investment with country members. WTO accession was part of the ongoing process of Viet Nam's further integration in the world trading system. When joining the WTO, Viet Nam expected market prospects for agricultural products to be improved, especially for fishery, tropical fresh fruit, and processed plant and meat products (Xuan, 2007).

Viet Nam became a member of ASEAN⁵ in July 1995 with the ambition to gain wider access to markets and increase acceptability to investors (Frost, 1995). By accessing ASEAN, Viet Nam also had to comply with the **ASEAN Free Trade Area (AFTA)** requirements, even if the country was allowed to do so at a slower pace than other members.

As full member of ASEAN, Viet Nam is part of the regional free trade agreements between ASEAN and China (**ASEAN – China Free Trade Agreement**), Korea (**ASEAN – Korea Free Trade Agreement**) and India (**ASEAN – India Free Trade Agreement**) and other trade agreements with Japan (**ASEAN – Japan Comprehensive Economic Partnership**) and Australia – New Zealand (**ASEAN-Australia-New Zealand Free Trade Area**).

In 2001, Viet Nam and the USA signed the **Bilateral Trade Agreement (BTA)** and since 2010, negotiations between Viet Nam, USA and six other countries of the Pacific have been ongoing concerning a **Trans-Pacific Partnership (TPP)** free trade agreement.

Japan being one of Viet Nam's most important economic partners and fourth largest investor in the country, the two countries signed the bilateral **Vietnam – Japan Economic Partnership Agreement (VJEPA)** in 2009. Its aim is to develop economic cooperation in sectors such as agriculture, industry, trade, human resources, tourism and transportation between the two countries.

The **Viet Nam – EU Free Trade Agreement** is currently under negotiation. This agreement should not only include market opening opportunities but also many related issues such as investment, competition, environment and sustainable development.

⁵ Country members of ASEAN are : Brunei D., Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam



After identifying the different trade agreements Viet Nam is involved in, the following will attempt to determine the extent in which they opened new market opportunities to the Vietnamese agricultural sector.

A. A DECREASE IN TARIFF BARRIERS AND EXPORT SUBSIDIES

BOX 1: VIET NAM'S TARIFF POLICY

Vietnam administers three different categories of tariff rates: common tariff rate, most favored nation (MFN) tariff rate, and preferential tariff rate. The preferential tariff rate mainly applies to imports from countries and regions with which Vietnam has signed bilateral or regional trade agreements, including ASEAN specific preferential tariff rate, US Vietnam Trade Agreement preferential tariff rate, and China ASEAN Free Trade Area preferential tariff rate. Common tariff rate, which is 50% higher than the MFN rate of duty, applies to countries that have not established normal trade relations with Vietnam. On the other hand, the MFN tariff rate is chiefly applicable to imports from countries which have entered into normal trade relations with Vietnam.

1. WTO ACCESSION

The World Trade Organization is the first international trade agreement aiming to liberalize food trade. This greater openness is critical since it has direct impacts on the structure and the nature of food systems. Indeed, not only does it open domestic markets to competition but it facilitates the entry of transnational food corporations into the country and exposes it to global food advertising (Sharon & al., 2013).

The WTO Agreement on Agriculture prohibits the use of quantitative restrictions to regulate agricultural products. In order to access WTO, Viet Nam has then been obliged to remove all non-tariff barriers such as quotas and implement tariffs to replace them. As a result of this conversion, the average tariff on import of agri-products in Viet Nam rose from 17.7% in 1996 to 27.1% in 2004.

However, in order to limit increasing competition on sensitive agricultural products, WTO has allowed Viet Nam to maintain import protection on some specific products such as salt, sugar, eggs and tobacco through a tariff – rate quota regime.



The 2008 average import duty rates were of 23.5% for agricultural produce, and 16.6% for industrial products. Indeed, in order to protect its production, Viet Nam has compensated low overall manufacturing tariffs by a higher level of protection on agricultural products. Vietnam has however committed to reduce these average rates to 21% and 12.6% respectively within five years becoming a WTO member.

WTO allows products for domestic use to receive up to 10% state subsidies of overall product consumption while subsidies for export products must be removed. The government also had to remove the state award given to coffee producers for each ton exported (several dollars per ton) and remove all rice export quotas.

Moreover, SOE have lost their monopoly in rice exports after 2009 as a WTO commitment. Indeed, if the right to export – previously restricted to only SOEs – was extended to all companies, private or public in 1998, SOEs were still responsible of 60% of rice exports, 70% coffee exports and 90% of the rubber exports in 2006.

Indeed, being composed of a very large majority of small farmers (84% of farms under 2ha and 8.9 million households engaged in agriculture in 2011 according to WTO, 2013), it has been argued that it is hard for the agricultural sector to respond to large international demand without the implication of SOEs: they purchase the production from the small farmers at market price in order to easily sell the large ordered amounts

In its WTO accession, Viet Nam reserved the right to use state trading in its rice markets until 2011, when full rights to export rice for foreign-owned companies were to be granted. Viet Nam also scheduled an export tax of 4% on fresh or dried cashew nuts and 10% on hides and skins of bovine and equine animals.

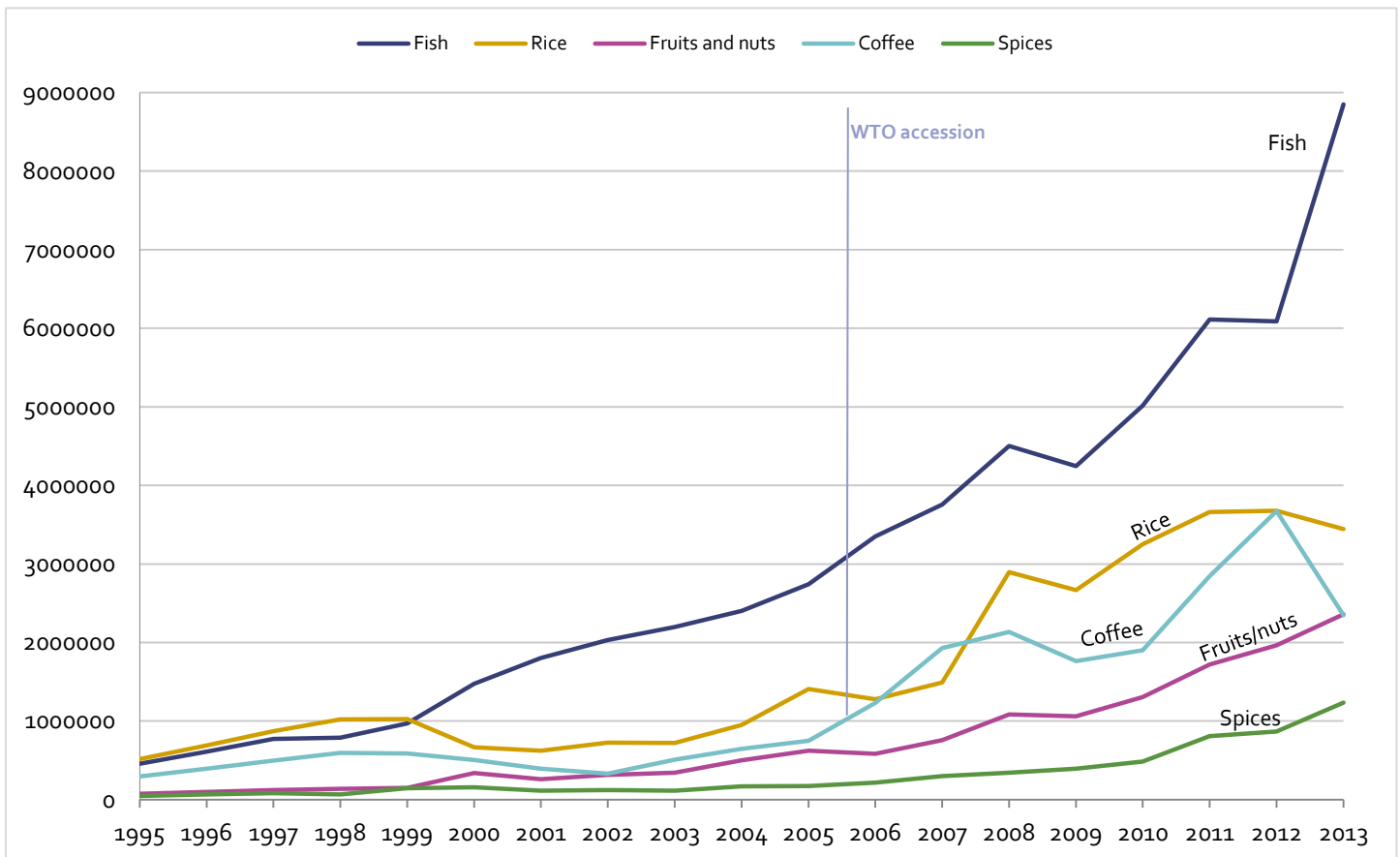
Figure 2 shows the evolution of exports of Viet Nam's major commodities before and after WTO accession. If coffee exports keep increasing in value, its annual average growth rate has fallen from 14% between 2000 and 2006 to 3% between 2007 and 2013. On the contrary spices, along with fruits and nuts, are the products which exports' growth rate increased the most after 2007, from respectfully 5% to 22% and 8% to 18%. Rice and fish have had a constant growth rate between the two periods (12% to 13% for fish; 10% to 13% for rice)⁶.

These relatively disappointing growth rates can however be explained by numerous external factors. The decrease in exports of rice, coffee and fish that can be seen in 2008 for example, may largely be due

⁶ Cf Annex B – Table 7

to the global financial crisis and a drop in world prices for these commodities. In a way, accessing the WTO could have allowed Viet Nam to limit the damages that the crisis caused on its economy, especially on the agricultural sector.

FIGURE 2: EXPORTS OF VIET NAM'S MAJOR COMMODITIES, IN THOUSANDS OF DOLLARS



SOURCE: CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT

Viet Nam's fish exports have not been stimulated by WTO accession as their average annual growth rate has remained stable. Although import tariffs are reduced through the agreement, non-trade barriers (NTBs) such as SPS measures⁷ remain and are difficult for Viet Nam and developing countries in general to overcome (Greenhalgh, 2004).

⁷ The WTO – SPS Agreement recognizes three international standard setting bodies: Codex Alimentarius commission; World Organization for animal health (OIE); International plant protection convention (IPCC).

2. ASEAN FREE TRADE AGREEMENT – AFTA

The AFTA agreement states that “import duties on unprocessed agricultural products [...] shall be reduced or eliminated to zero to five percent (0-5%) by 2010 for ASEAN-6 [and by] 2013 for Viet Nam” (ASEAN, 2009). Even if AFTA requires Viet Nam to decrease their tariff barriers on sugar to zero to 5% by 2010, a *Protocol to Provide Special Consideration for Rice and Sugar* has been included in the agreement as these two products are considered as highly sensitive in many ASEAN country members. Indeed, countries are allowed to ask the AFTA Council for a waiver on the implementation of tariff reduction schedule of any of these two products.

In order to assess the effectiveness of the ASEAN Free Trade Area on Viet Nam’s exports, five leading Vietnamese agricultural products will be analyzed: **rice, coffee, fish, spices, fruits and nuts**. For each, Viet Nam will be compared with its biggest competitors within ASEAN members, according to Annex D. The following data was provided by UNCTAD Stat database, analyzed and interpreted by the author.

Rice

Thailand and Viet Nam are the only two major rice exporters among all ASEAN members (*cf* Annex D – Figure 14). As Thailand is by far the main exporter towards the world, Viet Nam is in first position when it comes to rice exports inside ASEAN country members, as it can be observed in *figure 3*.

Thailand’s growth rate of rice exports towards the world increased much more than Viet Nam’s between 2005 and 2009 with respectfully 17.6% and 10.9% growth rates. However, during the same period, Viet Nam’s average growth rate for exports within ASEAN was of 16.7%, much higher than Thailand’s 10.3%.

Between 2009 and 2013, both countries saw their exports’ growth rates drop compared to 2005-2009 (*cf*. Annex B – Table 8). Yet, as the growth of Viet Nam’s exports towards the rest of the world slowed down from 10.9% to 5.0% over the two periods, Thailand’s exports actually declined as the average growth rate for their exports towards the rest of the world is of -2.3% for the 2009-2013 period.

