Economics Division Working Papers

Southeast Asia

The economy and the countryside in Vietnam: the relevance of rural development policies

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Research School of Pacific and Asian Studies ANU

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n.a.	**Not applicable**
..	**Not available**
-	**Zero**
.	**Insignificant**

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Abstract

This paper examines recent Vietnames agrarian economic developments in the light of three alternative explanations. It reviews reforms and their impact, concluding that market growth has been a principal cause of the observed pattern of development. Large areas of the country continue to face staples entitlement difficulties, and cash crop production is a major issue. Inter-spacial incomes variation is large. Rural development policy is seen as playing a rather minor role, once decollectivisation had been implemented.

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Rural economic conditions: competing explanations

Vietnam's agricultural sector continues to employ the great mass of the Vietnamese population. However, the position agriculture can and should take in economic development remains subject to debate. This paper examines current developments in the economy and the countryside in light of their effects upon what remains a large and relatively poor group of people, as well as their implications for future research. Debate is a healthy first step in developing a framework for analysing policy and future trends.

Agricultural policy in Vietnam went through two main reforms in the 1980s, and appears now to be going through a third. In 1981 the government initiated a first stage in decentralisation of power to farm households and away from the producer cooperatives—a significant step, but limited in impact. Then in 1988 Decree no. 10 introduced further changes that amounted to full-scale decollectivisation in some parts of the country, while in other areas cooperatives lost most of their power. 1993 saw the party Central Committee 5th Plenum focus upon rural development problems: the year also saw passage of the new Land Law, as well as government decrees on extension work, reform of state businesses in agriculture, rural credit and land allocation (Vietnamese Communist Party 1993). These latest measures resemble rural development policies undertaken in many other developing countries. Until 1993, government and party policy has been concerned mainly with the basic issue of decollectivisation, but it took more than a decade after the first steps in rural reform before such ideas were expressed in policy. In the absence of supportive policies, real rural income growth in Vietnam has reportedly been high. This paper examines the basis for this growth and what it has meant for the rural population.

In the Inter-Congress Party Conference of January 1994, industrialisation and modernisation were presented as the main goals of development policy for the remainder of the decade. The project priorities of the Donor's Conference in November 1993 confirmed this thrust to accelerate growth through an urban and industrial focus. Such a clear statement of sectoral priorities is of importance in a country that remains both as poor and as rural as Vietnam. This debate is already well developed, with various views resting upon very different analyses of conditions in the rural areas.

There are a number of different strands in this discussion, including

- **The 'optimistic about markets' and 'pessimistic about policy' position**

  Central to this position is the notion that the rural economy is undergoing a dynamic process that is mostly independent of state policy, given the commitment to abandoning the old central-planning model. The positive forces of the market, once unleashed, lead to greater diversification and a reduction in poverty levels. They also result in social differentiation that is essentially positive, in that it is not fundamentally a process leading to impoverishment and the creation of a landless group, but rather a means to more efficient resource allocation. In this process, the contribution of government has been to free up the rural economy, by withdrawing from direct intervention in economic activities, granting family farms high levels of autonomy and opening up domestic and foreign trade, thus stimulating rural income growth and diversification. This analysis places little emphasis upon either the negative effects upon growth of the ongoing involvement of local authorities in the rural economy, or the possibility of underlying structural reasons for the instability of cash crop production and marketing. This view basically accepts the positive role of unregulated markets and sees the existing pace of development as satisfactory (Dang Phong 1993).
  A variant of this position is highly sceptical of the capacity of local authorities to implement 'developmentalist' state policies, arguing that discussions of optimal policies are relatively inconsequential.

- **The 'optimistic about regulated markets' and 'optimistic about policy' position**

  According to this position, Vietnamese urban and industrial growth in the 1990s is likely to be very strong, and will need to be balanced by a sound and healthy process of socioeconomic development in the rural areas. Growth will depend on rapid increases in popular savings which must come in large part from the rural areas. Believing that the rural economy is still poorly developed, this approach focuses on constraints. Under conditions where farm product markets are apparently highly competitive, stress is placed upon such problems as continued obstacles to the unrestricted entry of capital into crop processing and export marketing, and the non-implementation of the New Deal for agriculture promised by the government in 1988 in Decree no. 10[1] and also points to the slow and distorted pace of the development of state rural credit, extension services and other elements of a successful rural development support strategy. This approach then identifies the need for government to move to create better markets, for example through appropriate rural infrastructure and by improving entry and exit in areas such as crop-processing and exports, and also for government to move faster in actively developing rural support services. This position necessarily assumes that 'developmentalist' policies have some hope of implementation (FAO and SPC 1993, Vo Tong Xuan and Timmer 1990).

- **The 'pessimistic about both markets and policy' position**

  This position argues that the market-oriented reforms have had a series of important, negative and inter-linked social effects that have been widely ignored as a result of various 'blindnesses'—gender and 'economism' being the most important. The reduced role of collectives is seen as having greatly increased the load upon women, whilst pushing them out of participation in important social fora. Publicly funded health and education services have deteriorated, again eroding women's opportunities for manoeuvre. Furthermore, this position argues that the positive role of the market has created a powerful process of social differentiation that, whilst at present still containable, will inevitably lead to a polarisation of rural society as opportunities for the landless fail to grow at a sufficient rate. It points to the slowdown in urbanisation and the sheer weight of rural numbers that urbanisation and industrialisation (at rates that the environment will be capable of absorbing) would have to absorb. According to this analysis, the present relative calm is superficial, and major rural social problems will emerge in the mid-1990s, a view increasingly taken by many non-government organisations (Rutherford 1992, Kaufman and Sen 1993).

The position of the authors is somewhat sceptical. As economists we tend to be optimistic about the role of markets, but as observers of the realities of Vietnamese rural life,[2] and the activities of the party-state apparatus at the local level, we are pessimistic of the implementability of developmentalist policies. Nevertheless, we are sufficiently 'institutionalist' in our economics to feel that under appropriate conditions the state can and should play a positive role in making markets work well.

The following section looks at current trends from an empirical and economic point of view and attempts to relate these to the explanations outlined above.

Recent trends

This section presents rural agricultural trends in the Vietnamese economy since the agricultural reforms of 1988 and the implementation of a major economic restructuring program in 1989 which effectively abandoned central planning along with the end of two-track pricing. The majority of the statistical evidence presented in this survey is derived from official Vietnamese sources. However, other sources are also used, including a number of recent surveys by international agencies.

The macroeconomy and agriculture

Stabilising the economy: positive measures adopted and implemented by the State and vital for agricultural growth

In 1989, after a decade-long gestation, Vietnam made the final commitment to transform its economy to a market-oriented economic system, embarking on an ambitious program of stabilisation by implementing tight fiscal and monetary measures: liberalising trade, including a devaluation of its currency and liberalising its market (De Vylder and Fforde forthcoming, Fforde 1992). Access to Soviet assistance, which had been shrinking since 1988, was effectively cut off by 1990 and the paucity of western aid meant that Vietnam embarked on this ambitious program of economic

Table 1 **GDP growth and share by sector**[a] (per cent)

	1988	1989	1990	1991	1992	Average 1989–92
Average GDP growth	5.1	8.0	11.1	6.0	8.3	8.4
Agriculture	3.9	6.4	11.2	2.2	6.3	6.5
Industry	3.3	2.3	10.7	9.9	12.6	8.9
Services	8.9	2.7	10.6	8.2	8.5	7.5
Construction	-3.1	2.0	17.7	5.2	4.2	7.3
Share of GDP						
Agriculture	39.2	40.3	40.3	38.9	38.2	39.4
Industry	18.3	18.8	18.7	19.4	20.2	19.3
Services	39.2	37.3	37.1	37.9	38.0	37.6
Construction	3.3	3.6	3.8	3.8	3.6	3.7

[a] constant 1989 prices/local currency.
Sources: Vietnam, General Statistical Office, 1992b. *Tai Khoan Quoc Gia O Viet Nam 1980-1990* (VIE 88/032 Project) (System of National Accounts of Viet Nam 1986–1990), Statistical Publishing House, Hanoi; Vietnam, General Statistical Office, 1993. *Nien Giam Thong Ke 1992* (Statistical Year Book 1992), Statistical Publishing House, Hanoi.

transformation with very little foreign financial support. Despite this and many other constraints, Vietnam has achieved some creditable gains and the economy has shown rapid growth.

Between 1985 and 1988, the Vietnamese economy grew at 5.7 per cent in terms of GSP (gross social product, which includes the services sector) (Vietnam 1990). By comparison, between 1989 and 1992 the economy grew at an impressive 8.4 per cent on average (Table 1), despite loss of foreign assistance worth nearly US$1 billion annually during the mid-1980s. The initial impact of the reforms was a sudden surge in output, especially in agriculture, increasing GDP by 8 per cent in 1989 and by 11.1 per cent in 1990. However, the subsequent sharp falls in foreign assistance between 1989 and 1991 dampened Vietnam's economic growth, which dropped to 6 per cent in 1991. By 1992, Vietnam had adjusted to the supply shock of the Soviet aid cuts, and with further efforts by the state to manage fiscal and monetary policies more tightly and allow the emerging market economy to play the major role, the economy achieved a growth rate of 8.3 per cent. The GDP growth rate for 1993 is expected to have exceeded 8 per cent.

