



## **BUSINESS OPPORTUNITIES AND CHALLENGES IN FOOD AND AGRIBUSINESS SECTOR OF VIETNAM FOR INDIAN ENTREPRENEURS**

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### **Abstract**

#### **Purpose**

*The main purpose of the present study is to identify the opportunities and challenges in food and agribusiness sector of Vietnam for Indian Entrepreneurs. It had also been attempted to know the growth drivers and export opportunities in the sector.*

#### **Design/methodology/approach**

*The study is based on secondary data collected from various journals and websites; hence it is exploratory in nature.*

#### **Findings**

*The results show that the major challenges are low adherence to the international quality standard, supply chain hindrances, lack of proper infrastructure and the opportunities are food processing industry is estimated to be worth around USD67 billion and expected to increase to USD 175 billion by 2025.*

#### **Practical Implications**

*The findings have implications for farmers, manufactures and exporters and should develop their products and services to satisfy the needs of Vietnam. They should also know the Promotion of contract farming, training on pre-harvest and post-harvest management practices, provision of required physical and marketing infrastructure such as cold-chain facilities, cargo facilities at airports/ports, Access to institutional finance for requirements of term loans and working capital, Strict adherence to quality standards like ISO 9000 and HACCP to boost exports, strong market intelligence system to aid Farmers, Food Processors and exporters, build global brands on the back of India's Strengths*

**Keywords:** *Global Brands, Market Intelligence System, Agribusiness, Food Processors, Contract Farming.*

### **INTRODUCTION**

The changes over the last few years in food consumption (strongly influenced by demographic and economic parameters), crop production and food supply channels. Finally, particular emphasis is placed on the information flows and coordination mechanisms between private players in the food sector, who are at the very heart of adjustments between supply and demand. Despite the exports boom between 1990 and 1997, Vietnamese agriculture is still mainly oriented towards the domestic market, which absorbs 90% of production. In value, the domestic food market represents twice that of agricultural exports, i.e. 5 billion dollars in 1998 and more than 7 billion dollars in 2002 by extrapolation. In terms of products, regions, production structures, quality and price characteristics, there are differences between the domestic market and exports, but there also exist overlaps: some channels are oriented towards both the domestic market and exports (rice, aquatic products), while others are mainly aimed at exports (coffee, rubber), and others still are marginally exported (fruit and vegetables, meat). Whereas for aquatic products the nature of the companies and the quality demands differ for the two types of outlet, they are similar for rice and pork. The domestic food market has experienced considerable growth: it increased in value by 46% between 1993 and 1998. The growth of the Vietnamese market is linked to the following three main factors: demographic growth, urbanization and the increase in incomes with a link between these last two phenomena.

### **OBJECTIVES OF THE STUDY**

1. To study the current scenario of food and agricultural sector in Vietnam.
2. To identify the business opportunities for food and agriculture sector in Vietnam.
3. To look over to the challenges which are faced for business in Food and agricultural sector by entrepreneurs of India.
4. To carry out the SWOT analysis of food and agricultural sector in India.
5. To study the SWOT analysis of food and agricultural sector for Indian Entrepreneurs.

### **LITERATURE REVIEW**

Also emerging in the late 1990s in Vietnam were a small number of organic agriculture initiatives, primarily involving the production of specialty crops, such as spices and essential oils, destined for export to Europe. Organic agriculture is often promoted as a possible route for farmers in the global south to follow in the quest for greater agricultural sustainability (Johannsen et al. 2005)<sup>1</sup>. By allowing farmers better access to the global markets for organic food, it is hoped that sustainable livelihoods will develop. But what happens when an export oriented approach to agricultural development is viewed through the lens of a low energy future? It is increasingly recognised that world energy supplies in the form of readily available oil

and natural gas are very close to peaking and will soon start to decline (Deffeyes 2005<sup>ii</sup>, Homer-Dixon 2006)<sup>iii</sup>. Reviewing the empirical literature on the inclusion of small-scale farmers by contract farming we can find mixed evidences. For example, he cited Key and Runsten (1999)<sup>iv</sup> research that showed a clear preference of (foreign) processing companies to contract with large-scale growers due to the transaction costs associated with providing inputs, credit, extension services, and product collection and grading to small scale growers. Guo et al. (2005)<sup>v</sup>, and Simmons et al. (2005)<sup>vi</sup> also found that agribusiness firms prefer to deal with relatively large producers. However, other studies by Miyata et al.(2007)<sup>vii</sup> on contract farming on horticulture in China, Birthal et al. (2005) on milk, broilers and vegetables in India did not find this bias against small farmers.