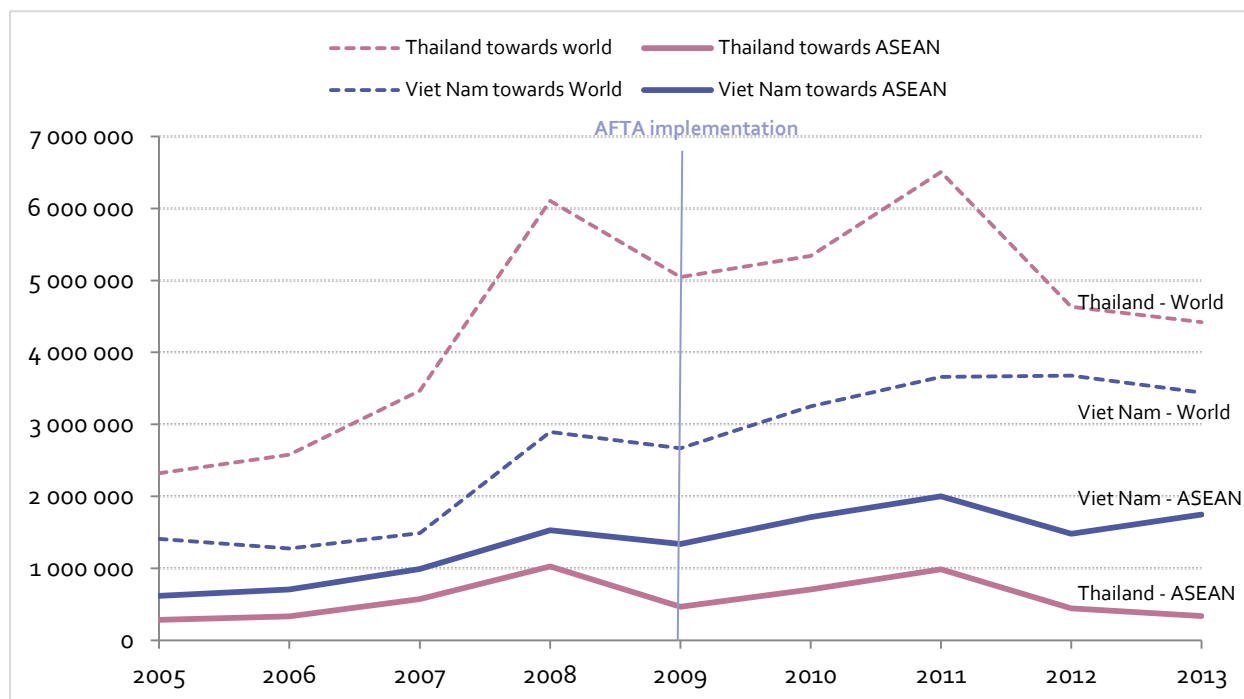
Moreover, although overall trade slowed down, Viet Nam managed to take advantage of AFTA since the growth rate of exports within ASEAN members increase by 0.5 points more than its growth rate of exports towards the rest of the world⁸ (5.5% compared to 5.0% for the rest of the world). It can be considered that the growth of its total exports worldwide was caused by an increase of exports within

⁸ World without ASEAN



ASEAN during that period on the contrary of Thailand whose rice exports did not profit from AFTA: the country's export growth rate dropped by -6.2% on average during the same period.

FIGURE 3: COMPARISON OF VIET NAM'S AND THAILAND'S RICE EXPORTS BEFORE AND AFTER AFTA, IN THOUSANDS OF DOLLARS



SOURCE: CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT

Viet Nam's rice competitiveness among other ASEAN members has been increased following the ASEAN free trade agreement, which creates a new opportunity for Vietnamese farmers and exporters. It can be suggested that demand for lower quality and cheaper Vietnamese rice is greater than demand for high quality Thai rice in the emerging South-East Asian markets.

Coffee

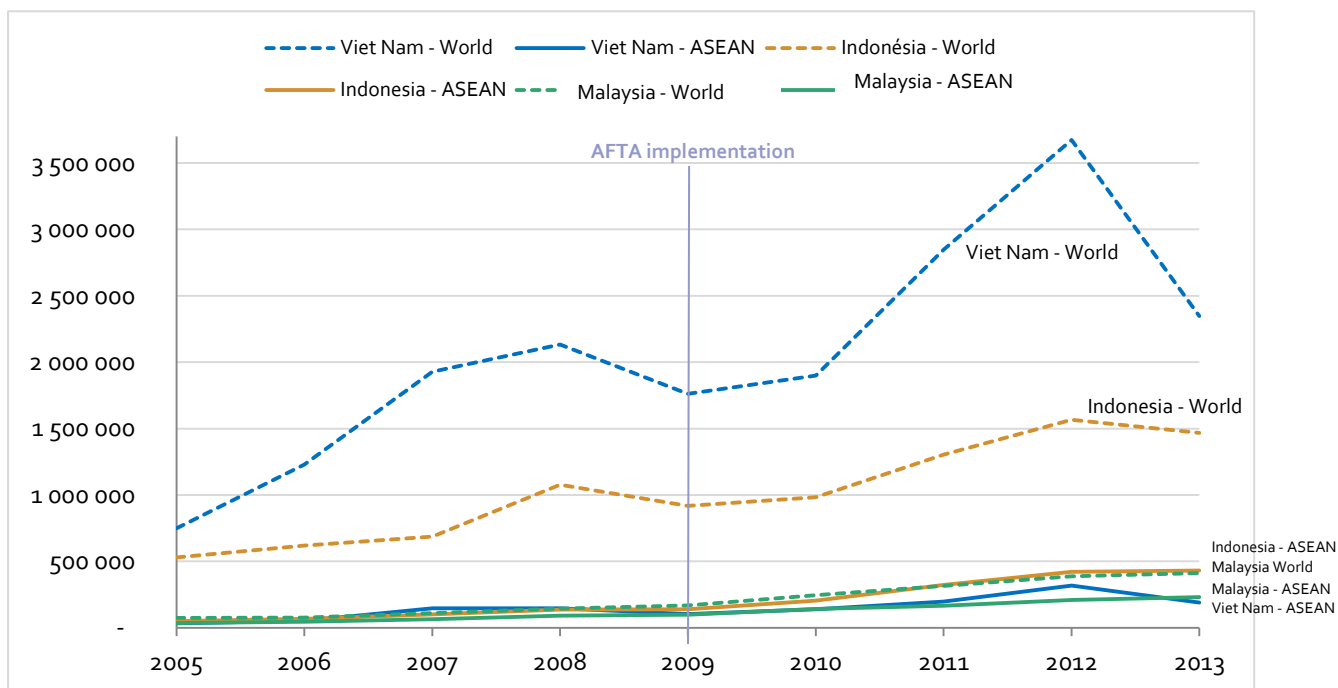
According to UNCTAD data, the three largest coffee exporters within ASEAN country members are respectfully Viet Nam, Indonesia and Malaysia (*cf.* Annex D – Figure 17). As Viet Nam is by far the largest exporter of coffee of all ASEAN countries (and 2nd largest world producer), Indonesia⁹ has become the first exporter within AFTA since 2009.

Indeed, as Viet Nam's average annual growth rate of coffee exports towards AFTA members decreased from 26% before 2009 to 13% between 2009 and 2013, Indonesia increased its exports from 23% (2005-

⁹ Indonesia is the 4th largest coffee producer in the world, behind Brazil, Viet Nam and Colombia.

2009) to 25% (2009-2013). It seems that Indonesia has managed to take advantage of AFTA by taking market share away from Viet Nam in the coffee sector (cf. Annex B – Table 9).

FIGURE 4: COMPARISON OF VIET NAM'S, INDONESIA'S AND MALAYSIA'S COFFEE EXPORTS BEFORE AND AFTER AFTA, IN THOUSANDS OF DOLLARS



SOURCE: CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT

However, when comparing Indonesia and Viet Nam's coffee exports in value, it is important to state that over 17% of Indonesia's production is Arabica coffee whereas Viet Nam's production is concentrated on Robusta, sold at a much lower price (International Trade Center, 2011).

Five years after AFTA, Viet Nam has seen its coffee exports towards other ASEAN members decline to the profit of its neighbors and competitors: Indonesia and Malaysia. *Figure 4* shows a Vietnamese coffee sector struggling with its exports since 2012, which may translate the numerous production issues the country is currently facing (ageing plantations, soil degradation, droughts and overuse of inputs).

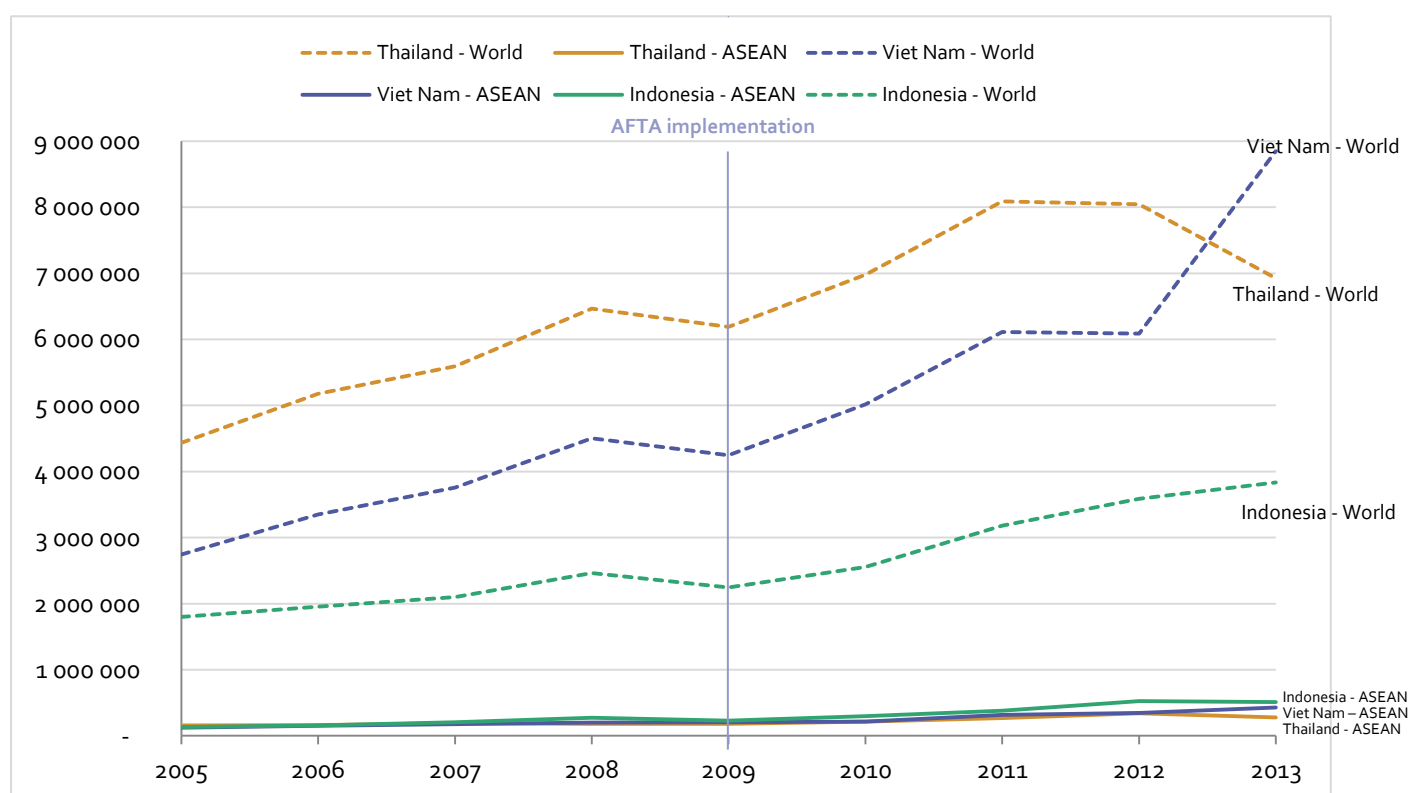
Fish

Thailand, Viet Nam and Indonesia were by far the largest ASEAN fish exporters between 2005 and 2013 (cf. Annex D – Figure 13). As Indonesia's fish exports towards the world are lower than its two neighbors, the country has become the first exporter towards ASEAN country members after AFTA implementation.



Viet Nam's fish exports towards ASEAN after AFTA implementation continued growing, but at exactly the same pace as its exports towards the rest of the world did (15.8%). As a result, as this increase in exports can be explained by many factors (such as an increase in competitiveness), it was most probably not a consequence of a reduction of regional tariff barriers.

