THE ECONOMIC DEVELOPMENT POLICY IN THE TRANSITION TOWARD A MARKET-ORIENTED ECONOMY IN THE SOCIALIST REPUBLIC OF VIET NAM

PHASE 1
FINAL REPORT

OPINIONS OF THE FIVE-YEAR PLAN FOR SOCIAL AND ECONOMIC DEVELOPMENT 1996-2000 IN VIET NAM

VOL.5 AGRICULTURAL AND RURAL DEVELOPMENT

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Overall Contents

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Preface to the Final Report, Phase 1

This study was proposed after consultation with Viet Nam's Prime Minister Vo Van Kiet and Vietnamese officials when a high level Mission of the Japanese government on Economic and Technical Cooperation visited Viet Nam in October 1994. A formal agreement was reached during Party Secretary-General Do Muoi's official visit to Japan in April 1995 to carry out the study as part of Japan's official development aid (ODA) to Viet Nam. It was agreed that the Study would be implemented under the Social Development Studies Program of the Japan International Cooperation Agency (JICA) and a Scope of Work Agreement defining the details of the Study was officially signed in August 1995 between Vice Minister Mr. Vo Hong Phuc of Viet Nam's Ministry of Planning and Investment and Councilor Mr. Norio Hattori of Japan's Ministry of Foreign Affairs Economic Cooperation Bureau.

The project was agreed to be conducted as a joint study between Japan and Viet Nam and the research groups for that study was organized on both sides with the participation of first rate scholars and experts. Professor Shigeru Ishikawa headed up the Japanese Research Group, Dr. Nguyen Quang Thai the Vietnamese project team. Under the Agreement, the project is to be pursued in two phases. During the first phase, the over-arching goal is to study the Five-year Plan for Social and Economic Development in Viet Nam (covering the years 1996 to 2000). This phase was planned to end in June 1996 with the submission of a Project Report to the leadership of Viet Nam via the Ministry of Planning and Investment. The research of the first phase includes, in addition to the study for the general commentary on the draft Five-year Plan, four specific studies relating to the following four selected topics respectively which are to be conducted at the four separate Sub-Research Groups as "in-depth" studies of the draft Five-year Plan.

(1) Macro economic growth and the its relationship with inflation and stability;
(2) Capital mobilization in the fiscal and monetary domains;
(3) Industrial development and industrialization policies; and
(4) Policies on agriculture and rural development.

During the course of the research, both sides agreed to add the three topics below, though the research on them has not yet been organized:

(5) Development gaps among domestic regions;
(6) Unemployment and underemployment problems; and
(7) Relieving starvation and mitigating poverty.

This research project has attracted the attention and interest of Viet Nam's leaders. Party Secretary-General Do Muoi and other senior officials have received reports on on-going research findings from the scholars involved in the project. Scholars on both sides have revised their reports in light of the leading opinions provided by Party Secretary-General Do Muoi in September 1995 and March 1996, and at his request they have prepared an Executive Summary Report (March 1996) earlier than the Final Report so that

their opinions may be incorporated in the document "Orientations and Tasks of the 1996-2000 Five-year Plan for Socio-Economic development in Viet Nam."

The Executive Summary Report was written solely, and the Final Report was written mainly, by the Japanese Research Group but it reflects the findings of joint research conducted by both sides of Japan and Viet Nam. This joint research was deepened through five seminars of various sizes, two in Hanoi (the Start-Up Seminar in August 1995 and the Seminar to hear opinions on the Draft of the Final Report in March 1996) and three in Tokyo in October and November 1995 and January 1996.

The method this research project desired at its planning stage to follow was a "joint study" of the Vietnamese and Japanese Research Groups by way of identification of research topics and determination of research methods and data on the basis of joint discussion, proceeding of the joint study with frequent contacts, meetings and field surveys, and writing (as much as possible jointly) of the research findings and derived policy options. We are pleased that this desire was achieved at least preliminarily, especially toward the end of the first phase.

The Final Report consists of five parts, and is printed correspondingly in five volumes. Part One is on general commentary on the draft Five-year Plan*, and the following Parts on in-depth studies of specific issues of the draft Five-year Plan conducted by the four Sub-Research Groups. In each of these Parts (or Volumes), that summary of the research results either for general commentary or at each Sub-Research Group which was written for the Executive Summary Report, is reproduced (with some revisions) and, together with the comments on it by the Chief Sub-Research Group of the Vietnamese side, constitute the Introductory Chapters. They are followed by papers and notes, each written by either Japanese or Vietnamese member, and joint field-survey reports.

The research tasks (or topics and sub-topics) selected for the five Parts are summarized as follows.

First, the research tasks of the General Comment Part (Volume 1) are the interpretation and evaluation of the contents and outcomes of the Doi Moi policy, the leading strategy principles which was initiated in 1986 and is still effective and governing the new Five-year Plan (draft), and the analyses, from a more operational view-point, of the policy-systems contemplated in the new Five-year Plan (draft). The latter questions, firstly, from the aspect of economic system reform, what is the structure of blue-prints of marketization designed for the Vietnamese economy is, and, secondly, from the aspect of productive force restructuring, what type of the economic "development model" for industrialization or its variant available in development economics is suitable as a guideline for the Viet Nam economy taking into consideration the initial conditions of her economy. The answers to these questions should be useful as clues for exploring the policy options for Viet Nam.

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* In this Final Report, the term "Draft Five-year Plan" refers to either one of the following documents which were sent to the Japanese Academic Group directly from the Ministry of Planning and Investment. Specific reference of either of these is made in our report only when it is necessary.

(1) *1996-2000 nen gokanen no keizai shakai kaihatsu keikaku no shuyou naiyo no shoki soan* (This is the Japanese translation version of the original in Viet Nam language which was sent to the Japanese Academic Group at the end of June 1995 so that opinions on it may be presented at the Start-Up Seminar in August 1995. In English, this is *Initial Draft of the Five Year Socio-Economic Development Plan in 1996-2000:* Main Contents. Later in August 1995, the document, Some Issues on Industrialization and Socio-Economic Development in Viet Nam from Now Upto the Year 2000 was sent to the Japanese Academic Group. This appears to be a version with minor revisions of the "Initial Draft.")

(2) Socio-Economic Development and Investment Requirements for the Five Years 1996-2000, Government Report of the Consultative Group Meeting, Paris, 30 November to 1 December 1995, Hanoi, October 1995. (This was transmitted to the Japanese Academic Group on October 3, 1995 so that opinions on it may be presented at the Seminar in Tokyo in January 1996.)

In our earlier general comment on the "Initial Draft" of the Five-year Plan, four items of policy options were suggested, which in fact were made the research topics of the four Sub-Research Groups at its start. It is possible to locate these four policy options within the overall framework we have just shown for the analysis on the policy-systems of the Five-year Plan (draft).

The study task of the Part for Macroeconomy Sub-Research Group (Volume 2) is to attempt a simulation analysis of the issue in a hypothetical situation where the Viet Nam government wants to attain the degree of a high rate of growth of GDP which is enabled only by a considerably high rate of domestic investment, considering the fact that the present level of domestic saving ratio is still very low, not significantly higher than zero, and both the debt service payment obliged by the large accumulated external debts and the minimally required government social service expenditures amount large, how strong would be the pressure for domestic inflation and external balance of payment deficit. The statistical indicators used for simulation are taken from the figures in the Five-year Plan draft.