On the savings and investment front, credit must be given for Vietnam's efforts to mobilise domestic savings, replacing foreign savings with domestic savings. In 1989, foreign savings inflow was 9 per cent of GDP, while domestic savings was a mere 2 per cent of GDP (World Bank 1993). Severe cutbacks in foreign assistance meant that the responsibility was on Vietnam to provide a solution. Efforts to consolidate the budget by exercising fiscal restraint and to create positive real interest rates by tightening monetary policy had an immediate impact. Although the tight policy environment was relaxed slightly between 1990 and 1991, the continuation of tight policies in 1992 saw domestic savings increase to 10.5 per cent of GDP, with foreign savings dropping to 1.6 per cent of GDP.

As a result, the level of investment in Vietnam did not fall over the period 1989 to 1992, but increased from 11 per cent to 12 per cent of GDP (World Bank 1993) allowing Vietnam to maintain domestic investment despite severe cuts in foreign assistance. This aspect of Vietnam's investment, however, does not reflect the fact that total recorded investment is rather low for sustaining growth rates of 7–9 per cent annually. There is a need to further increase both savings and investment.[3]

On the public finance side, the fiscal measure of reducing bank finance for government expenditure has achieved several positive results. The budget deficit was reduced from 11.4 per cent in 1989 to 3.8 per cent in 1992 (World Bank 1993). However, most of this increase in government revenue comes from oil export revenues and not from a broadly based tax collection system. A fundamental negative consequence of Vietnam's efforts to cut back government spending and consolidate its budget is that public investment programs have been seriously curtailed. Infrastructure, especially rural roads, telecommunication and irrigation, so necessary to Vietnam's economic growth process, is in urgent need of development and poses a major constraint to the country's development if not addressed (SPC and FAO 1993). However, in 1993 the fiscal deficit rose to around 8 per cent of GDP (ADUKI 1993:49).

The most significant achievement of the strict fiscal and monetary measures implemented in Vietnam has been the cessation of rampant inflation and the creation of a conducive environment for its emerging market economy. Inflation which was as high as 393.8 per cent at the end of 1989 was dramatically reduced to 34.7 per cent by the end of 1989 as a consequence of the initial impact of the economic measures. Although there was a resurgence of inflation in 1990 (67.4 per cent) and 1991 (67.6 per cent), inflation was brought under control to 17.6 per cent by 1992 as policies were implemented, and is reportedly down to an impressive 4.3 per cent for the first nine months of 1993 (Vietnam 1993, *Agence France Presse* 20 October 1993).

On the trade side, the notable achievements have been a limited diversification and rapid growth of exports (Table 2). The growth rate of exports (at current prices) in

Table 2 **Trade balance, 1988–93**[a] (in current million US$)

	1988	1989	1990	1991	1992	1993[a]
Trade balance	-1718	-620	-348	-251	-31	-220
Imports	2,757	2,566	2,752	2,338	2,506	2,200
Exports	1,038	1,946	2,404	2,087	2,475	1,980
Growth rates						
Imports	..	-0.07	0.07	-0.15	0.07	..
Exports		0.87	0.24	-0.13	0.19	..
Exports by sectors						
Agriculture	587	1,017	1,149	1,089	..	..
Heavy industry[b]	67	355	617	697	..	..
Light industry and others	385	574	638	301	..	..
Share of export						
Agriculture	0.56	0.52	0.48	0.52	..	..
Heavy industry	0.06	0.18	0.26	0.33	..	..
Light industry and others	0.37	0.30	0.27	0.14	..	..

[a] first nine months of 1993 (*Agence France Presse* 20 October 1993).
[b] includes petroleum productS.
Source: Vietnam, General Statistical Office, 1993. *Nien Giam Thong Ke 1992* (Statistical Year Book 1992), Statistical Publishing House, Hanoi; Vietnam, General Statistical Office, 1992a. *Nien Giam Thong Ke 1990* (Statistical Year Book 1992), Statistical Publishing House, Hanoi.

1989 and 1990 was extremely high, 87 per cent and 24 per cent respectively, reflecting a low base as well as increases in rice and crude oil sales. This rate slowed to 19 per cent by 1992, and in 1993 total dollar exports are thought to have increased by 14 per cent (*Agence France Presse* 20 October 1993). In contrast, import growth rates have been low, especially for the speed at which the Vietnamese economy has been developing. As a result, Vietnam's balance of trade deficit fell from US$1,718 million in 1989 to US$30 million in 1992. Trade figures for the first nine months of 1993 suggest that after bottoming out in 1992 the trade balance deficit is on the rise, apparently due to a surge in imports of 30 per cent. Given the high levels of capital inflows—with ODI disbursements reaching nearly $700 million a year by 1992—this is quite natural (ADUKI 1993:41).

Vietnam's economic performance since 1989 has been far better than most economists would have predicted. Despite the clearly positive effects of getting it right in terms of macro policy, the truth is almost certainly more complicated and the precise reasons for this success are not well understood and usually subject to debate. *Post hoc ergo propter hoc* arguments tend to ignore the powerful accumulation processes that had emerged prior to 1989, as well as the important parameter and non-systemic changes that also took place around that time. The period between 1989 and 1993 was a time of rapid institutional transformation leading to greater economic efficiency. But it is worth pointing out that the growth in rice output, for example, owed much to technological advances (and a substantial increase in the sown area in the Mekong as various infrastructure projects came on-stream), whilst exports have greatly benefited from crude oil.

Despite the uncertainties, it is clear that the transformation process is far from over and it is important that the government continue to get the basic macroeconomy right. A continued commitment by the state is required if these trends are to be sustained. Low inflation needs to be maintained in order to preserve the incomes of wage earners and encourage incentives in the small businesses emerging all over Vietnam. This will not be easy, given the underlying weakness of the Vietnamese economy and the very great demands placed upon state resources by the development effort (Ljunggren 1993). In the same vein, the government should also maintain a liberal trade policy. Economic openness and a realistic exchange rate can be expected to promote healthy competition and also stimulate production for export with the potential for improving production and resource efficiency.

Agriculture in the macroeconomy

By any developing country standard, the performance of the agricultural sector in Vietnam's economy has been strong, growing in real terms at an annual average rate of 6.5 per cent since 1989 (Table 1). However, when compared to other productive sectors, agricultural growth has generally lagged behind industry, services and construction which grew at 8.9 per cent, 7.5 per cent, and 7.3 per cent respectively over the same period. Agriculture's share of GDP has declined in real terms from 40.3 per cent in 1989/90 to 38.2 per cent in 1992 (Table 1).

In a recently published report by the SPC and FAO (1993), it was estimated that agriculture's sectoral share should continue to decline slowly over the next ten years to a level equivalent to 35 per cent, and that agriculture's contribution to real GDP growth would not change significantly, but would decline from 32 per cent to 30 per cent over the period. The SPC and FAO estimates are based on conservative growth figures for each major sector of the economy and within different sub-sectors of the agricultural sector, (see SPC and FAO 1993:14–16). In general, in the development process of developing economies, the agricultural sector faces the phenomenon of secular decline (Timmer 1988). The slow rate of decline in the case of Vietnam indicates the importance of agriculture in its development.

The growth patterns in gross agricultural output are generally mixed (Table 3).[4] Agriculture, especially crop output, grew significantly in 1988 (4.3 per cent) and 1989 (7.4 per cent). These strong growth patterns can be attributed to the unleashing of productive efforts resulting from changes to agricultural management and the responsibility system in agriculture implemented through Decree no. 10 in 1988. In addition, the stimulatory effects of the economic reform program of 1989 and favourable climatic conditions in 1988 and 1989 have also contributed to this growth. Food crop production, notably rice, was quick to respond, growing by 11.3 per cent in 1988

Table 3 **Gross output growth in agriculture at constant prices, 1988–92** (per cent)

	1988[*]	1989[*]	1990[*]	1991[**]	1992[a**]
Total agricultural output	4.3	7.4	1.5	2.9	8.3
Crop output	7.5	7.8	1.0	3.7	9.4
Food crops[b]	11.3	9.9	-0.1	2.0	.
Cash crops[c]	-0.3	3.1	3.8	7.2	..
Livestock[d]	-4.4	6.3	3.2	0.7	5.0
Food crops[e]	7.6	9.9	-0.1	2.3	9.1

[*] calculated in constant 1982 prices.
[**] calculated in constant 1989 prices.
[a] 1992 figures are estimates (GSO).
[b] includes all grains and tuber crop converted to a paddy equivalent.
[c] includes vegetables, beans, fruits and industrial crops.
[d] also includes sea and fresh water products.
[e] quantity of paddy equivalent production.
Source: Vietnam, General Statistical Office, 1993. *Nien Giam Thong Ke 1992* (Statistical Year Book 1992), Statistical Publishing House, Hanoi.

compared to both cash crop and livestock outputs which fell. In 1989 food crop output maintained a high growth rate and both cash crop and livestock output recorded positive growth rates.

In contrast, agricultural output growth declined severely in 1990 (1.5 per cent) and 1991 (2.9 per cent). However, the gross agricultural output growth rate of 1.5 per cent for 1990 (Table 3) differs dramatically from the GDP growth rate of the agricultural sector of 11.2 per cent (Table 1). This perhaps suggests a sharp increase in the efficiency of non-factor resource utilisation, with cost savings appearing as faster factor income growth as a result of the micro reforms and abolition of price controls and subsidies. Although the lower gross agricultural output growth rate in 1991 is admissible given the fact that agricultural production was marred by unfavourable weather conditions in the north and the Red River Delta region and by pest problems in the Mekong Delta region, the low growth rate for gross agricultural output in 1990 seems highly dubious. It is our suspicion that the gross output figures reported in the most recent General Statistical Office publication (Vietnam 1992a) have not been revised for 1990.[5] Although the volume of food crops fell by 0.1 per cent in 1990, we suspect that food crops have been undervalued. It is our opinion that the overall pattern of growth for 1990 is better reflected by the agricultural component of GDP in Table 1 (11.2 per cent). In addition to the positive effects of the reform process, the fact that Vietnam maintained a reasonable level of fertiliser imports in 1990 makes the higher growth figure for 1990 more credible than the lower figure.[6] Crop output growth fell to 3.7 per cent in 1991 but then recovered in 1992 to 9.4 per cent. Livestock output followed a similar trend.

