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## AGRICULTURAL PRODUCTION VALUE IN THE FIRST 6 MONTHS OF 2015 - REASONS FOR GDP DECLINE

After a successful year, the first 6 months of 2015 seemed to be a “*bad time*” of the agricultural sector since there were a lot of unhappy news in this period such as: major agricultural products faced difficulties in export, turnover significantly decreases for rice, seafood and coffee, etc...

According to the General Statistics Office, the total GDP in the first 6 months of 2015 approximately increased by 6.28% compared to the same period in 2014, this was also the highest rate since 2009, including:

- Agricultural, forest and aquatic products: 2.36% (only counts as 0.42% in total)
- Industry and Construction: 9.09%
- Trade, service: 5.9%
- Processing and manufacturing: 9.58%

*For agricultural sector:*

- Fishery: 3.3%
- Agriculture: 1.9% (the lowest sector is cultivating with 1.08%)
- Forestry: 8.3%



## EXPORT IN THE FIRST 6 MONTHS OF 2015

The total agricultural export turnover in the first 6 months of this year was estimated to reach \$14.42 billion, which decreased 2.8% compared to the same period in 2014. In this, the export value of the major agricultural products approximately reached \$6.93 billion, which decreased 5.7%, coffee (35.1%) and rice (10.5%) were strongly decreased; Aquatic product export value approximately reached \$2.97 billion, which decreased 16%, the American market was strongly decreased by 29.07%. The export value of the major forest products approximately reached \$3.29 billion, which increased 8% compared to the same period in 2014. The total trade surplus of the sector reached \$3.05 billion, which decreased 32.1% compared to 2014.

## CAUSES FOR THE DECLINE OF AGRICULTURAL GROWTH IN THE FIRST HALF OF THE YEAR

At the preliminary wrap-up report conference for the first 6 months of 2015 on the agriculture and rural development, many representatives from varieties of central departments and local authorities and experts have pointed out the causes for the decline of agricultural production value in recent times.

**1. Market issues** Agricultural product price greatly decreased due to the supply had overtaken the demand in some products.



In the first 7 months of this year, Viet Nam exported approximately 3.72 million tons of different kinds of rice and reached \$1.59 billion, which decreased 3.1% in quantity and 8.3% in value compared to the same period last year.<sup>1</sup>

The causes for this decline is from the global profuse rice supply which led to the fierce competition. According to this, the domestic rice exporter had to face the severe competition from Thailand, India, Pakistan and Myanmar.

## **2. Lack of market infrastructure**

In recent times, Viet Nam has left a big “blind point” in the infrastructure system, especially for the wholesale market and big market which created the inconvenience in product transportation. It’s the reason led to the chorus “bumper crop, cheap at the price.”

In addition, the lack of infrastructure also caused a great post-harvest loss which strongly reduced the product value. Besides, there were also lack of mechanism and policies for development in rural areas to create conditions for private sector to participate in such as the distribution such as the markets, convenience stores, etc... At the same time, the post-harvest infrastructure system was not developed quite well. There was only a few post-processing warehouses of certain items such as rice, coffee but their storage quality were not good enough for processing and export<sup>3</sup>.

## **3. Serious influence from drought:**

Drought happened to be the most serious in the past 40 years in the middle and central highlands provinces. This is one of the reasons why the crop production sector had the lowest growth rate of only 1.08%, which was halved compared to the same period in 2014. Crop production is the highest proportion sector in agriculture (50.7%), and its drop rate made the growth rate of the whole industry pulled down very low<sup>4</sup>. “This is a worrisome problem that has to be jointly resolved because agriculture is the pillar of the economy which is attracting a large numbers of labour forces as well as greatly contributing to the social security”<sup>5</sup>.



## **4. Limitation on mode and relation of production, lack of value chain integration, market information and the leading role of private sector**

- This decline was most evident manifestation of the limitations and shortcomings of the agriculture based on a fragmentary, ununited, inefficient and low quality farm household economy. In the context of increasingly fierce competition, it will be more difficult for Viet Nam agriculture to stand. The formation and development of the new production mode and relation in agriculture are still slow. Besides, the quality and competitiveness of many agricultural commodities are also getting lower.

- Lack of information connection from production to market. “Information does not reach the people since the state authorities can not cover everywhere and the producers are not sharp enough to gather such information.”<sup>6</sup>.

- Lack of leading role for production development as well as for investment to enhance the added value and increase the competitiveness in agricultural trade in order to meet the market requirements. In fact, there are currently 70 - 80% of Viet Nam agricultural products are rawly exported. This is unreasonable condition that made the income of farmers and business sector low.