To this Part is added a study on the environmental issues: how important it is for such a country as Viet Nam where industrialization is at its initial stage to take measures to minimize the "environmental degradation" and "industrial contamination" as early as possible.

The research tasks of the Part for the Fiscal and Monetary Policy Sub-Research Group (Volume 3) are firstly, a systemic analysis to clarify the transformation of fiscal and monetary mechanism of the Vietnamese economy accordingly as the economy changes its resource allocation formula from the one in the planned economy of basing itself on the centralized material planning and, with it, material allocation to the one in the transitory economy where the government intervenes partly by material allocation and partly through the fiscal and monetary policy instruments that are conventional in the market economy. The research tasks are, in addition to it, to investigate the *modus-operandi* of the present fiscal and monetary system, from the point of view of the effectiveness of the domestic saving mobilization and to explore the measures to improve them. As priority items, the issue of how to adjust the fiscal relationship between the central and provincial governments so that the total government revenue could be raised and the regional income disparity be reduced and the issue of how to raise and enhance the financial system which may facilitate the preservation of the long-term and medium-term investment funds for industry, in particular, to the private sector are taken up.

From the point of view of foreign saving mobilization, studies are made with respect to the sources from FDI, ODA and others and the issues involved in these source.

The research tasks of the Part for Industrial Policy (Volume 4) are firstly to make surveys not only on the existing production and export-import statistics of industry, but also on the not-yet well covered or organized statistical information and data on industry on the by firm or by establishment, by ownership, by size or by regional bases, and thereby to clarify the present situation and its characteristics as well as the issues to be

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(3) *Directions, Planning Tasks of Socio-Economic Development for 5-Year 1996-2000, Report of the Central Executive Committee of the Party, Section VII to be Submitted to the Eighth Congress of the Party*, Viet Nam Communist Party Central Executive Committee, Hanoi, November 14, 1995. (This was sent to the Japanese Academic Group in March 1996 so that opinions on it may be presented at the Final Seminar in Hanoi.)

(4) *Political Report of the Central Committee (VIIth Tenure) to the VIIIth National Congress of the Communist Party of Viet Nam* (This was published in Viet Nam dated April 10, 1996. Comments for this was in time only for including them in Postscript to the Executive Summary Report.). The finally adopted version of this document at the Party National Congress is the following. Communist Party of Viet Nam VIIIth National Congress, *Orientations and Tasks of the 1996-2000 Five-year Plan for Socio-Economic Development, Report of the Central Committee, the VIIth Tenure, to the VIIIth National Congress*, Hanoi, 28th June-1st July, 1996. It was sent to the Japanese Academic Group on July 12, 1995.

solved of the Vietnamese industry. Exploration should be made on that basis, and taking into consideration the experiences of East Asian economies as a predecessors of Vietnamese industrialization, with respect to the order of industry-by-industry development in terms of the dynamic shift of comparative advantage position. The use of FDI and the way of participation in the regional integration schemes of AFTA and APEC are also to be explored. Lessons must be learned also from the experiences in the East Asian countries with regard to the matter of establishing the oil refining, petro-chemical, iron and steel, cement and chemical industries, which are capital lumpy and intensive, yet the government was anxious to build earlier, capturing the advantage in rich resource endowment.

Finally, the research tasks of the Agriculture and Rural Development Sub-Research Group (Volume 5) are to identify the policy instruments for further increase in agricultural production for the sake of promoting economic development, on the basis of the analyses on the changes in the institutions and organizations of agricultural production as well as in the production incentives during the 1980s and in the first half of the 1990s. Among these research tasks, especially important are the clarification of the roles of the factors like the potentiality of increasing the area under rice planning, the production incentive effect of institutional changes and price increases, research and development and irrigation investments. Investigations are also to be made on the way to improve agricultural finance and farmers' organizations in the way consistent with the market-oriented economic reform.

In pursuance from the Final Report, the joint research of the second phase will start on the basis of a new agreement between the two parties.

In addition to submitting this Final Report to the leadership of Viet Nam, we have sent it to you in hopes of soliciting your opinions for more effective start of the second phase joint study.

July 1996, Hanoi and Tokyo

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1
Summary of the Studies on Agricultural and Rural Development

I. Development in the agricultural sector in the 1980s and early 1990s

Vietnamese agriculture has undergone various changes owing to changes in the political and economic environment. Food production and food supply per capita decreased abruptly as a result of rapid and nationwide promotion of collective, large-scale agriculture following unification of the south to the north in 1975. The country faced an agricultural and food crisis. To cope with this situation, the Party and the Government issued Instruction No. 100 in 1981, which introduced a production contract system between individual farm households and cooperatives. Agricultural production recovered temporarily owing to the new system. However, agricultural production began to decline again due to inherent defects in the system and the critical macro-economic situation, and fell into crisis once again in 1987.

In view of this crisis, the Government launched the Doi Moi policy. As represented by Resolution No. 10 formulated in 1988, this policy aimed at changing the economic system from planned economy to a market economy and promoting autonomous production and sales by farm households. In accordance with this policy, production and sales were liberalized and long-term land tenure was ensured by the enactment of a land law in 1993. The economic incentives farmers gained through these changes have increased agricultural production. During the five years from 1991 until 1995, gross domestic product in the agricultural sector (constant price in 1989) achieved an average annual growth rate of 4.5% (or an average annual growth rate of 5.6% excluding forestry and fishery). This means it reached the upper target for annual average growth, 3.7% - 4.5%, for this period. Food production (in terms of paddy) increased from 21.5 million tons in 1990 to 27 million tons in 1995 and per capita food supply increased from 325 kg to 365 kg during the same period. Table 1 shows the overall and sub-sector wise trends of production in the period.

When the growth is classified by crop, rapid production increases were shown in livestock, industrial crops (coffee, rubber, tea), and food crops, especially rice. Contributions to the increase in gross agricultural product from 1991-1995 were 43.0% for paddy, 26.7% for livestock, and 21.5% for industrial crops. Meanwhile, these production increases were supported by growing domestic consumption of agricultural products such as meat, eggs, and sugar owing to increased disposable income and expanded exports of products such as coffee and rubber.

In Viet Nam, the agricultural sector accounts for about one fourth of GDP. Rural residents account for 80% of the population, most of whom depend on agriculture for income, employment, and livelihood. The increase in agricultural production during the early 1990s has stabilized food supply and improved rural residents' income and living standards. Export of agricultural products has resulted in an annual foreign currency income exceeding 1.9 billion dollars (47% of the total export earning). Thus, it has greatly contributed to socioeconomic stabilization and development.

At the same time, the development of Vietnamese agriculture should be viewed from two viewpoints, the aspect of the transition to a market economy and the aspect of agricultural development in a developing country characterized by high population density and land shortages. It is anticipated that the economic incentives offered farmers by the Doi Moi policy may not be sufficient to realize sustainable development. It needs to be aware that agricultural development may stagnate unless positive, strategic policies are implemented for agricultural development in parallel with the change to a market economy. Stagnation in agricultural development would bring about serious effects. First, since food prices would rise, wage standards in cities would have to be raised. This would suppress industrial growth. Second, the industrial sector would not grow smoothly because domestic purchasing power which heavily depends on farmers' income would not increase. It should be clearly understood that stagnation in agricultural development will exert an undesirable influence on the entire national economy.

