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Vietnam's Agri-Food Sector and the Trans-Pacific Partnership

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What Is the Issue?

Vietnam is a fast-growing transitioning economy that has sought economic development through market reform and export-led growth. A critical ingredient of this development strategy has been the signing of trade agreements. Vietnam is currently in negotiations with the United States and 10 other countries to establish the Trans-Pacific Partnership (TPP) agreement. The pact would eliminate or reduce tariffs and other barriers to trade and investment among participating countries. Vietnam hopes that TPP will secure markets abroad and facilitate the flow of foreign investment into the country. Similarly, the United States and other TPP members see Vietnam, with over 90 million people and a growing middle class, as a market with growth potential.

This report provides an overview of Vietnam's economy and agri-food sector and a detailed analysis of Vietnam's trade with the United States, other TPP partners, and the rest of the world. Using a variety of trade sources, Vietnam's trade and tariffs for major agricultural commodities are examined. Insights are provided on the potential implications of the proposed TPP agreement on Vietnamese agricultural trade.

What Did the Study Find?

Following three decades of market reform and trade liberalization, Vietnam has emerged as one of Asia's most dynamic economies. Under its export-led growth strategy, textile and footwear industries expanded greatly, with Vietnam becoming a major importer of cotton, hide, and leather commodities. The country is a leading exporter of coffee, rice, cashew nuts, and pepper, and is a significant exporter of a variety of other commodities to the world market. Despite a recent slowdown in growth, Vietnam is expected to have significant market potential for agri-food products. As a very large consumer of pork and poultry products, Vietnam is heavily dependent upon feed from outside sources and has increasing requirements for foreign meat. With increased urbanization and rising household incomes, Vietnamese are increasingly turning to foreign packaged and processed food for convenience and a desire for variety.

Potential implications of a TPP agreement:

- While Vietnam is expected to be one of the largest beneficiaries of the proposed TPP agreement, trade gains in agriculture may be limited. Vietnam's current preferential trade agreements (PTAs) with many of the negotiating TPP countries already provide low or

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duty-free rates. However, TPP could provide new opportunities where those agreements did not liberalize market access.

- Even among partners with which it currently lacks a PTA, most of Vietnam's top exported commodities—such as coffee, rubber, cashews, and pepper—are not protected, leaving little room for growth. Vietnam's smaller export sectors (cassava starch, pepper, processed foods, and honey) could gain from further liberalization of tariffs, and Vietnamese rice could gain a share of Japan's indica rice import niche.
- Vietnam's import growth will likely be concentrated in the consumer-oriented sector. Even though commodities used as inputs for agriculture (soy, cotton, wheat) make up the largest share of Vietnam's agricultural imports, these commodities already enter with very low tariffs. Vietnam's consumer-oriented foods on the other hand, face significantly higher rates (15-40 percent ad valorem duties) and thus larger growth potential from a TPP agreement.
- U.S. agricultural exporters may be well suited to expand in meats, dairy products, and fruits. The TPP agreement also could provide new opportunities for exports of other high-valued U.S. consumer food products to the growing Vietnamese market.

How Was the Study Conducted?

Agricultural production and food consumption are reviewed for major commodity sectors. Assessment of the implications of the potential TPP agreement is based upon Vietnam's agricultural trade and tariff structure. Using a variety of trade and tariff sources, Vietnam's top exported and imported commodities with potential TPP countries and the rest of the world are documented. As negotiations are still pending, the full scope of the agreement is not known. Examination of the level of current protection across the top commodities helps identify areas of potential trade expansion that may be served through a TPP agreement.