

EE361/EE363 ECONOMICS OF CLMV COUNTRIES

Semester 2/2020 (20 January – 19 May 2021)

Agriculture in Vietnam

GROUP #1

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*This is an excellent
paper. Some minor
edits are required.
Please revise as
needed and
resubmit.*

OK

FACULTY OF ECONOMICS

THAMMASAT UNIVERSITY

April 2021

Overview

As Vietnam agriculture contributes to be an essential part of Vietnam's GDP. ~~14.85%~~ ^{toward a significant economy} ~~GDP contribution of agriculture in Vietnam~~ which accounts as 934.73 trillion Vietnam Dong. ^{whereby the sector} Approximately 39.5 percent of land is used for agriculture purposes. Consequently, the agriculture sector accounts for around 39% of the total employment rate which is calculated as 20.5 Million workers. ^{for 14.85% of total GDP, or}

The major crops in Vietnam are paddy rice, coffee, rubber, tea, pepper, soybeans, cashews, sugar cane, peanuts and bananas. Rather than the ~~purpose of exporting~~ ^{was feared} from the past, agriculture is made to meet the domestic demand but after the support of the government ^{from} that enhances the agriculture export, some of the crops have changed from import in the past to ^{now} be exported ^{become to}, such as coffee, rubber, pepper and cashew nuts. Thus, Vietnam plays an important role as an exporter of agricultural products ; for instance, the world's largest exporter of pepper and second largest exporter of rice and cashew nuts. ^{which were ex} ^{has now} ^{However, with}



However, as the graph has illustrated the agriculture value added (% of GDP) in Vietnam, it reflects that since the peak at 1998, the trend of agriculture in Vietnam has dramatically declined from 46.297 in 1998 to 13.956 in 2019.

^{above}
ⁱⁿ used 1988,
^{for} use digit, 13. 13.9

In terms of GDP growth, even though that currently ~~the~~ real GDP growth rate is ~~at~~ approximately 3.8% ~~but since~~ the growth from the last 20 years is due to the addition of land, labour and fertilizer, ~~now~~ it seems to be reaching their limits in terms of growth.

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Hence, currently, Vietnam's agriculture tends to face many challenges, ~~in~~ both short-term and long-term ~~challenges~~. In the short term, due to the current pandemic situation that causes the world's economy to stop; consequently, Vietnam's economy struggles since part of their ~~GDP~~ ~~relies~~ on agriculture export. Moreover, not only Covid-19 causes temporary struggle ~~but in~~ Vietnam, ~~they usually face~~ shocks such as natural disasters ~~that impact~~ the agriculture sector.

putting aside have huge negative hardships;

Nonetheless, ~~although without~~ the coming of Covid-19 pandemic and temporary shocks, Vietnam's agriculture sector is still facing many challenges which seem to be chronic, ~~and the~~ structure of the agriculture system needs to be improved in order to find ~~the~~ solution ~~for those~~ long term problems and create sustainability of agriculture in Vietnam. Due to the gap between ~~income of the~~ agricultural sector employees wages and non-agriculture employees wages, the workers who work in other sectors rather get higher income. Thus, it encourages people, especially new generation ~~people that~~ just recently ~~come into~~ the labor market to work in other sectors such as manufacturing. Not only the income gap within the rural area but also the gap between the agriculture sector and non-agriculture sector has caused the urban migration. The main reason for the low income in the agriculture sector is due to the fluctuation of agriculture prices, some of them tend to be oversupplied when compared to world demand ~~of the product~~. Therefore, in the long term, agriculture ~~will face~~ key issues since there will be lack of new generation that ~~usually~~ have high education to develop agriculture system, ~~the~~ group ~~left~~ in this sector will be only ~~old generation~~ people with low education level since ~~from~~ the past agriculture sector is labor-intensive so ~~the~~ knowledge is not needed.