FIGURE 5: COMPARISON OF VIET NAM'S, INDONESIA'S AND MALAYSIA'S FISH EXPORTS BEFORE AND AFTER AFTA, IN THOUSANDS OF DOLLARS



SOURCE: CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT

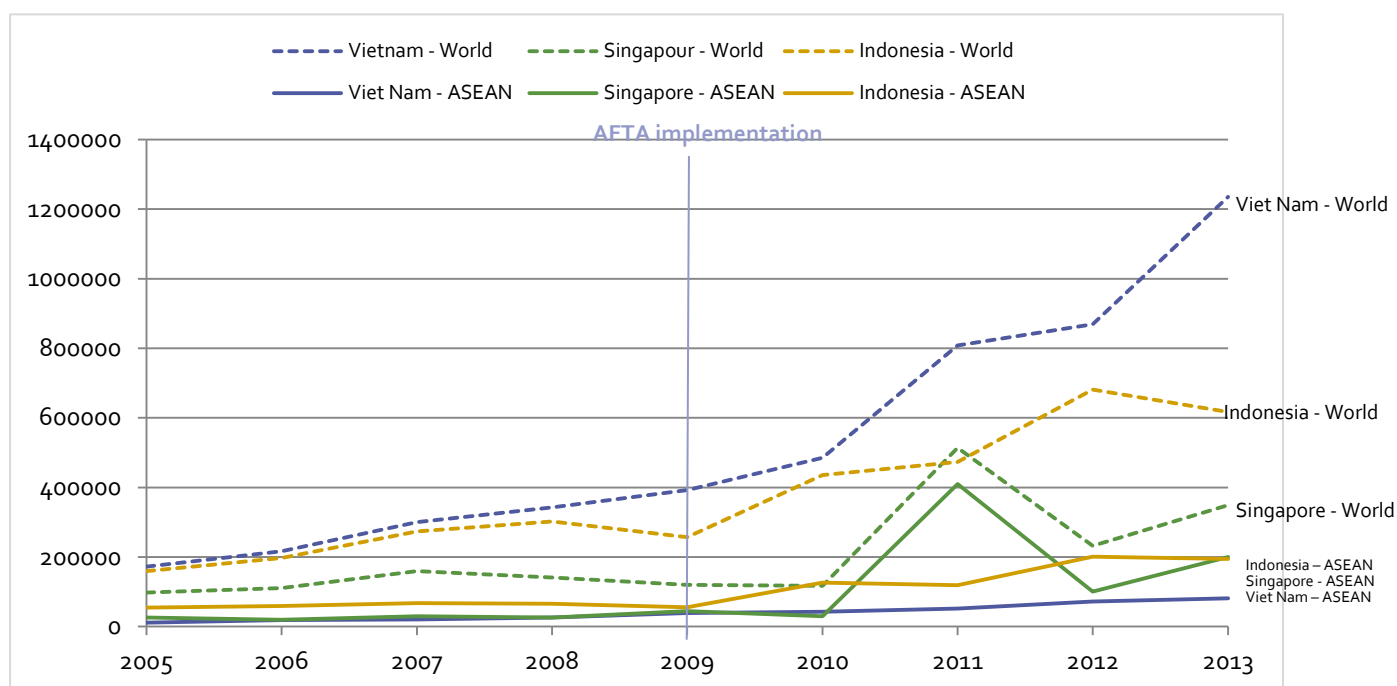
Thailand is the only country out of the three who seems to have taken advantage out of AFTA, as the growth rate of its fish exports actually increased towards ASEAN countries after 2009 while declining towards the rest of the world (*cf.* Annex B – Table 10).

This study cannot however conclude of a true impact of AFTA on fish exports towards other country members for Viet Nam or any other exporter. Indeed, volumes of trade intra AFTA remain quite low, perhaps because many country members are themselves small producers and exporters. Competition between ASEAN countries is high; none is a true leader within regional trade, as they are most likely to satisfy domestic demand by local production.

Spices

Viet Nam, Indonesia and Singapore are the largest exporters of spices of all ASEAN members. Once again, regardless of being a leading exporter towards the rest of the world, Viet Nam is preceded by Indonesia and Singapore when it comes to intra-ASEAN trade, especially since the AFTA implementation in 2009.

FIGURE 6: COMPARISON OF VIET NAM'S, INDONESIA'S AND MALAYSIA'S SPICE EXPORTS BEFORE AND AFTER AFTA, IN THOUSANDS OF DOLLARS



SOURCE: CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT

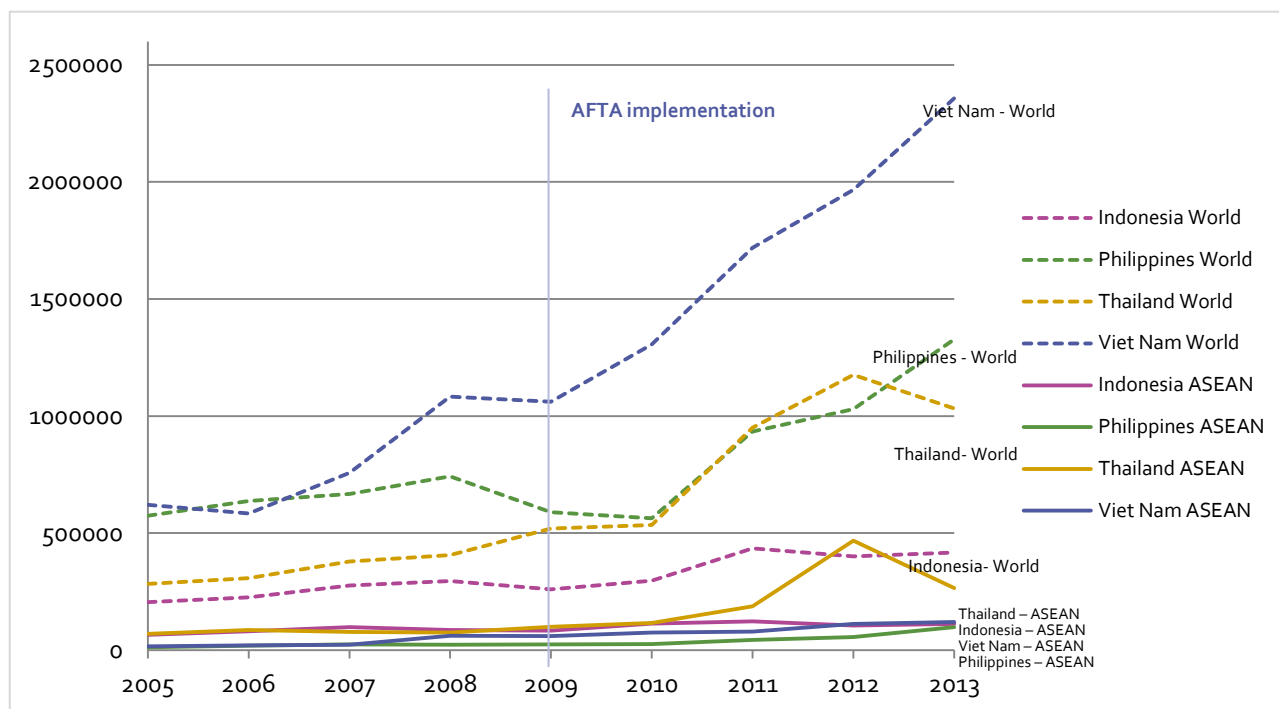
According to *figure 6*, the country who took most advantage of new AFTA market opportunities is Indonesia with an average growth rate of exports towards other ASEAN countries of 28.7% between 2009 and 2013 – compared to 0.3% in the previous period (*cf.* Annex B – Table 11).

Fruits and nuts

All ASEAN country members are producers and exporters of fruits and nuts, as it can be observed in Annex D – Figure 15. Nevertheless, Viet Nam is once again leader in fruits and nuts world exports, a position which is largely explained by its very big production and worldwide exports of cashew nuts. Yet, the country is not fully exploiting its potential when it comes to intra-ASEAN exports. It has not managed to fully benefit from new AFTA market opportunities as have Thailand and the Philippines have.

In fact, although already an important actor in fruits and nuts exports towards ASEAN country members, Thailand has managed to seize AFTA opportunities to become a clear leader in the sector. Its exports towards ASEAN have grown by 21.7% per year on average after 2009, compared with 7.4% per year between 2005 and 2009 (*cf.* Annex B – Table 12).

FIGURE 7: COMPARISON OF VIET NAM'S, INDONESIA'S, PHILIPPINE'S AND THAILAND'S FRUITS AND NUT EXPORTS BEFORE AND AFTER AFTA, IN THOUSANDS OF DOLLARS



SOURCE: CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT

Conclusion

The impact of AFTA on Viet Nam's agricultural trade differs according to the product of concern. It has been observed that even if Viet Nam is often a leading exporter on world markets when it comes to its major agri-products (rice, coffee, fish, spice, nuts), it is regularly beaten by neighbor competitors on the regional market, especially since AFTA implementation.

As the ASEAN Free Trade Agreement has developed new market opportunities for country members, the examples developed above have shown Viet Nam's difficulties to seize them – regardless of a high domestic production level – especially when the competition between exporting country members increase.

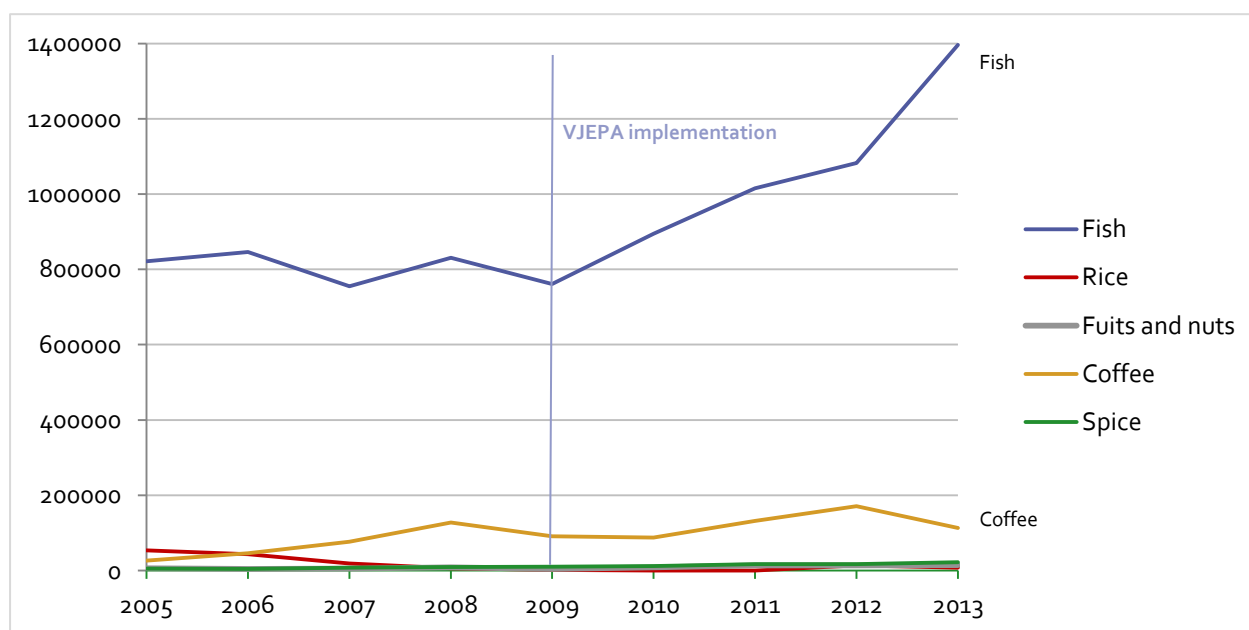
Indeed, the more producing countries in the regional free trade area, the more trade will be based on the quality of the product. As all South-East Asian countries produce agri-products at a relatively low cost, quality will be their main selling point.



3. VIETNAM – JAPAN ECONOMIC PARTNERSHIP AGREEMENT (VJEPA)

Although the two countries have applied the most-favored nation status to each other since 1999, the VJEPA aims to increase bilateral trade between Japan and Viet Nam by reducing the average tariff applied for Vietnamese goods exported to Japan to 2.8% by 2018. Moreover, 86% of agro-forestry-aquatic products benefit from preferential tariff rates since 2009 (date of VJEPA implementation). As trade will continually increase between the two countries, competition between them will grow as well.

FIGURE 8: VIET NAM'S AGRICULTURAL EXPORTS TOWARDS JAPAN, IN THOUSANDS OF DOLLARS



SOURCE: CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT

VJEPA benefits Viet Nam's fish sector as exports towards Japan have considerably increased since its implementation. On the contrary, even if the aim of this agreement is to facilitate trade between the two countries, imports of Vietnamese rice in Japan have considerably suffered during the whole period.

Indeed, Viet Nam has not managed to comply with Japan's ever stricter regulations on chemical residues and quality, which has caused rice exports towards Japan to drop drastically. In 2011, Japan completely stopped importing the product, as Vietnamese producers did not meet requirements.

4. TRANS-PACIFIC PARTNERSHIP – TPP

The Trans-Pacific Partnership (TPP) is a regional free trade agreement currently under negotiations between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. TPP is considered by WTO to be one of the most important trade negotiations for Viet Nam right now.

In 2011, almost 70% of the USD 91 billion USA imports from the region came from Malaysia, Singapore, and Vietnam whereas over half of their exports went to Australia and Singapore. In the last decade, USA trade with Vietnam has increased more than ten-fold.

Vietnam, the TPP member country with the lowest per capita GDP, specializes in the labor-intensive apparel industry with nearly 40% of its exports to the USA in knitted and woven apparel. Vietnamese exports to the USA are larger than both its imports from the United States and its imports from and exports to all other TPP countries. Although average tariff rates among all products are below 10% for TPP countries, some industrial and agricultural sectors maintain relatively high tariffs.