This chapter at first characterizes the factors that supported the remarkable increase in agricultural production centering on rice during the early 1990s. The rural credit system was reformed under the Doi Moi policy. To promote agricultural development in the future, it will be important to mobilize funds and provide loans by organizing farmers, in addition to introducing public funds. Since the former cooperatives are no longer functioning, it has been pointed out that new types of cooperatives will be needed along with the progress of a market economy. This chapter suggests ideas concerning this as well.

This chapter regarding the agricultural and rural development has also been prepared on the basis of (a) papers prepared and submitted to the three joint workshops held in Tokyo in November 1995, December 1995 and Hanoi in March 1996 respectively; (b) studies conducted by the Vietnamese team members, and (c) a report of the Japanese consultant team. In the sections 2 and 3 of the chapter, four papers of the Japanese members and four study excerpts of Vietnamese members are respectively incorporated. Moreover the section 4 presents the summary of the findings of the farm households survey conducted jointly by the Vietnamese and Japanese teams in January 1996.

II. Factor analysis of increases in agricultural production centering on rice and future outlook

1. Factors contributing to production increases from 1990 to 1995

Rice (in paddy equivalent) production increased from 19.2 million tons to 24 million tons during the period of 1990-1995. An average annual growth rate was 4.6%. The following factors contributed to this production increase:

(1) The area under cultivation increased. Monsoon crops which have the disadvantage of low yields decreased, while high-yield spring crop and autumn crop increased. Over these 5 years, the spring and autumn crop areas increased by 15% and 6% respectively. In contrast, the monsoon rice area decreased by 4% (Table 2).

(2) High-yielding varieties were introduced and their areas under cultivation increased. These high-yielding varieties include hybrid varieties in the north and varieties developed by the International Rice Research Institute (IRRI) in the south. The hybrid varieties are poor in taste, but have an extremely high yield. Since the profit per unit area is high, their crop area increased rapidly from 11,000 ha in 1992 to 50,000 ha in 1995.

(3) Fertilizer application increased and more intensive disease and pest control methods spread. Consumption of urea fertilizers increased about 50% during these five years. The fertilizer application per hectare in terms of plant nutrient was 135.6 kg (in 1993), exceeded only by the Republic of Korea, Japan, and China.

Since the paddy land hardly increased during this period, the above production increases were attained mostly by promoting intensive farming methods. In other words, integrated effects of the various factors mentioned above increased rice production in the early 1990s. Since spring and autumn rice crops centering

on high-yielding varieties mean to grow rice in the dry season, irrigation of some type, increased fertilizer application, and disease and pest control are required. Investments in irrigation and drainage facilities since the 1980s have contributed greatly to this.

Regarding the future potential for increased rice production, it is expected that agricultural growth may encounter a great barrier if growth depends solely on the economic incentives provided by institutional reforms directed towards a market economy. In fact, in the Red River delta rice production per unit of cultivated area has reached the highest level attainable at the current technological standards. The yield per hectare in paddy has fluctuated within the range of 4.0-4.8 ton/ha over the past several years without showing any tendency to increase. In the Mekong River delta, where the yield is somewhat lower than in the Red River delta since the land use is restricted by natural conditions such as rainfall, yield per unit of cultivated area has reached approximately 3.8 ton/ha. Any further increase appears to be difficult to achieve.

Therefore, future increases in rice production depend on whether or not conditions can be satisfied for continuing and strengthening economic incentives and enabling further intensification. At the same time, intensive farming technology must be developed and disseminated. It must be recognized that agricultural investments, especially investments in irrigation and drainage facilities, provided the basis for the integrated effects of the factors that contributed to increased rice production in the early 1990s.

In Viet Nam, the Government bears most of the expenses for agricultural infrastructure, such as irrigation and drainage facilities. Although the absolute amount of such agricultural investments is increasing, their share of total investments decreased from about 20% in 1990 to about 10% in 1993-1995. As a result, the existing irrigation and drainage facilities have degraded and their capacity has deteriorated. In view of the high level of intensification attained until now, the rate of increase in marginal yield per investment unit will further decline. For this reason, agriculture requires greater investment than before.

Also, R&D in such areas as domestic production of hybrid seeds and improvement of quality of high yielding rice should be promoted. Technological breakthroughs must be developed and disseminated. However, the R&D budget is extremely low. This effects not only research activities, but also researchers' morale. At present, 35 subject-specific research institutes are under the Ministry of Agriculture and Rural Development. It is difficult to distribute limited resources with priorities based on a long-term viewpoint to R&D and emerging fields such as animal husbandry, horticulture, and processing. A master plan is needed to improve and restructure research institutes so that suitable organizations for receiving public funds can be established.

2. Diversification of agriculture

Diversification and intensification of agriculture are the strategic direction for developing the Vietnamese agriculture. Diversification can progress in two dimensions, the farm household level and the national level. In the former case, farmers raise the efficiency of land, labour, and capital by adding new crops and activities to conventional farming systems. In the latter case, national products are diversified by creating regions that specialize in specific products. In most cases, diversification progresses simultaneously at both levels, although it varies by region.

Recently, the structure of agricultural product consumption shows a gradual change towards increased diversity and higher quality. This trend is promoting movements to introduce livestock, vegetables, fruit trees, industrial crops, flowers, and aquaculture to farming systems. For example, movements to add winter vegetables, flowers and aquaculture to conventional double-cropping of rice are spreading in the Red River delta. Regions specializing in industrial crops such as coffee and rubber are being formed in the central plateau and the South Northeast owing to favourable exports of these crops.

However, many factors constrain diversification, such as the poor state of the distribution and transport infrastructure and insufficient availability of market information. Therefore, the key to diversification is to invest in infrastructure improvements, to supply market information, to promote R&D of new crops and product processing, and to improve land conditions so as to enable production of diverse products.

Also, the issue of relative price differences between rice and other crops and between different kinds of crops is related to diversification. The price of rice (in paddy) has gradually risen since late 1994, reaching about 2000 Dong per kg. However, while gross income per hectare is about 15 million Dong for rice production, it is 30 to 40 million Dong for fruit trees and 40 to 50 million Dong for aquaculture. This has tended to change paddy fields to other uses, while hampered a further intensification of rice production.

3. Policy framework for agricultural development

In considering the policy framework for agricultural development in Viet Nam, it will be helpful to refer to a World Bank report entitled "The East Asian Miracle." (Annex 1) According to this report, the sound agricultural development and agricultural policies that realized that development played an important role in the process of realizing the said miracle for the following reasons. ① Many developing countries adopt policies of exploiting agriculture by, for example, imposing various taxes on agriculture to gain the funds needed to promote import substitution industries. However, the degree of such taxation is relatively low in East Asian countries. ② In developing countries in East Asia, public funds for agriculture have been distributed preferentially to infrastructure and R&D investments that the market cannot supply. As a result, the infrastructure for agricultural growth has been strengthened.