A satisfactory response of production in quantity.....

Local crop production has shown its capacity to meet increasing local demand. This response has, for the most part, been supported by the political context (allocation of land to peasants, withdrawal from commercialization by the state). During the past ten years, pork production has increased by 5.8% per year, corn by 11.2% and vegetables by 7% per year. Rice production has increased by an average of 5.6% per year, 80% of which is attributed to the increase in crop intensity and yields, and 20% to the increase in area; this trend may continue as there is still a potential for growth of these two parameters in many regions. However, rice production provides poor incomes for producers who, for about a decade, have combined the process of intensification of rice-farming with diversification, although the process of diversification is slow: rice still occupies more than 60% of farmed lands this figure was 70% in 1991.

However, this quantitative appraisal masks problems of coordination between supply and demand. On the one hand, production does not always succeed in supplying the market in regular fashion all throughout the year. Thus, the supply of temperate vegetables and corn experiences shortages for five months in the year, leading to costly imports from China. On the other hand, production does not totally satisfy demand in terms of quality. Low level of interaction of agriculture with the other economic sectors.

At present in Vietnam, it is in the agricultural and food processing sectors that the rural population finds employment, rather than in non-agricultural jobs whose contribution to rural incomes has stagnated at less than 20% since 1990. This is due in particular to certain areas being physically cut off thus damaging the profitability of rural companies, as well as to problems of economic access to outlets. In the Red River delta, labour is under-employed in rural areas at a level of more than 20% of working time, but it cannot be redeployed in the industrial sector which is capital intensive and labour non-intensive. Agriculture is less and less productive compared with the other sectors.

Agricultural production must adapt to the evolution of distribution structures, which is tending towards higher levels of concentration. In both Hanoi and Ho Chi Minh City, the municipalities have planned a network of wholesale markets, with a view to eliminating informal markets and travelling vendors. Furthermore, large volume distribution is developing. At present, there are only 3 hypermarkets in Vietnam, located in Ho Chi Minh City. This is compared to 78 hypermarkets in Thailand.

#### **ISSUES AND CHALLENGES OF INDIAN AGRICULTURAL SECTOR**

The major problems confronting Indian agriculture are those of population pressure, small holdings, depleted soils, lack of modern technology and poor facilities for storage.

- Population Pressure:
- Small and Fragmented Land Holdings:
- Inadequate Irrigation Facilities:
- Depleted Soils:
- Storage of food grains:
- Farm Implements:
- The average size of land holdings is small
- Poor socio-economic condition of farmers
- Use of technology is inadequate
- Dependence of agriculture on weather

#### **ISSUES AND CHALLENGES OF VIETNAM AGRICULTURE AND FOOD SECTOR**

Vietnam has enjoyed strong growth in its economy, has an increasing demand for imported foods and is a major tourist destination. In addition, its own food manufacturing sector is growing and becoming a significant user of imported food ingredients. There are more affluent consumers with disposable income and a cultural predisposition to spend it on food in

the large urban centers of Ho Chi Minh City, Hanoi, Danang, Hai Phong and Can Tho. Such expenditure is made either by dining out or by purchasing from supermarkets and other retail outlets. In November 2006, Vietnam became a member of the World Trade Organisation (WTO), which required the country to reduce its trade and investment barriers including, tariffs, subsidies, non-tariff barriers (NTB's), investment restrictions and improve recognition of intellectual property rights (IPR). This has established a very strong framework for countries to trade with Vietnam. The Vietnamese food retail sector continues to grow rapidly. Local companies such as Saigon Co-op, Citimart and Maximart have pioneered modern retail, however the entrance of Metro and Casino have introduced retail expertise that is dramatically modernizing food retailing. Close neighbor, Thailand, experienced a similar awakening in 1997 when, during the South East Asian financial crisis, large European retailers such as Casino, Royal Ahold, Tesco and Carrefour entered the market and rapidly expanded the modern retail sector. However, like any emerging market, one of the key challenges is managing the supply chain, understanding the import requirements and ensuring the product can be delivered to the customer and/or consumer. Much of this risk can be avoided by the appointment of a reputable importer/agent who becomes a partner in the transactions that take place.