Viet Nam's domestic agricultural market will face increasing competition following the free trade agreement, more so since technical barriers to enter Viet Nam's market are quite scarce in comparison to other TPP country members. Viet Nam will have to maintain protection on sensitive products such as sugar, for which other TPP countries are in strong position. The TPP¹⁰ will have strong requirements in terms of NTB and SPS issues but the exact extent of these measures are still in negotiation. It will most likely not restrict the right for each country member to grant new SPS or TBT conditions for imports.

The Intellectual Property Chapter of the TPP agreement will increase the time of protection on patents for agricultural chemicals and by consequence increase the price of inputs (fertilizers, pesticides) used by Vietnamese farmers (as domestic production of inputs is extremely low). A higher price of domestically produced agricultural products will not only decrease the country's competitiveness in exports but also attract foreign imports.

The competitive capacity of Vietnam in agro-industry within TPP area is rather low: the production capacity and technology are somewhat shortcoming, and it often faces epidemic diseases over livestock. Moreover, as Brunei, Malaysia and Singapore are already part of AFTA; agriculture trade

¹⁰ Possible content of TPP on agriculture: regulate tariff quotas, bar export subsidies; disciplines on export taxes and restrictions; limit safeguards to applied MFN duties; provide for consultations on improving market access for specific products.



between these countries will barely be impacted by TPP. Viet Nam's scope to develop agricultural exports with Australia and New Zealand will be quite limited as technical barriers are extremely high and that domestic production manages to supply most of the local demand (especially in dairy, meat and fruits). Given the high geographical distance between Viet Nam and South American partners (Chile and Peru), the small scale population and high domestic production, an open market between these three countries will not be a big opportunity to Viet Nam as it will neither be a threat. The biggest impact on agriculture following TPP would most likely come from the USA. Indeed, with high technical barriers to trade, the country is able to limit its imports from Viet Nam while increasing its exports of corn and cotton to Viet Nam.

5. THE VIET NAM – EU FREE TRADE AGREEMENT

Exports of agricultural and fishery products from Vietnam to the EU have been multiplied by six in just over a decade, from USD 0.8 billion in 2001 to USD 4.8 billion in 2012. The main agricultural commodities exported to the EU include coffee, rice, cashews and catfish. Agricultural exports account for only about 17 percent of total Vietnam export turnover and the proportion remains unchanged since 2005.

Since 2007, EU is the biggest importer of Vietnamese seafood. In 2011, it was the destination of 21.8% of shipments from Viet Nam. Pangasius, the major fish product exported to the EU, has nonetheless suffered from the global economic crises and a declining reputation in the EU causing a drop of catfish exports. However, the rising demand for Vietnamese shrimp has had a counter effect and has kept increasing fish exports towards the EU. Although Vietnam's seafood has strong footing in the EU market, the intense public debt crisis forces the EU to raise barriers to imports, including Vietnam's seafood.

Agricultural export value from Vietnam to the EU account for less than 1% of total import value of agricultural products into the EU. These figures show that there is room for promoting the bilateral trade, especially in exporting agricultural products from Vietnam to the EU.

It is expected that the agricultural sector in Vietnam will experience a net improved performance as a result of an FTA. Those sectors which would benefit most are the beef and veal and fishery product clusters. Viet Nam registers a strong revealed comparative advantage in a number of agro and fishery products, which would be in direct competition with European sectors, such as roasted coffee, tomatoes, sugar, rice, fish, shrimp, etc. Equally, the EU is competitively strong in pork, dairy and agro-processing.



To conclude...

The recent increase of trade agreements to which Viet Nam participate allow the country to develop its access to foreign markets through the decrease of tariff trade barriers. However, as countries open their economy quality requirements for products, especially food products, get stricter. Moreover, Viet Nam is known to have one of the highest input use rates among countries in the Asia and Pacific region, which implies high risks of residues in products, making them unsuitable for exports. If Viet Nam does not manage to meet these standards, the country will not be able to take advantage of the fall of tariff barriers. Indeed, ADB (2014) has identified 4 main weaknesses in Vietnam's agricultural sector: (i) numerous small and fragmented agricultural production units, (ii) low product quality and safety, (iii) inefficient marketing, and (iv) weak bargaining power.



B. INCREASING NTB REQUIREMENTS: A FOCUS ON SPS

Non-tariff barriers are significant in the agricultural sector. Although NTBs also include packaging, labelling and traceability requirements, this study will mainly focus on sanitary and phytosanitary (SPS) issues. USAID states that “*Compliance with regional and international quality standards is perhaps the greatest obstacle to Vietnamese fruit and vegetable exports to middle- and high-income countries*”.

Indeed, in order to export their production, Viet Nam farmers and exporters need to respect a certain number of quality requirements for every food products in order to ensure their safety for human consumption. WTO and ASEAN both recognize three international standard setting bodies as reference on SPS and food quality issues: Codex Alimentarius commission; World Organization for animal health (OIE); International Plant Protection Convention (IPPC). However, all countries have more or less demanding SPS requirements, depending on the level of food quality they want to ensure and the level of domestic protection they can manage to achieve throughout their implementation. By pressuring tariff barriers, WTO and FTAs have also led to an increase of technical barriers to trade. The Agreement on application of SPS measures (WTO) allows governments to adopt such measures as long as they are not considered to discriminate certain countries or used as disguised protectionism.

All major importers except Japan follow the HACCP approach to food safety, highly recommended by Codex Alimentarius Commission¹¹. Regulations based in HACCP shifts the responsibility from the importers to the exporting processors and traders by making them fully responsible for the product in terms of food safety.

Ho & al (2013) show that after joining WTO, frequency of obstruction of trade related to SPS issues increased dramatically in Viet Nam. Agricultural and plastic products are known to have suffered the most from SPS measures in the last decade. Indeed, as dragon fruit was banned from US, Japan and Taiwan imports in the last because of issues with irradiation levels. Viet Nam has also suffered from various bans on its shrimps and rice. The main of these restrictions on international markets has been Viet Nam’s inconsistent application of legislation relations to SPS and TBTs (Technical Barriers to Trade). A poor understanding of requirements by producers and exporters has been observed as well as a lack of recent and efficient infrastructure. These difficulties are also a result the lack of harmonization and coordination among different government authorities, which will be discussed further on.

¹¹ See Annex C for more information on HACCP



Exporting companies have the most difficulties regarding the SPS and TBTs in three major markets: EU, USA and Japan. Indeed, the standards imposed by the EU are recognized as some of the highest in the world and most difficult (and costly) to attain. Vietnam will need to continue investing heavily in its national quality infrastructure in order to ensure that its competent authorities and private sector are well equipped to verify the traceability and safety of products across the value chain. Beyond voluntary standards such as HACCP and EuropGap, demanding environmental and animal welfare rules are also often challenging for developing countries to meet. For example, EU requires residue monitoring plans for imports of all animals and products of animal origin¹².

VietGAP

Viet Nam has been addressing food safety in many ways in order to improve competitiveness of agri-products on export markets. Since 2003, over 300 laws have been published by the GOV, outlining new standards and certification process.

The Ministry of Agriculture and Rural Development (MARD), the main government body responsible for agriculture, fisheries and forestry, is also the WTO inquiring point for Viet Nam on any SPS related issues. Under MARD, NAFIQAD (National Agro-forestry-fisheries Quality Assurance Department) is the department responsible for all matters related to quality of agri-products. It certifies compliance with HACCP standards and monitors inspection through its six regional laboratories.

The Directorate for Standards, Metrology and Quality (STAMEQ) is the governmental body under the Ministry of Science and Technology which is responsible for advising the government of any issue in these fields. The organization also officially represents Viet Nam in relevant international and regional organizations such as ISO, WTO and ACCSQ (ASEAN Consultative Committee on Standards and Quality). This entity has implemented three testing facilities across Viet Nam: QUATEST 1 (Hanoi), QUATEST 2 (Da Nang) and QUATEST 3 (Ho Chi Minh City).

In 2008, was implemented the VietGAP standard (Good Agricultural Practice), based on the ASEANGAP HACCP principles, to assist farmers in producing, assessing and certifying agri-products' compliance to international standards. The aim is to prevent and minimize the risks of hazards¹³ that occur during production, harvest and handling by increasing the responsibility of

¹² This is laid down in Council Directive 96/23/EC of 29 April 1996 on measures to monitor certain substances and residues thereof in live animals and animal products.

¹³ VietGAP covers the following hazards : food safety, food quality, environmental impacts, health, safety and welfare of workers.



producers in production and management of food safety. VietGAP has been implemented for 5 different products: rice, fruits, coffee, tea and vegetables.

VietGAP requires producers to record their practices, inspect production and post-harvest activities according to several criteria. They are then monitored by an external auditor in order to obtain or maintain the certification. The government aims at having half of all vegetables and tea producing areas certified and making VietGAP mandatory for fisheries, both starting 2015.

However, producers do not all have the financial and human capacities to obtain this certification and monitor their production. Indeed, the cost of external inspection is of 1,300 USD¹⁴, which is hardly affordable for smallholders. Moreover, the government has gone through difficulties to ensure compliance of production units given their very small size on average, and doesn't specify if compliance to VietGAP is mandatory or voluntary (no penalties for non-compliance). Training courses on VietGAP standards have met limited results as farmers struggle to understand and apply new practices. During these trainings, emphasize is made on technical aspects, leaving inspection, marketing and work organization on the side.

In collaboration with JICA, MARD wishes to introduce BasicGAP in 2014, with half as much requirements in order to target small scale producers, mostly selling in the domestic market.

Viet Nam suffers from an institutional, operational and information gap regarding NTBs and SPS in particular. In response to that, the government of Viet Nam (GOV) set up a Committee of Codex Viet Nam with 43 members of related ministries and launched over 6,000 standards including technical standards and SPS measures. Among these, 1,700 are meant to meet international standards like Codex Alimentarius and IOE. However, in 2011, USA still complained that Viet Nam did not meet OIE food safety standards.

Reporting practices by companies to government needs to be encouraged in order to inform of their difficulties and formal procedures to deal with SPS related problems need to be implemented (*Box 2: Experience from Thailand*) to avoid self-solving which is time-consuming and costly.

According to SPS office of Viet Nam, the major constraints that the country is facing today regarding SPS compliance are (i) a lack of financial resources to support testing facilities (indeed, no new testing laboratory has been implemented since WTO accession) and (ii) a lack of capacity for the GOV to challenge new standards and reach out for WTO dispute settlement (expensive and time consuming)¹⁵.

¹⁴ 1,300 USD = 28,000,000 VND (1.00 USD = 21,200.00 VND)

¹⁵ Interview with Mr. Tran Viet Cuong, Deputy Director of the Viet Nam SPS Office (MARD) on Friday, August 1st, 2014.



Viet Nam is obviously far from being the only Asian country concerned by these compliance issues and much can be learned from ways other countries respond to these matters. For examples, Thailand, Japan and China have applied three approaches to help overcome SPS concerns: (i) promulgation of necessary legislation, (ii) strengthening authorities' capacities and (iii) implementing public awareness programs.

BOX 3: EXPERIENCE FROM THAILAND

Thailand's difficulties to meet SPS issues were caused by two main reasons: (i) their inability to assess the implication of SPS requirements on export markets and (ii) their limited capacity to participate in dispute settlement and demonstrate to worldwide importers that the SPS measures being applied had the same results in terms of food quality than those set by importing partners.

Most reported SPS problems were related to drug residues, animal or plant disease. These issues became barriers to exporting chicken, fruits and vegetables. In 1997, Thai milled rice was even prohibited in Mexico.

Measures applied by Thailand to overcome SPS trade barriers:

1) Development of food safety systems and conformity assessment

Indeed, recognition of equivalence is crucial in facilitating agricultural trade as large exporters can only maintain competitiveness by meeting SPS requirements. As a result, the country:

- *Created the National Bureau of Agricultural Commodity and Food Standards (ACFS)*
- *Implementation of an import control system, focusing on targeting chemical residues, plant and animal disease and pest.*

2) Development of their own Quality Management System (QMS) with Good Agricultural Practice (GAP) for on-farm production. The concept of HACCP and ISO method was modified to develop the quality plan.

3) Development of formal procedures to resolve SPS related problems:

- (i) *The Thai product is examined by the trading partner;*
- (ii) *then starts a bilateral negotiation with the importing country;*
- (iii) *if needed the concern is raised by Thailand at the SPS committee;*
- (iv) *and finally if all the other steps didn't succeed, the country engages in a dispute settlement in WTO.*

Proactive in SPS related matters, Thailand has now become a full member of Codex Alimentarius, OIE and IPPC commissions.

SOURCE: HO & AL, 2013



II. CASE STUDY

TO WHAT EXTENT VIETNAMESE FARMERS ARE UNABLE TO FULLY BENEFIT FROM THESE NEW OPPORTUNITIES? THE EXAMPLE OF CATFISH.