<sup>1</sup>Vice Chairman of the Viet Nam Food Association (VFA), Huynh Minh Hue

<sup>2</sup>Director of Institute of Policy and Strategy for Agriculture and Rural Development, Dr. Nguyen Do Anh Tuan

<sup>3</sup>Deputy Minister of Industry and Trade, Tran Tuan Anh

<sup>4</sup>Deputy Director General of Directorate of Water Resources, Nguyen Van Tinh

<sup>5</sup>Minister of Planning and Investment, Bui Quang Vinh

<sup>6</sup>Processing Manager of Department of Processing and Trade for Agro-forestry-fisheries Products and Salt Production, Nguyen Manh Dung

# SOLUTION FOR AGRICULTURAL GROWTH RECOVERY IN THE LAST 6 MONTHS OF 2015

**M**inister of Agriculture and Rural Development Cao Duc Phat directed: "In the last six months of 2015, the agricultural sector has to not only maintain growth rate as the past 6 months, but also has to try our best to increase 10.000 billion VND higher. Product add-value of the whole sector of the first 6 months was approximately 12.000 billion VND. So we must work harder to reach 22.000 billion VND to reach the total output value of 3.4% and added value of approximately 3%, as expected by the Government".



*The preliminary wrap-up conference on the report for the first 6 months and missions for the last 6 months of 2015, dated 1st July 2015*

Drastic and breakthrough solutions are needed to achieve such goals because according to many forecasts, the world's agricultural markets in the future tend to move sideways or decline. Meanwhile, the international economic integration is getting deeper, which make the competition on price and quality with other countries harder. In addition, we also have to compete in the domestic market increasingly. Furthermore, the weather tends to increasingly be unstable with drought, typhoon, etc... That's why the breakthrough solution is needed to handle the problems thoroughly. There are several solutions for agricultural growth recovery such as: Review of the value chain to market products; Expand production to remove difficulties and obstacles; support farmers and business sector to boost production and trade activities. In specific:

- To promote the restructuring of the following sub-sectors: crop production, animal breeding, fisheries and forestry
- To invest S&T and high technologies in agriculture and rural development
- To improve the business environment, which creates the condition for business sector to invest in production development

## 1. Agricultural restructuring quickly and properly promoted following market signals

### In relation to crop production

In order to restore the growth of the sector, the follows should be done:

- To change the thinking in crop production development which should move to commercial production, international integration and competitiveness as well as sustainable development;
- Production reorganization is identified as the motivation of restructuring implementation. Civil social organizational forms for farmers such as cooperatives, associations should be developed...
- To strengthen the link among farmers, organizations and business sector to invest in production, processing and product sales business. Business sector should play a leading role to guide the production development, especially in expanding export market which brings higher value to agricultural products.



### In relation to rice:

- The goals for rice by 2020 is to converse the 700.000 hectares of inefficient rice land inefficient to plant other value crops which are better appropriate with natural conditions.
- To continue to support farmers to produce higher-quality rice for domestic consumption, while at the same time, changes in the world market should be kept track of.
- The Project on "Viet Nam rice brand Development" should be implemented to target the high quality rice and specialties for export. In addition, the competitiveness and value of the product on the markets that strictly require quality such as EU, US, Japan... should also be enhanced.



The rice production - consumption connection should be implemented. Besides, priority should be given to give proper direction on the rice structure in each production crop, also create the cultivation process for 1 or 2 rice varieties in the large field and material area towards branding. From that, the quality will be identified, which create the advantage from production to cultivation, processing and consumption.

Mr. Akira Ichikawa, Branch general director of Nousan Seibu Food Company in Viet Nam (the one is preparing Japonica rice production in Viet Nam for export), brought out two major reasons that made Vietnamese rice not be able to join the Japanese market yet, which are: the residues of pesticides and plant protection drugs; the rate of Indica rice (long grain rice) mixed in Japonica is high (over 17%).

Dr. Le Huy Ham, Director of Agricultural Genetics Institute said: In the coming years, Viet Nam should focus on high export potential rice varieties and on specifically branding to a particular rice variety. Because Vietnamese rice brand is now currently including all types of rice, so we have to build a brand for a few main varieties, for actually having a global rice brand. From that, we will have high export prices as well as be able to enter and compete in the advanced export market.

