



Le Thi Thu Huong, Special Adviser, the Embassy of Finland in Vietnam

## **Vietnam's food sector and its potential for Finland**

**Despite the effects of the pandemic, Vietnam maintained its position as one of the fastest-growing economies in Southeast Asia. During the past decade, the Vietnamese economy has averaged 6–7 percent growth rates per year. Domestic consumers maintain strong purchasing power for essential goods including food and beverages. Increasing urbanization and a growing middle class with purchasing power is a great opportunity for consumer growth. From both supply and demand sides, there are positive signals of growth in food and beverage products in Vietnam. Along with the increase in income, consumers' tastes also tend to favour products in the higher-end segment with high quality and green value. EVFTA creates tariff reduction and elimination as well as simple registration of food business operators, also for Finnish products.**

Vietnam's population of around 100 million, the 15<sup>th</sup> largest population in the world (98.51 million as of 2021), is expected to grow by 785,000 people in 2022 and reach 99.33 million by 2023. The country is typically young with 50.5 million people are in working age and 37.1% living in urban areas.

The size of Vietnam's economy in 2021 ranked 6<sup>th</sup> in Southeast Asia with an estimated value of USD 362.64 billion (import-export turnover of Vietnam exceeded USD 668.55 billion). Regarding the economic structure in 2021, agriculture – forestry – fishery accounted for 12.36%, industry and construction accounted for 37.86%, the service sector accounted for 40.95%, and product tax minus product subsidies accounted for 8.83%.

Despite the effects of the pandemic, Vietnam maintained its position as one of the fastest-growing economies in Southeast Asia. The country's economy grew by 2.58% in 2021 due to the arrival of the Delta variant but it is expected to recover to 7.5–8% in 2022 and 6.5% in 2023, according to the Government's estimation. GDP per capita reaches USD 3,900. Progress during the past decade has been substantial, and the Vietnamese economy averaged 6–7 percent growth rates per year.

The middle class in the country is growing and urbanization is advancing at a rapid pace. More people became economically secure, and the size of the middle class also tripled from 2010 to 2020. In 2022, the middle class accounted for 13% of the population and is estimated to reach 26% by 2026. Vietnam's upper middle class is expected to grow by an average of 17% by 2030. Increasing urbanization and the middle class with purchasing power create a great opportunity for consumer growth.

Growth occurring at higher and higher levels of income illustrates a population whose consumption patterns, aspirations and living conditions are rapidly changing. Diversity in food consumption has also increased with more purchases notably in dairy and eating out. There is still some variation across geographic areas, with the poorest regions spending the largest part of their food consumption on grains, while wealthier regions have higher shares of food consumed as meat or eating out. Household consumption per capita has also increased by about 8% annually during recent years. According to Business Monitor International, total household spending in Vietnam tends to increase in the period 2022–2025. Domestic consumers will maintain strong purchasing power for essential goods including

food and beverages. According to Mordor Intelligence Inc., the compound annual growth rate of the food service industry could reach 8.5% in the period 2022–2027. This further shows the explosive market potential in the period.

According to a survey by Vietnam Report, the revenue of the food and beverage industry improved positively in all distribution and consumption channels. Most notable is the breakthrough of the traditional channel with 85.7% of businesses recording revenue growth, up 62.6% over the same period last year. Modern channels such as supermarkets, hypermarkets, convenience stores, and e-commerce continue to maintain growth momentum.

The driving force of the food and beverage industry in the recent period has come from two main sources. Firstly, the recovery of domestic demand. Statistics show that during the first 8 months of 2022, the total retail sales of consumer goods and services were estimated at VND 3,679 trillion, up 19.3% over the same period last year. In addition, international visitors to Vietnam were 13.7 times higher than in the same period last year but still down 87.3% compared to the same period in 2019, the pre-COVID-19 era. Along with that, there is the normalization of the economy and the return of workers and students in cities, encouraging demand for fast-moving consumer goods, including groceries and drink. Consumer survey of Vietnam Report shows that the majority of young people in cities shop for food and beverages through modern channels: supermarkets, hypermarkets (98%), online (67%), and convenience stores (41%).

In 2022, Vietnam has 452 large supermarkets, 5,386 small supermarkets, and 986 convenience stores in total. Nearly 60% of the large supermarkets, more than 50% of the small supermarkets, and almost 90% of convenience stores are located in Ho Chi Minh City and Hanoi. When analyzing the marketability based on income per capita and population, the markets of Ho Chi Minh City and Hanoi are dominantly big (monthly income per capita is VND 6,008,000 in HCM City and VND 6,002,000 in Hanoi; the population is 9,228,000 in HCM City and 8,247,000 in Hanoi).

### ***Meat and meat products***

According to the market report on agriculture, forestry, and fisheries of the Import-Export Department (Ministry of Industry and Trade) in the first seven months of 2022, Vietnam imported 350,860 tons of meat and meat products, worth USD 789 million, down 21.1% in volume and 9.8% in value compared to the same period in 2021. Imports of meat and meat products continuously decreased compared to the same period in 2021 due to a slow recovery in demand. However, the decrease is gradually narrowing in recent months thanks to the reopening of restaurants, tourist areas, and investors, so meat consumption is higher. The main meat suppliers for Vietnam in the first 7 months of 2022 were Brazil (35.7%), Russia (26.4%), Germany (15.5%), Canada (10.2%), the Netherlands (3.9%), and other countries (8.2%).