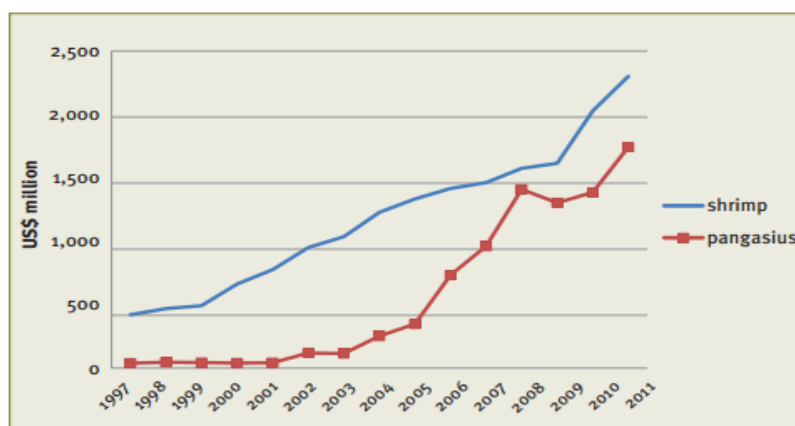
Pangasius catfish, which represents 30% of Viet Nam's seafood exports (VASEP, 2012), heavily relies on aquaculture for production. Vietnamese Pangasius is mostly produced in the Mekong Delta, South and South-East provinces, traditionally for local and regional consumption. However, since the mid-1990s production has been transformed and increasingly directed at international export markets. Currently, the production area is around 6,000 hectares across 10 Mekong Delta provinces. Pangasius are currently valued at around US\$2 billion.

Two kinds of Pangasius catfish are produced in Viet Nam. *Pangasius Bocourti*, commonly known as "Basa" is a higher quality fish, with longer production cycle and needing good quality water to survive. As a result, *Basa* only represents around 5% of Viet Nam's total production. On the other hand, *Pangasius Hypophthalmus*, commonly referred to as "Tra", represents 95% of the national production. Indeed, even if of lower quality, *Tra* is much easier for farmers to produce because of its better resistance to disease and its shorter production cycle.

The product is exported to 145 countries in total, main over-sea markets are EU, USA, ASEAN members, Australia, China and Hong Kong.

As it can be seen in *figure 9*, the export value of pangasius catfish only began to strongly increase after 2003. Before then, the main importer of Vietnamese catfish was the USA. Indeed, Viet Nam's pangasius was famous there for its good taste, relatively good quality and low prices (50% cheaper than US

FIGURE 9: EXPORT VALUE OF SHRIMP AND PANGASIOUS BETWEEN 1997 AND 2011



SOURCE: VASEP, 2012

production), causing a remarkable price fall which highly impacted American local producers.

As a result, the USA tried attacking Vietnamese pangasius on different levels: first on issues related to environmental and sanitary matters, then on the use of the name “catfish” (Vietnamese production had to be labelled *Basa* or *Tra* and no longer *Catfish*) and finally on its price at sale. It was concluded that Vietnamese Pangasius was sold under US market price (and production cost). This US-Viet Nam anti-dumping case in 2002 resulted in the implementation of tariff barriers of 37 to 64% on imports of pangasius from Viet Nam. This had a drastic impact on Viet Nam’s pangasius exports towards the USA (fall of 50%) and caused the bankruptcy of many small farmers. Consequently, the urgent need to diversify the export markets to other parts of the world led to the growth of the pangasius industry in the country, with a remarkably fast-growing aquaculture sector.

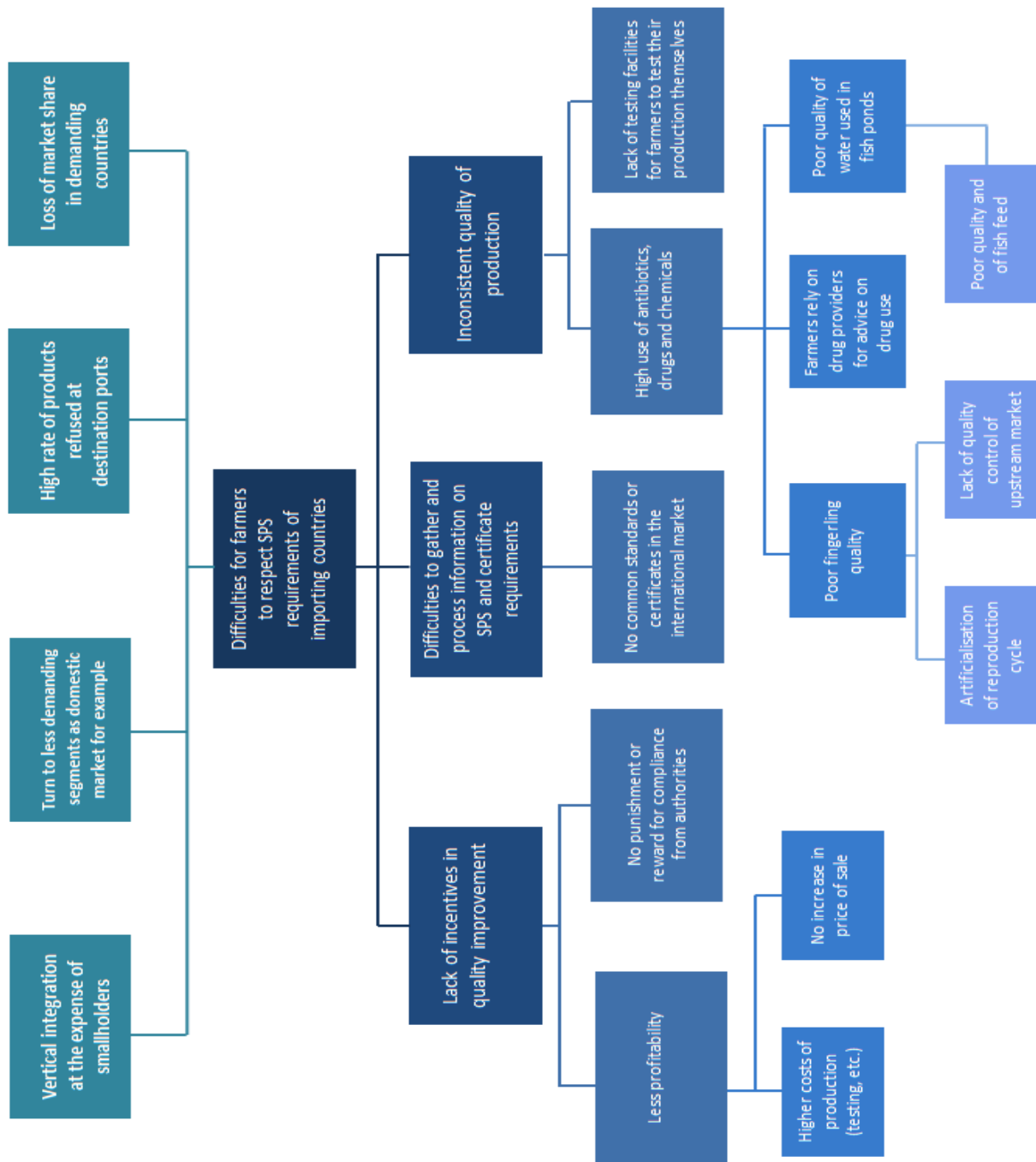
Whilst Viet Nam has recorded significant rates of growth in Pangasius exports from aquaculture production, it has been facing significant amounts of problems due to weaknesses in food safety controls. Viet Nam’s ongoing regional and global economic integration keeps making it harder for local producers to meet the quality requirements of all different export markets. Indeed, literature acknowledges that one of the biggest challenges for the pangasius industry in Viet Nam today is the inconsistency of compliance to international SPS and certification requirements

The processing sector has largely addressed these problems, upgrading their facilities and implementing hazard analysis and critical control point (HACCP). However, food safety controls in aquaculture production remain a problem. This is evidenced by high and persistent rates of rejections in Viet Nam’s major export markets due to levels of microbiological contamination (in the EU, US, Japan and Australia) and residues of antibiotics (especially in the EU and Japan).

As it can be seen in *figure 10*, difficulties encountered by farmers to comply with SPS standards and certificate requirements can be explained not only by the inconsistent quality of pangasius production but also by the difficulties in gathering and analyzing information on these requirements and by the lack of incentives farmers have to do so.



FIGURE 10: PANGASIUUS PROBLEM TREE



SOURCE: MADE BY AUTHOR ACCORDING TO LITERATURE REVIEW AND INTERVIEWS



Inconsistent quality of production

The poor quality of Vietnamese pangasius production is caused by two main factors.

Firstly, a **high use of antibiotics**, drugs and chemicals can be observed. This results in the presence of a high amount of residues in the final product, making it unsuitable for human consumption on most important markets (e.g. USA, EU, etc.). Farmers are keen on the use of drugs to overcome fish health issues caused by poor water quality and poor fingerling quality. Indeed, heavy use of antibiotics can often be observed by farmers who are afraid the quality of their fish will not meet final buyer's expectations.

An important issue concerns the lack of quality control in the upstream market. Indeed, it was observed that the further away the production is from the export stage, the less quality control is undertaken. In addition, the dreadful increase in pangasius demand since 2003 led to an artificialisation of the female reproduction cycle. More frequent fertilization was made possible by feeding fish drugs and chemicals. The quality of the fingerlings bought by farmers relies mainly on trust they have in the hatchery, color and size of fish, which leaves out the ability to know how much of these chemical residues are present in offspring. A consequence of these practices is the need to feed drugs and chemicals to adult fish in order to prevent disease caused by the poor health conditions they developed earlier in the hatcheries.

Similarly, use of bad quality fish food contributes to the eutrophication and ecotoxicity of water used in ponds. This practice will result in high use of drugs to counter the health issues caused by the decreasing water quality (Bosma and al., 2009). What is more, to compensate a lack of information and training on drug use, it has been observed that some farmers take administration advice from the drug provider himself, underlining an obvious conflict of interest.

Secondly, it is important to highlight that most small farmers do not have the actual ability to assess the quality of their fish: **lack of public testing facilities** has been identified while private labs are too costly. As a result, exporters (or processors) testing samples of the farmer's production upon purchase will have greater power in the negotiation process as the farmer himself will be unaware of the actual quality of his product.

Lack of information and comprehension of international requirements

The fact that no common standards exist for international market makes it challenging for most producers to comply with the requirements of different export markets at once. Thus, some see no point in even trying, knowing that these standards are in constant evolution anyway.



Lack of incentives

Last but not least, the third major cause of the lack of respect of SPS and certificate requirements is the lack of incentives farmers have to do so. Indeed, following SPS measures and obtaining certificates represent high additional costs for the farmers: cover testing and certification fees, extra-storage expenses in order to carry out sample testing, higher quality feed, etc.

Moreover, this raise in production costs would not be compensated by an increase of the selling price of products. One reason lies in the fact that quality improvement is not easily observable by the buyer. As a result, since he cannot distinguish a good product from a bad product, he is not willing to pay a higher price for it. This dilemma is often referred to as the lemon's problem in economics. Furthermore, since the SPS measures set by the importing countries are considered as the minimal acceptable, prices will not increase for products matching the requirements.

A lack of encouragement from Vietnamese authorities to develop new farming practices has been observed. For instance, no punishment is considered for producers who do not respect SPS requirements. Thus, farmers with their own farming experience do not see the point in being certified or in testing their fish. Some, considered by Nabeshima (2012) as 'conservative', believe in their production methods and reject any modification in their way of doing.

Figure 10 also shows the outcomes and consequences of the Vietnamese's' difficulties to comply with international standards.

Targeting less demanding markets

As a result of the inconsistent quality of the production, it is possible for exporters to sell products on less demanding markets as for example Eastern Europe.

Furthermore, the production that cannot comply with international standards is sold on the domestic market, where requirements are lot less severe. However, the latter is not sustainable on the long run since demand for higher quality food is most likely to increase with the rising incomes of the Vietnamese population.

Vertical integration

Thus, in order to guaranty product quality, many exporters favor vertical integration. By producing the fish themselves, companies can easily control the quality of fish feed used and the amount of chemical/antibiotics administered during production cycle. In-house testing allows exporters to adjust



quickly to evolving standards and large-scale production makes certification affordable. Vertical integration has negative consequences on small independent farmers who lose all comparative advantage with the arising need of traceability, in order to identify the source of quality issues and solve them. Hence, a large number of small pangasius producers were forced to exit the market; some diversified production to other fish or shrimp whereas others downgraded to the production of fingerlings or fish feed.

In Indonesia, most exporters are controlled by multi-national companies, which helps the country overcome these SPS issues in exporting their catfish. Indeed, the presence of foreign direct investment provides benefit to the development of local industry since these new actors have relevant experience in meeting international standards and can help local suppliers meet the standards. However, this raises the issues of profit redistribution when regulations and taxes are not strong enough to guarantee that local communities benefit from the increase of trade.