For example,

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Also, the high cost of production ~~is~~ due to low innovation and inefficient resources used. Furthermore, according to what we have learned in class, one of the crucial points that ~~needed~~ to improve is the growth of the agriculture sector in Vietnam, ~~the~~ new innovation and technology, ~~is~~ required in order to create ~~more~~ economy of scale and also value added to the product in the production process.

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To sum up, the agriculture sector in Vietnam has played an essential role in Vietnam's economy. Hence, we aim to point out the key issues and challenges in both short term and long term with the policies action from the government sector. In addition, this research will also provide our group point of view based on the key issues mentioned.

Short-term issues and challenges

Currently, it is obvious that most countries need to ^{address} face the impact of COVID-19 pandemic. In this section, it will be focused ^{the} on the impact of the COVID-19 pandemic on the agricultural sector in Vietnam.

Even without ~~having~~ the COVID-19 pandemic, people who mainly rely their income on the agricultural sector tend to be vulnerable to many ^{- term} short run shocks. According to IPSARD (2016), people relying their income on agriculture are most severely affected by shocks (33%) compared to people earning salary or wages (approximately 28%), and people relying their income on non-farm activities (about 25%). The shock that is most likely to occur is agricultural disease in livestock and plants. Flood and storms also occur frequently. The risk of drought and fire occurs with less frequency. Lastly, the risk of human diseases such as COVID-19 hardly occurs.

The most severe and obvious impact of COVID-19 pandemic on the agricultural sector is the disruption of agricultural supply chains. Many agricultural businesses suffer from ~~the~~ several impacts of the COVID-19 pandemic such as the tendency ^{for} that people consumes ^{to} less goods and services, the reduction in the exports products due to the closed border in many countries, the input materials shortage, and the lack of available cash for paying salaries, interest payments, and rental fees.

According to the ^{market} survey by the IPSARD (2016) ^{with a sample of} with 1,300 households, 60.08% of the respondents said that the ~~sell~~ prices of agricultural products have been reduced after the existence of the COVID-19 pandemic. About 8% said that they even need to change their form of sale. For example, they switch to the online sales instead of selling their agricultural products offline.



The COVID-19 pandemic also has an impact on inputs of agricultural sectors. According to the chart below, about 45% said that they have to face the higher price of inputs such as fertilizers and pesticides, which lead to another problem that some farmers are unable to purchase the sufficient amount of input causing the reduction in quality of agricultural products. Some respondents said the supply of input materials has to be stopped and the time and amount of supply were not as expected due to various factors such as the lockdown order in some suppliers' areas. Some farmers even need to buy inputs from other suppliers or use another input instead because some suppliers may not be able to provide the efficient and sufficient supply of inputs to those farmers.