On the trade side of agriculture, a breakdown of exports by sector indicates that the share of agricultural exports was slowly decreasing. In 1988, the share of agricultural exports was 56 per cent, and by 1991 it had fallen to 52 per cent. Light industrial goods and handicrafts exports (much of which are from the Vietnamese countryside) have decreased, falling from 37 per cent in 1988 to 13 per cent in 1991. In contrast, the share of heavy industrial goods in exports for the same period rose rapidly from 6 per cent to 33 per cent. However, heavy industrial goods includes crude oil production, which makes up a large component of this export category. The rapid increase in the volume of crude oil exports explains why other export sectors were shrinking in comparison. In 1992, crude oil represented almost 30 per cent of the value of total exports and for the first six months of 1993 almost 32 per cent (Table 4).

Agricultural exports nevertheless represented a major proportion of export revenue in Vietnam, with rice dominating all other agricultural exports. Since the 1989 reforms, Vietnam has reversed its position of being a net importer of food to being the third largest net exporter of rice in the world. The volume of rice exports has been significant, in line with the government's policy of exporting over one million tonnes of rice each year. In 1992, rice exports accounted for almost 16 per cent of the value of total exports and almost 17 per cent for the first six months of 1993. Rice not only generates an important export revenue for financing imports but the export duty it generates is a source of revenue for the state—between 3 per cent and 10 per cent depending on the quality of the exported rice (SPC and FAO 1993).

Table 4 **Selected export commodities** (in current million US$)

	1992	As a percentage of exports	1993[a]	As a percentage of exports
Total exports	2,455	100	1,220	100
Oil	725.6	29.6	381.5	31.3
Rice	390.3	15.9	207.2	17.0
Frozen seafood	303.0	12.3	150.5	12.3
Coffee	85.2	3.5	43.3	3.6
Rubber	57.3	2.3	24.0	2.0
Groundnuts	33.5	1.4	20.3	1.7
Fruits and vegetables	27.0	1.1	7.6	0.6
Tea	13.7	0.6	4.3	0.4

[a] first six months of 1993.
Source: ADUKI Pty Ltd, 1993. *Vietnam Economic Commentary and Analysis (VECA)*, No. 3, ADUKI Pty Ltd, Canberra.

In comparison to rice, the value of other crop exports has been small. This relative failure is striking. Since 1989, the export of cash crops such as rubber, coffee, groundnuts, fruits and vegetables has been increasing only slowly—with the exception of tea (Table 5). The loss of markets in Eastern Europe and the former Soviet Union (through the Council of Mutual Economic Assistance) is one reason for the slow growth in non-rice exports, however other factors are equally important, such as heavy state monopolisation of the cash crop sector (barriers to entry), poor quality of produce, low investment in production and lack of value added processing, poor and ineffective marketing and distribution, and low international prices. The third most important export item after crude oil and rice is seafood products which accounted for 12 per cent of.total export revenue in the first six months of 1993.

The agricultural sector as a whole has benefited greatly from the economic reforms implemented in 1988 and 1989. Vietnam has achieved and maintained self-sufficiency in food production since 1989, with agricultural production, notably in the food crop sector, expanding well beyond the national population growth rate of 2.3 per cent. Furthermore, the strong performance in food crop production has meant that large marketable surpluses have been mobilised for the international market, making Vietnam the third largest rice exporter in the world. Given the relative size of agriculture in the national economy, and the importance in Vietnam's food policy for generating

Table 5 **Exports of high-value primary commodities** ('000 tonnes)

	1988	1989	1990	1991	1992
Oil	..	1,514.3	2,616.7	3,917.0	5,400.0
Rice	91.2	1,420.4	1,624.4	1,032.9	1,950.0
Rubber	38.0	57.7	75.9	62.9	75.0
Groundnuts	..	38.5	70.7	78.9	70.5
Tea	14.8	15.0	16.1	8.0	12.5
Coffee	33.8	57.4	89.6	93.5	98.0
Frozen seafood	31.2	47.9	45.7	58.3	78.5

Source: Vietnam, General Statistical Office, 1993. *Nien Giam Thong Ke 1992* (Statistical Year Book 1992), Statistical Publishing House, Hanoi; Vietnam, General Statistical Office, 1992a. *Nien Giam Thong Ke 1990* (Statistical Year Book 1992), Statistical Publishing House, Hanoi; ADUKI Pty Ltd, 1993. *Vietnam Economic Commentary and Analysis (VECA)*, No. 3, ADUKI Pty Ltd, Canberra.

sufficient, if not surplus, food balances, the positive response to economic reforms in the agricultural sector points to the overall success of the past few years. That a large number of people, previously hungry for many months a year, now eat rice, is an achievement of historical significance. However, the rising inter-regional differences and the rapidly emerging pattern of social differentiation requires further discussion. What are the social costs of this success, and how sustainable is it likely to be?

Trends in agriculture

Food availability and income generation

The creation of a national rice market over the period 1987–89 has been an important opportunity for farmers in areas where their comparative advantage is not in wet rice production. With increased market access (helped by the opening of the Chinese border in 1989), the ready supplies of cheap Mekong rice in markets has eased farmers' worries about subsistence supplies and costs and has encouraged diversification.

However, despite Vietnam's self-sufficiency in food production and its ability to export vast quantities of rice, food consumption remains critically low in many parts of the country. An indication of this fact is provided by comparing staples production per capita with a basic food consumption level across different regions of Vietnam. Meeting consumption needs is an important task in alleviating rural poverty. This can be achieved not only by improving food crop production in food deficit regions, but also by developing other production activities. In the presence of low and inadequate food production, incomes from other activities enable rural households to make up shortfalls in their own food production by purchasing food. The level of income, therefore, determines the ability of the rural household to feed itself.

In addition, the capacity of the household to earn an income outside the food crop sector will depend on the extent of rural development which including the level of agricultural, market and rural infrastructural development.

If we accept 260 kilograms of paddy as the minimum consumption standard per person per year (roughly providing some 2,300 kcal per capita per day),[7] then comparing this with the per capita staples production across Vietnam (Table 6), it is clear that food production is well below the food consumption requirement in many

Table 6 **Food crop production per capita by region, 1988–92 (kg/person)**

	1988	1989	1990	1991	1992
Total food crop production					
Country average	307.3	332.2	324.4	324.9	349.4
North and midlands	247.5	268.9	230.0	200.0	231.9[a]
Red River Delta	287.7	314.4	294.5	256.5	..
North central coast	219.3	225.7	226.0	222.1	..
South central coast	268.8	281.5	274.0	289.8	528.2[b]
Central highlands	237.6	238.1	223.7	225.7	..
NE southern region	143.5	134.1	160.5	129.0	..
Mekong Delta	535.3	631.9	658.2	703.1	..
Paddy production					
Country average	266.8	293.3	290.2	289.9	311.5
North and midlands	176.7	194.6	166.6	133.8	188.5[a]
Red River Delta	248.9	274.4	259.8	225.5	..
North central coast	171.5	181.4	185.8	180.6	..
South central coast	227.2	239.9	234.8	250.0	498.8[b]
Central highlands	148.0	158.0	148.6	160.5	..
NE southern region	105.3	106.2	129.9	101.6	..
Mekong Delta	..	525.7	622.0	649.5	695.5
Non-rice food crop production					
Country average	40.5	38.9	34.2	35.0	37.9
North and midlands	70.8	74.3	63.4	66.2	43.4[a]
Red River Delta	38.8	40.0	34.7	31.0	..
North central coast	47.8	44.3	40.2	41.5	..
South central coast	41.6	41.6	39.2	39.8	29.4[b]
Central highlands	89.6	80.1	75.1	65.2	..
NE southern region	38.2	27.9	30.6	27.4	..
Mekong Delta	..	9.6	9.9	8.7	7.6

[a] North Vietnam all provinces north of, and including, Thua Thien Hue province.
[b] South Vietnam all provinces south of Thua Thien Hue province.
Sources: Vietnam, General Statistical Office. *Nien Giam Thong Ke* (Statistical Year Book), Statistical Publishing House, Hanoi, (various issues).

regions. Amongst the regions most affected by food production shortages are the northeast southern, northern mountain and midlands, central highlands, and north central coast regions. The area with the lowest per capita staples production is the northeast southern region, which includes Ho Chi Minh city. Food crop production there has fallen significantly since 1988, and by 1991 declined to half of the yearly subsistence requirement (Table 6). This fall reflects a fast shift out of staples cultivation and into higher valued crops in a region facing excellent markets and lying close to the most rapid processes of urbanisation and industrialisation in the country. By contrast isolated areas such as the northern mountains and midlands, and also the central highlands region, have experienced a general decline in per capita staples production, and within the north central coastal region per capita staples production stagnated over the period 1988 to 1991. In the latter regions, food production generally remains 10–15 per cent below subsistence needs. Capacity for development of cash crops in these areas is limited by distance from markets. Furthermore, it appears that the level of non-rice food crop production per capita has not varied much when compared to the level of paddy production per capita. However, annual changes in production for both paddy and non-rice food crop indicates that the latter is more variable and on a declining trend (Table 7). Non-rice food crops have diminished as an alternative source of food consumption for food deficient areas and points to rising real incomes.