### **OPPORTUNITIES AND STRENGTHS OF INDIAN FOOD SECTOR**

- It is the seventh largest country, with extensive administrative structure and independent judiciary, a sound financial and infrastructural network and above all a stable and thriving democracy.
- Due to its diverse agro-climate conditions, it has a wide ranging and large raw material base suitable to food processing industry.
- It is one of the biggest emerging market, with over 1 billion population and a 250 million strong middle class.
- Rapid urbanization, increased literacy and rising per capita income, have all cause rapid growth and changes in demand pattern, leading to tremendous new opportunities for exploiting the large latent market. An average Indian spends about 50 percent of household expenditure on food items.
- Demand for processed/convenience food is constantly on rise.
- Cheap labour workforce which is available in India can be efficiently utilized to achieve low cost production.
- Liberalized overall policy regime, with specific incentives for high priority food processing sector, provides a very conducive for investment and export in the sector.
- Very good investment opportunities exist in many areas of food processing industries, the important ones being: food & vegetable processing, meat, fish & poultry processing, packaged, convenience food and drinks, milk products etc

### **SWOT ANALYSIS OF THE INDIAN FOOD INDUSTRY**

#### **Strengths**

- India's abundance of natural agricultural resources makes the market attractive to investors from all food sub-sectors.
- India's mass grocery retail sector is developing, and there is scope for considerable expansion across all formats and across all regions of the country.

#### **Weaknesses**

- The processed food industry is less developed as a result of logistical and distribution problems
- Agriculture remains inefficient and is vulnerable to climatic changes.
- Despite rapid economic growth, India remains a very poor country.
- India's infrastructure is notoriously inadequate. A 500km road journey can take as much as 24 hours owing to poor road conditions, congestion and tolls.

#### **Opportunities**

- The government is actively seeking investment in the food processing and agribusiness industries.
- Rising disposable incomes and increasing urbanization mean higher-value processed foods are likely to experience strong growth rates
- The immense size of India's population and landmass ensure that market maturity is a distant prospect.

#### **Threats**

- Logistical problems, underdeveloped service networks and poor infrastructure hinder development in fresh food industries, such as dairy.

### **EXPORT OF INDIAN FOOD AND AGRICULTURE SECTOR**

The Indian food processing industry is primarily export oriented. India's geographical situation gives it the unique advantage of connectivity to Europe, the Middle East, Japan, Singapore, Thailand, Malaysia and Korea. One such example indicating India's location advantage is the value of trade in agriculture and processed food between India and Gulf region.



Products that have growing demand in the export market are pickles, chutneys, fruit pulp, canned fruits and vegetables, concentrated pulps and juices, dehydrated vegetables and frozen fruits and vegetables along with processed animal-based products. India's exports of agricultural and processed food products in 2009-10, has grown by 38 per cent, which, in absolute value terms, is US\$ 6.59 billion, against US\$ 4.79 billion in 2011-12.

India's exports of Processed Food was Rs.34864.36 Crores in 2011-12, which including the share of products like Mango Pulp (Rs.620.83 Crores), Dried and Preserved Vegetable (Rs.700.19 Crores), Other Processed Fruit and Vegetable (Rs. 2117.86 Crores), Pulses (Rs. 1067.93 Crores), Groundnuts (Rs. 5246.45 Crores), Guar gum (Rs. 16523.87 Crores), Jaggery & Confectionary (Rs. 3459.40 Crores), Cocoa Products (Rs. 175.98 Crores), Cereal Preparations (Rs. 1870.04 Crores), Alcoholic and Non-Alcoholic Beverages (Rs. 1469.54 Crores) and Miscellaneous Preparations (Rs. 1291.03 Crores).

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Retail, one of the largest sectors in the global economy (USD 7 Trillion), is going through a transition phase in India. One of the prime factors for non-competitiveness of the food processing industry is because of the cost and quality of marketing channels. Globally more than 72% of food sales occur through super stores. India presents a huge opportunity and is all set for a big retail revolution. India is the least saturated of global markets with a small organized retail and also the least competitive of all global markets.