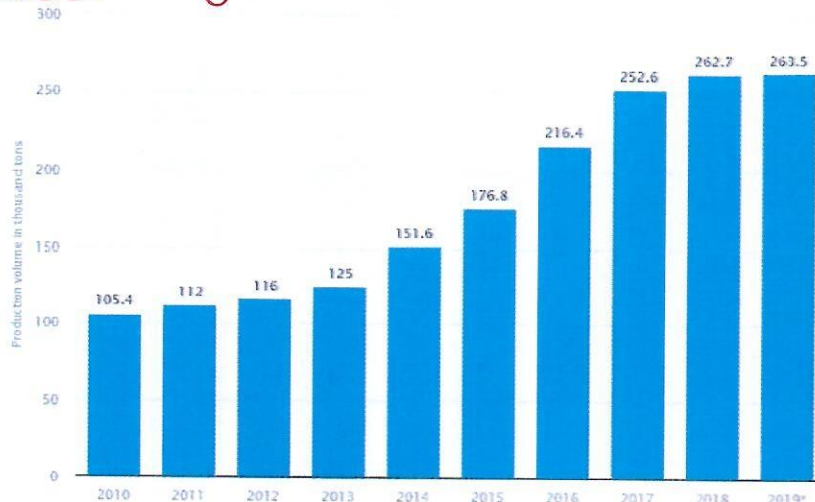


Long-term issues and challenges

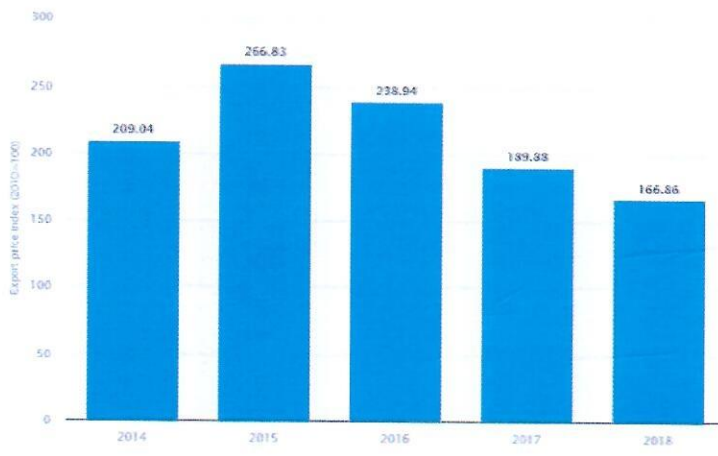
The first long-term issue is related to the oversupply of agricultural products. This oversupply issue has been *point of dragging* on for many years and ~~it is still ongoing~~ *persists,* which creates a huge impact on the economic view. There are many sources of the problem that leads to the oversupply issue such as a lack of production plans from the government, farmers do not follow the demanding trend, and no cooperation between farmers and entrepreneurs. Regardless of the sources, the result of this problem affects every sector. Due to the oversupply of agricultural products, the farmers will compete against each other to sell as much as possible in order to cover their expenses. Therefore, it causes the price to fall significantly.

According to the local farmers, ~~he said that~~ the money that they receive from selling the products is not worth selling them in the first place. This issue does not affect only the farmers' revenue, but it also affects export revenue too. One of the agricultural products that are involved in the oversupply issue is pepper. In 2017, Vietnam expects ~~to ship the peppers~~ *ed* for approximately 101,000 tons during the first half of 2017, ~~which~~ *ed* this amount has risen by around 13% due to the oversupply of the products. However, ~~the revenue~~ *ed* seems to decline by 13% as well as the importers will try to ~~pull~~ *ed* the price down. ~~Especially in the peak harvest season,~~ *ed* the farmers need to sell lots of products to cover the large costs, but it also comes with a sharp decline in price too. The advice from VPA (Vietnam Pepper Association) is to hold on to their stocks and wait until the prices to be recovered which eventually causes the export revenue to decline.

of pepper
their *were able to pull* *In particular, during*



by
 The graph above shows the trend of the production of pepper in Vietnam. As you can see from the graph, it illustrates the production of pepper in Vietnam which is increasing over the years during 2010-2019 due to the oversupply issue. As I mentioned earlier, the oversupply causes the prices to fall. Therefore, the money that farmers are going to receive is not worth it and might not cover their costs so they will hold their stocks and wait until the prices adjust. As they hold their stocks, the export revenue will decline as the below graph. This graph shows the decline in merchandise export index for pepper in Vietnam during 2014-2018. *illustrated*



Another long-term issue is the effect of climate change. Vietnam is one of the countries that is affected by climate change such as typhoons, landslides, or floods the most due to their geography. Those natural disasters have made a severe impact on agricultural production and could even have depleted their harvests by half. As we know that Vietnam is a country that *heavily* depends on agriculture ~~a lot~~, it decreases the major sources of income for the people who work in this sector. For example, Vietnam faced some serious challenges with severe drought in 2016 and the country's temperature increased by 0.9 degrees Celsius in the meteorological year of 2019. *Consider*

In order to provide higher agriculture growth in the long-term, there are many factors that need to be considered such as agricultural innovation or greater sustainability of farm production. One of the innovations that have been introduced recently is "Presence Nutrition" in which farmers are allowed to keep up with the market demands, daily prices, or even local weather forecasts. Therefore, it will decrease the chance of having oversupply issues as the farmers can avoid planting the types that are not needed in the market.