### In relation to fishery:



In the first 6 months of 2015, the Fishery sector continued to grow with total production estimated at 3,065 thousand tonnes. Particularly, aquaculture is estimated at 1,830 thousand tons, fish catching is estimated at 1,235 thousand tons. The total production increased by 3.6% compared to the same period last year, in which, increased 4% in fish catching and 3.3% in aquaculture. Especially, the brackish shrimp production continued to achieve high growth rates, approximately 21%. According to the General Statistics Office, the estimated fishery value in the first 6 months of the year from 2010 reached 164,910 billion, which increased 3.3% compared to the same period last year and accounted for 17.6% of added value for the whole agricultural sector.

Based on the results of the first 6 months and the forecasts for the last 6 months, fishery sector aims to reach 6,400 thousand tons with 2,600 thousand tons of fish catching and 3,800 thousand tons of aquaculture. To achieve such goal, it's necessary to have a proper direction by the end of 2015 to implement comprehensive solutions, specifically:

- To strengthen the specialized State management on the quality of varieties and materials for production. Priority should also be given to guide the farmers and fishermen the way to feed the fishes in favorable weather conditions.
- To continue the implementation of Decree No. 67 of the Government on fish catching, while ensuring the safety for fishermen and fishing vessels operated in the fishing ground.
- To strengthen the infrastructure system for aquaculture
- To invest in high technology for production development in order to increase the productivity and added value of the products
- To strengthen the aquatic veterinary. It's also necessary to implement the disease prevention associated with aquaculture management. It depends on the good management of input materials, good varieties, disease safety, feeding environment and advanced feeding technologies applied.
- To strengthen the link between the people and business sector, between production and market.

Due to the unusually hot weather as well as the difficulties and obstacles in consumer market, the key production (shrimp, shark catfish) decreased compared to the same period last year, in which, shrimp production reached 236,000 tons, 2.5% reduced, shark catfish also decreased sharply.

"Currently, the weather is getting more favorable in feeding areas, which boosts farmers to feed the whiteleg shrimp and prawn in the last months of the year. Especially the rice-shrimp model with an area up to 200,000 hectares can absolutely help to lift up the prawn productivity, thereby increase the total sector growth."<sup>7</sup>



*Super intensive whiteleg-shrimp feeding in glass house*

### In relation to livestock breeding

"Breeding is the second biggest sector in Viet Nam agriculture, though it's considered as an uncompetitive and unstable sector which is easy to be affected by bad impacts from the free trade agreements (FTAs)."<sup>8</sup> Therefore, it's necessary to change the perception and approach to develop the breeding sector towards merchandisation which requires highly competitive in terms of quality and value in consumption and export. This helps the sector to create leading frameworks for better sustainable and efficient development. In addition, Developing the linked chain and newly creating linkages in livestock breeding contribute to create breakthrough in adding the value of livestock products.

<sup>7</sup>Deputy Director General of Directorate of Fisheries, Pham Anh Tuan

<sup>8</sup>President of Viet Nam Institute for Economic and Policy Research, Nguyen Duc Thanh

### **Some specific solutions:**

- To focus on the productivity and quality of varieties.
- To guarantee the food safety, control the chained quality and trace the origin of the products.
- To reorganize the high-tech applied production, reduce the costs and prices in livestock and veterinary.
- To reform the administrative procedures, apply the policies to support livestock farmers and encourage business sector to invest in and develop the large-scale farming.



### **In relation to forestry**



Unlike the crop production sector, the forestry sector achieved the best growth rate in recent years with impressive result at 8.3%.

“Favorable weather plus good preparation for varieties and locations made the afforestation reach the higher result than last year. Until June, the new concentrated planted areas reached 85.000 hectares, increased 19%; the cared forest areas reached 360.000 hectares, increased 16.2%; forest area regeneration reached 604.700 hectares, contracted protection forest reached 4805.2 thousand hectares, equivalent to the same period last year; the output of wood was estimated to reach 3,470 thousand cubic meters, increased 11.7%.”<sup>9</sup>.

### **Implementation missions for the last 6 months**

- To continue to innovate and develop the forms of production organization and restructuring for the State forestry enterprises and the State forestry companies.
- To facilitate better support for timber exports, review tax policies in forestry in order to encourage and promote the forestry production and trade towards higher post-processing added value.
- To develop the private sector and economic cooperation as well as build the public-private partnership model in the forestry; increase the number of forestry cooperatives to at least 200% by 2020 compared to 2011. Priority should be given to facilitate in institutional system and provide other diversified and flexible forms to farmers and households, so they can contribute their land use right value with business sector in order to centralize the lands for large forestry production scale and sustainable development.