In Viet Nam, under the Doi Moi policy the terms of trade between the agricultural and non-agricultural sectors showed no tendency to be obviously disadvantageous or advantageous towards agriculture. Recently, actions to stimulate incentives for farmers have been taken. For example, agricultural taxes were decreased (in 1993) and a decision was made to restitute part of the agricultural tax revenue for agricultural purposes (starting in 1996). However, some problems still remain, as indicated by the relative decline of agricultural investment explained above. In other words, the key to attaining further intensification and diversification of production is to expand agricultural investment centering on production infrastructure, and promote research and dissemination of techniques. Expenditures in these fields should be increased. On a medium to long term basis, expenditures for agriculture should be studied from the overall viewpoint of fiscal expenditures to secure a stable supply of food according to changes in demand.

If such fiscal expenditures and investments are secured, it will be possible to achieve the target food production (in terms of paddy) of 30 million tons for 2000 in the next phase 5 year plan. As a result, the per capita food supply will increase to 360-370 kg in 2000. In 1995, total food production (in paddy equivalent) was 27 million tons, of which rice accounted for 24 million tons, and the per capita food production was 365 kg. These are a promising starting points for accomplishing these targets. The plan also aims at accomplishing an average annual growth rate of 9-10% for the whole economy and 4.5-5.0% for the agricultural sector (including forestry and fishery) during this period. In order to accomplish this target, emerging fields such as livestock, industrial crops for export, and horticulture should grow at a rate exceeding the average. In 2000, per capita demand for agricultural products such as meat, eggs, sugar, milk, fruits and vegetables are predicted to be more than double of the demand in 1995. In consideration of increasing population, agricultural production of these sub-sectors should be increased at an annual rate of at least 10% to meet the demand. As for industrial crops for export, annual increases of about 9% and 5% are planned for rubber and coffee, respectively. Therefore, whether or not the above targets can be accomplished depends on progress in agricultural diversification and increasing exports through strengthened international competitiveness. This report analyzes the potential to increase the production of food crops centering on rice. Studies in other fields, including measures for promoting production, should be further performed. Main targets regarding the forthcoming five year plan towards 2000 are summarried in Table 3.

Viet Nam has a Price Stabilization Fund for stabilizing rice prices. The Fund subsidizes part of the interest on rice purchasing and operating funds for state food enterprises engaged in distribution and exportation of rice in order to decrease seasonal price fluctuations. However, its effectiveness has not been very clear. The Fund is said to have supplied about 600 billion Dong in 1994. It may be opportune to

study whether domestic prices can be further stabilized by having public organizations purchase rice up to a fixed limit, and store and sell it by utilizing the fund more effectively, gaining from the experience of other Southeast Asian countries (Annex 2).

As has been stated above agricultural diversification and intensification are both the effective means and the strategic directions for the Vietnamese agriculture, which is characterized by an extremely limited potential for expanding farmland and enlarging the operating size of individual farm households. Farmers' income should be further raised by increasing non-agricultural employment opportunities in Viet Nam, where the overwhelming majority of people are small-scale farmers with abundant or excess labour. It will be effective to launch labour-intensive agricultural product processing industries and agriculture-related industries within rural villages as a first step and to create other employment opportunities near rural villages as a second step. According to a survey of agriculture and rural villages conducted in 1994, the ratio of "non-agricultural households" in rural villages is extremely high in regions where large employment opportunities in manufacture and service industries are available. They account for 49% of all households in rural villages in the South Northeast where Ho Chi Minh City is located and 28% in the Mekong River delta. However, the issues regarding employment and industry in rural villages was not fully explored in the present joint study. High expectations are placed on future studies and research in this area.

III. Restructuring of the rural credit system

Under the Doi Moi policy, the rural credit system was restructured so that it would be suitable for production based on autonomous decisions by individual farm households and the change to a market economy. In accordance with the principle of a multi-component economic system, the rural credit system was diversified and emphasis was placed on individual farm households. First, the Viet Nam Bank for Agriculture, which was one of the departments of the State Bank, became a state commercial bank in 1990. The Bank rapidly expanded its business through energetic, efficient management. Since many of the previous credit cooperatives were dissolved, only 69 associations remained in operation as of the end of 1994. In 1993, the Government experimentally established the People's Credit Funds in accordance with the principles of cooperative such as mutual aid and democratic operation. The People's Credit Funds had expanded to 565 communes nationwide as of the end of December 1995. Also, a number of financing programmes with specific objectives were started. These programmes are permitted to provide lower interest rates on loans than other financial institutions. The Viet Nam Bank for the Poor, which started operation in 1996, is a typical example of these programmes.

As a result, the rural financial system in Viet Nam was restructured into three major organizations, the Viet Nam Bank for Agriculture, the People's Credit Funds, and special financing programmes. Specializing in specific fields and complementing one another, these institutions supply funds to rural households and farmers. At present, short-term loans account for most loans. For example, they accounted for 79% (as of the end of August 1995) of the outstanding loans of the Viet Nam Bank for Agriculture. On the other hand, few medium- and long-term loans have been supplied because of low value of assets being available for mortgaging, delays in the issue of certificates of land tenure, and high interest rates of 1.75% per month (or 21% per annum). Mobilization and circulation of savings in rural areas have hardly progressed.

The success of farmer credit organizations is judged by two criteria, business and organizational viability (or sustainability), and degree of contribution to specific policy purposes. In Viet Nam, financial organizations are positioned as a means of realizing specific objectives such as increasing and diversifying agricultural production, reducing poverty, and promoting rural industry. The emphasis on fostering financial organizations seems to be weak. This may be unavoidable in view of the situation of rural areas in Viet Nam. However, maximum attention should be paid to the viability and sustainability of financial organizations, even in a weak sense. Efforts should be made to create a system that can mobilize savings and recover funds and is convenient for borrowers.

The key to setting up effective financial organizations in rural areas is the use of farmer organizations. Farmer organizations are essential means for reducing transaction costs and handling risks. The question is what type of financial organization is appropriate for rural areas. Farmer financial organizations that have proved successful in Asia can be classified into the following two prototypes: a) East Asia type organizations characterized by a high percentage of participation on the basis of the sense of village solidarity and a tradition of rural communities autonomy (e.g., the credit associations in Japan before the World War II) and b) Southeast Asia type organizations established in an open or competitive environment (e.g., farmer groups organized by Bank of Agriculture and Agricultural Cooperatives (BAAC) in Thailand).

From a long-term viewpoint, financial organizations belonging to these two prototypes will coexist depending on the socioeconomic conditions of individual rural areas. Taking farmer organizations in the role of credit intermediaries as an example in the delta basin of northern Viet Nam, it will be possible and reasonable to assign such a role to agricultural cooperatives. In southern Viet Nam, where cooperatives have almost completely dissolved and substitute social organizations have been hardly organized, it can be appropriate to rearrange social groups that currently exist in communities into financial intermediaries.