Government strategies and policies

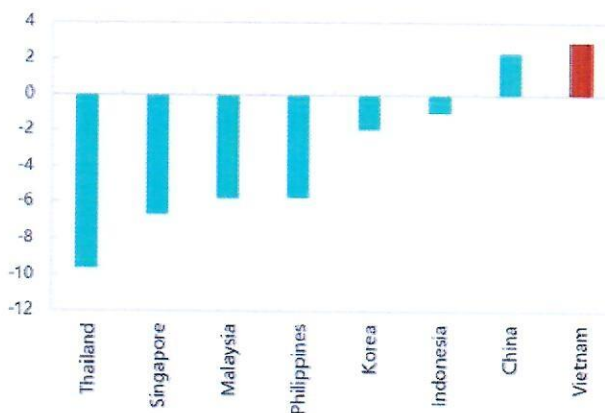
As ~~we~~ mentioned earlier that the issues occur in both the short-term and long-term, ~~so~~ the government of Vietnam took action in order to solve these problems separately. Starting with the short-term problem which is the effect of Covid-19 on agriculture in Vietnam.

The first policy that the Vietnamese government declared in order to respond to the Covid-19 pandemic is the government order directly to the private rice traders to maintain rice reserves equal to 5% from ~~the~~ March 2020 until the next 6 months. The reason that the government uses this policy is that they want to stabilize the domestic market. The second policy is the government announced to stop exporting rice during the Covid-19 pandemic in order to secure domestic food. Moreover, on 27 March 2020, the government also ~~plans~~ ^{decided} to stock 270,000 tons of rice and the ~~Ministry of finance~~ ^{Ministry of Finance} ~~was ordered~~ ^{proceeded} to purchase 190,000 tons of rice and 80,000 tons of paddy rice. However, after facing drought in the Mekong river delta the government policy changed ~~oppositely~~ ^{and decided to}. The government ~~switched their decision from stop~~ ^{inf} export to determine the rice export quota start on 13 April 2020. The government ~~plans~~ ^{planned} to deliver 400,000 tons of rice in April and then another 400,000 tons of rice ~~next coming~~ ^{by} May.

The ~~third~~ ^{allowing} policy is the government subsidize the agricultural sector during the Covid-19 outbreak situation by ~~deferring~~ ^{that} payment of value-added tax, corporate tax, personal income tax, and land rent fee to both agriculture and fishery who are affected by the Covid-19 pandemic. ^{farmers}

High growth in a perilous year

Vietnam's growth in 2020 was the highest in Asia.
(percent)



Source: IMF, World Economic Outlook database.

Next ^{are} is the long-term problem ^s that affects ¹ the agriculture sector in Vietnam ^{namely} which is climate change and oversupply of agriculture products as mentioned earlier.

Beginning with the first problem which is climate change and how the Vietnamese government deals with this issue. The ~~Ministry of Agriculture and Rural Development of Vietnam~~ ^{MARD} (MARD) took action in order to solve the climate change problem during 2011-2015, and also has a vision through 2050. There are around 4 main strategies to improve the climate change capacity in the agriculture and rural sector. First, minimize climate change-related damages. Second, reduce the agriculture sector green gas emission. Third, protect the lives of people who are affected by climate change or natural disasters. The last strategy is to create the opportunity for sustainable agriculture.

To sum up ~~everything~~ ^s the Vietnam government is focusing on the protection of the land nearby ~~the~~ ^s coastal area, stabilizing agriculture production, ensuring food security, and climate change and natural disaster prevention. ^{addressing}

Another long-term problem that ~~they~~ ^{Vietnam} face ^s is the oversupply of agricultural products. Therefore, in order to solve the oversupply problem, the Vietnam government should match the demand and supply leaving no or the lowest excess supply as possible as ~~they can~~.