### **2. Investment in research and application of science and technology in production - A key solution to promote agricultural restructuring**

At the workshop, Minister of Agriculture and Rural Development Cao Duc Phat said: “In the process of restructuring the agricultural sector, the role of business sector is increasingly important. One of the policy focus in the Agricultural restructuring Project in the agricultural sector is to promote the research, application and transfer of science and technology (S&T) in agriculture with active participation of all economic sectors from the central to local levels, in which, the state plays a leading role, farmer is subject and business sector holds a key role...”



*Workshop on “Mechanisms and policies to encourage business sector to invest in research, application and transfer of science and technology in agriculture”, dated 2<sup>nd</sup> July 2015 in Ha Noi.*

<sup>9</sup>Deputy Director General of Viet Nam administration of Forestry, Nguyen Ba Ngai

“Recently, the State has increasingly invested in research and transfer of S&T for agriculture. The research system was strengthened, many research results were transferred which contributed to improve the productivity and quality of agricultural products. Mechanism of S&T activities were also innovated towards socialization. In addition, the participation of economic forms were mobilized and many enterprises have been actively investing in the establishment of S&T research centers, implementing the research activities and cooperating with institutes in the transfer.

However, the agricultural sector has not yet promoted their full potential. That is because the S&T agricultural level in many areas of Viet Nam is still low and slowly developed which is far apart from the world and the region and hasn't met the requirement of being the foundation and motivation for social-economic development.

New achievements only gained from some key products such as shrimp, shark catfish, rice, corn, pepper, coffee, rubber and some other crops. There are still limitations in livestock and veterinary. Besides, the breeding technology, vaccines and biological products for disease prevention has not been mastered...<sup>10</sup>.

Minister Cao Duc Phat suggested: “The scientists whether in hospital, school or business sector should join hands to overcome difficulties and problems, bringing S&T to production and business in order to create good products for socio-economic development. So, Viet Nam won't be forever a middle-income or lower middle income country, and the Party's resolutions on S&T will become reality in the near future.”

### **Policies to encourage investment in high technology in agriculture and rural development**

Viet Nam has recognized 11 high-tech agricultural enterprises. Development of high-tech agriculture will focus on three directions: Creating and developing technology; planning the high tech agricultural areas; and recognize the high tech agricultural enterprises.<sup>11</sup>

By 2020, Viet Nam will build 10 high-tech agricultural zones. 8 of them have been decisively established by the People's Committee of Province and Municipalities (Decision No. 575 / QD-TTg).

Besides 2 high tech agricultural zones, Hau Giang and Phu Yen which have been approved by the Prime Minister, other 8 high tech agricultural zones which are being planned and built under the establishment of the Provincial People's Committee include: Thai Nguyen, Quang Ninh, Thanh Hoa, Khanh Hoa, Lam Dong, Ho Chi Minh City, Binh Duong and Can Tho.



*High tech agricultural zone in Ho Chi Minh City. (Source: VN News Agency)*

*As approved by the Prime Minister, the high tech coffee production zones are focused in Central Highlands, Northwest and North Central Coast; the high tech tea production zones are focused in Thai Nguyen and Lam Dong; the high tech dragon fruit production zones are focused in Binh Thuan.*

*The high tech vegetables production zones are focused in Lao Cai, Ha Noi, Hai Phong, Ho Chi Minh City, Lam Dong; the high tech flower production zones are focused in Lao Cai, Ha Noi, Ho Chi Minh City, Lam Dong; the high tech major export fruit production zones are focused in the Southeast and the Mekong Delta.*

*The high tech dairy zones is focused in Son La, Ha Noi, Nghe An and Lam Dong; the high tech foreign pig breeding zones are focused in the Red River Delta and the Southeast; the high tech poultry farming zones are focused in the Red River Delta, Northeast, North Central Coast and Mekong Delta.*

*The high tech saltwater and brackish shrimp production zones are focused in the Red River Delta, North Central, South Central Coast, the Southeast and the Mekong Delta.*

<sup>10</sup>Deputy Minister of Agriculture and Rural Development, Le Quoc Doanh

<sup>11</sup>Head of Science and Technology Department, Ministry of Agriculture and Rural Development, Nguyen Thi Thanh Thuy

## Typical successful high technology investment in agriculture

The TH Group's farms (TH True Milk) in Nghia Dan district, Nghe An awarded "The largest scale of concentrated and high technology dairy farm in Asia". The TH's project "Dairy farming and clean fresh milk processing in centralized industrial scale" deployed since October 2009 on 37 thousand hectares area with a total investment of \$1.2 billion. Currently, the project has total 45 thousand cows with an average milk production of 40 liters/cow/day.

Minister Cao Duc Phat said: "The success of TH has brought confidence to the future development of Viet Nam dairy industry, because it shows that even in difficult areas such as Nghe An, the homeland of Laos wind can still succeed in dairy farming by high technology".