In the opposite direction, during the past seven months, Vietnam exported 10,490 tons of meat and meat products, worth USD 41.85 million, down 4.5% in volume, but up 3.3% in value compared to the same period in 2021. Vietnam's meat and meat products are mainly exported to the markets in Hong Kong, Thailand, Belgium, the United States, Laos, and Spain.

Although the price of animal feed is still high, from the beginning of 2022 until now, with solutions that are not too dependent on industrial feed, the livestock herd has still grown compared to the same period in 2021. In 2022, it is expected that the demand for pigs will be about 51 million heads, with a herd growth rate of about 4.8% compared to the same period in 2021.



To balance supply and demand, by the end of 2022, the country's meat output of all kinds should reach about 7 million tons, up 4% compared to 2021. Live pork production is expected to reach over 4.2 million tons, and poultry meat production reach over 1.9 million tons.

Thus, in both supply and demand sides, there are positive signals of growth in meat and meat products in particular and the food and beverage industry in Vietnam in general.

### ***Trends in food consumption***

The level of spending on nutritious and healthy products continues to be maintained, even when forced to "austerity" during the COVID-19 period or when commodity prices increase. In an interview with Vietnam Report, representatives of several businesses in the industry said that actually, the demand for nutritional products has increased during the COVID-19 era. The demand for supportive products for the treatment of post-COVID-19 symptoms has increased significantly.

Health trends have also become more diverse during 2021 and this is expected to continue. Milk and dairy products are considered nutritional products to enhance the immune system during and after the COVID-19 pandemic. Another trend has been the rise of fruit juice, fruit-based drinks, and plant-based drinks e.g. oat milk as they are believed to be healthier and boost the immune system. Calorie counting continues to be another major trend among health-conscious office workers, which creates opportunities for products such as kombucha and low-sugar drinks.

Along with the increase in income, consumers' tastes also tend to favour products in the higher-end segment with high quality and green value. Assessing the level of consumer interest in the elements of product packaging on a 5-point scale, a survey by Vietnam Report shows that consumers pay great attention to the usability (4.4/5) or environmental friendliness (4.3/5) in addition to basic features such as: ensuring food hygiene and safety, clearly printing ingredients, expiry dates, and origins. Nearly 55% of consumers are interested in beautifully designed, eye-catching, or unique/unusual packaging when choosing food and beverage products. The Kantar report shows that up to 51% of households buy branded rice and 18% buy branded meat. This shows an opportunity for fresh food producers who have branding value.

### ***Milk and dairy products***

According to the Department of Livestock (Ministry of Agriculture and Rural Development), Vietnam's own production of milk and dairy products can meet only 40% of the total demand, although Vietnam has increased the productivity of domestic production. Therefore, Vietnam still needs to import about 60% of the total demand, particularly milk powder. The value of dairy products imported into Vietnam in 2021 was USD 11.8 billion, an increase of 12.4%. Vietnam has around 375,000 dairy cows producing 1.2 million tons in 2021, which however is expected to increase to 2 million tons by 2030. Nevertheless, Vietnam also imports dairy cows, animal nutrition products, and feed ingredients for dairy cows. This is one of the challenges of the local dairy industry leading to high input costs and other negative consequences such as uncompetitive end-product pricing. According to Euromonitor, the Vietnam dairy industry will reach VND 135 trillion in 2022, an increase of 8.3%.

Vinamilk and TH milk have dominated the low and mid-end segments while foreign brands target the high-end segment.

### ***The European Union and Vietnam Free Trade Agreement***

EVFTA entered into effect on 1 August 2020, providing expansive preferential markets access for goods traded between Vietnam and the European Union. EVFTA and its implications for agri-food trade from tariff reduction and elimination. A summary of tariff elimination of some products is as follows:

No	Items	EVFTA Tariff
1	Fish	<b>Rainbow trout:</b> import tariff elimination in 4 years
2	Pork, beef and chicken meat	<b>Pork:</b> import tariff on frozen pork will be eliminated in 7 years The import tariffs on other types of pork will be eliminated in 9 years <b>Chicken:</b> Tariff elimination in 10 years <b>Beef:</b> Tariff elimination in 3 years
3	Other meat products	Tariff elimination in stages of maximum 10 years
4	Milk and dairy products	About 44% of these products will have import tariffs eliminated as soon as the Agreement comes into force or in 3 years The remaining products will have import tariffs eliminated in 5 years
5	Alcoholic beverages	<b>Wine &amp; hard liquors:</b> import tariff will be eliminated in 7 years <b>Beer:</b> import tariff will be eliminated in 10 years

Simple registration of food business operators approved to export to Vietnam is applied as a result of EVFTA. Finnish companies can enjoy the pre-listing procedure once the export authorization protocol is completed.

### ***Key opportunities and major challenges for Finnish companies***

Major challenges for Finnish exporters include the availability of export authorization for agri-food products. Currently, breeding pigs, pork, and chicken products are in the final stage of the export authorization protocol.

Finland has export authorization for fish and aquaculture products, mainly salmon and rainbow trout. Finnish know-how, expertise, technologies as well as high-end commercial consumer products have considerable opportunities in cold-water aquaculture.

There are also opportunities for milk and dairy products in the high-end segment of the Vietnamese markets. Milk from Finland has premium quality as it is among the cleanest in the world with zero traces of antibiotics.

Finland's food sector was promoted during the recent visit by the Minister of Agriculture and Forestry, Mr. Antti Kurvinen, to Vietnam in October 2022.