

Country Market Profile: Vietnam

Market Overview

Euromonitor reports that Vietnam's gross domestic product (GDP) grew in 2022, driven by elevated private spending, strong exports, foreign direct investment, and gross fixed capital formation. The manufacturing industry remained the largest contributor to the economy. The country's economy is forecast to continue growing; however, inflation is expected to witness an upward trend. Meanwhile, rising debt poses significant challenges to policymakers, calling for prudence in managing debt and conducting fiscal policy.

- Following real growth of 5.1% in 2022, Vietnam's economy is expected to expand at an average annual real rate of 4.7% in 2023 and 5.8% in 2024.
- Inflation in Vietnam is forecast to increase to 4.2% in 2023 from 3.2% in 2022.
- While Vietnam's merchandise exports increased by 9.8% and imports rose by 8.6% during 2022, the country remained a net exporter of goods.
- Gross fixed capital formation (GFCF) continued to increase over 2022, accounting for 29.0% of GDP.
- The public debt-to-GDP ratio in Vietnam rose to 51.3% in 2022, standing below the regional average of 96.6%

Total population was 104.7 million in 2023 (CIA World Factbook Est.), an increase of 25.7 million since 2000. The country is also undergoing a gradual aging process, but it is not so pronounced as in other countries such as China, Japan, or Singapore. The median age was 32.7 in 2023. Nevertheless, the elderly are growing, and this upward trend will continue soon.

Vietnam has a young population, stable political system, commitment to sustainable growth, relatively low inflation, stable currency, strong foreign direct investment (FDI) inflows, and strong manufacturing sector. In addition, the country is committed to continuing its global economic integration.

USDA's Office of Agricultural Affairs (OAA) in Hanoi, hereinafter referred to as FAS Post Hanoi, reports that Vietnam has Southeast Asia's fastest-growing middle class, which was expected to reach 33 million people in 2020, up from 12 million in 2014. Urban dwellers have fared particularly well during Vietnam's economic transformation. Citizens living in first and second-tier cities have income about two to three times higher than the national average and are more open to new and high-value food products than shoppers in rural areas.

As of 2023, U.S. exporters continue to face tariff disadvantages in Vietnam, which can reduce the competitiveness of U.S. products against those from countries that have Free Trade Agreements (FTAs) with the country. Vietnam has signed significant free trade agreements in the last three decades with over 50 nations, including individual-based agreements as well as those signed via economic blocs, including the European Union-Vietnam FTA (EVFTA), the Regional Comprehensive Economic Partnership (RCEP)

whose members are ASEAN, Australia, China, Japan, New Zealand, and South Korea, and Vietnam-UK FTA (UKVFTA). Products from Vietnam's FTA partners generally will have lower tariffs and other advantages than those from Most Favored Nations (MFNs), including the United States.

In 2021, Vietnam imported a record high US\$802 million of U.S. processed foods. That represented outstanding growth of 58%. In 2022 U.S. exports of processed foods to Vietnam dropped 16% to US\$672 million, a loss of US\$130 million. In 2023 exports decline another 6% to US\$632 million, although they now rank second in ASEAN for import values from the U.S. Since 2021 U.S. exports of processed foods have lost US\$170 million in value which adds to the U.S. trade deficit in food and agricultural products.

Top 2023 processed food exports to Vietnam included:

- Food Preparations & Ingredients – even
- Processed/Prepared Dairy Products – down 34%
- Non-Alcoholic Beverages – up 60%
- Chocolate & Confectionery – up 17%
- Syrups & Sweeteners – down 24%
- Prepared/Preserved Seafood – down 22%
- Processed Vegetables & Pulses – down 26%
- Snack Foods – up 56%

Market Opportunities and Key Issues for U.S. Processed Food Exporters in Vietnam

Market Opportunities:

- Demand for high-value consumer-oriented and seafood products continue to rise thanks to GDP growth and population growth
- Growth of the modern food retail, e-commerce, hotel, restaurant, institutional (HRI), and food processing sectors continue to offer opportunities for imported food products, including those from U.S.
- Vietnam's continued global economic integration generally allow more openings for foreign products and better alignment with international standards.
- Local food processors continue to increase production capacity and improve product quality by using quality ingredients to meet both local and international market demand.
- Growth in convenience food stores, full-service restaurants, convention and wedding centers, and fast-food chains create opportunities for quality food and food ingredients.
- Food safety concerns boost demand for imported food products, especially from developed countries.