There are some plans to achieve the goal. The first strategy is to develop the infrastructure to meet the requirements of agricultural products and serve people living in rural areas. The second strategy is to strengthen competitive capacity and international integration of the sector, so if the domestic supply is large they need to find enough demand to match with it which is the demand for all around the world. The last strategy is to improve the efficiency of the sector development management.

In conclusion, in order to solve the excess supply of agricultural products the government needs to use more technology and infrastructure to improve both quality and quantity. ^{There is a} Then ~~they~~ ^{yes} need to ~~search for a lot of~~ ¹ demand for agricultural products from the foreign country ^{also} for matching with the oversupply. At the same time, they need to control the growth to be constant ~~too~~.

¹ identify and aggressively meet the

The Role of Various Development Actors

already defined, no need to spell out.

The department that has an important role in planning policies and strategies is the ~~Ministry of agriculture and rural development (MARD)~~. *which was established* The ~~ministry of agriculture and rural development~~ has been developed since 1987 by the combination of different government ~~ministries~~ *ing* which is the combination of ministry of agriculture and ministry of food, ~~the~~ *the and the* subsequent addition of the ministry of forestry and the ministry of irrigation to ~~today's ministry~~. It is a governmental agency performing state management functions in the ~~part~~ *field* of agriculture, forestry, salt production, fishery and rural development.

The tasks and authorities of MARD is based on Decree No.178/2007/ND-CP. The first task is to lead the process of agriculture development strategies upon approval of authorized agencies. The second one is to control the government budget for prevention of animal and plant diseases and set up the governing board on prevention of animal and plant diseases. The third task is to declare and perform governance guidance and make a report of strategies, projects and agriculture development plans. The fourth is to control the crops and livestock breeds. The fifth authority is to prevent and improve agricultural land and also desertification landslides. The sixth one is to experiment in agricultural products in order to create new crops and livestock breeds. Last but not least guide the import and export of agricultural product

MARD's To sum up, ~~everything that mention earlier~~ *are* the ministry of agriculture and rural development ~~has~~ the tasks and authorities mainly to conduct the agricultural products, control and determine the project that related to the agricultural sector which approval by the government, prevent anything that will cause negative impact to the agriculture sector and supervise the export and import the products which implicate with the agricultural product. Therefore, the sector that has an important role in dealing with the short-term and long-term problems could not be any ministry except MARD.

Lessons Learned

From what our group has learned so far, in our group opinion, we think the most essential element in order to improve Vietnam's agriculture is sustainability. As aforementioned, currently Vietnam faces both short term and long term crises. The effect of Covid-19 and natural disaster ^S to the supply chain have raised the input price which causes higher cost of production. Furthermore, the fluctuation in price due to oversupply has caused poverty in the agriculture sector.

As a result, from what we have learned, all of those factors mentioned have caused the gap between income of agriculture groups and non-agriculture groups. Due to the poverty in the agriculture sector, ^{the} new generation ~~people~~ have no incentive to work in the agriculture sector; ^{rather} they choose to work in other sectors that give higher returns. The reason behind is that except for the agriculture sector, other sectors seem to be capital-intensive which enhance new generation people to work in their fields. Thus, with new generation ~~people~~ which mostly have higher education levels than old generation groups, they will improve the sectors that they work in even more which contributes to a higher gap between the agriculture sector and other sectors.