 BOX 3: THE CASE OF HONEY

Beekeeping and honey production is a key opportunity for Viet Nam. Indeed, even if the country is among the world's top 10 honey exporters, its potential is largely underexploited.

Viet Nam currently exports about 30,000 tons of bee honey per year, valued at around USD 80 million in 2011. Indeed, as local consumption of honey is relatively low, 75% of honey produced in the country is exported. The production of honey for export is estimated to support the livelihood of 35,000 producers. Benefits of beekeeping are massive for local producers since very small investment is needed (small land, low cost equipment, and very little inputs) to create a high economic value, unperishable and high nutritional good (honey) along with other valuable side-products such as wax, pollen and propolis.

Viet Nam produces a light amber honey, which is marketed for direct consumption and is sold at a higher price than their darker counterparts on the international market. Moreover, Viet Nam's light honey is among the least expensive of the world and of comparable quality to other exporting countries. Finally, as the world is facing a shortage of low priced amber honey, Viet Nam has many opportunities to become a leader in honey exports.

Currently, around 95% of exports are to the US, with the remainder directed to regional markets where prices are down to 35% lower. Although the EU is one of the world's largest importers of honey, Vietnamese honey has been banned from that market because of non-compliance to quality requirements (too high level of residues in final product).

The EU has the highest per capita honey consumption in the world and produced enough honey to fulfill approximately 60% of its demand in 2010; because of a decline in bee population in the area, EU imports of honey will keep rising. Access to the EU is seen as a priority for the development of the honey sector, not only as a means to expand the value of exports but also to reduce reliance on US markets.

The compliance with EU standards is ensured through the conformance to a Residue Monitoring Plan by "third country" exporting countries, with product verification taking place in approved laboratories.

High levels of residues have always been an issue for Vietnamese honey, since keeping them away from the European market. Moreover, in 2012, the USA returned 600 tons of products to Viet Nam for contamination with carbendazim (chemical in a pesticide used to fumigate rubber tree plants and cashew).

Improving honey quality to boost exports is in Viet Nam's core interest. Indeed, residue monitoring is the only sanitary requirement for honey whereas for any other food product, residue surveillance is only one in a series of food safety requirements. Moreover, honey is an unperishable product making it easy to store and organise transport to testing facilities, samples can be tested for different residues at a time and sample quantities needed are relatively small.



III. ADAPTING INTERNATIONAL AID STRATEGY

According to ADB (2014), compliance with global SPS requirements requires national specialists to undertake tasks related to surveillance, risk analysis, testing, diagnostics, pest identification, standards, and conformity assessment.

In order to develop multilateral and bilateral trade, Viet Nam's trade partners have been cooperating with the country to help develop its trade capacity. Japan and EU have been big project donors in Viet Nam in order to boost trade between the countries following trade agreements.

A. HOW INTERNATIONAL DONORS SUPPORT VIET NAM?

Pangasius

Food safety controls for aquaculture production of shrimp and Pangasius stand out as having the largest up-front investment by far, at US\$240.7 million and US\$104.6 million, respectively. Food safety controls for aquaculture production of shrimp and Pangasius also have the highest on-going costs, at US\$42.6million/year and US\$18.3 million/year, respectively (Cuong & al., 2013).

The largest donors projects specifically addressing the Pangasius sector have been undertaken by the EU, with a budget of over USD 2,000,000 and DANIDA¹⁶, under the Global Competitiveness Facility (GCF), for a global budget of USD 2,340,610.

The EU project targets large producers and processors (SME) at 70% and only 30% of the project is directed to smallholders, hatcheries and feed producers. On the other hand, GCF projects are targeted at small producers of two different provinces: Can Tho and An Giang.

The World Bank Agriculture Competitiveness Project will also most likely cover the catfish sector but definitely not provide any support in improving accessibility of farmers to testing facilities. Indeed, in Viet Nam, the World Bank does not provide support in testing/conformity assessment facilities (laboratories).

¹⁶ *Denmark's development cooperation*



TABLE 1: PROJECTS FOCUSING ON THE PANGASIOUS SECTOR

Project initiator	Project aim	Budget	Implementation date
EU	Establishing a Sustainable Pangasius Supply Chain in Vietnam	2,567,900 USD	2013-2017
DANIDA - GCF	Training, Technical & Certification (Global GAP) Assistance Services for Pangasius farming, supply of disease-free fingerlings to farmers and export of value-added Pangasius products	593,585 USD	2006-2013
DANIDA - GCF	Technical services for Pangasius farmers/processors for the production of pharma grade Fish Oil (with higher levels of Omega 3) for export – Catfish Value Chain	530,627 USD	2006-2013
DANIDA - GCF	Technical & training Services and supply of high quality larvae & fingerlings	471,698 USD	2006-2013
DANIDA - GCF	Diagnostic services for catfish (Pangasius) diseases and supply of medicated feed	162,300 USD	2006-2013
UNIDO	Contributing to increasing the value added of Vietnamese catfish and coffee exports through improving compliance internationally recognized standards and strengthen Vietnamese brands		To be defined (2015)
CBI	Fishery products Vietnam – more money for value	500,000 EUR	2012-2014

TABLE 2: OTHER PROJECTS ON AQUACULTURE

Project initiator	Project aim	Budget	Implementation date
DANIDA - GCF	Supply of unisexual Tilapia (<i>Oreochromis Niloticus</i>) fingerlings and providing training & technical services (Global GAP) to grow-out farmers	370,000 USD	2006-2013
DANIDA - GCF	Technical Services and supply of hybrid Snout Otter Clam Seed (<i>Lutraria rhynchaena</i>)	300,000 USD	2006-2013
DANIDA - GCF	Technical Services and supply of high quality white leg shrimp (<i>penaeus vannamei</i>) seeds to Aquaculture farmers	341,580 USD	2006-2013
JICA	Strengthening Capacity of Inspection System for Ensuring Safety of Agro-fishery Foods (SCIESAF project)		2011-2014



Honey

Residue controls for honey exports has the lowest up-front investment of all SPS projects at US\$5,000. Although residues controls for honey exports are judged to be very easy to implement to have a large and positive impact on vulnerable groups, notably women and people in marginal areas (Cuong & al., 2013), only one important project focusing on honey was identified during this research. It has been implemented by DANIDA in 2006 in the province of Dak Lak and came to an end in 2013.

This project has most importantly improved access of beekeepers to training on procedures for certification of honey production and processing (True source, HACCP) and increased awareness quality of Vietnamese mono floral honey in international markets.

TABLE 3: PROJECTS FOCUSING ON THE HONEY SECTOR

Project initiator	Project aim	Budget	Implementation date
GCF (Danemark)	Supply of modern honeycombs and technical & training services to beekeepers for producing Mono floral honey for export	596,358 USD	2006-2013

WTO compliance and SPS issues

Although a major importer of Vietnamese agri-products, the USA has only allocated 2.5% of total aid for Viet Nam on SPS measures and 3.5% on trade related agriculture in 2012. Viet Nam's poor compliance of agri-products to certain American SPS importing standards might profit American farmers, who are able to supply domestic product without the pressure of Vietnamese low prices.

In most cases SPS capacity building support is likely to be most effective if targeted to meet specific needs at national or sub-regional levels, particularly in the area of technical skills training.

Very few donor projects focus specifically on SPS issues in agriculture. However, most projects related to capacity building, trade development and agriculture address the issue indirectly (*cf.* Annex E – Table 13)

For example, the Vietnam Agriculture Sector Competitiveness Project¹⁷ aimed to reduce poverty by supporting the Government of Vietnam's strategy on market-oriented agricultural development. At a local level, it strengthened the competitiveness of smallholder farmers, through enhancement of agricultural technology, fostering of farmers' organizations and their linkages to agri-businesses, and provision of critical public infrastructure. As result of the training of farmers to new production technologies, pest management, the proportion of fruit and vegetable samples exceeding permissible levels for chemical residues decreased by 40% (from 6.13% in 2010 to 3.7% in 2013).

TABLE 4: PROJECTS FOCUSING ON WTO ACCESSION AND COMPLIANCE

Project initiator	Project aim	Budget	Implementation date
CIDA	Asia-Pacific Economic Cooperation (APEC) Economic Integration Program	9,867,999 USD	2003-2013
USAID	Support for Trade Acceleration (STAR-Plus) Program	3,414,000 USD (in 2011 and 2012)	2001-2013

TABLE 5: PROJECTS FOCUSING ON SPS ISSUES

Project initiator	Project aim	Budget	Implementation date
ADB	43120-025: Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion Trade Project	11,000,000 USD	2013-2018
CIDA	Food and Agriculture Products Quality	18,000,000 USD	2005-2014
EU	Establishing a Sustainable Pangasius Supply Chain in Vietnam	2,567,900 USD	2013-2017
EU-MUTRAP	Better Compliance with Technical Requirement	280,000 EUR	2012-2018
FAO	Strengthen Vietnamese SPS Capacities for Trade – Improving safety and quality of fresh vegetables through the value chain approach - MTF/VIE/046/STF	543,770 USD	

TABLE 6: OTHER RELATED PROJECTS

Project initiator	Project aim	Budget	Implementation date
JICA	Project for Capacity Development for Laboratory Network in Vietnam of Biosafety and Examination of Highly Hazardous Infectious Pathogens/2011.2-2016.2	4,200,000 USD	2011-2016
US FDA (Food and drug administration)	APEC Food Defense Pilot Program	70,804 USD (2011)	2008-2011
USAID	FOOD DEFENSE TRAINING - VIETNAM	23,000 USD	2010

¹⁷ World Bank and CIDA project – USD 59.80 million



B. RECOMMENDATIONS

External and internal factors to agriculture production that explain Viet Nam's difficulties to comply with SPS requirements have been identified throughout this study.

Indeed, internal factors would be linked to the production cycle itself and farming practices. They represent the **capacity** farmers actually have to comply with standards and implement good agricultural practices:

External factors on the other hand are related to the **environment** in which farmers evolve in and the **enforcement** they are confronted with.

Capacity	Enforcement	Environment
<ul style="list-style-type: none"> • Behaviours (large use of chemicals and antibiotics) • Training and education • Availability of testing facilities for farmers to obtain knowledge on their production and minimize asymmetry of information between farmers and purchasers. 	<ul style="list-style-type: none"> • Development of efficient national certification and standards • Inspection • Monitoring equipment • Positive and negative Incentives to push farmers to comply with new standards • Control and regulation: implementation of laws and decrees 	<ul style="list-style-type: none"> • Market demand influenced by trade agreements • Price of vietnamese agri-products on international markets • Quality and cost of production inputs • International organizations, standards and requirements (OIE, Codex Alimentarius, IPCC, etc.)

SOURCE: MADE BY THE AUTHOR

As donors should mainly focus on building capacity for farmers to comply with increasingly demanding requirements, projects can only be efficient on the long run if the government itself supports international action through building enforcement and influencing the environment in which they thrive.

Viet Nam can influence the **environment** through strong and consistent governmental agencies, internationally recognized and credible. Indeed, Viet Nam needs to influence negotiations in ways that are beneficial to the country, and create recognition for its own quality standards. As Viet Nam is one of the world leading countries in agri-product exportations, it would massively profit from a leading position in standard setting and should anticipate international health and quality trends by anticipating on new requirements and regulations.



Enforcement is needed in order to guarantee the best use of capacity. The Government of Viet Nam needs to create incentives in order to give farmers reasons to comply with new standards. However, the type of enforcement used to do so matters dramatically. For example, increasing food safety controls for aquaculture production of *Pangasius* might be a counterproductive initiative as they are judged to have a relatively negative impact on vulnerable groups (Suzuki & Hoang Nam, 2013). Indeed, if not given the capacity to comply with food safety requirements, controls are only going to emphasize smallholder exclusion. Moreover, as export subsidies are heavily controlled by WTO, Viet Nam must find a way financially compensate smallholders so that short term loss in profitability does not stop them from making the necessary investments to change agricultural practice. Financial incentives (positive or negative) have indeed proven themselves to be quite effective when it comes to creating behavioral changes. Furthermore, quality control needs to be ensured all along the value chain and not only on the final product. Indeed, the latter implies that the only actor responsible for product quality is the final producer. However, quality of inputs has a high direct impact on the quality of the final product, and as a result must not be excluded from quality control. Finally, as Viet Nam is developing an impressive number of laws, regulations, certifications and standards, it seems most of them can be voluntarily applied or not by producers. Systematic application is still an issue and would need to be enforced.

