

U.S. Agricultural Exports to Vietnam Hit Record High in 2010

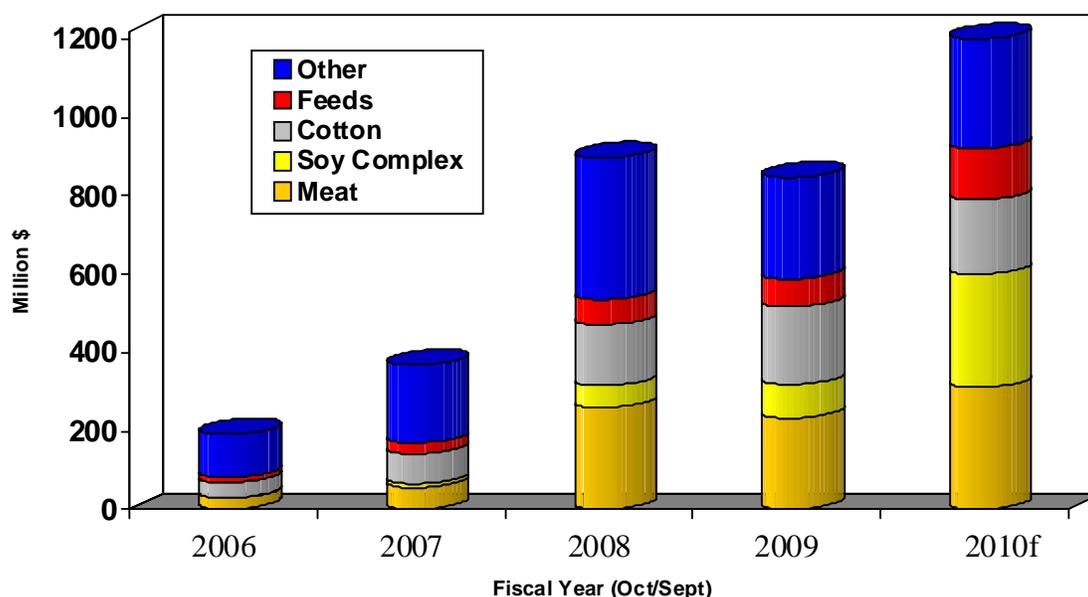
Summary

Agricultural exports to Vietnam this year continue the exceptional growth seen since FY 2006 and have already reached a record with two months remaining in the fiscal year. With increasing demand for soybean meal, cotton, and meats, the country is the fastest growing major market in the world. Economic growth and demand for inputs from Vietnam's export industries should propel the country into a top 10 U.S. agricultural market within the next few years.

Vietnam Tops All Major Markets in Growth

Since 2006 no other major market (above \$400 million in U.S. exports) has grown as fast as Vietnam. The country increased at twice the rate of the next fastest growing market for U.S. agricultural products, which was the United Arab Emirates. Even the impressive surge in China (67%) and Hong Kong (90%) over the same time frame falls short of the percentage growth in Vietnam (343%). This impressive rise seen since 2006 continues in 2010 with exports already surpassing \$1 billion. Fiscal year exports could top \$1.2 billion, an increase of over \$350 million from last year. If realized, the export forecast would make Vietnam, which is the world's 13th most populous nation, the 13th largest U.S. market compared to the 20th last year and the 49th largest market in 2006.

U.S. Exports to Vietnam Climb on Soy Demand



Economic Growth Spurs Demand

While U.S. exports to Southeast Asia fell in 2009, shipments to Vietnam remained strong due in large part to the resilient Vietnamese economy. Economic reforms in the mid-1980s set the country on a rapid growth path with average GDP growth exceeding seven percent over the past decade. Global Insight estimates 2009 GDP growth at 5.3 percent and 2010 growth at 6.5 percent while 2011 should see a return to 7 percent growth or better. With economic growth, the poverty rate in Vietnam has fallen sharply while the emerging middle class demands more high quality foods including protein. The middle class in Vietnam is currently estimated at 2.6 million, which may not appear large in a country of 86 million but is growing and is double that of 10 years ago¹.

Protein Consumption on the Rise

Due to the dramatic fall in the poverty rate, demand for protein is on the rise with much of the increase in pork consumption, which is the preferred meat in Vietnam. Domestic production of pork in Vietnam is not very efficient: FAS/Hanoi notes that Vietnamese pork producers face challenges such as lack of land, low productivity caused by poor management, and disease. Although swine genetics have improved, adequate feed rations have not seen commensurate advances. Despite these challenges, growing production should provide opportunities for U.S. exporters of feed grains, soybeans, soy meal, and distiller dried grains (a by product of the ethanol production process). As seen in the chart, soybeans and soybean meal exports to Vietnam have been particularly strong over the past several years due to greater demand from the swine, poultry and aquaculture industries. Though India is the top supplier of soybean meal to Vietnam, U.S. soybean meal is gaining share due to its higher quality.

U.S. Gains Share of Cotton Exports

With less than two percent of cotton demand met by domestic production, Vietnam is dependent on cotton imports to supply soaring textile manufacturing. Domestic cotton consumption has been increasing at about 10 percent each year due to both increasing demand for textiles within Vietnam as well as from the export market. The U.S. share of this growing market has increased from just 20 percent in 2006 to nearly 50 percent in 2009. Exports from the United States have benefited from a cotton export ban in India as well as plentiful U.S. supplies. Shipments through the first 10 months of the fiscal year were \$150 million and could reach \$200 million by the end of the year compared to just \$36 million in FY 2006.

Outlook Bright in 2011 and Beyond

Recent free trade agreements mean that competing exporters (China, Australia, and New Zealand) face lower duties than the United States on many agricultural products. In particular, exports of U.S. fruits and vegetables, dairy products, and processed foods will face higher import duties than several competing regional suppliers. However, the gross domestic product in Vietnam is expected to nearly double by 2020 from \$73 billion to \$142 billion². Likewise, the middle class in Vietnam is expected to more than double over the next decade from 2.6 million to 6.0 million. Therefore, demand for U.S. products should continue strong, especially for cotton, feeds, and soybeans as the economy continues to grow rapidly.

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¹ Data source: Global Insight, measured as households with real PPP income greater than \$20,000/year

² Data source: Global Insight, measured in 2005 dollars