#### **IMPORT AND EXPORT INFORMATION RELATED TO VIETNAM IN CONTEXT WITH INDIA**

Vietnam increases cashew exports to India. Vietnam ships more than 160,000 tons of cashew nuts abroad annually, and has become the largest cashew nut exporter to the US. In the first eight months of 2012, India imported 3,245 tons of cashew nuts at an average price of Rs. 163.38 per kg. A large portion of that volume was supplied by Vietnam. India's cashew nut demand is increasing, both for household consumption and food processing. Vietnam is a promising source of broken cashew nuts; local exporters are therefore keen to capitalize on the Indian market. Cashew Export Promotion Council of India estimates India needs at least 700,000 tons of imported cashew nuts for its food processing industry.

#### **What are the incentives available to exporter of foods product in India?**

- Rupee is now fully convertible on current account and convertibility on capital account with unified exchange rate mechanism is foreseen in coming years.
- Repatriation of profits is freely permitted in many industries except for some, where there is an additional requirement of balancing the dividend payments through export earnings.
- Liberal corporate tax policy is applicable for export and domestic earnings, income tax rebate allowed (100% of profits for five years and 25% of profits for the next five years) for setting up of new agro-processing industries to process and package fruits & vegetables.
- Fruits & vegetables, and dairy machineries are completely exempt from central excise duty. Central excise duty on preparation of meat, poultry and fish, pectin, pats and yeast is also completely exempt.
- Quantity restrictions on all food products have been removed. Peak rate of customs duty has been reduced from 30% to 25% (excluding agricultural and dairy products) and duty structure on designated items has been rationalized.
- Customs duty on refrigerated goods transport vehicles has been reduced from 20% to 10%.

#### **Export Promotion**

- Food-processing industry is one of the thrust areas identified for exports. Free Trade Zones (FTZ) and Export Processing Zones (EPZ) have been set up with all infrastructures. Also, setting up of 100% Export Oriented Units (EOU) is encouraged in other areas. They may import free of duty all types of goods, including capital goods.
- Capital goods, including spares up to 20% of the CIF value of the capital goods may be imported at a concessional rate of customs duty subject to certain export obligations under the EPCG scheme. Export linked duty free imports are also allowed.
- 50% of the production of EPZ/FTZ and 100% EOU units is saleable in domestic tariff area.
- All profits from export sales are completely free from corporate taxes. Profits from such exports are also exempt from MAT.
- Setting up of 60 agri zones for end-to-end development for export of specific product from geographically contiguous areas.

### **Following are some of the Government initiatives in the Indian Food Industry:**

- The Indian government will be setting up 10 Mega Food Parks (MFPs) with an investment of US \$514 million
- The food processing industries are prioritized highly in terms of getting credit and lending money in the bank, because they grow fast and thus indicate a stable business.
- The fruit and vegetable processing companies do not have to pay any taxes on these products to the Indian government, thus making the business easier to access.
- The excise duty tax on ready-to-eat packaged foods and instant food mixes has been brought down to 8% from 16% making this industry highly attractive and competitive.

### **FINDINGS**

The government of India has been taking several initiatives to strengthen India's International economic relations particularly with the ASEAN region. The trade between India and the ASEAN countries following the Free Trade Agreement (FTA) for trade in goods reached US\$ 50 billion in 2011. It is expected to reach the target of US\$ 70 billion by 2012-13. Vietnam is India's very important trading partner amongst the ASEAN countries. The bilateral trade in 2011-12 amounted to US\$ 5.4 billion, of which India's export to Vietnam was worth US\$ 3.7 billion. Indian Companies had invested about US \$ 201.4 million in 41 projects in Vietnam.