Key Issues:

- Most low and middle-income households in small cities and rural areas cannot afford imported products due to widening income inequality and a lack of modern retail establishments.
- U.S. consumer-oriented and seafood products have become less competitive than those imported from ASEAN members and Vietnam's FTAs partners due to higher tariffs.
- Vietnam remains a price-sensitive market where U.S. food ingredients face fierce competition from local and regional products.
- Rising, and already high, rental costs increase retail prices.
- Technical barriers to trade, sanitary and phytosanitary issues, and high tariffs limit imports of U.S. consumer-oriented products

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Vietnam had been estimated to reach US\$17 billion in 2023, ranking it third in ASEAN after Indonesia and Philippines. That also represents a period growth rate of 37.8% or US\$4.6 billion since 2019. The forecast for growth in this market is also promising. By the year 2028, the retail sales in the packaged food market in Vietnam is expected to reach over US\$26.9 billion, a period growth rate of 45.7% or US\$8.4 billion from 2024.

High growth products in the forecast include:

- Pet Food
- Ready Meals
- Sweet Spreads
- Breakfast Cereals
- Edible Oils
- Sauces, Dips & Condiments
- Processed Meat, Seafood, and Alternatives to Meat

FAS Post Hanoi report that Vietnam's total retail sales in 2022 rose 13% year-on-year to US\$192 billion driven by a rebound in domestic consumption along with record-high gross domestic product (GDP) growth at 8%, according to Vietnam's General Statistical Office. However, global exports of consumer-oriented products to Vietnam contracted 7% to US\$12.9 billion in 2022, partly due to the weakening purchasing power in the fourth quarter of the year. U.S. exports of consumer-oriented products maintained an 8% market share with export revenue reaching over US\$1 billion. Vietnam's GDP growth in 2023 is forecast to drop to 6% to 6.5% due to numerous factors affecting consumer purchasing power, such as global market uncertainty, tightening Vietnam Government monetary policies, and the ongoing effects of the Russia-Ukraine conflict.

Although no major mergers and acquisitions occurred in the Vietnamese modern retail food sector in 2022, almost all modern retail food chains of all sizes continued their expansion plans. Notably, GS25 Vietnam, a joint venture between GS25 Korea and Son Kim Vietnam, celebrated the opening of their 200th convenience store in October 2022 after four years of operations in this market. Thaco, which had acquired the Korean-based Emart in late 2021, opened a second hypermarket in Ho Chi Minh City (HCMC) in

October 2022 with plans to open 20 more by 2026. Central Retail Vietnam plans to double its supermarkets to 70 within the next five years, while Aeon continues to move forward with its ambitious plan of having 30 supermarkets by 2030.

Most consumer-oriented products reach the shelves of retail food channels through importers, and processors. Recently, some of the largest modern retail food chains have started directly importing fresh fruits, beef and beef products, seafood, and non-alcoholic beverages for their outlets.

Competition between U.S. consumer-oriented products and their major competitors is also becoming more intense. U.S. food and beverages exporters face increasing competition in the market as Vietnam phases in significant tariff reductions through its Free Trade Agreements (FTAs) including, but not limited to, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union-Vietnam Free Trade Agreement (EVFTA), and the Regional Comprehensive Economic Partnership (RCEP). The U.S. remains the largest bilateral agricultural trading partner without an FTA with Vietnam.

Best Product Prospects:

FAS Post Hanoi reports that U.S. products that are already present in the Vietnamese market with good sales potential include pork meat, tree nuts, food preparations, fresh produce, poultry, seafood, milk and dairy products, condiments, and sauces.

