



FOOD AND BEVERAGES SECTOR BRIEF

VIETNAM



Country Overview



Viet Nam, officially the Socialist Republic of Viet Nam occupies the easternmost position on the Indochinese Peninsula. Viet Nam shares its land borders with China to the north, and Lao PDR and Cambodia to the west, and shares maritime borders with Thailand in the Gulf of Thailand, and the Philippines, Indonesia, and Malaysia through the South China Sea, so geographically the country is a cornerstone of the ASEAN region. With an estimated 95.5 million inhabitants in 2019, Viet Nam is the 15th most populous country in the world. The capital city is Hanoi in the northern region, while the most populous city and largest commercial hub is Ho Chi Minh City, close to the Mekong river delta in the south.





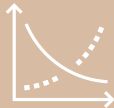


In the last two decades, economic growth is undiminished, with manufacturing, tourism and service industries leading the new economic system of Viet Nam, while agriculture remained a key pillar in rural communities. The economy of Viet Nam has a very high level of openness, the ratio of trade over GDP has reached 200% in 2017, nearly double the figure from 2000. During the same period, the total value of imports and exports climbed from US\$ 50 billion to US\$ 470 billion.

The expectations for Viet Nam's economic performance in 2020 were high at the beginning of the year, but the COVID-19 outbreak stopped its momentum. However, there is an expectation that the long-term positive trends will continue after the virus is defeated. In January, before the lunar new year, retail sales were up by 10%, and tourism was booming as well. The agricultural sector was underperforming slightly, mainly due to the long-term effect of the swine fever, which caused agricultural exports to decline. The long-term aspects of Viet Nam are nevertheless bright, supported by new developments - the EU-Viet Nam trade deal for example was approved by the EU Parliament in February 2020, coming into force in August of the same year.

Growth slowed in Q2 to 0.4%, the weakest level for decades. Exports and tourism plunged, while domestic social distancing measures caused a contraction in the services sector. Nonetheless, Viet Nam should have still markedly outperformed regional peers, as the effective health response allowed the swift lifting of restrictions from late April. This saw the economy recover in the tail end of Q2, as evidenced by a rebound in industrial production and retail sales in June, and the effects should be visible in annual economic figures.



INDICATORS OF THE ECONOMY WITH PRE-PANDEMIC FIGURES:

Indicator	 Population (million)	 GDP per capita (USD)	 Economic growth (GDP annual variation, %)	 Inflation rate (%)	 Trade balance (billion USD)	 Exports (billion USD)	 Imports (billion USD)
2016	92.7	2,172	6.2	4.7	11.0	177	166
2017	93.6	2,353	6.8	2.6	10.8	215	204
2018	94.6	2,545	7.1	3.5	16.5	244	227
2019	95.5	2,722	7.0	5.2	45.4	226	181

Sector Overview



Food manufacturing and food market segments

According to the Ministry of Industry and Trade, food processing industry in Viet Nam grew by an average 6.8% per annum since 2015, while beverages alone showed a faster pace, reaching 9.7% annual growth during the same period. Food processing is one of the major focus areas in the latest long-term development plan of the country – Vietnam 2035, Toward Prosperity, Creativity, Equity and Democracy.

Revenue in the food market amounted to US\$ 63.3 billion in 2020, which in relation to total population figures amounts to US\$ 653 per capita.

Main products and segments

Meat and processed meat

The meat segment includes fresh and processed meat. The fresh meat segment covers beef, veal, pork, poultry, mutton, goat, and other types of fresh meat. The processed meat segment includes ham, bacon, sausages, cold cuts, and roast meat. Meats are among the top product groups in the food market in terms of sales and revenue. The average consumption per capita was 11.2 kg in 2020. The meat segment's revenue amounted to US\$ 6.2 billion in 2020, and it is expected to grow at a compound annual growth rate of 6.7% until 2025.

Processed meat products, especially cold cuts are quite popular in Viet Nam, unlike in most other ASEAN countries, and this makes the country attractive to European exporters. There are numerous investors in this segment from the EU, USA and from Singapore.