IV. Farmer organizations focusing on agricultural cooperatives

1. Changes in and current state of agricultural cooperatives and production groups

Before the Government adopted the Doi Moi policy, agricultural cooperatives were the major unit of agricultural production in the north. Agricultural cooperatives took the lead in developing the agricultural infrastructure, such as irrigation and drainage facilities and soil improvement. However, the collective farming lowered farmer morale and brought about stagnation in agricultural production. After the liberation of South Viet Nam, collective farming was started in the south as well. Many agricultural production groups equivalent to first level cooperatives in the north were set up.

However, the previous role of agricultural cooperatives and agricultural production groups in agricultural production was lost as a result of agricultural reform under the Doi Moi policy. It became difficult for them to maintain their activities. In fact, only a very small percentage of agricultural cooperatives have succeeded in adapting themselves to the new environment by changing into service organizations meeting new needs. According to a study conducted at the end of 1992, agricultural cooperatives that maintained effective activities accounted for only 17.5% of the whole 16,341 cooperatives. Those which had in practice ceased activity accounted for 40.8% (Table 4). The agricultural production groups, located mostly in central and southern Viet Nam were even in a worse situation. Most had dissolved. Of the 6,472 groups that still remained, groups engaged in effective activities accounted for only 0.6%. Agricultural production groups that had in practice ceased being active accounted for 90.5% (Table 5).

The surviving agricultural cooperatives that have adapted well to the new economic environment are engaged in a variety of economic activities, ranging from irrigation, group disease control for livestock, disease and pest control for crops, land preparation and leveling, fertilizer supply, agricultural product marketing, and credit provision. Many agricultural cooperatives are engaged in irrigation projects, probably because individual farmers are not capable of conducting irrigation projects in the northern and central areas and because irrigation facilities can only be maintained and managed by cooperatives since they cannot be distributed among the farmers. However, in some areas where agricultural cooperatives are inactive, the major responsibility for irrigation projects has been transferred to people's committees in villages.

2. Importance of farmer organizations under a market economy

Reforms under the Doi Moi policy to transfer agricultural production units from cooperatives to farm households proved effective in increasing agricultural production. However, functions that were previously

assigned to agricultural cooperatives such as irrigation, land improvement, and collective disease and pest control are being lost as cooperatives weaken. This may continue a hindrance to maintain the stable agricultural production.

Farmer organizations are an effective means for utilizing the merits of scale in economic activities such as joint purchase of agricultural materials and joint marketing of agricultural products. They should be able to compete with the private sector in a market economy and gain an advantageous position. Agricultural cooperatives are expected to perform activities that individual farm households find difficult to execute, such as mechanization; opening marketing channels, and construction and operation of storage and processing facilities. Through these activities, agricultural cooperatives will contribute to increas agricultural production, streamiling markets, increasing the agricultural income, and expanding rural employment.

As the market economy infiltrates into rural areas, issue of economic differences between regions and within rural areas is becoming a serious problem. Farmer organizations are deeply rooted in local society and are expected to contribute to a balanced economic development by serving as a promotor of local economies and providing assistance to the disadvantaged in a community. Community-based cooperatives, which have a tradition of mutual assistance for the disadvantaged, are expected to take the lead in enabling the poor to participate in and benefit from economic development, since such people tend to be left behind as development progresses.

According to the farm household survey conducted in the framework of the joint study(see section 5 for details), 51% of the farm households gave the reply, "Agricultural cooperatives are absolutely necessary." In the commune in Dac Lak Province, where the agricultural cooperative is engaged in activities such as sales of fertilizers on credit to small sized farmers, this percentage rises to more than 90%. However, in the commune in Thai Binh Province, where the agricultural cooperative is inactive, many farm households said, "Agricultural cooperatives are not specially necessary except for irrigation work." These figures indicate that farmers need organizations that meet their needs.

3. Towards reconstruction of agricultural cooperatives

Aware of the importance of farmer organizations, the Vietnamese Government is taking action to reconstruct farmer organizations. For example, they are making legal arrangements for the reconstruction of agricultural and other cooperatives. The Cooperative Law was promulgated in March 1996 and the model statute for agricultural cooperatives is being prepared. The Viet Nam Bank for Agriculture provides loans for small group farmer activities and a few programmes are conducted through the Peasant Unions and Women's Associations. Also, the Government supports the establishment of the People's Credit Funds.

The study of farmer organizations, especially of agricultural cooperatives, conducted under the present joint study, is not necessarily sufficient. It is expected that in-depth studies will be further performed. Waiting for future studies to make more specific proposals, the following observations would be presented:

(1) It is commendable that the Vietnamese Government is aware of the importance of farmer organizations and is establishing the legal system so as to reconstruct them.

(2) To form farmer organizations that are rooted in local society and are capable of taking action, it is important for farmers to take the initiative and participate in them voluntarily. Farmer organizations will vary in form and activity according to the structure of each local society and the stage of economic development. It is advisable to let agricultural cooperatives decide what activities to perform.

(3) The problem of debts owed by cooperatives should be solved before reconstructing agricultural cooperatives. In Japan, agricultural cooperatives faced a financial crisis when they were reconstructed after World War II. Their process of reconstruction may provide a useful lesson for reconstructing agricultural cooperatives in Viet Nam (Annex 3).

ANNEX 1 Agricultural policies in Southeast Asian countries

Typically, the share of agriculture in the whole economy declines as the economy develops. In comparison with other developing countries, this decline has been extremely obvious in the process of rapid economic growth in East Asia, such as Indonesia, Japan, Korea, Malaysia, Thailand, and Taiwan, which have had especially large agricultural sectors. This decline has not been due to a lack of dynamism in agriculture itself. An overall look at developing countries shows that the share of agriculture in production and employment decreases most sharply in countries that attain the highest growth in agricultural production and productivity. In 1965-1988, agricultural production and productivity in East Asia achieved faster growth than in other areas. Many factors contributed to the success in agriculture in these countries. Its success was supported by many measures, such as a farm land reform, agricultural technique dissemination services, providing infrastructure in adequate condition, and large-scale investment in rural regions.

The governments of East Asian countries have actively supported agricultural research and technology dissemination services in order to promote technological dissemination by means of the "Green Revolution." The enormous investments made by these governments in irrigation and in other areas of infrastructure in rural areas have increased the rate of introducing high yield crops and new crops and the use of fertilizers and facilities. Improvements in productivity accounted for about half the agricultural growth attained in the 1950s in Taiwan, but this owed a great deal to governmental programs.

Public investments allocated to rural areas have a larger share in East Asian countries than in other low and middle income countries. Of the greatest importance has been infrastructure development of roads, bridges, transport, power, water supplies, and health care facilities. Indonesia, Korea, and Thailand show a greater balance between rural villages and cities in public investment in health care and water supply facilities than in other developing countries. In these countries, power is effectively supplied to rural villages on the average. In Korea and Taiwan, power has generally been available since the beginning of the 1980s. Rural electrification has progressed greatly in Malaysia and Thailand as well.