TH Group dairy farm

However, the reality in applying high technology for business sector requires such relatively large investments. That's because investment for high technology needs indispensable technological content and technological cost as well as infrastructure, in which, not every enterprise will have the ability to invest. Therefore, encouraged policies, incentives and support of the state for high tech agricultural enterprises can help them access to capital, regulation and preferential policies on land and investment. From there, business sector may have an initial foundation to conduct research and application of high tech agricultural model into practice.

The Association of Advanced Technology Enterprise in Agriculture (ATE) in Viet Nam was established in February 2013. The association gathers Vietnamese enterprises who have the common goal of applying high technology for modernization. They have a new thinking of changing the production pattern of agricultural growth.



The workshop on "Solutions for developing the large scale agricultural production model applied high technology" organized by Nhan Dan Newspaper, State Bank, Ministry of Agriculture and Rural development and The Association of Advanced Technology Enterprise in Agriculture.



Minister Cao Duc Phat said at the Conference on "Application of Biotechnology in Agriculture" organized in 27<sup>th</sup> June 2015 in Ha Noi.

"In the past, we followed the old mechanism, in which, how much we could do depended on how much money the government gave us. At present, it's necessary to have open mechanism for the society to get involved in. This is the ground for the experts to put the researches into real life and create good conditions for the researchers to work. The most important thing of the upcoming solution is not to divide the subjects but to have mechanisms and policies to attract business sector's participation..."

### 3. Business environment improvement to facilitate the investment process in agriculture and rural development

Resolution No.19/NQ-CP dated 12th March 2015 of the Government on the key tasks and measures for improving the business environment, enhance national competitiveness from 2015 to 2016, identified the following objectives: "To focus on improving the business environment, promote the reform of administrative procedures...; to comprehensively reform the regulations on business conditions and specialist management of goods and export/import services towards switching to post-mortem". The objective of the resolution is also to reach the target on the business environment in our country which is to achieve and exceed the average level of ASEAN 6 by the end of 2015 and ASEAN 4 by the end of 2016 respectively. In order to achieve the above objectives, the Resolution proposed 13 overall tasks and solutions and 80 specific solutions for ministries, agencies and localities.

Improving the business environment is the most effective measure to promote economic growth. It helps business sector save a lot of time and money as well as improve business efficiency and increase the competitiveness of the economy. Currently, many reform contents on improving the business investment environment require specific solutions on creating pressure which force the officers and civil servants to perform. In this, working directly with people and enterprises is also encouraged. These solutions are to prevent the possibility that those officers will be able to neutralize the progress of reforms launched by senior leaders. Priority should also be given to have clearer and more sufficient regulations on the responsibilities of each officer position from the state authorities, who work directly with the business sector and people.

In the meeting of the Standing Committee of the National Assembly dated 10th August 2015, Minister of Finance Dinh Tien Dung said many fees and charges have been abolished from the ministries and sectors through the review process. However, the numbers of current fees implemented in the management agencies are still large and complex. For example, the agricultural sector, after the revision process still has more than 1,000 kinds of fees and charges (90 kinds of fees and 937 kinds of charges) in the State management in agriculture.

According to the Ordinance on Charges and fees, there are a total of 72 types of fees and 42 types of charges. But the Finance Ministry's review showed that there are still other 22 laws, 30 decrees and 200 circulars regulating about hundreds of different types of fees and charges which are needed to be comprehensively reviewed. Minister Dinh Tien Dung also said that the Ministry of Finance is keeping on working with other ministries and agencies to review, repeal and switch the prices for various types of fees and charges towards strongly moving to market mechanism.

Ministry of Agriculture and Rural Development has sent a document to the Ministry of Finance on repealing 31 kinds of veterinary quarantine fees and charges on chickens and eggs. The ministry will continue to review other unnecessary fees to minimize the price for the business sector and people. Some fees will be transferred to the price mechanism, some still have to be performed though. The stages and products with fees will then be cut down their charges, the state budget will also be balanced to make up for that task, while business sector and people won't have to pay to reduce the cost of livestock production. After Charges and Fees Act will be reviewed at the end of this year by the National Assembly, it's likely that more fees and charges in agriculture will continue to be cut down<sup>12</sup>.



*Regulations are needed to be changed to avoid the situation of "a chicken or egg is under 14-17 types of different taxes and fees, from import tax on feed's ingredient, fertilizers, pesticides, veterinary drugs to VAT and quarantine fees."*

<sup>12</sup>Head of Finance Department, Ministry of Agriculture and Rural Development, Pham Van Hung

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