Dairy products and eggs

The dairy products and eggs segment covers all types of dairy products which play a major role in the daily diet of many consumers. In addition to fresh milk, the segment is split into eggs, yogurt, cheese and other dairy products and eggs such as preserved and powdered milk, cream, non-dairy milk substitutes, eggs other than chicken eggs, curdled milk, yoghurt drinks, lactose-free milk, probiotic milk drinks and fortified milk.

Revenue in this segment amounted to US\$ 5.03 billion in 2020, and the post-COVID-19 growth expectation is 6.4% per annum until 2025. Even though dairy products are not traditionally part of the Vietnamese cuisine, per capita consumption in 2019 was 24 kg, of which 15 kg was milk.

Fish and seafood

The fish and seafood segment includes fresh, frozen, and processed fish and seafood. Since 2015, the industry has gone through a transformation, where many large processing companies acquired smaller companies, while smaller players were seeking both domestic and foreign investors to stabilize their market position. Traditionally, following the official ideology of the Socialist Republic of Viet Nam, all seafood processing companies were owned by the state. However, the Vietnamese government has allowed private investors, usually people who run them, to buy into these companies and form a joint stock enterprise. As a further progress, full privatisation has become possible, and several large companies are now listed on the stock exchange in Hanoi or Ho Chi Minh City.

Thai companies are especially deeply involved in the Vietnamese seafood industry, for example CP Group, Thailand's biggest animal feed and chicken producer, has invested in Viet Nam and produces feed for fish and shrimp, pigs and poultry, and also runs a shrimp farm near Hue. Another example is the Go Dang Seafood (Godaco), which is partly owned by a British-Thai conglomerate.

Revenue from the fish and seafood segment totalled US\$ 7.5 billion in 2020, with a long-term growth potential of 5.2% per annum.

Bread and cereal products

most of the other countries in the ASEAN region, with average per capita consumption of 91.4 kg per annum. This segment includes fresh bread and bread rolls as well as rice, pasta, breakfast cereals, and other cereal products such as flour. Additional cereal products such as cakes, cookies, crackers or pretzels can be found in the confectionery and snacks segment. This is one of the largest food market segments, with 2020 revenues of US\$ 10.9 billion. The market has more potential to grow, with an expected pace of 5.7% until 2025.

This market segment is the main driver of the growing grain import to Viet Nam. Between 2018-2019 Viet Nam imported 14.7 million tonnes of grain, up from 13.7 million tonnes the year before. This figure includes imports of 4.4 million tonnes of wheat, down from 4.6 million the year before, and 10.2 million tonnes of corn, up from 9 million a year ago.

Confectionery and snacks

The confectionery and snacks segment covers sweet, savoury, and salty foods such as chocolate confectionery, sugar confectionery, ice cream, preserved pastry goods, and cakes, as well as potato chips, tortilla chips, flips, pretzels, cookies and crackers.

Viet Nam is a large producer, exporter, and importer of these products. In the first half of 2019, the trade surplus was US\$ 175 million, which was a 2.94% growth year-on-year. China is the largest buyer of Vietnamese confectionery, but intra-ASEAN trade is becoming more relevant. Indonesia was the largest exporter to Viet Nam, an indication of the main directions of grain-based value-added products.

The whole segment in Viet Nam accounted US\$ 8.3 billion in revenue, and an annual growth of 10% is expected until 2025. A 2019 survey by Kantar Worldpanel found that, on average, a Vietnamese household spends VND1 million or US\$ 43 per annum on confectionery products and snacks. 2021 consumption is expected to reach VND14.2 trillion or US\$ 610 million in rural areas, and VND3.4 trillion or US\$ 146 million in urban areas.

Alcoholic drinks

The alcoholic beverage market in Viet Nam is experiencing fierce competition between local and international players, especially in the beer industry. The market has witnessed continuous growth in recent years in terms of production and consumption. Major drivers of growth are the economy, a young population, the rise in disposable income, and drinking culture becoming more prevalent in Viet Nam.

The Vietnamese consumed 4.97 billion litres of alcoholic beverages in 2019 and Viet Nam ranked 16th amongst the largest alcoholic beverage consuming countries in the world. Beer contributed 4.8 billion or 96.63% of the total, making Viet Nam one of the top ten beer consuming countries, and the third largest in Asia, after Japan and China. Revenue in the alcoholic drinks market amounted to US\$ 8.362 million in 2020 and between 2020-2023 the market is expected have a compound annual growth rate of 13.3%.