What is similarly important is that direct and indirect taxes on agriculture are conspicuously low in East Asia. Over the past 30 years, governments in many other regions that have enthusiastically promoted industrial growth have transferred surpluses in the agricultural sector to the industrial sector by imposing taxes on the agricultural sector. The governments of these countries have given priority to manufacturing industries and have dealt a blow to agriculture, though not publicly, by overvaluing the currency and protecting domestic industries that manufacture agricultural materials and commodities purchased by rural households. Overvaluation of exchange rates brought about by restrictions on product importation have lowered the domestic income obtained by the export of agricultural products. Industrial protection laws have had the effect of a form of hidden taxation on agriculture and have raised the prices of agricultural materials for sake of assisting industry. In East Asian countries, taxes on agriculture were lower than in other developing countries. Direct intervention has included import taxes and price controls, while indirect intervention has included industrial protection policies and overvaluation of real exchange rates. In Korea and Malaysia, taxes on the agricultural sector are extremely low. In Korea especially, the agricultural sector has received additional protection. In Thailand, the taxation level was the same as in South Asia in the 1960s and 1970s, but was lowered in the 1980s.

Quoted from the World Bank Report "The East Asian Miracle"

ANNEX 2 Rice price stabilization policies and measures in selected ASEAN countries

(1) Indonesia

Indonesia achieved the rice self-sufficiency in 1983/1984. Since then though the country occasionally imported small amounts of rice depending on harvests, it maintains the self-sufficiency. A principal objective of the government's rice policy is to ensure the self-sufficiency and to maintain the price stability. The main policy instruments to this effect are various rice intensification programmes, which provide farmers improved technologies and subsidized inputs; rehabilitation and expansion of irrigation systems; and administered prices of rice including a price stabilization programme.

The rice pricing policy is implemented by BULOG, the National Logistics Agency. It was established in 1967 and has the sole authorities for importing/exporting rice together with sugar, wheat and wheat flour, and soybeans, and to implement the price support/stabilization programme for rice and a few other commodities. The agency is also responsible for:

1) Distribution of rice to the Budget Groups such as the armed forces and civil servants;
2) A national rice reserve stock for emergencies to stabilize inter-annual fluctuation in rice prices; and
3) A national buffer stock to stabilize inter-seasonal fluctuation in rice prices.

The government sets an annual floor price for producers and a ceiling price for consumers. BULOG is expected to procure rice including imports and to distribute it so that rice prices fall within the set price band.

Until recently, BULOG was very successful at stabilizing market prices and at keeping them within the band. BULOG has kept its domestic procurement under 10 % of domestic production (Table 6). Since the mid-80's, the domestic prices have been at or above the world price. It is caused by the lower level of stocks due to poor harvests and increasing burden of the distribution to the Budget Groups. Such a price level gave however a positive impact on farm income, employment generation and poverty alleviation in rural areas.

The recent poor crops in 1992 and 1995 necessitated the imports in considerable amounts, yet BULOG could not effectively stabilize the consumer prices. Nevertheless the operations of BULOG are regarded to be generally successful to stabilize rice prices.

(2) Thailand

Thailand is a rice exporting country. Nearly one thirds of the rice produced in the country are exported. Therefore the domestic price has been affected by the world market price from the fluctuation of which the government intends to protect the domestic price.

In the post-war period, the government retained the monopoly of rice exports. The Rice Office was set up and the private exporters had to arrange to export rice under license issued by the Office. A quota rent, or the "premium" called by traders, arose from such transactions in the form of payment. In the 60's and the 70's, the premium contributed to control of export supply and generated a revenue to the government. The rice premium was abolished in 1985. Since then, the export was generally done freely.

A paddy price support programme which aimed at intervening seasonal fluctuation in paddy prices and ensuring higher selling prices to producers had been implemented since 1965 without much success. Immediately after abolishing the export premium, the Paddy Pledging Scheme was considerably expanded. Under the scheme, farmers can obtain a six-month interest subsidized loan equivalent to 80% of the market price from the Bank of Agriculture and Agricultural Cooperatives (BAAC). The farmer has the choice of either repaying the loan (plus annual ordinary interest charges and storing cost) within six months, or of not repaying the loan in which case the Bank takes possession of the inventory. The Bank have to bear the risk if the paddy price is not high enough to cover the cost and finally the farmer does not redeem the rice. The government injected every year the funds for low interest loans to the BAAC.

The government in 1987 established the Rice Policy and Measure Committee which is responsible for recommending rice policies and measures, monitoring and coordinating the implementation of the measures. Many measures of providing loans often with low interest rates for encouraging exports and rice storage, and fertilizer subsidies have been implemented since then.

The rice policy of Thailand however have shifted towards a free trade in both output and input markets, and the transmission of market signals to different levels from production to export seems to work well.

(3) Philippines

In the case of the Philippines, the National Food Authority (NFA) encourages rice production and isolates producers' and consumers' prices from the fluctuations of the world price by procuring and reselling rice in the domestic market as well as the import monopoly of rice. The procurement price of rice by NFA has been set at a level that assures consumers access to rice as a cost compatible with income, being the producers' price fairly below the world price. However, since the procurement price constitutes floor in the years of surplus, this means attractive price to producers. Lower rice price is partly compensated by subsidies such as fertilizers and other input, irrigation and other infrastructure development, in addition to the procurement price mentioned above.

(4) Malaysia

In Malaysia rice is also the commodity of direct government intervention. However, in the course of its economic development, the role of rice in consumption and policy towards rice have been changing. Policy of rice self-sufficiency established immediately after the independence had been discarded in the middle of 1970s when paddy production has started to stagnate and decline in spite of the massive investment on irrigation, introduction of high yielding varieties, subsidies for fertilizers and other inputs together with producers' price support measures. Historically Malaysia has been adopting administered prices both to support producers and to allocate rice to consumers. The national Padi and Rice Board (LPN) purchases paddy from farmers at relatively high administered prices and has the sole authority to import rice from abroad. Consumers' prices are controlled and not linked to producers prices, with government delivering necessary quality of rice to the market at the designed price by importing shortfalls.

(5) General observations

In these countries mentioned above, in spite of the different intervention measures reflecting the specific situation of the respective countries, a number of the common phenomena is observed. First, as rice is the most important staple food of the population, government interventions, mostly in direct ones, are being made except the case of Thailand. Second, generally low pricing policies have been practiced during the past decades, with some compensatory measures such as Concessional loans, subsidies on inputs, and investment in infrastructure. These approaches are gradually changing to the declined levels of subsidies and direct government intervention. Third, the general tendency of policy approach on rice in recent years suggests that the income and well-being of farmers are given more attention compared to the interest of consumers. This may imply that the increasing income gaps between rural and urban areas are getting conspicuous and at the same time a diminishing share of rice in the total expenditure of the average urban households is emerging in the ASEAN region. Further, although the socio-economic environment is changing rapidly, rice remains as the staple of the people and requires sustained production. To this effect, investment in agriculture should be emphasized to adjust and strengthen the production base of rice in respective countries.

ANNEX 3 Reconstruction of agricultural cooperatives in Japan after the World War II

After the end of the World War II, agricultural cooperatives in Japan resumed their activities. Due to the deflationary measures taken by the government at the time, more than 70% of cooperatives fell in deficit as of end of March 1950. Cooperatives conducting joint purchase of farm inputs were most severely affected as unsold stocks accumulated, and arrears of farmers' repayments increased.