Enforcement however cannot be efficient if **capacity** has not been addressed first. Donors have played an important role in this area through training and implementing testing facilities. Indeed, it is important for farmers to be aware of the consequences of their agricultural practices, of the effects of overusing inputs and of other efficient farming methods. Furthermore, it is even more important for farmers to be able to measure the compliance level of their products themselves in order to react and adapt their production practices. Similarly, if farmers had access to testing facilities, the asymmetry of information between farmers and purchasers that exists today (since the exporters are the ones doing the testing) would be reduced. By being aware of the actual quality of their production and how to improve it, farmers are most likely to change their farming practices and more easily comply with SPS requirements worldwide.

Although there is a high need of information and training around SPS issues and more suitable farming practices, it will not be much effective if not integrated with SPS capacity building such as infrastructure (labs, etc.) or financial capacity. Capacity building strategies must be selective, affordable and appropriately sequenced if they are to yield sustainable results.



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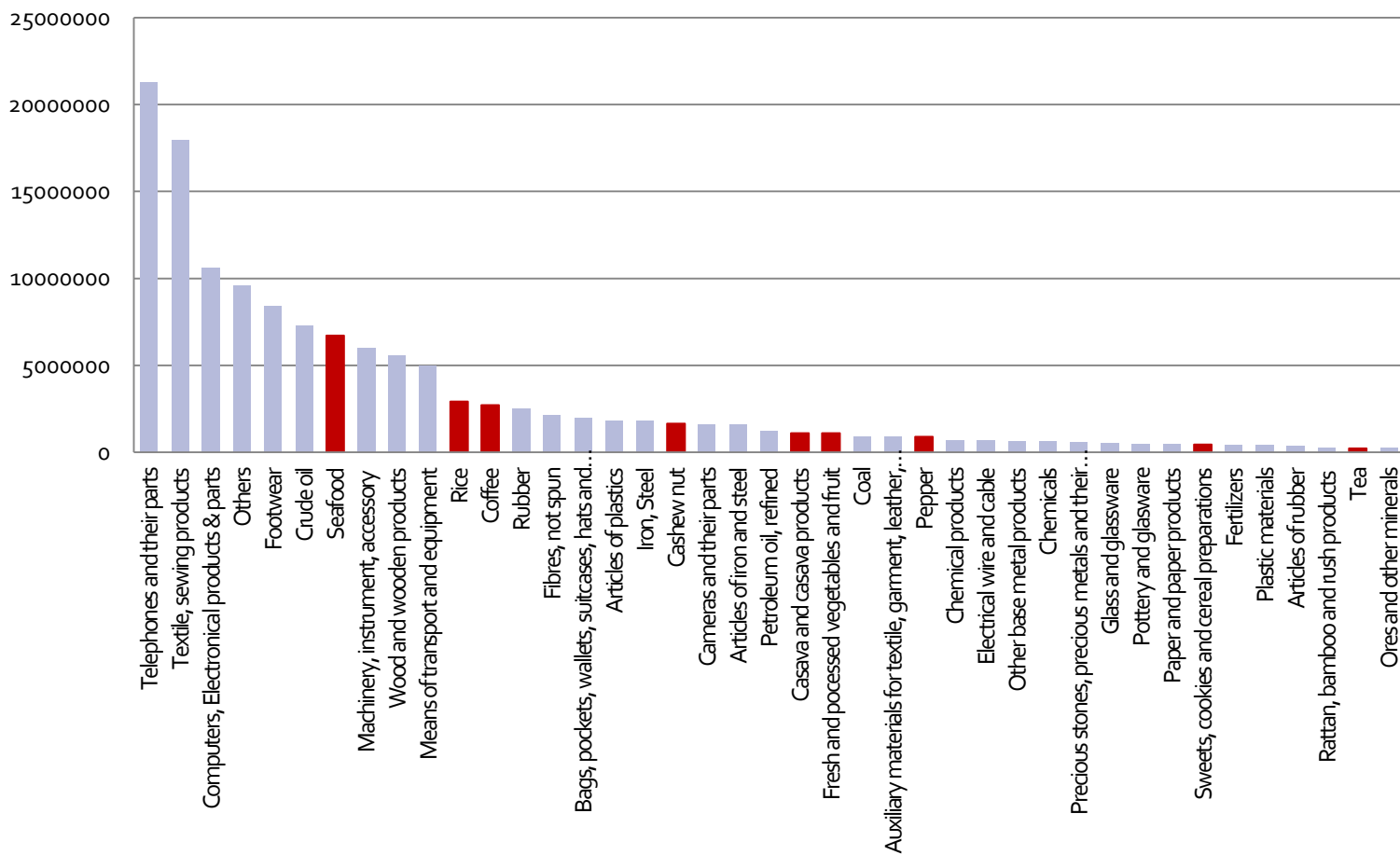
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ANNEXES

ANNEX A THE STRUCTURE OF VIETNAMESE EXPORTS

FIGURE 11: VIETNAMESE EXPORTS IN THOUSANDS OF USD (2013)



SOURCE: VIET NAM CUSTOMS

ANNEX B

GROWTH RATES OF AGRICULTURAL EXPORTS

TABLE 7: AVERAGE ANNUAL GROWTH RATES OF VIET NAM'S MAJOR EXPORTS

VIET NAM	2000-2006	2007-2013
<i>FISH</i>	12%	13%
<i>RICE</i>	10%	13%
<i>FRUITS AND NUTS</i>	8%	18%
<i>COFFEE</i>	14%	3%
<i>SPICES</i>	5%	22%

TABLE 8: COMPARISON OF THE AVERAGE ANNUAL GROWTH RATES OF VIET NAM'S AND THAILAND'S RICE EXPORTS

RICE EXPORTS	2005-2009	2009-2013
VIET NAM		
<i>towards WORLD</i>	13.6%	5.2%
<i>towards WORLD without ASEAN</i>	10.9%	5.0%
<i>towards ASEAN</i>	16.7%	5.5%
THAILAND		
<i>towards WORLD</i>	16.8%	-2.6%
<i>towards WORLD without ASEAN</i>	17.6%	-2.3%
<i>towards ASEAN</i>	10.3%	-6.2%

SOURCE: ALL TABLES OF ANNEX B HAVE BEEN CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT



TABLE 9: COMPARISON OF THE AVERAGE ANNUAL GROWTH RATES OF VIET NAM'S, INDONESIA'S AND MALAISIA'S COFFEE EXPORTS

COFFEE EXPORTS	2005-2009	2009-2013
VIETNAM		
towards WORLD	19%	6%
towards WORLD without ASEAN	18%	5%
towards ASEAN	26%	13%
INDONESIA		
towards WORLD	12%	10%
towards WORLD without ASEAN	10%	6%
towards ASEAN	23%	25%
MALAISIA		
towards WORLD	18%	19%
towards WORLD without ASEAN	13%	21%
towards ASEAN	22%	19%

TABLE 10: COMPARISON OF THE AVERAGE ANNUAL GROWTH RATES OF VIET NAM'S, INDONESIA'S AND THAILAND'S FISH EXPORTS

FISH EXPORTS	2005-2009	2009-2013
VIETNAM		
towards WORLD	9.1%	15.8%
towards WORLD without ASEAN	9.0%	15.8%
towards ASEAN	10.8%	15.8%
THAILAND		
towards WORLD	6.7%	2.3%
towards WORLD without ASEAN	7.0%	2.0%
towards ASEAN	3.2%	9.0%
INDONESIA		
towards WORLD	4.5%	11.3%
towards WORLD without ASEAN	5.7%	10.5%
towards ASEAN	11.1%	17.5%

SOURCE: ALL TABLES OF ANNEX B HAVE BEEN CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT



TABLE 11: COMPARISON OF THE AVERAGE ANNUAL GROWTH RATES OF VIET NAM'S, INDONESIA'S AND SINGAPORE'S SPICE EXPORTS

SPICE EXPORTS	2005-2009	2009-2013
VIETNAM		
towards WORLD	17.8%	25.8%
towards WORLD without ASEAN	17.0%	26.7%
towards ASEAN	27.8%	15.8%
SINGAPORE		
towards WORLD	4.3%	23.8%
towards WORLD without ASEAN	1.4%	14.4%
towards ASEAN	10.9%	35.4%
INDONESIA		
towards WORLD	10.1%	19.1%
towards WORLD without ASEAN	13.9%	15.9%
towards ASEAN	0.3%	28.7%

TABLE 12: COMPARISON OF THE AVERAGE ANNUAL GROWTH RATES OF VIET NAM'S, INDONESIA'S, PHILIPPINE'S AND THAILAND'S FRUIT AND NUT EXPORTS

FRUITS AND NUTS	2005-2009	2009-2013
VIETNAM		
towards WORLD	11.3%	17.3%
towards WORLD without ASEAN	10.6%	17.5%
towards ASEAN	30.3%	14.8%
PHILIPPINES		
towards WORLD	0.5%	17.6%
towards WORLD without ASEAN	0.1%	16.8%
towards ASEAN	14.9%	32.2%
THAILAND		
towards WORLD	13.0%	14.7%
towards WORLD without ASEAN	14.6%	12.8%
towards ASEAN	7.4%	21.7%
INDONESIA		
towards WORLD	4.7%	10.0%
towards WORLD without ASEAN	4.6%	11.7%
towards ASEAN	4.9%	6.1%

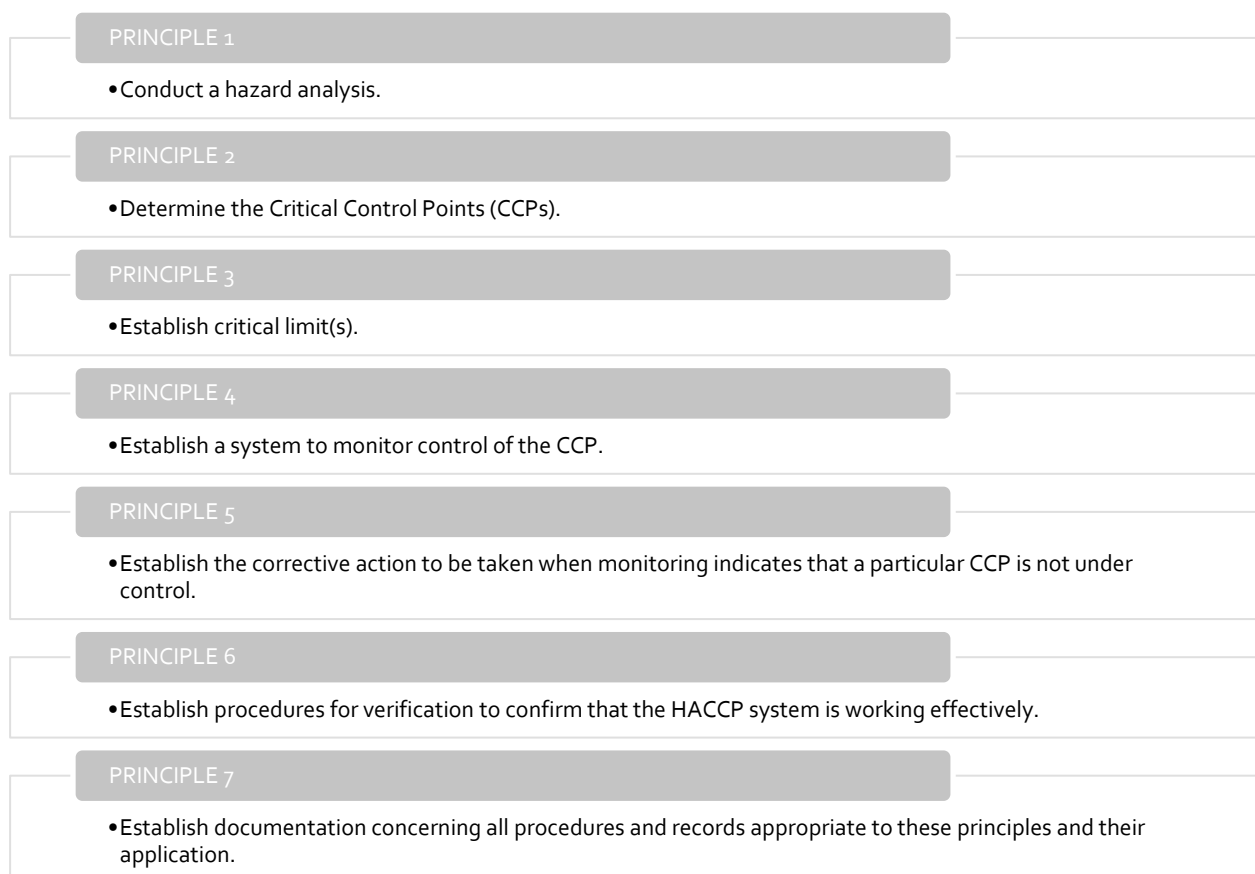
SOURCE: ALL TABLES OF ANNEX B HAVE BEEN CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT



ANNEX C

HAZARD ANALYSIS CRITICAL CONTROL POINT (HACCP) SYSTEM

FIGURE 12: THE SEVEN PRINCIPLES OF THE HACCP SYSTEM



SOURCE: CODEX ALIMENTARIUS – FAO, 2003

ANNEX D

STRUCTURE OF ASEAN'S AGRI-EXPORTS TOWARDS THE WORLD (2005-2013)