Around 90% of the Viet Nam's market is controlled by the top four breweries, which are Sabeco, Habeco, Heineken, and Hue Brewery, while new players like Sapporo, AB InBev, and Masan Brewery share the remaining 10%. Viet Nam's population was projected to reach 100 million by 2020 with the working-age population accounting for 60% of the total, with the median age at 30 years. This group is a major target market as it is the largest consumer of beer in the country. In addition, 77.3% of the male population consume alcoholic products, which is twice the average figure in the world.

Soft drinks

Soft drink consumption per capita in Viet Nam is still low, but is growing quickly and becoming increasingly dynamic due to positive demographic trends, along with rising consumer affluence. Almost 40% of Viet Nam's population is under 24 years old and with soft drinks mostly targeted towards younger generations, this means there is a positive future for sustainable growth in the soft drinks sector. The growth of the sector is evident, as between 2015 -2019, Viet Nam witnessed an average growth rate of 9.7% per annum.

Food service

Retail

Viet Nam's modern retail foods sector saw significant growth in 2019. According to the General Statistics Office (GSO), the total 2019 food and beverage retail sales were estimated at US\$ 51 billion, a 13% increase over the previous year, with modern retail food channels accounting for approximately 14% of the total. Strong economic growth, increasing foreign investment, benefits from free trade agreements (FTAs), a growing middle class with higher disposable income, rapid urbanisation, and heightened concerns about hygiene and food safety continue to fuel the sustainable growth in this sector. Several existing modern retail food chains, including BRG, Aeon, and Bach Hoa Xanh, continued to expand their distribution networks, not only in Hanoi and HCMC, but also in second-tier cities and provinces across the country. Some modern retail chains have both hyper- and supermarkets and convenience stores in their distribution channels. The number of modern grocery outlets jumped from around 1,000 in 2013 to over 4,000 in 2019.

Competition in the sector remains fierce with three leading modern retailers withdrawing from the market and three major online platforms closing in 2019. Shop&Go, a Singaporean-invested convenience store chain, exited Viet Nam by selling its 87 stores to Vincommerce, a retail subsidiary of the Vietnamese conglomerate Vingroup, and Auchan, a French-invested supermarket chain, soon followed by selling its 18 stores to Saigon Co-op, a state-owned Vietnamese retailer in 2019.

Restaurants and Hotels

Strong GDP growth, rising income and rapid urbanisation, combined with booming tourism, contribute to significant growth in the hotel and restaurant segment. The most prominent trends in this field are:

- Consumers are more interested in Western style restaurants, in terms of both cuisine and design.
- Both international and local tourists are seeking higher quality food, sophisticated menus and cuisines from different parts of the world.
- Fast food chains are growing fast, which may be a negative trend for small, local, street outlets but also bring higher value ingredients to the market. Bubble tea shops are a local speciality, acting as real fast-food franchises. Although they target the mass market, their target group is highly price sensitive.
- The premium segment has only recently emerged in Viet Nam, with independent specialist coffee shops and high-end restaurants offering a complete experience, including high quality food and excellent service.
- In 2019 environmental awareness and responsibility increased in the food service industry, spurred by rising consumer awareness. Many mid- and high-end restaurants and coffee shops have taken various actions, such as using straws from eco-friendly materials, stopping the usage of plastic cutlery, or not using disposable plastic products as a whole.



Regulations



The Ministry of Agriculture and Rural Development (www.mard.gov.vn) is the key actor regarding regulation of the agriculture sector in Viet Nam. Its departments, respectively the Plant Protection Department (PPD), the Department of Animal Health and the Directorate of Fisheries are responsible for trade regulations and their implementation. The Viet Nam Food Administration (www.vfa.gov.vn) is the agency that deals with international trade and food safety issues.