Agronomically, the northeast southern region is better suited to the cultivation of tree crops, particularly rubber, coffee and pepper. In 1991, this region accounted for almost 79 per cent of national rubber production, 40 per cent of coffee production and 63 per cent of pepper production (Vietnam 1991b). Other important cash crops in the region are sugar cane and tobacco. In addition to the income that cash crops generate, the proximity of the region to the markets of Ho Chi Minh City presents the opportunity for rural households to derive an income through activities outside of the food crop sector. In the other food deficit regions, cash crops production also contributes to household incomes, especially in the highland regions where tea, cotton and coffee are important, in addition to forestry products. In the north central coast region, on the other hand, fishery and livestock production are important alternative sources of income.[8] In contrast to the northeast southern region, other food deficit regions are generally located further from important central markets such as Hanoi in the north and Ho Chi Minh City in the south. Given that the proximity to markets and a strong tree (cash) crop sector presents households with various opportunities to earn an income outside of food crop farming in the northeast southern region (compared with other food production deficit regions) there is also an indication that food consumption is not deficient.

In other regions of Vietnam per capita income diversification has advanced so that food crop production does not so greatly constrain food consumption. In the Red River Delta and south central coast regions, per capita food production has generally been adequate and have sometimes produced modest surpluses. In the Red River Delta, however, both paddy and non-rice production were affected in 1990 and 1991 (Table 7), primarily by bad weather, which diminished the region's marketable surplus production. The Mekong Delta is the only region in Vietnam that has maintained a significant and positive rate of annual growth in paddy production between 1988 and 1991. Although the level of growth settled to around 9 per cent in 1991 from its initial

Table 7 **Annual growth in food crop production by region, 1988–92** (per cent)

	1988	1989	1990	1991	1992	Average 1989–92
Total food crop production						
Country average	11.5	9.9	-0.1	2.3	10.1	5.5
North and midlands	7.7	10.0	-13.6	0.8	23.8[a]	..
Red River Delta	16.3	7.4	-4.4	-15.7	..	..
North central coast	0.6	2.2	2.7	0.6	..	..
South central coast	0.1	3.5	-0.4	8.1	2.5[b]	..
Central highlands	7.1	6.1	-2.6	4.5	..	..
NE southern region	6.3	-2.9	-7.6	8.3	..	..
Mekong Delta	17.8	16.5	6.5	8.9	..	..
Annual growth in paddy production						
Country average	12.6	11.7	1.2	2.1	10.0	6.3
North and midlands	7.0	11.5	-13.5	-6.9	26.0[a]	..
Red River Delta	16.9	8.4	-3.4	-16.0	..	..
North central coast	1.2	5.1	5.1	-0.4	..	..
South central coast	2.6	4.3	0.1	8.8	2.6[b]	..
Central highlands	6.2	13.0	-2.5	11.8	..	..
NE southern region	6.3	4.8	-5.6	5.5	..	..
Mekong Delta	17.9	16.8	6.7	9.2	..	..
Annual growth in non-rice food crop production						
Country average	5.0	-2.5	-10.2	44.6	10.8	0.7
North and midlands	9.5	6.2	-13.8	21.0	15.2[a]	..
Red River Delta	12.7	1.3	-11.6	-13.3	..	..
North central coast	-1.5	-7.8	-6.9	5.5	..	..
South central coast	-11.7	-1.2	-3.5	3.6	2.2[b]	..
Central highlands	8.5	-5.4	-2.8	-10.2	..	..
NE southern region	6.3	-24.1	-15.3	20.3	..	..
Mekong Delta	8.3	1.7	-9.8	-11.3	..	..

[a] North Vietnam all provinces north of, and including, Thua Thien Hue province.
[b] South Vietnam all provinces south of Thua Thien Hue province.
Sources: Vietnam, General Statistical Office. *Nien Giam Thong Ke* (Statistical Year Book), Statistical Publishing House, Hanoi, (various issues).

surge of about 17 per cent in 1988/89, this level is outstanding and reflects the capacity of the Mekong Delta to respond to new economic conditions (Table 7). On average, the per capita food crop production in the Mekong Delta exceeds the basic subsistence standard of 260 kilograms/person by almost 2.7 times. Vietnam's large rice exports originate from the huge marketable surpluses of this region, however, the Mekong Delta is vulnerable to adverse shifts in the rice price as its non-rice food crop production per capita is marginal in comparison to the rest of the country. The Mekong Delta is increasingly specialising in rice production, with a sharp decline in the level of non-rice food crop production since 1988 (Table 7).

Although a regional breakdown of food crop production is not yet available for 1992, some information is available on the levels of food crop production by north/south distinction.[9] National food crop production per capita for 1992 is above the previous two years (Tables 6 and 8), with both rice and non-rice food crop production rising dramatically between 1991 (10 per cent) and 1992 (10.8 per cent). With a sharp increase in food crop production of 10.1 per cent, it is expected that the per capita food consumption for food deficit areas should improve over 1992. This is especially true for north Vietnam where production levels increased dramatically. Paddy and non-rice food crop production were up 26 per cent and 15 per cent respectively over 1991, thereby yielding an impressive 24 per cent increase in food crop production for north Vietnam. Food crop production in south Vietnam, by comparison, grew marginally at 3 per cent, paddy at 3 per cent and non-rice food crops at 2 per cent. Furthermore, provisional food crop production estimates for 1993, indicate that the trend is likely to be positive but not as strong as the previous year. The national level food crop production is expected to rise by only 1.2 per cent. The apparent reduction in the annual food crop production growth rate stem from the expectation that production will fall by 2 per cent in the south. However, the north should maintain its positive growth rate but at the more modest rate of 5.6 per cent. These figures indicate that south Vietnam is losing the momentum it had in food crop production in the period 1989 to 1991.

The strongest response to the new economic system has been primarily in the Mekong Delta. However, the push for diversification strategies in other regions suggests that family farms there may be about to show surprisingly rapid increases in production based upon almost opportunistic responses to market developments, for instance in China (Dang Phong 1993).

Besides the low level of production in the food deficit regions, another common feature is the low level of incomes available to purchase food. Incomes of the poor in these regions differ greatly. For example, the National Farm Household survey conducted by the GSO in 1989/90 reports that the average monthly income per person in Hau Giang province in the Mekong Delta region was almost 50 per cent greater

Table 8 **Food crop production by region, 1987–93** (in '000 tons paddy equivalent)

	1987	1988	1989	1990	1991	1992	1993
Total food crop production							
Country average	17,563	19,583	21,516	21,489	21,990	24,215	24,500
North and midlands	2,296	2,474	2,720	2,350	2,367	9,702.2[a]	10,250[a]
Red River Delta	3,433	3,994	4,289	4,101	3,457	..	..
North central coast	1,891	1,902	1,945	1,998	2,011	..	..
South central coast	1,819	1,821	1,884	1,876	2,027	14,513.4[b]	14,250[b]
Central highlands	525	563	597	581	607	..	..
NE southern region	1,023	1,087	1,056	976	1,057	..	..
Mekong Delta	6,576	7,743	9,024	9,608	10,464	..	..
Paddy production							
Country average	15,103	17,000	18,996	19,225	19,622	21,590	21,900
North and midlands	1,650	1,766	1,969	1,702	1,584	7,885.1[a]	8,450[a]
Red River Delta	2,955	3,455	3,744	3,618	3,038	..	..
North central coast	1,470	1,488	1,563	1,642	1,635	..	..
South central coast	1,500	1,539	1,606	1,607	1,749	13,705.2[b]	13,450[b]
Central highlands	330	350	396	386	432	..	..
NE southern region	750	797	836	789	833	..	..
Mekong Delta	6,447	7,604	8,883	9,480	10,351	..	..
Non-rice food crop production							
Country average	2,460	2,583	2,519	2,263	2,368	2,624	2,600
North and midlands	646	708	752	648	783	1,816.1[a]	1,800[a]
Red River Delta	478	539	546	483	418	..	..
North central coast	421	414	382	356	375	..	..
South central coast	319	282	278	269	278	808.2[b]	800[b]
Central highlands	196	212	201	195	175	..	..
NE southern region	273	290	220	186	224	..	..
Mekong Delta	128	139	141	128	113	..	..

[a] North Vietnam all provinces north of, and including, Thua Thien Hue province.
[b] South Vietnam all provinces south of Thua Thien Hue province.
Sources: Vietnam, General Statistical Office,. *Nien Giam Thong Ke* (Statistical Year Book), Statistical Publishing House, Hanoi, (various issues).

than that of the average person in Hoang Lien Son province in the northern mountain region or almost 30 per cent greater than those in Binh Dinh province on the south central coast (Vietnam 1991b, Nguyen Van Tiem 1993).

Preliminary estimates from Vietnam's Living Standards Measurement Survey (LSMS), reported in World Bank (1993), give another indication of income differences between various regions of Vietnam. Amongst the poorest regions are the northern

Table 9 **National average income distribution indicators, 1989/90 and 1990/91 (in current value)**

	Net income/person/month Rich	Poor	Ratio
1989/90	39,930	5,467	7.3
1990/91	56,461	5,368	10.5

Sources: Vietnam, General Statistical Office, 1991b. *So Lieu Thong Ke Nong Nghiep 35 Nam (1956–1990)* (35 Years of Agricultural Statistics (1965–1990)), Statistical Publishing House, Hanoi; Nguyen Van Tiem, 1993. *Giau Ngheo Trong Nong Thon Hien Nay* (Rich and Poor in the Countryside Today), Agricultural Publishing House, Hanoi.