FIGURE 13: AVERAGE EXPORTS OF FISH TOWARDS THE WORLD IN THOUSANDS OF DOLLARS (2005-2013)

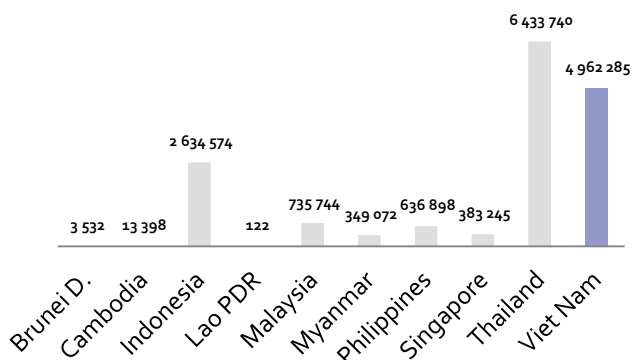


FIGURE 14: AVERAGE EXPORTS OF RICE TOWARDS THE WORLD IN THOUSANDS OF DOLLARS (2005-2013)

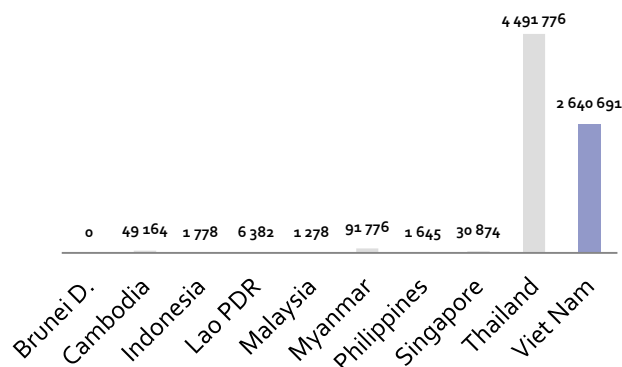


FIGURE 15: AVERAGE EXPORTS OF FRUITS AND NUTS TOWARDS THE WORLD IN THOUSANDS OF DOLLARS (2005-2013)

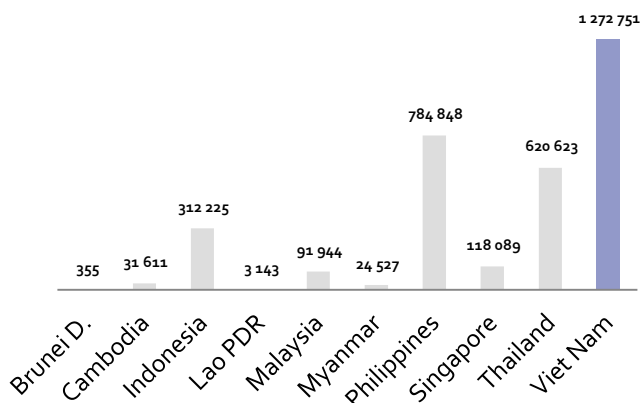


FIGURE 16: AVERAGE EXPORTS OF SPICES TOWARDS THE WORLD IN THOUSANDS OF DOLLARS (2005-2013)

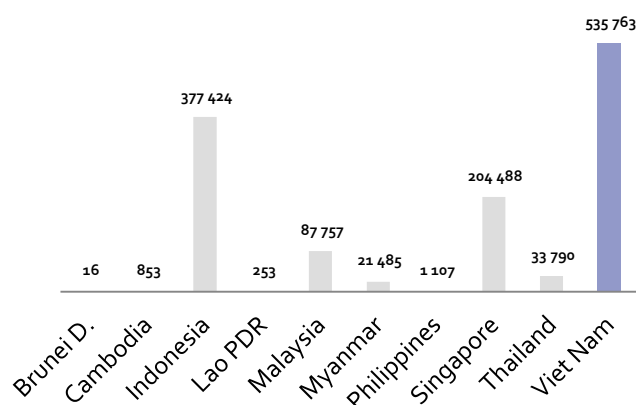
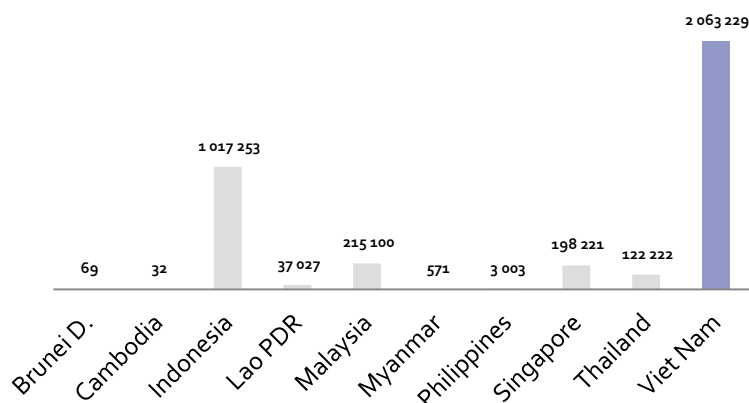


FIGURE 17: AVERAGE EXPORTS OF COFFEE TOWARDS THE WORLD IN THOUSANDS OF DOLLARS (2005-2013)



SOURCE: ALL FIGURES OF ANNEX D HAVE BEEN CREATED BY THE AUTHOR ACCORDING TO DATA FROM UNCTAD STAT



ANNEX E

PROJECT IDENTIFICATION

TABLE 13: OTHER PROJECTS ADDRESSING AGRICULTURE

Project initiator	Project aim	Budget	Implementation date
ADB	39421-013: Quality and Safety Enhancement of Agriculture Products and Biogas Development Project		2010-2020
CIDA	Private Sector Engagement for Agricultural Development	7,612,000 USD	2013-2018
CIDA	Food and Agriculture Products Quality	18,000,000 USD	2005-2014
CIDA	Vietnam Agriculture Sector Competitiveness	3,300,000 USD	2011-2014
EU-MUTRAP	Improve Export Value for Cooperatives	305,000 EUR	
DANIDA - GCF	Supply of unisexual Tilapia (<i>Oreochromis Niloticus</i>) fingerlings and providing training & technical services (Global GAP) to grow-out farmers	370,000 USD	2006-2013
DANIDA - GCF	Training, Technical & Certification (Global GAP) Assistance Services for Pangasius farming, supply of disease-free fingerlings to farmers and export of value-added Pangasius products	593,585 USD	2006-2013
DANIDA - GCF	Training & Technical services (Global GAP) and supply of hybrid seeds (green soybean and baby corn) for small vegetable farmers; value-added products for export)	493,911 USD	2006-2013
DANIDA - GCF	Design and supply of cost-efficient automatic fixed-bed batch drying systems for large paddy farmers / rice millers; and provide drying services (high quality) for small paddy farmers	390,727 USD	2006-2013
DANIDA - GCF	Technical and export services for SME Rice Millers/Hullers in production of rice husk pellet for export	404,464 USD	2006-2013
DANIDA - GCF	Supply of hybrid paddy seeds, Training & Certification (GlobalGAP) Assistance services and Export of "Rice with health benefits"	1,051,354 USD	2006-2013
DANIDA - GCF	Technical services for Pangasius farmers/processors for the production of pharma grade Fish Oil (with higher levels of Omega 3) for export – Catfish Value Chain	530,627 USD	2006-2013
DANIDA - GCF	Development of mulberry production model with GlobalGap and Fairtrade certification for processing into natural juice for export	200,192 USD	2006-2013
DANIDA - GCF	Sapling and Post-harvest services to Agro-forestry farmers	441,181 USD	2006-2013
DANIDA - GCF	Technical & training Services and supply of high quality larvae & fingerlings	471,698 USD	2006-2013
DANIDA - GCF	Diagnostic services for catfish (<i>Pangasius</i>) diseases and supply of medicated feed	162,300 USD	2006-2013
DANIDA - GCF	Develop GlobalGAP rice cultivation model and Supply paddy drying services for farmers	772,979 USD	2006-2013
DANIDA - GCF	Training, Process Management, Quality Certification / improvement and Consultancy services for farmers and SMEs	226,903 USD	2006-2013
DANIDA - GCF	Supply of modern honeycombs and technical & training services to beekeepers for producing Mono floral honey for export	596,358 USD	2006-2013
DANIDA - GCF	Technical, Training and UTZ Certification assistance services to cocoa farmers and cocoa bean pre-processors; export of value-	400,000 USD	2006-2013



	added cocoa products		
DANIDA - GCF	Supply of Civet kittens, training & technical services for rearing Civet cat (<i>Paradoxurus Hermaphoditus</i>) and production of Civet Coffee	328,980 USD	2006-2013
DANIDA - GCF	Supply of high yielding & disease resistant cocoa plants propagated via Somatic Embryogenesis (SE), training & technical services for farmers/pre-processors and testing services for analysis of cocoa	372,800 USD	2006-2013
DANIDA - GCF	Processing technology / machinery for small and medium	507,854 USD	2006-2013
DANIDA - GCF	Testing, Quality control and export services for Fish Sauce producers	289,100 USD	2006-2013
DANIDA - GCF	Training services for in-shore preservation of fish by fishermen & dealers and fish canning services	986,467 USD	2006-2013
DANIDA - GCF	Technical Services and supply of hybrid Snout Otter Clam Seed (<i>Lutraria rhynchaena</i>)	300,000 USD	2006-2013
DANIDA - GCF	Supply of foliar fertilizer concentrate and technical assistance services for small fertilizer producers and farmers	687,590 USD	2006-2013
DANIDA - GCF	Technical & Training Services for clean vegetable farming and supply of vegetable saplings (tissue culture)	578,428 USD	2006-2013
DANIDA - GCF	Supply of unisexual Tilapia (<i>Oreochromis Niloticus</i>) fingerlings and providing training & technical services (Global GAP) to grow-out farmers	370,000 USD	2006-2013
DANIDA - GCF	Supply of Bitter Gourd (<i>Momordica Charantia</i>) seeds, technical, GAP training & processing services for farmers – Medicinal product (Value-added) Export Value Chain (tea sector)	380,000 USD	2006-2013
DANIDA - GCF	Packaging design and high quality packaging material for export of agricultural products by small & medium enterprises and farmers	464,100 USD	2006-2013
DANIDA - GCF	Training and Consultancy services in Cultivation, VietGAP & GlobalGAP procedures and Post-harvest techniques for flower and vegetable farmers	375,300 USD	2006-2013
DANIDA - GCF	Supply of Organic Plant Growing Medium and training & technical services for use of Growing Medium by farmers – Flower, Vegetable and Seedling produce	419,300 USD	2006-2013
DANIDA - GCF	Training & Technical services and supply of plantlets to small tissue culture labs and their farmer network	533,800 USD	2006-2013
DANIDA - GCF	Technical services, supply of high quality vegetable seedlings and vegetable processing (desiccation) for export	534,800 USD	2006-2013
DANIDA - GCF	Technical services, supply of high quality vegetable seedlings and processing (Retort Pouch Sterilisation technology) for export	462,640 USD	2006-2013
DANIDA - GCF	Technical services and Plantlets (propagated by tissue culture) for Agro-forestry farmers	237,580 USD	2006-2013
DANIDA - GCF	Seedlings and Technical Services to farmers	1,227,450 USD	2006-2013
DANIDA - GCF	Technical services for Farmers to produce and export Certified Organic Tea	743,463 USD	2006-2013
DANIDA - GCF	Plantlets (tissue-culture), Technical and Post-harvest services to Agro-forestry farmers – Acacia Koe value chain	686,600 USD	2006-2013
DANIDA - GCF	Advanced Technical, Training, GlobalGAP Certification and Post-harvest services to Pepper farmers	326,700 USD	2006-2013
DANIDA - GCF	Supply of disease-free juvenile crabs and technical & training services for farmers in advanced crab culture	413,400 USD	2006-2013



DANIDA - GCF	Technical Services and supply of high quality white leg shrimp (penaeus vannamei) seeds to Aquaculture farmers	341,580 USD	2006-2013
DANIDA - GCF	Seed production and advanced technical services for Peanut growers	250,000 USD	2006-2013
DANIDA - GCF	Electronic Traceability and training & consultancy services for management of in-house testing laboratories for exporters in the 8 target provinces – Fisheries and other agro-product value chains	582,400 USD	2006-2013
DANIDA - GCF	Technical Advisory and Training Services (GACP-WHO Guidelines) for cultivation and post harvest practices for “medicinal plants” farming households in An Giang province and the rest of Mekong Delta	655,200 USD	2006-2013
ONE UN PLAN	Strengthen the supply capacity of the fruits and vegetable sector by applying proper technologies along the value chain (Part of the joint UN Support to the National Target Programme on the New Rural Development (NTP-NRD))	1,200,000 USD	
World Bank	VN - Agriculture Competitiveness Project	59,800,000 USD	



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