Registration and tariffs

Exporters to Viet Nam may require certain certificates depending on the nature of imported products. Registrations must be made prior to entering Viet Nam. In the case of chilled and frozen meat, poultry and seafood products, this can be obtained from the Department of Animal Health. Live aquatic products must obtain a health certificate. Not all aquatic species are eligible for trade in Viet Nam, and new species should be included before trade begins, after a risk assessment procedure. In case of importing fresh produce, a phytosanitary certificate is required, plus the fresh produce is subject to plant quarantine and a pest risk assessment.

Tariffs were significantly lowered in the last decade, but many agricultural products are still subject to a tariff, usually between 0-20%. Tariffs on products imported into Viet Nam can be found on the website of the Viet Nam Customs Department.

As a member of the ASEAN cooperation, Viet Nam is party to trade agreements (FTAS) between ASEAN and partners, including China, Korea, Japan, New Zealand, Australia and India. Individually, Viet Nam has signed the bilateral free trade agreements with Japan, Korea, Chile and the Eurasian Economic Union, including Russia and some of its neighbours. Viet Nam is also a member of some important multilateral free trade agreements, including CPTPP and EVFTA. Through these agreements, Viet Nam is well placed to boost exports and attract FDI. In return, Viet Nam is committed to lowering import tariffs, eliminating quotas, increasing market access for goods and services, and protecting intellectual property rights.

Non-tariff measures (NTM)

Non-tariff measures (NTMs) are the key instruments in trade policy in recent years. The high rate of integration in the world market requires a high prevalence of NTMs imposed on products. Viet Nam as an export-led economy with the highest rate of trade openness in the region, relies on non-tariff measures to regulate its trade, especially on agricultural and food products. Although these measures have been improved over time, Viet Nam's legal system is often criticised because of the many overlapping and conflicting NTMs that lack transparency and stability. The most frequent types of NTMs are:

- Sanitary and phytosanitary measures (SPS): around 120 different measures are in this group, which covers all types of agricultural products, including animal and vegetable products and foodstuffs, with the aim of protecting consumers' health, and food safety.
- Technical barriers to trade (TBT) measures: this category makes up to 37% of total NTMs. Regulations are imposed on the largest number of products, including requirements for authorisation, labelling, testing, certification, transportation and storage. 22% of the TBT measures are imposed on agricultural products.
- Export-related measures: Viet Nam requires special licences for international trading activities, such as selling, buying, processing or transiting 356 different agro-forestry or fishery products, some rare plants and certain chemicals.
- Quantity and price control measures: Viet Nam has been using this tool since the 1990s, goods may be subject to line management measures, or subject to conditional import, or simply banned from importation. These group of products are controlled under the Decree 187/2013/ND-CP.

Labelling and other requirements

There are strict labelling requirements in Viet Nam. The relevant law, Government's Decree 43/2017 went into effect on 1st June 2017, and lists all the requirements for food, beverages and agricultural inputs, both domestically produced and imported.

Labels must be in Vietnamese and cover all mandatory contents. Depending on the requirements of each type of food, the contents can be included in a foreign language but must match the Vietnamese description, with their font size no larger than the relevant language in Vietnamese. The mandatory labelling contents for food include: i) name of goods, ii) name and address of the enterprise responsible for the goods; iii) origin of goods, and iv) additional details in conformity with the nature of the goods.

Any food imported for consumption and circulation in the Vietnamese market must be labelled in either of the following ways:

- Labelling in Vietnamese, including the full mandatory labelling of contents; or
- Using secondary labels, which contain the Vietnamese translation from the mandatory information of the original label, and to supplement other mandatory information according to the nature of the commodity.

Special regulations apply for labelling food additives, irradiated food, functional food and genetically engineered food. Functional foods are categorised into four subgroups – supplementary food, health, food or dietary supplement, food for special purposes or medical food and food for special dietary use.

Market entry



Promotion

Vietrade, the Viet Nam Trade Promotion Agency is the government body responsible for business development support of local small and medium-sized companies (SME). According to the International Trade Centre, the UN organisation for international trade development, trade promotion in Viet Nam means basically the promotion of export sales for existing products. Assistance in marketing strategies, skills and know-how is still not available for companies, so the quality of trade support services needs improvement.