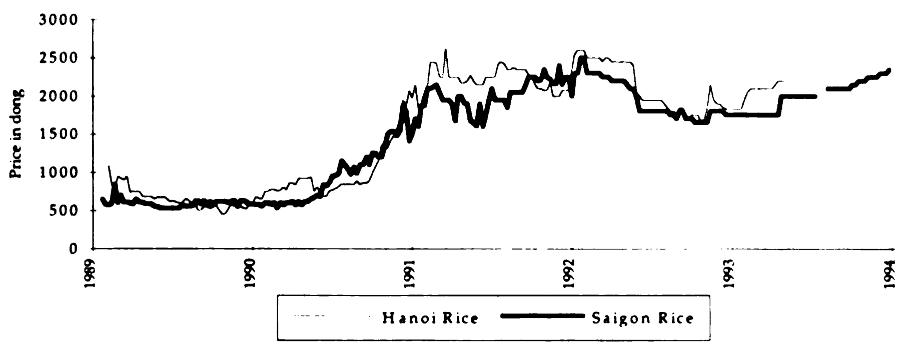
mountains and midlands, the central highlands and the north central coast regions which have a per capita GDP of under 350,000 dong (in 1989 prices) (US$75). Following this are the Red River Delta and south central coast regions which have per capita GDP of 350,000 to 450,000 dong (US$75–96), and finally the Mekong Delta and the northeast southern region, including Hanoi and Hai Phong in the north, which have a per capita GDP between 450,000 to 1,278,000 dong (US$100–275). These figures largely correlate with the level of per capita food crop production reported earlier, with the exception of the northeast southern region which is amongst the richest regions in Vietnam for the reasons also cited earlier. These figures clearly indicate the vast gaps between regions, but also indicate the severity of income constraints suffered by the rural population living in remote parts of the country.

At the national level, the gap between the richest and poorest group widened between 1989/90 and 1990/91 (Table 9). Although Nguyen Van Tiem (1993) suggests that this income gap decreased to 7.7 in 1992, this figure should be treated cautiously given an income classification which does not correlate with the GSO classifications. Whichever direction the income distribution gap is trending in Vietnam, one factor is evident: the income gap is very large between different rural regions.[10] In the absence of productivity increases in food deficit regions, the lack of income seriously constrains the ability of households to feed themselves.

Low rural incomes seriously constrain the demand for food, and it is likely that in the food deficit regions of Vietnam the demand for staple foods faces a high income elasticity. Therefore, households are likely to increase their demand for rice for consumption with an improvement in rural income in these regions. This position differs significantly from the food surplus regions, especially the Mekong Delta where cereal and vegetable consumption is already high (Tu Giay and Ha Huy Khoi 1991). According to the World Bank (1993), additional growth in rice production will come from areas other than the Mekong Delta where productivity and modern input use are currently quite high by international standards. Vietnam's ability to continue its high level of rice exports will be affected in the near future when increased rural incomes imply increased rice demands domestically. Of course, this outcome will depend on augmenting rural incomes.

In the event of rapid increases in rural incomes, another possibility is that the level of consumption of high value food items such as meat, poultry and seafood products will rise as incomes rise, especially in the Mekong Delta region and in other regions with improved food crop production per capita (SPC and FAO 1993). Increases in demand for meat bears considerable importance to the use of food crops in Vietnam. Other than direct human consumption, non-rice food crops in most parts of the country are used primarily as animal feed. In view of the general declining trend in non-rice food crop production in Vietnam, a continued decline in non-rice food crops will lead meat producers to use rice as an alternative feed for livestock. According to World Bank (1993) estimates, the present use of paddy as animal feed is between 5–15 per cent of total paddy production. On a rough estimate, this represents an amount of feed equivalent to 36–108 per cent of Vietnam's rice export in 1992 (1.95 million tonnes). Although this is a broad range, there is no dispute that this is a high amount of paddy being fed to animals when many parts of the country are suffering food shortages. Based on present conditions, paddy as an animal feed could become sensitive to farm supplies (own price effect), the prices of livestock products (complementary price effect), and competing feeds (substitution price effect).

Figure 1 **Milled rice prices in major markets of Vietnam**



Source: ADUKI Pty Ltd, 1993. *Vietnam Economic Commentary and Analysis (VECA)*, No. 3, AKUDI Pty Ltd, Canberra.

Markets

As a consequence of Vietnam's stabilisation efforts, rice prices in the country's major markets (Hanoi and Saigon) over 1989 and early 1990 were fairly stable, varying within a band of 600–800 dong/kilogram (Figure 1). However, rice prices rose rapidly from mid-1990 to the end of 1991 because of a small resurgence in inflation in 1990 and 1991. In 1992 and early 1993, rice prices generally fell across the country, in line with the fall in inflation to 17.6 per cent for 1992, as a result of renewed measures by the state to stabilise the macroeconomy. However, since early to mid-1993, prices in major markets have been on the rise and are currently around 2,200 dong/kilogram. With inflation in Vietnam decreasing to 4.3 per cent in the first nine months of 1993, implying that the general level of prices is rising at around 0.5 per cent per month, rice prices are increasing faster than other goods. In fact, relative to rice prices, agricultural input prices such as urea have been falling (Figure 3). As sufficient quantities of rice are available domestically, after rice is exported, rising rice prices indicate that rice demand is increasing. But if rural poverty is significant and particularly severe in many parts of Vietnam, there is little indication that the poor are in a position to increase their demand of rice for consumption—more likely is the use of rice as animal feed, and in the production of foodstuffs and alcohol in the more prosperous regions.

The quality of markets around the country is a key issue. The ability of farmers to produce profitably depends greatly upon their access to good markets.

- The degree of monopsony ('gouge') in product markets—do farmers have to sell to buyers who can use their market power or some other mechanism to keep prices lower than they would be under competitive conditions?
- The extent to which the transport and distributional systems are competitive, offering good services to farmers who want to get their produce to the final purchaser.
- The extent to which sectors adding value (such as crop processing) possess competitive structures, with low barriers to entry and exit.
- The nature of and access to overseas markets—is the export business competitive, with easy entry for newcomers, so that farmers' costs in gaining access to world markets are kept low and profitable markets found which permit exploitation of Vietnam's comparative advantages?

These are complicated issues, and they are not easy to research. There is considerable anecdotal evidence that, whilst immediate product markets are rather competitive, many others are not. This tends to reduce the productive efficiency of the sector as a whole. For example, according to the SPC and FAO (1993:41) report,

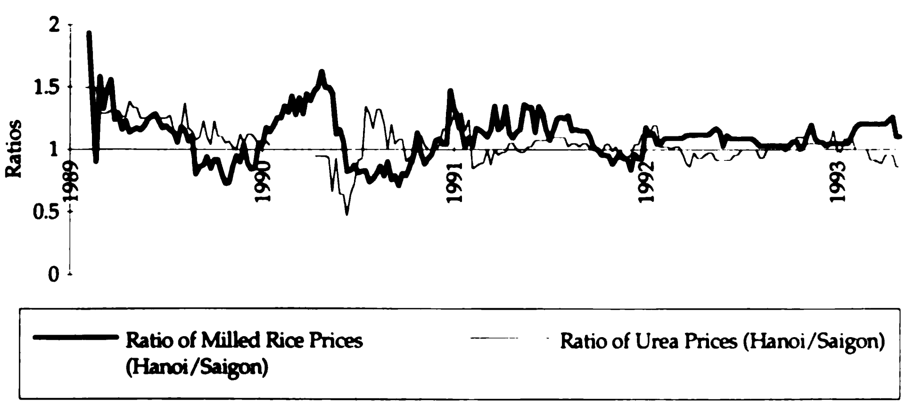
> Vietnam has a marketing margin of about 30–40 per cent in rice trade when the similar margin in Thailand is only 10 per cent... The pervasive monopolies in processing and distribution of output and inputs should be important reasons for high marketing margins. The state enterprises' contribution to government revenues

is huge [and] an important consideration for the government in its decision not to dismantle the state-owned enterprises in agricultural trade. The adverse effects on efficiency and suppression of farmers' incentives should nevertheless convince policy makers to review the adverse current situation urgently.

Although free markets co-existed with Vietnam's central planning system prior to reforms, their role in resource allocation was not only discouraged but also limited as the state attempted to gain control of certain markets, especially food crops. Since 1989, market forces have determined the prices of commodities: the question is, however, whether entry barriers and other distortions have allowed prices to accurately reflect relative scarcities. Based on these prices, producers make decisions concerning the level of consumption of various commodities. However, the efficiency with which markets signal prices varies significantly between regions and major centres, and according to their level of development. It is striking how in Vietnam the level of regional development generally reflects the ease of access to markets, both domestically and internationally.

The different characteristics of markets for different commodities in the same region also affects the ability of agricultural producers to allocate resources efficiently. In the case of farm households in the Red River Delta, where rice markets are well established and more competitive than markets in cash crops (such as garlic and onion) and non-rice food crops, households are more efficient in allocating resources when producing

Figure 2 **Price ratios between major markets (Hanoi/Saigon), 1989–93**



Source: ADUKI Pty Ltd, 1993. *Vietnam Economic Commentary and Analysis (VECA)*, No. 3, AKUDU Pty Ltd, Canberra.