Vietnam offers trade opportunities for Indian companies in the sector like Agriculture products & Food Processing, Pharmaceuticals, Energy, Chemicals, Mining, Sugar, Power, Machinery & Equipments, Infrastructure, Auto parts and lubricants, furnishing-handicrafts & articles, fashion goods, electronic & telecommunication and service industries. Accordingly, with a view to providing excellent opportunity to Indian companies, ASSOCHAM with the support of Ministry of Commerce and Industry, Govt of India is organizing "India Pavilion at 23rd Vietnam International Trade Fair on April 10-13, 2013 at Vietnam Exhibition & Fair Center, 148 Giang Vo Road, Hanoi. In view of your company's keen interest on the subject, we invite your organization to participate in the EXPO and explore the business opportunities in the ASEAN region. The registration will be on the first-come-first-serve basis as per details are enclosed for your kind reference Benefits prevails by both countries to trade with each other in terms of Export and Imports At a recent seminar on trade and investment opportunities between Vietnam and India in Ho Chi Minh city, India offered zero percent tax on 60 Vietnamese import goods from December 31, 2013. Accordingly, India will apply zero percent tax on 60 commodities imported from Vietnam after December 31 next year. The number of goods under zero percent tax will increase to 70 by 2016. In turn, Vietnam will also offer zero percent tax on 60 commodities imported from India by 2018. The two countries will reduce import tariff on commodities which are their main strengths like tea, coffee, pepper, seafood and garments from 2019. At present, several commodities from India like animal feed and chemicals are enjoying low tariff rates of 0-9 percent in Vietnam. According to the Vietnam Chamber of Commerce and Industry, two-way trade between the two countries has grown to reach US\$3.9 billion in 2011, a four time increase compared to last five years. The two-way trade is now expected to reach \$7 billion by 2015. India is one of the 10 biggest export markets for Vietnam. However Vietnamese commodities account for only 0.3 percent of total import turnover of India. Although India has applied tax reductions with ASEAN – India free trade agreement, their tariff rate is still at 30%. The results show that the major challenges are low adherence to the international quality standard, supply chain hindrances, lack of proper infrastructure and the opportunities are food processing industry is estimated to be worth around USD67 billion and expected to increase to USD 175 billion by 2025.

### **CONCLUSIONS**

#### **Strengths:**

- Vietnam has an increasing demand for imported foods and is a major tourist destination.
- It is the seventh largest country, with extensive administrative structure and independent judiciary, a sound financial and infrastructural network and above all a stable and thriving democracy.
- Due to its diverse agro-climate conditions, it has a wide ranging and large raw material base suitable to food processing industry.
- It is one of the biggest emerging market, with over 1 billion population and a 250 million strong middle class.
- An average Indian spends about 50 percent of household expenditure on food items.

#### **Weakness:**

- Storage of food grains is a big problem. Nearly 10 per cent of our harvest goes waste every year in the absence of proper storage facilities.
- Illiteracy, the root cause of farmers' poor socioeconomic condition, should be tackled vigorously. Lack of technical knowledge and awareness are also responsible for low productivity, adding to the problem of poverty among farmers.

- Logistical problems, underdeveloped service networks and poor infrastructure hinder development in fresh food industries, such as dairy.
- Vietnamese agriculture is still mainly oriented towards the domestic market, which absorbs 90% of production.

#### **Opportunities:**

- Production does not always succeed in supplying the market in regular fashion all throughout the year. Thus, the supply of temperate vegetables and corn experiences shortages for five months in the year, leading to costly imports.
- Production does not totally satisfy demand in terms of quality. · Its own food manufacturing sector is growing and becoming a significant user of imported food ingredients.
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- The government is actively seeking investment in the food processing and agribusiness industries.
- Rising disposable incomes and increasing urbanization mean higher-value processed foods are likely to experience strong growth rates.
- The immense size of India's population and landmass ensure that market maturity is a distant prospect.

#### **Challenges**

- Local crop production has shown its capacity to meet increasing local demand.
- The pressure of increasing population and the practice of dividing land equally among the heirs has caused excessive sub divisions of farm holdings.
- By and large the irrigation facilities available in India are far from adequate. · Indian soils have been used for growing crops for thousands of years which have resulted in the depletion of soil fertility. With deforestation the sources of maintaining natural fertility of soil has been drying out.
- Most of the Indian farmers are poor and do not have enough resources to purchase modern farm implements and tools. · The average size of land holdings is less than 20,000 m<sup>2</sup> and subject to fragmentation due to land ceiling acts and, in some cases, family disputes.
- In India, farming practices are too haphazard and non-scientific and need some forethought before implementing any new technology.
- Agriculture in India and many other developing countries depends on the monsoon because irrigation facilities are not fully developed. If the monsoon fails or it rains heavily or untimely, it ruins agricultural production.

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