Currently, the agriculture sector is lacking high education level people who can improve the sector and create more sustainability that can lower the fluctuation in both input and output price. Hence, what the government should do in order to help the agriculture sector is to create more sustainability in the production process by applying innovation and new technologies in the production process. Consequently, the transformation from labor intensive to capital intensive in the agriculture sector will create an economy of scale in the production process which will also lower the factor of production. Therefore, it will reduce poverty in the agriculture sector. As poverty is reduced, it will encourage new generation people from other sectors to move to the agriculture sector, so they can apply their knowledge and skills to improve the agriculture sector. Moreover, technology will also create sustainable agriculture since it can help to maintain resources and prevent essential resources from natural disasters.

At the end, Vietnam's agriculture sector will ^{achieve} ~~have~~ sustainability in the sector which will finally affect input price to be lower and higher output price by creating value added to the final product. Therefore, the key is with sustainability Vietnam's agriculture sector would be better.

Conclusion

Vietnam is a country that depends on the agriculture sector since it contributes more than one-tenth of the country's GDP. In the past, the main purpose of agriculture was importing. Later, with the support of the government, agriculture in Vietnam is improved in terms of exportation which makes Vietnam become one of the biggest exporters of agricultural crops such as pepper, coffee, or rubber. However, the trend of agriculture in Vietnam has declined over the last 21 years after it reached the peak in 1998 along with GDP's growth as Vietnam seems to reach the limit of growth.

In terms of issues and challenges that Vietnam must face, we can separate ^{these} into ^{the} short-term and long-term. For short-term issues, it is mostly related to the COVID-19 pandemic as the pandemic significantly slows down the pace of the global economy which means foreign countries tend to decrease the amount of import on Vietnam's agriculture products. Also, even if they can sell their products, the sold price has been cut too due the decreasing in demand. Moreover, the price of input products such as fertilizers and pesticides are more expensive so some farmers could not afford those products and decrease the quality of the agriculture products. Apart from COVID-19 pandemic, there are more issues in the short-term such as shock from natural disaster or agricultural disease which ~~these shocks~~ destroy farmer's crops and livestock. For the long-term issues, the issue that has occurred for many years is oversupply issue. Oversupply issue is an issue that causes farmers to throw away their stocks as they could not sell their leftover stocks. With this issue, the sold price decreases significantly as the supply exceeds the demand. Consequently, there is some advice for farmers to hold on their stock for a while until the price is adjusted which means they are not going to export their products which means that the export revenue will also be decreased. In addition, there are similar issues that also occur in the short-term which are natural disaster issues. Due to Vietnam's geography, they faced a lot of fluctuation in climate such as drought and floods which caused a negative effect on their harvests.

To prevent those issues, the government needs to come up with the strategies and policies. We also separate the policies into both short-term and long-term. For the short-term, the government comes with 3 policies. The first policy is to maintain a rice reserve policy equal to 5% in order to stabilize the domestic market. The second policy is to stop exporting rice during COVID-19. Even though it is not a good thing to stop exporting the products in the long-term, it is important to secure the foods for domestic people in the short-term especially

with the pandemic. The third policy is to subsidize the agricultural sector such as deferring the payment of value-added tax or personal income tax. For the long-term, the oversupply issue has affected the agriculture sector a lot. Therefore, the government comes up with the strategy to reduce excess supply such as improve infrastructure, to increase demand by strengthening competitive capacity and international integration of the sector, and to improve the efficiency of the sector development management. Also, natural disasters are important as much as oversupply issues. There are 4 policies to prevent which consist of minimize climate change-related damages, reduce the agriculture sector green gas emission, protect the lives of people who are affected by climate change or natural disasters, and to create the opportunity for sustainable agriculture. The aim is to make agriculture in Vietnam become more sustainable.

The role of various development actors is coming from the department of ministry of agriculture and rural development (MARD) which acts as a governmental agency in the agriculture parts. The tasks of this department are to lead the process of agriculture development strategies, to control the government budget for prevention of diseases that caused by crops and livestock, perform a government guidance regarding to the agriculture sector, control the crops and livestock breeds, prevent and improve agricultural land and also desertification landslides, make an experiment on new types of crops, and enhance import and export for the agriculture sector.

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good!

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