In cope with the situation, the government revised the Agricultural Cooperative Law in 1950 by opening the way to financial assistance from the budgetary and monetary sources. Moreover in 1951 the Law of Reconstruction of Agricultural, Forestry and Fisheries Cooperatives was enacted according to which the government could subsidize cooperatives which met the prescribed conditions for the financial reconstruction. These conditions included: (i) to submit the reconstruction plan to the government; (ii) to dispose of the non-functioning loans and stocks including their collections and cashing; and (iii) to increase the capital to the extent that own capital exceeds the amount of deficit and fixed capital combined.

Thanks to these measures, about 70% of agricultural cooperatives applied to the public supports under the above Law could fulfill the required conditions and were successfully reconstructed.

Table 1 Composition of gross domestic of agriculture, forestry and fisheries : 1991-1995

(Bill.VND at constant price in 1989)

	1991	composition of ag. sector in 1991 (%)	1992	1993	1994	1995	composition of ag. sector in 1995 (%)	annual growth rate for 1991-1995 (%)
I Agriculture	10,887	100.0	11,504	12,319	13,195	13,877	100.0	6.3
1.Cultivation	8,820	81.0	9,311	9,889	10,582	11,012	79.4	5.7
Food crops	5,314	48.8	5,713	6,122	6,388	6,517	47.0	5.2
(of which : Paddy)	(4,676)	(43)	(5,084)	(5,462)	(5,749)	(5,963)	(43.0)	(6.3)
Industrial crops	1,727	15.9	1,731	1,874	2,200	2,369	17.1	8.2
Vegetable, Bean	641	5.9	660	673	750	786	5.7	5.2
Fruit Crops	879	8.1	903	905	925	1,030	7.4	4.0
Other	259	2.4	304	315	319	310	2.2	4.6
2.Animal Husbandry	2,067	19.0	2,193	2,430	2,613	2,865	20.6	8.5
Cattle, Pig	1,200	11.0	1,236	1,390	1,560	1,745	12.6	9.8
Poultry	420	3.8	439	498	504	516	3.7	5.3
Other	447	4.1	518	542	549	604	4.0	7.8
II Forestry	1,132		1,108	1,136	1,140	1,259	-	2.3
III Fishery	1,195		1,240	1,359	1,498	1,566	-	7.0
IV GDP Structure(%)								
1.Agriculture	83.38		83.04	83.15	83.30	83.08	-	-
2.Forestry	8.56		8.15	7.66	7.20	7.52	-	-
3.Fishery	9.06		8.81	9.19	9.50	9.40	-	-

Source : Ministry of Planning and Investment

Table 2 Changes in paddy production by region and by season: 1990 and 1994

			Total		Spring		Autumn		Winter	
		Unit	1990	1994	1990	1994	1990	1994	1990	1994
Whole Country	Area	Thous.ton	6,027.7	6,598.5	2,073.7	2,381.4	1,215.6	1,577	2,738.4	2,640.2
	Yield	ton/ha	3.19	3.56	3.78	4.41	3.38	3.57	2.65	2.80
	Production	Thous.ton	19,225.2	23,528.2	7,845.8	10,504.0	4,110.4	5,630	7,269.0	7,394.8
North Mountain & Midland	Area	Thous.ton	748.9	799.8	253.7	280.5	-	-	495.0	519.3
	Yield	ton/ha	2.27	2.75	2.57	3.16	-	-	2.12	2.54
	Production	Thous.ton	1,701.9	2,207.0	651.4	887.5	-	-	1,050.6	1,319.5
Red River Delta	Area	Thous.ton	1,057.5	1,026.8	513.1	509.8	-	-	544.6	517.0
	Yield	ton/ha	3.42	4.01	3.59	4.97	-	-	3.25	3.07
	Production	Thous.ton	3,618.1	4,121.3	1,844.5	2,533.3	-	-	1,733.6	1,588.0
North Central Coast	Area	Thous.ton	677.0	680.1	312.3	317.2	120.7	117.5	244.1	245.4
	Yield	ton/ha	2.42	2.81	2.86	3.18	2.10	2.86	2.02	2.32
	Production	Thous.ton	1,642.4	1,914.1	894.2	1,009.6	254.2	335.5	493.9	569.0
South Central Coast	Area	Thous.ton	494.9	518.8	168.6	176.8	135.2	140.9	191.2	201.1
	Yield	ton/ha	3.25	3.42	3.48	3.62	3.69	4.14	2.73	2.81
	Production	Thous.ton	1,607.1	1,787.9	586.4	639.7	499.1	583.7	521.6	564.5
Central Highlands	Area	Thous.ton	165.3	181.9	25.6	30.0	-	-	139.7	151.9
	Yield	ton/ha	2.33	2.47	3.72	4.44	-	-	2.08	2.08
	Production	Thous.ton	386.0	448.7	95.3	133.1	-	-	290.8	315.6
North East of South	Area	Thous.ton	304.0	353.0	48.0	56.8	52.0	67.3	204.0	228.9
	Yield	ton/ha	2.60	2.63	2.97	3.33	2.88	2.99	2.43	2.35
	Production	Thous.ton	789.4	928.3	142.7	189.3	149.9	201.3	496.6	537.7
Mekong River Delta	Area	Thous.ton	2,580.1	3,038.1	752.4	1,010.3	907.7	1,251.2	919.8	776.6
	Yield	ton/ha	3.67	3.99	4.82	5.00	3.53	3.60	2.87	3.22
	Production	Thous.ton	9,480.3	12,121.0	3,631.3	5,111.5	3,207.2	4,509.0	2,641.9	2,500.5
Growth rate 1990 to 1994										
		Sown area	2.3% per year		3.5% per year		6.7% per year		- 0.9% per year	
		Yield	2.8% per year		3.9% per year		1.4% per year		1.4% per year	
		Output	5.2% per year		7.6% per year		8.2% per year		0.4% per year	

Source : Agriculture of Vietnam 1945-1995 by Statistical Pubulishing House

Table 3 Main targets of agriculture in the Five-year Plan 1996-2000, and the respective figures in 1990 and 1995

	Unit	1990 (actual)	1995 (actual)	2000 (target)
Growth rate of the ag. sector[1]	% p.a.		(1991-1995) 4.5	(1996-2000) 4.5-5.0
Share of the ag. sector[1] in the economy	%	38.7	27.2	19-20
Food production	million tons in paddy equivalent	21.49	27	30
Paddy production	million tons	19.22	24	26-27
Per capita food production	kg/person/yen	325	365	360-370
Share of the animal husbanding subsector in the agriculture	%	25	27	30-35
Outputs of industrial crops				
rubber	000tons in dry latex	47.9	135	220
coffee	000tons in beans	63.1	220	250
tea	000tns in dry leaves	32.2	38	70

Source : - Political Report of the Central Committee to the 8th National Congress of the Communist Party of Viet Nam (Draft), April 1996.
- Statistical Publishing House, Agriculture of Viet Nam 1945-1995.
- Government of Viet Nam, Socio-Economic Development and Investment Requirements for the Five Year 1996-2000, October 1995.
- Ngo The Dan : Agricultural and Rural Development in Viet Nam, *Viet Nam Economic Review*, No.1, February 1996.

Note : 1) Including forestry and fisheries.