Foodservice Sector Highlights:

FAS Post Hanoi reports that in 2023, Vietnam experienced a strong resurgence in its tourism sector. This growth was due to successful control of the COVID-19 pandemic and vigorous promotion of both domestic and international tourism. According to the Vietnam National Administration of Tourism (VNAT), Vietnam welcomed 12.6 million foreign visitors in 2023, 3.5 times higher than in 2022 and 70% of the number of tourists in 2019 prior to the pandemic. Total retail sales of consumer goods and services grew 9.6% in 2023 to US\$256 billion. Sales of food and foodstuff rose by 13.7%.

Tourism and hospitality have also enjoyed a robust turnaround due to the re-establishment of many flight routes and relaxed travel restrictions. According to the Vietnam National Administration of Tourism (VNAT), Vietnam welcomed nearly three million foreign visitors between January and November 2022, 21 times as high as the figure of the same period last year, but still down nearly 82% compared with pre-pandemic levels in 2019. Meanwhile, domestic tourism in 2022 has enjoyed a booming year with an estimated 101 million arrivals, much higher than VNAT's target of 60 million and even higher than the figure of 85 million in 2019. Total retail sales of consumer goods and services in the first 11 months of 2022 increased over 20% to approximately US\$216 billion. Food and foodstuff also rose by 10% during this period.

Partnerships with local distributors continue to be the best channel for new U.S. exporters of food and beverage products to Vietnam's hotel, restaurant and institutional (HRI) sector. Complex regulations, costly and burdensome import procedures, high import

tariffs, and logistical concerns are some of the critical issues that most domestic HRI stakeholders are unlikely to handle; therefore, purchasing imported products from distributors or wholesalers is still popular in Vietnam's HRI sector. Only a few of the largest food service operators, such as quick-service restaurants/fast food chains, full-service restaurant chains, and bakeries, can import a few key food ingredients directly, including beef, poultry, seafood, dairy, and frozen potatoes.

Even though there are numerous business opportunities, Vietnam is a challenging and fiercely competitive market. In FTA negotiations, in exchange for FDI inflows and favorable export markets, Vietnam has committed to lowering import tariffs, eliminating quotas, increasing market access for goods and services, strengthening protections for intellectual property rights, enhancing legislative and regulatory transparency, and improving commercial dispute settlement and trade facilitation processes. As of 2023, Vietnam has signed 18 FTAs with over 80 countries and territories, and that threatens the competitiveness of U.S. food and agricultural exports.

Best Product Prospects:

FAS Post Hanoi reports that the best export prospects for U.S. consumer-oriented HRI products include tree nuts, wines, fresh fruits, fresh and processed vegetables, dog and cat foods, spices, condiment and sauces, and other packaged foods.

Food Processing Sector Highlights:

FAS Post Hanoi reports that Vietnam's food processing and manufacturing sector grew by 8.8% in 2022 versus 2021, while food retail revenue increased by 10%. Foodservice industry receipts also grew by 52.5% in 2022 thanks to the economic recovery after COVID-19.

Food processors in Vietnam use both locally produced raw materials and imported food ingredients in their operations. Large processors tend to directly import specific ingredients, such as wheat flour, milk powder, and malt. Processors usually purchase minor ingredients, additives, flavors, or preservatives through importers or distributors. Additionally, many Asian countries, as well as Australia and New Zealand, benefit from lower shipping costs and quicker delivery times due to their proximity to Vietnam. Most suppliers from ASEAN countries are also more responsive and flexible to importers' demands for smaller shipment sizes, consolidated product shipments, or product specification modifications to meet Vietnamese regulations (Cooperators).

Best Product Prospects:

FAS Post Hanoi reports that promising food processing ingredients for U.S. exporters include, tree nuts, minced pork, poultry products, dairy products, other edible bovine products, processed fruits, peanuts, wheat, soybeans, and potatoes. These products are used for items such as sausages, meatballs, cheese, snacks, instant noodles, plant-based milks, and bakery products.