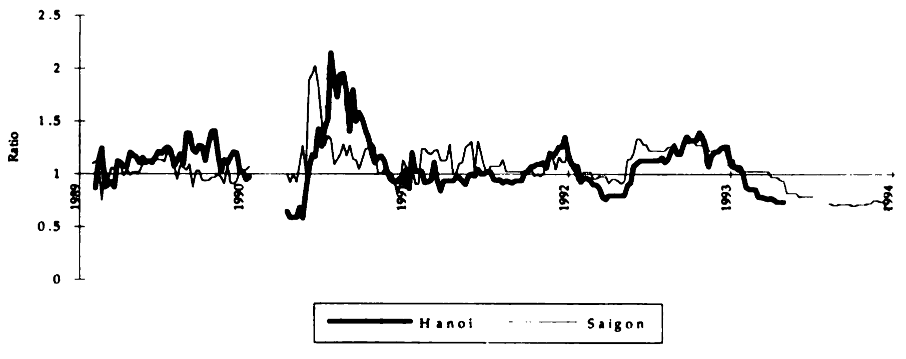
rice as opposed to other crops (Seneque 1993). Although this should be qualified by noting that households have more (technical) experience in cultivating rice on a large scale than a cash crop such as garlic,[11] better knowledge of cultivation methods implies that resources are used more efficiently.[12]

Figure 2 presents the ratio of rice and urea prices between Hanoi and Saigon. The variability in the price ratio between the two markets is greater for rice than urea, however, rice prices appear to be higher in the north. In general, higher prices in the north reflect the level of rice production in the region, as well as the cost of transportation for supplying northern markets from food surplus regions. Seasonality between the south and the north also affects price ratios. This is particularly noticeable for rice in the first half of 1989 and 1990. At this time of the year rice is abundant in the south relative to the north. Towards the end of the year rice becomes scarce in the south relative to the north. However, with improvements in the distribution system through the introduction of the market system and the strong performance in agriculture since the implementation of reforms, fluctuations in price ratios for rice and urea between the Hanoi and Saigon markets diminished consistently over 1991, 1992 and 1993, suggesting an improvement in the efficiency of the national market.

Figure 3 shows the variation in the ratio of urea to rice for each market. The amount of rice required to buy one kilogram of urea is an important indicator of the terms of trade facing rice farmers. North and south have followed similar paths. As urea is predominantly imported, this trend suggests that both markets have a similar degree of international access. The cut off of Soviet assistance in 1990, which up to then was Vietnam's primary supplier of chemical fertilisers, appears clearly in Figure 3 when the scarcity of urea relative to rice increased sharply. However, Vietnam's quick response to deal with the sudden shortage of fertiliser is indicated in Figure 3 by the equally sudden fall in the relative scarcity of urea to rice, as well as by the fact that paddy production, which uses most of Vietnam's chemical fertilisers, increased by 1.2 per cent in 1990 (Table 7). Between 1991 and 1993, the ratio between urea and rice prices remained moderate, fluctuating in a band from 0.75 to 1.25. However, since the beginning of 1993, the relative scarcity of urea to rice has declined to a ratio of around 0.7. Similarly, estimates of the urea to paddy ratio (calculated at border prices and adjusted for marketing costs) indicate a declining trend falling from 2.24 to 1.43 between 1989 and 1992 (SPC and FAO 1993:40–1).

If the urea to rice price ratio gives an indication of the rural–urban terms of trade, then the trend appears to indicate that the terms of trade have improved for agricultural producers across Vietnam. This is evident when considering that the urea–rice exchange ratio set by the state in the mid-1980s was typically 2:1. This improvement in the terms of trade would suggest an increase in the amount of fertiliser used by farmers. In contrast, the SPC and FAO report suggests that a declining ratio implies that farmers'

Figure 3 Ratio of urea to milled rice prices in major markets, 1989–94



Source: ADUKI Pty Ltd, 1993. *Vietnam Economic Commentary and Analysis (VECA)*, No. 3, AKUDI Pty Ltd, Canberra.

incentives for efficient fertiliser use have weakened over time. However, the report qualifies this by giving emphasis to infrastructural availability, credit constraints and technological opportunities amongst other factors determining farmers' fertiliser use.

Despite limited and sometimes distorted development in many regions, commodities markets have clearly opened new opportunities for the rural population. In an effort to verify national level statistics on agricultural production and dispel the belief held by some western observers that agriculture has been slow to grow in Vietnam's recent economic success, Dang Phong (1993) provides numerous examples where farm households have left rice farming and turned to other production activities in the wake of the new market opportunities. He is certainly correct in his assertion that agriculture has grown anything but slow since the reform process begun in 1988/89, at least at the national level. His many examples of rural households, both in food deficit and food surplus regions, striking it rich illustrate the common feature that markets are important in the livelihood of those turning to other production activities as alternative sources of income for purchasing food. However, at the regional level, varying conditions and opportunities have meant that those benefiting from the new set of conditions, namely the introduction of the market and the transformation process itself, are those regions that were already and/or have become better integrated into the market.

A number of implications can be drawn from food production trends and the general welfare of nearly 80 per cent of Vietnam's population living in the countryside. If food crop production, especially rice production slows down in the Mekong region, then rice exports will not only fall from their present level but domestic supplies will also be affected unless rural conditions are improved. As rapidly rising incomes in urban centres and prosperous rural regions increase demand for high value consumption goods, especially meat products, a deterioration in non-rice staples production would further exacerbate a slowdown in rice production, as rice was used as an alternative animal feed. This would drive domestic rice prices upwards. The implications for food deficit regions, especially poor and remote regions, are grave if household incomes remain low. But because food demand in Vietnam is hindered by low incomes, given current physical and market conditions facing Vietnam's countryside, especially the food deficit regions, new opportunities to raise rural incomes will not come from cultivating food crops alone. Rural households will need to diversify production in order to augment their incomes which, in turn, increases their demand for food, further stimulating food production. This, in turn, is viable only if there are good markets. The role of the market in improving rural incomes will be a crucial factor in alleviating rural poverty.

Removing constraints on agricultural development

An underdeveloped agricultural sector is inherently linked to rural poverty in Vietnam. As mentioned earlier, many parts of Vietnam suffer from both food and income shortages. For these regions, simultaneous access to food purchases and sale of goods and services for income will depend on market access. Similarly, markets allow rural households to access information and resources vital in augmenting production. Underdeveloped rural markets, however, hinder the ability of rural households to gain access to goods and services that allow them to develop agriculture and to improve household incomes. Poor market access is a consequence of poor physical infrastructure and rural linkages. It is also an outcome of the local monopoly and entry barriers imposed by weak institutional development.

Infrastructure

It is well recognised that weak and inadequate infrastructure is a major impediment to agricultural development, market development and poverty alleviation (SPC and FAO 1993, World Bank 1993, SRV and UNDP 1993). An SPC and FAO report (1993:44–6) recommends that rural roads, including associated investment in rural electrification and telecommunications, be ranked before research, irrigation and the availability of credit as a major project facilitating agricultural growth. The World Bank (1993:143, 204) sees irrigation as a major priority over rural services and credit in facilitating agricultural development, but also recognises the importance of rural transportation links in alleviating poverty, amongst other factors such as credit, education, social services, and support for informal farmer self-help groups. Although the priorities

Table 10 **State investment by sector, 1988–92**

	1988	1989	1990	1991	1992
Fixed investment (billion dong, 1982 prices)					
Gross fixed investment	16.8	17.5	19.6	21.8	17.6
Industry	7.8	8.7	7.4	9.4	..
Agriculture and forestry	3.8	2.7	3.4	3.4	..
Transportation and communications	2.3	2.8	3.9	4.5	..
Others	2.9	3.3	4.9	4.5	..
Share by sector (per cent)					
Gross fixed investment	100	100	100	100	100
Industry	0.46	0.49	0.38	0.43	..
Agriculture	0.23	0.16	0.17	0.16	..
Transportation and communications	0.13	0.16	0.20	0.21	..
Others	0.17	0.19	0.25	0.21	..
Annual growth (per cent)					
Gross fixed investment	4.9	4.4	11.8	11.1	-19.1
Industry	11.7	11.3	-14.3	26.7	..
Agriculture	19.0	-28.5	22.6	1.6	..
Transportation and communications	22.7	23.7	39.9	14.1	..
Others	-26.9	13.9	47.0	-8.6	..

Sources: Vietnam, General Statistical Office. *Nien Giam Thong Ke* (Statistical Year Book), Statistical Publishing House, Hanoi, (various issues).

attached to various types of infrastructure differ slightly between reports, there is no doubt that rehabilitation and development is urgently required in both central and rural transportation, electrification, telecommunication and irrigation.

State investment in infrastructure

State investment in Vietnam is funded from both central and local (most importantly the provinces) budgetary levels. Total state investment in the economy fell only marginally between 1988 and 1989, increased substantially over 1990 and 1991 at around 11 per cent, and fell dramatically by 19 per cent in 1992 (Table 10). This trend largely coincides with the adoption of measures to cut subsidies to the state sector in 1989 and 1992. The budget share of the transportation and communication sectors consistently increased from 13 per cent in 1989 to 21 per cent in 1991 and, by comparison, the share of industry fluctuated around 40 per cent. It is evident, however, that the obvious loser over the period is the agricultural (and forestry) sector, which experienced a fall in its share of total state investment in real terms.