Other trade promotion and business networking institutions

The Viet Nam Chamber of Commerce and Industry is a national organisation which represents business community, employers, and business associations of all sectors. One of its main functions is to promote trade and business relations with enterprises abroad. The Chamber is a non-governmental, non-profit organisation.

Viet Nam Organic Agriculture Association, is a socio-professional organisation of associations, companies, farmers, Vietnamese people who actively work in the organic sector. The members of VOAA are organisations and individuals working in organic production, processing, business, services, import and export, and organic product consumption. VOAA operates based on principles of voluntarism, independence, and it protects the rights and legitimate interests of members and the community.

Participation in trade shows and trade missions may offer good opportunities to better understand the market and engage directly with potential importers, distributors, and local partners. Food and Hotel Viet Nam is the most important show for consumer-oriented products and takes place biennially in Ho Chi Minh City. Due to the COVID-19 situation, offline events are delayed or cancelled, but are expected to revive after the pandemic.

Sales channels

Traditional retail

Partnership with local distributors is the best channel for foreign exporters of food and beverage products to Viet Nam, either targeting supermarkets or the hotel and restaurant segment. Even though some of the retail chains may prefer direct sourcing, complex regulations, costly and burdensome import procedures and logistical requirements are critical to the success of the market entry. Therefore, using local knowledge and experience is recommended.

In practice, only the largest fast-food chains and full-service restaurants are able to import some or all of the ingredients directly from producers. Purchasing imported products from distributors or wholesalers is still common in the retail and food service sector.

Traditional markets, rural minimarts and other small agrifood outlets struggling to compete with modern retailers when it comes to distributing basic food products. The compound average growth rate (CAGR) of sales of modern grocery retailers reached 14.6% since 2015, compared with 9.5% for that of traditional grocery retailers.

E-commerce

E-commerce has surged rapidly in Viet Nam. The total value of products purchased online grew from US\$ 4.0 billion in 2015 to US\$ 7.8 billion in 2018, and 2020 will probably reach a new record, due to the COVID-19 pandemic and country lockdown. Food and beverages are among the top ten product categories purchased online. The growth of this channel is supported by a high internet penetration rate of around 70% of the population in 2018, and the prominent role of social media - Facebook has for example, 45 million users in Viet Nam, high smartphone penetration rate and already available fast delivery services. Advertising and direct sales on social media networks have become a common practice among micro- and small companies.



Recommendations and Trends

Foreign Direct Investment (FDI)

MARD would like to improve administrative procedures and improve business environment to attract more investments into the agricultural sector. Numerous incentives and support programs have been granted by the national authorities, and slowly, but surely a new trend is being drawn. There is a change in the structure of new investments, scale of production is larger, domestic firms can also apply for incentives, and more support is offered to those businesses interested in adopting modern technologies and smart farming. However, the total foreign direct investment remains limited. Only approximately 6% of the total realised FDI went to agricultural projects. More information on incentives and support can be found through the Ministry of Planning and Investment. Given the strategical goal of the sector, attracting more foreign investments is a priority.

Incentives for exporters

Vietnamese-owned exporting companies may benefit from a preferential corporate income tax, 25% as opposed to 32%, and raw materials imported for the production or processing of goods for exporters under contracts signed with foreign parties are not subjected to VAT. Exporting companies may find easier access to land-use rights, and can enjoy preferential land rent rates. Raw materials, spare parts and materials, imported for the production of export goods, are also exempt from import tax.

Policy Recommendations

- It is extremely difficult to improve local manufacturers' competitiveness when many of the importers act as investors. Therefore, they can enjoy incentives, tax holidays and other investment promotion measures as 'job-creators' and 'importers of new business culture', but eventually these investors only buy market share.
- Local manufacturers should be supported by soft incentives, not only fiscal support, but assistance in improving management skills, external market knowledge and branding/marketing help is needed. In Viet Nam, this role should be taken by Vietrade, but the state's trade promotion agency should first be reorganised and developed accordingly.
- Country promotion efforts should be strengthened. National level participation at regional trade fairs and product shows could be a first step, and tourism-like professional marketing could also help to create a positive image of Vietnamese food and beverages products.
- As smaller manufacturers cannot always follow global consumer trends, this should be monitored and followed by a national agency, responsible for product development and innovation.