Although state investment in the transportation and communications sector is not available by regions, at the local level state investment was generally more volatile for

Table 11 **Local state investment by region, 1988–92** (billion dong 1982 prices)

	1988	1989	1990	1991	1992
Local level state investment					
Country average	6.00	5.22	7.32	8.69	5.7
North and midlands	0.72	0.83	0.96	1.39	..
Red River Delta	1.29	1.18	1.55	1.82	..
North central coast	0.85	0.59	1.41	1.20	..
South central coast	0.62	0.55	0.72	0.89	..
Central highlands	0.25	0.32	0.33	0.42	..
NE southern region	1.05	0.86	0.97	1.39	..
Mekong Delta	1.22	0.89	1.37	1.57	..
Annual growth rate of local level state investment					
Country average	..	-13.0	40.2	18.7	-34.6
North and midlands	..	14.9	15.9	45.5	..
Red River Delta	..	-8.4	31.3	17.4	..
North central coast	..	-31.1	140.7	-14.9	..
South central coast	..	-10.9	31.1	23.1	..
Central highlands	..	28.7	4.5	25.4	..
NE southern region	..	-18.2	13.2	43.1	..
Mekong Delta	..	-26.9	52.7	15.0	..

Sources: Vietnam, General Statistical Office. *Nien Giam Thong Ke* (Statistical Year Book), Statistical Publishing House, Hanoi, (various issues).

Although state investment in the transportation and communications sector is not available by regions, at the local level state investment was generally more volatile for the poorer areas which suffered sharp falls in investment (Table 11). This is particularly noticeable for the north central coast area which in 1991 experienced a fall of 15 per cent in local state investment.

In agricultural infrastructure, the level of investment in irrigation over the years has been rather mixed. Total state investment between 1988 and 1989 grew by 0.2 per cent, by 33 per cent over 1990, and fell by 10 per cent over 1991 (Vietnam 1993, Vietnam 1992a, Vietnam 1991a). The outcome for 1992 is likely to be in line with the sharp fall in state investment at both central and local levels.

A consequence of the economic policy measures undertaken since 1989 has been an unstable investment program in physical infrastructure—either sharp rises or sharp falls at both the central and regional levels. While the state has increased investment in infrastructure over the period, this has been from a low base,[13] and the relatively large share of state investment going to industry, presumably to finance many loss-making state-owned enterprises, reflects the level of importance the state places on the developing of much needed infrastructure in the countryside.[14]

The decentralisation process, on the other hand, has pushed the burden of financing infrastructure maintenance and development from the centre to the provincial and even the district levels. The extent to which provincial governments have been able to manage this transformation generally depends on the wealth of the province as well as the use the province makes of its available resources. Here the position taken towards local state businesses can be very important, with significant implications for the nature of local markets. As most parts of rural Vietnam comprise poor provinces, investment in developing rural infrastructure has suffered. This factor poses a serious problem to the development of agriculture and the general welfare of isolated rural communities because markets remain uncompetitive for lack of information, agricultural implements remain primitive and monetary incentives remain weak because certain consumer goods require electricity (such as pumps, threshers, radios, fans, televisions) when electricity is either inadequate or unavailable. Teachers, as well as health workers, from urban areas have no incentive to work in such communities.

A program of infrastructural investment, therefore, has the potential to access many remote regions of Vietnam, develop markets and facilitate agricultural development. But equally important, a major public rural roads project such as that proposed by the SPC and FAO (1993:46–59) with an estimated expenditure of US$250 million per year over a projected period of 10 years, would bring with it certain positive elements for mitigating poverty in many rural regions, at least in the short term, while providing a long-term rural growth solution, claiming it could reach up to as many as 1–1.5 million or 10 per cent of rural families.

Rural development institutions

Successful developing economies tend to put in place a variety of rural activities designed to stimulate the rural economy—land reform has been an important element of successful and rapid development in East Asia (Little, Scitovsky and Scott 1970, Chenery 1974, Fei, Ranis and Kuo 1979). Other elements of a successful rural development policy include extension, credit and support for farmers' organisations. Vietnam lacks an effective extension system, and in those areas that still have cooperatives, existing services are focused on cooperatives rather than individual farmers.

Credit

The acquisition of modern inputs and technology to increase agricultural productivity is dependent on access to credit. Rural credit is important in expanding the food crop, cash crop and livestock sectors in agriculture. However, rural credit should provide for the financial needs of many other activities surrounding agriculture, for example, the many small businesses providing inputs and consumer goods to farmers and market farmers' output, including those processing agricultural produce into foodstuffs, producing handicrafts and various trades (such as carpentry, brick making and brick laying). These small businesses are in a position to expand rural employment and stimulate agricultural development. In short, the lack of liquidity seriously constrains farm households from expanding production, and this is further exacerbated when the small traders on which farmers are dependent are also constrained by their lack of access to credit.

As part of its economic reform package, Vietnam restructured its banking system in 1990 to serve the emerging market economy. The Vietnam Bank of Agriculture (VBA) was established to provide short and medium-term credit to rural public institutions, as well as to farmers and the emerging private sector. However, the VBA did not start lending to farmers until mid-1991. Since then, the activities of VBA have increased rapidly. In 1992, half of VBA's lending came from deposits, including private deposits which made up 10 per cent of the total lending of the VBA, private sector lending at the end of 1991 was 7 per cent of its portfolio and by the end of 1992 had increased to 26 per cent. The rate of default on credit collection from small borrowers was an impressively low 2 per cent. The outlook for 1993 suggests that private sector activity should continue to expand rapidly (World Bank 1993:149).

The World Bank claims that due to a shortage of lending funds, the VBA was only able to provide short-term credit to about 10 per cent of the potential private rural borrowers (1993:150). Furthermore, the World Bank estimates that even if modest agricultural growth is sustained, the annual credit requirements of the rural sector will be between US$2.5 and US$3 billion. With a current loans portfolio of US$236 million, VBA loans only amount to a mere 8–9 per cent of the rural sector's financial needs. Clearly, the VBA has not played a significant role in Vietnam's successful agricultural performance to date. The fact that agricultural growth averaged 6.5 per cent over the period 1989–92 suggests that the rural sector has found the necessary funds to finance working capital. In fact, most working capital is financed from private savings and informal credit networks. This highlights several factors: the extent of the shortfall in required funds being financed outside of the banking system is enormous, the ability of farm households to meet their financial needs from their own savings indicates a lack of confidence in the public banking system or lack of access to the banking system, and the reliance on an informal credit market which appears to be common and widely practised. In many cases, informal credit becomes a key mechanism for land concentration (Rutherford 1992).[15] Any effective analysis of rural capital markets must therefore examine the role of informal credit.

Farmers' organisations

One of the most interesting aspects of current trends in the Vietnamese rural economy is the increasing arrival upon the scene of autonomous farmers' organisations. These are well documented (Chu Van Lam 1992) and are actively encouraged by the party. They appear to be designed to address the wide range of institutional gaps left from the legacy of collectivisation and cover areas such as marketing, joint production, credit, transport and so on. These groups tap into the extensive informal credit market, and exploit the considerable capacity for organisational innovation that appears to be a national characteristic when presented with locally profitable opportunities for public goods production. They bypass the existing formal structures.

Formal structures in the rural economy are, in some quarters, dismissed as being simply a set of exploitative interlocking systems. There are three groups in this so-called 'triangle'.

- Party-state personnel at the local level.
- Economic organisations such as cooperatives, state farms and state trading companies.
- Functional state organisations such as the local VBA, the police and security forces.

At the local level, it is certainly the case that these can be a strong 'mafia' that will treat additional resources (like state credit, aid funds) as a resource to be used for the group's benefit. This can greatly inhibit normal developmentalist activities and the tactics of non-government organisations will tend to reflect this. This is not to say, however, that in certain areas dedicated civil servants and enlightened local leaders cannot be found. However, the problem helps to explain the slow penetration of private capital into cash crop processing and the maintenance of high observed marketing margins.[16] The party supports both these groups and the farmers' countervailing strategies. What has not yet happened is any strong state action against these interferences with the normal operation of the market.[17] The pattern of state investment priorities alluded to by the SPC and FAO report suggests that there are stronger forces at work here.

There clearly exist a number of methods for accelerating Vietnamese rural development. In many parts of rural Vietnam, improving weak and inadequate rural infrastructure in roads and telecommunications, including electricity supplies, has the potential to simultaneously facilitate agricultural and market development. Furthermore, addressing limitations in farm services and extensions and credit availability has the capacity to improve agricultural productivity and related rural activities. Unshackling agriculture from these constraints, in turn, should play a major role in improving rural incomes and provide a positive step towards alleviating rural poverty.

Conclusions

The evidence drawn from the macroeconomic data, with all its well-known shortcomings, is striking. It shows just how strong the positive and negative forces unleashed by dismantling a centrally planned system can be. It argues that the key issue in explaining real income growth, both regionally and between different households, is the nature of market access, and the sorts of markets to which access is gained. Agricultural GDP growth rates of 5–6 per cent are relatively high, and to be welcomed.

However, the analysis has considerable shortcomings. In the absence of sufficiently detailed and focused research into the determinants of economic change at the micro level arguments (ours included) tend to rely upon *a priori* reasoning. For example, since there are strong theoretical reasons for believing that price reforms and market liberalisation will increase output, these are said to be the reason for the favourable post-1989 performance of Vietnam's economy. A more institutional position, on the other hand, stresses the accumulation that had been going on in the rural areas prior to 1988, and thus views the effects of 1989 as being more a product of better markets and higher incomes—in other words, less systemic in origin. The basic issue is lack of empirical research.

Certain things can be said, however, about the role played by policy. Whatever praise is granted to the government for the post-1988/89 performance, few would attribute this to the elements of a successful rural development program with extension services, access to credit and so on. If it had any effect at all, policy operated through macro liberalisation and stability and micro decollectivisation, and not through conventional rural development policies. The question then arises, since the 1993 measures appear precisely designed to fill that gap, as to what impact and relevance they might have. Here it is worth recalling that 1988's Decree no. 10 did offer a new deal for agriculture, and that this was not implemented. The question has to be asked—what has changed to make the rural development support elements of the 1993 measures more implementable than those of 1988? We have cited pointers to the underlying political economy of the rural areas: the tendency for farmers to go it alone, setting up their own autonomous organisations in juxtaposition to official bodies. There are arguments that have to be addressed for treating the implementation capacity of the state in the rural areas with considerable pessimism. The nature of the current debate itself therefore suggests that the second position we outlined at the beginning of this paper has to confront these arguments: why be optimistic about policy? It is perhaps sufficient to argue that such policies, if implemented, are needed, and would have a positive effect, but only perhaps.

With regard to the role played by markets, the range of arguments seems to be less contradictory. The macroeconomic picture argues that the unleashing of market forces is not only a major cause of rural development, but that the extent and nature of that market development explains differences between regions. Market pessimism is therefore less acceptable than policy pessimism.

It would follow that further improvement of the economic analysis would require greater attention to the nature of Vietnam's rural markets. In the discussion of rural institutions we come up against major warning signs: the strong processes of land loss, and the local 'club' based upon interlocking party-state structures (the triangle mentioned above) through which state and party policies must operate at the local level.

These two issues are likely to be closely linked. However, whilst it is clear that these are significant problems, we do not know just how significant. Their potential economic impact, however, could be great, leading to social unrest and political turmoil and, if so, the task of overhauling the formal institutional framework of the rural areas would be extremely difficult to accomplish. Carried to an extreme, it would be appropriate to paint a high proportion of apparently developmentalist rural activities as being in essence little more than rent-seeking, with important implications for national economic development as well as economic policy. However, the economic success to date argues that, if there is a club then, like many other Vietnamese institutions, it is a rather weak club around which intelligent and well-organised farmers can manoeuvre. But it is still costly and wasteful to have to do so and economic performance would probably have been better if this problem had not existed.

It is useful to accept that the picture is not clear. One reason for this is the lack of a rigorous and widely accepted analysis of trends during the 1980s. This would enable us to gauge better the arguments about the role of local party state structures, and so assess the likely meaning and impact of rural development policy. At the present state of knowledge it is hard to choose between positions in the current debate. In an economy still so dependent upon rural conditions as Vietnam, there are many reasons to be concerned. Yet it is striking how in the period 1988–93 the absence of much of the normal apparatus of rural development does not so far seem to have mattered. It is also striking how many of the issues that such state policies are intended to meet, but by far from all, are capable of local solution (such as credit, technological innovation and marketing). Furthermore, entry barriers can be struck down, as simply another fence to be broken. Probably much will depend upon the extent to which the mass of the population retain the land access rights which the combinations of history and decollectivisation has granted them. Almost all textbooks on East Asia seem to argue that land reform, whether in Japan, Taiwan or wherever, was a key element in the early success of economic development. And any land reform will be accompanied by measures to contain concentration of land. In this area, it is interesting to reflect upon whether the Vietnamese Communist Party's refusal to grant private property rights in land in the 1993 Land Law should be viewed as a recognition of such issues, or as a support for one basis of the triangle, or perhaps as both?

In conclusion, it is useful to recapitulate the three positions.

- The 'optimistic about markets' and 'pessimistic about policy' position: markets work, and state policy is not very important.
- The 'optimistic about regulated markets' and 'optimistic about policy' position.
- The 'pessimistic about both markets and policy' position.

On the one hand, the analysis supports the first and last positions in that there are grounds to be pessimistic about the implementability and positive value of rural development policies in Vietnam. On the other hand, it encourages optimism about the role of markets, and thus supports the first and second positions. On the whole, therefore, it upholds the first position—that Vietnamese rural development, thanks to the growth of markets, is likely to continue to be strong and rural development policy (aside from sectoral reforms and relevant aspects of economy wide policies) will not be greatly relevant.

Notes

1 *Nghi quyet Bo chinh tri ve doi moi quan ly kinh te nong nghiep (10)* (Resolution of the Politburo No. 10 on the reform of agricultural economic management), Dang cong san Vietnam Communist Party of Vietnam), NXB Su That Hanoi 1988; *Bao cao (du thao) so ket tinh hinh thuc hien nghi quyet 10 cua Bo chinh tri ve doi moi quan ly kinh te nong nghiep* (Draft report on the results of the implementation of decree 10 of the Politburo in agricultural economic management reform), mimeo, Hanoi 1989. Note that according to the latter the reason why the Decree in practice became little more than the micro reform of cooperatives (important as that was), was to do with the fact that the Decree originated in the Economics and Propaganda Departments of the Party Secretariat, but was implemented by the Party/State apparatus as a whole... Taken with overt criticisms of the quasi-exploitative activities of some rural cadres in the media in the run-up to the Decree, this points to certain differences within the Party on the way to deal with the rural areas. Note also that whilst the June 1993 5th Plenum of the Central Committee continued with its support for cooperatives in those areas that still had them (mainly the north and centre of Vietnam), the November Conference of the Peasants Association called for redoubled efforts to accelerate rural development. It also both supported the cooperatives left over from the old system whilst encouraging the emergence of autonomous peasant collective organisations.

2 See, for example, Nguyen Khac Truong's novel *Manh dat lam nuoi nhieu ma* (The Land of People and Ghosts), NXB Hoi Nha Van, Hanoi, 1991. This novel describes a commune where all of the formal party/state structures are simply fronts for the generations-old rivalries between various families.

3 There are arguments that statistical under-recording of investment in 1992 was considerable (VECA 1993:45–6). Based upon some rather simple estimates, this concluded that domestic private savings in 1992 were at some 17.5 per cent of GDP, compared with 11 per cent in 1990, rising to near 22 per cent in 1993. On the same basis, total investment in 1993 is around 17 per cent of GDP.

4 Gross output differs from GDP in that the latter only includes intermediate consumption (payment to factors), hence, GDP represents the income derived from the production activity since it is gross output minus intermediate consumption. Gross agricultural output was used in this category since a breakdown of agricultural GDP was not available.

5 In general, the quality of Vietnamese statistics has been improving over recent years, but care is still warranted when making judgment based on national account figures. Only since 1992 has Vietnam adopted the United Nations System of National Accounts. Although national account figures have been revised as far back as 1986 for some categories (GDP, Gross Output, National Income) and that these have been reported in some of the most recent publication of the General Statistical Office, it appears that the reporting of growth figures based on Vietnamese national accounts by major international institutions are not 'up to date' and even based on unrevised statistics since they vary between each other. Take, for example, four

recent reports: an IMF working paper (May 1993), the SPC and FAO report (September 1993), a UNDP (SRV) report (September 1993), and the World Bank country report (September 1993). All reports differ from our growth rate which is based on the most recent publications reporting GDP estimates. Note that both the UNDP and SPC and FAO reports were prepared for the Donor Conference in November 1993, and that the most recent national accounts data were published in Hanoi in March 1993.

[6] In fact chemical fertiliser imports increased from 1.84 million tonnes in 1989 to 2.085 million tonnes in 1990 (Vietnam 1993).

[7] The figure of 260 kilograms is based on the estimate of monthly subsistence consumption of 13 kilograms of milled rice provided in Nguyen Van Tiem (1993:34). We have used a 13 month lunar year, and the paddy to milled rice conversion rate of 0.65, to arrive at 260 kilograms per person per annum.

[8] Dang Phong (1993) provides an interesting anecdote, whereby farmers have taken to raising deer, apparently with extremely high returns (up to US$100–500 per animal), but also with high capital outlays.

[9] North Vietnam includes the northern mountains and midlands, Red River Delta, and north central coast. South Vietnam includes south central coast, central highlands, northeast southern, and Mekong Delta regions.

[10] In Ngo Vinh Long's (1993) study of class differentiation in the Vietnamese countryside, the author asserts that the situation has worsened since the economic reforms began.

[11] Relative to rice, garlic has only been recently grown commercially in some parts of Hai Hung province in the Red River Delta. At the time when the observations were made, there was considerable state involvement in cash crop marketing especially for garlic.

[12] In the literature, efficiency can be separated into technical efficiency and allocative efficiency. Kalirajan and Shand (1988) have shown that technical efficiency generally facilitates economic efficiency. That is to say, the better a farmer applies scarce resources (for example, timely application of fertilisers and correct method of application) the better is the quantity applied (that is the least amount of input to yield the greatest amount of output). The product of both technical and allocative efficiencies is economic efficiency.

[13] Road density area (km/km2) in Vietnam is amongst the lowest of all low-income developing countries and is worse off than some countries with similar per capita GDP (World Road Statistics, International Road Federation, Washington, DC cited in SPC and FAO 1993).

[14] Mellor and Qureshi, the consultants for the SPC and FAO report (1993) also mention similar views. According to them, the importance that the government places on rural infrastructure investment can be weighed up by a recent workshop on Public Investment held in Hanoi. Apparently, rural infrastructure was virtually left unmentioned.

[15] For the classic statement on 'interlocking markets', see Bhaduri (1973).

[16] The mechanisms used by this interlocking group to obtain resources include, apart from straight corruption, such economic 'distortions' as pressuring incoming foreign investors to carry out joint ventures with state economic units belonging to the local authority, use of the 'contract' system in cooperatives to ensure supply of cash crops at appropriate prices to local state trading companies, processors etc. Whilst little studied, there is abundant evidence for such behaviour in NGO reports and the official mass media, as well as, less directly put, in academic studies.

[17] It is worth recalling here that the debates over the New Constitution about the position of province leaders were heated, but resulted in little change to the *status quo*, within which such important members of the nomenclatura are still locally appointees, subject only to the approval of the Head of Government.

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