Table 4 Agricultural cooperatives as of end of 1992

Region	Total Number	Effectively Reconstructed		Partially Reconstructed		Exist in Name Only	
		No. of Coops	%	No. of Coops	%	No. of Coops	%
Whole country	16,341	2,870	17.5	6,821	41.7	6,650	40.8
Northern Hill	7,645	921	12	2,990	39.1	3,734	48.8
Red River Delta	2509	810	32.2	1,160	46.2	539	21.4
Former 4th Division	4255	689	16.1	1,862	43.7	1,704	40
Central Coastal	937	283	30.2	447	47.7	207	22.1
Central Highland	325	70	20	133	39	122	41
Eastern South	437	70	16	169	38.6	198	45.3
Mekong Delta	233	27	11.5	60	25.7	146	62.6

Source : Ministry of Agriculture and Rural Development, 1993

Table 5 Agricultural production groups in selected provinces as of end of 1992

Region	Total Number	Effectively Reconstructed		Partially Reconstructed		Exist in Name Only	
		No. of Coops	%	No. of Coops	%	No. of Coops	%
Total	6,472	41	0.6	575	8.9	5,836	90.5
Ben Tre	1,657			15	0.9	1,642	99.1
Dong Thap	951	5	0.5	78	8.2	868	91.3
Vinh Long	236			38	16.1	198	83.9
Soc Trang	2,834	28	1	92	3.2	2,714	95.6
Kien Giang	260			260	100		
Dong Nai	100	8	8	10	10	82	82
Nih Thuan	37			37	100		
Binh Dinh	94			4	4.2	90	95.7
Phu Yen	22			4	18.2	18	81.8
Gia Lai	281			37	13.2	244	86.8

Source : Ministry of Agriculture and Rural Development

Table 6 BULOG rice operations

Year	Procurement		Procurement /a	Releases			
	Imports	Domestic	Share of Production	Budget Groups	Market Operations	Other	End-year Stocks
	(thousand t)		(%)	(thousand t)			
Replita I							
1969/70	805	244	2.0	873	204	55	236
1970/71	773	531	4.01	835	228	45	397
1971/72	527	562	4.1	767	202	106	387
1972/73	1,229	138	1.0	726	768	-14	198
1973/74	1,230	268	1.8	752	418	30	418
Replita II							
1974/75	1,130	536	3.5	758	343	176	778
1975/76	667	539	3.5	749	559	87	522
1976/77	1,506	410	2.6	755	979	88	572
1977/78	2,308	404	2.5	693	2,006	87	470
1978/79	1,266	881	5.0	696	1,032	130	708
Replita III							
1979/80	2,580	431	2.4	756	2,053	42	806
1980/81	1,213	1,635	8.1	738	1,628	114	1,242
1981/82	437	1,952	8.8	901	1,033	80	1,591
1982/83	506	1,933	8.5	1,425	1,517	29	1,013
1983/84	1,115	1,189	5.0	1,462	399	11	1,442
Replita IV							
1984/85	187	2,374	9.2	1,427	69	116	2,391
1985/86	0	1,943	7.3	1,483	383	362	2,106
1986/87	0	1,496	5.5	1,421	193	150	1,866 /b
1987/88	79	1,215	4.5	1,631	640	134	775
1988/89	315	1,801	6.4	1,626	142	27	1,076
Replita V							
1989/90	150	2,178	7.2	1,663	57	186	1,498
1990/91 /c	0	1,200	4.0	1,698	300	30	670

/a BULOG's domestic procurement as a percent of domestic production.
/b Adjusted upward to reflect more recent data from BULOG.
/c Estimated.

Note: Other releases include exports and distribution in disaster regions.

Source: BULOG. From World Bank; Indonesia: Agricultural Transformation, Challenges and Opportunities, Volume II, p.27, September 1992.

2

Comments on Research Results of the 1st Phase and Issues for Further Study of the 2nd Phase of the Group of Agricultural and Rural Development

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I. Comment on the study results of the 1st phase

The topics of agricultural and rural development in this phase are as follows:

- Increase in food output
- Diversification of agriculture
- Organizations of farmers
- Rural credit

Both Japanese and Vietnamese experts participated in the study. The study involves collecting available information and data of Viet Nam, local and foreign documents, surveys of three villages in three provinces (Thai Binh in the north, Dac in the Central Highlands and Can Tho in the south), interviews with researchers of management institutes, universities, with staffs of agricultural cooperatives, and with farmers.

The report consists of seven papers written by Professor Hara, Sakurai, Izumida, Nguyen Xuan Thao, Nguyen Sinh Cuc, Bui Thi Sy, Dang Tho Xuong, one report of Mr. Shindo, summary by Professor Ishikawa and related data.

1. Assessment of the study results on the following aspects

(1) The ideas / conclusions

1) Evaluations on agricultural development in the 80's and the early 90's. Analysis of factors for improvement in agricultural productivity, mainly those for rice production, and future projection.

In this part, in addition to the presentation of general background of Vietnamese agriculture over past years, with the description of significant importance of agriculture in Viet Nam, natural conditions, economic zones, soil conditions, size of farms, some observations are presented.

--- Over the past few years, Vietnamese agriculture has witnessed a relatively high growth rate, attributed mainly to high growth rate of food output of 4.3%/year, higher than the growth rate of population (2.2%). As a result, food per capita increased from 324.9kg in 1991 to 364kg in 1995. This makes Viet Nam a rice exporting country with the yearly amount of 1.5-2 million tons since 1989.

The relatively high growth rate can be also seen in the field of industrial crops, vegetable, fruits, livestock, and aquiculture.

The living standard of farmers and rural people has been improved. The main factor for these achievements is the renovation policies, The Decree No.100 of the Secretariat of the Central Party in 1991, literally helped tens of millions of farmers free from centrally planned mechanism. The Resolution No.10 of the Politburo in its full meaning proclaims the autonomy of household economy, contract land use right with

10-15 year term, and modifies ownership status (liquidation of cattle and other assets which used to be managed badly by cooperative, to farmers). The Resolution of the 5th session of the Central Committee definitely affirmed farm household as an economically independent unit in rural area.

The Land Law in 1993 give the five rights for land users, liberalizing the circulation of agricultural materials and products, granting loans to farm households. Agricultural policy is made up by agriculture-extension programs, reforestation, starvation elimination and poverty alleviation, management reforms in SOEs, price stabilization fund, national reserve fund. Under the appropriate macro policies, these agriculture-policies have created new dynamism, tapping potential and creativeness of tens millions of farmers for success of agriculture. These policies facilitate the transfer of technology and help relieve natural disaster consequences.

--- These achievements are also brought by technical factors: promoting intensive farming, changing crop pattern (to expand the planted area of winter-spring and summer-autumn paddy, to cut down the planted area of main crop producing low output in the Mekong River Delta), further investment in fertilizer, plant protection, wide-spreading of new HYVs, and increasing investment in irrigation.

2) Limitations and constraint of agriculture

--- Vietnamese agriculture is dominated by single farming, i.e., paddy. The economic transformation from agriculture based to industry-service based, and within the agriculture itself from paddy farming to livestock raising, industrial trees, fruits farming has been taking place but slowly.

--- Despite the initial improvement, living standard and income of farmers remains low due to the following reasons.

Average land per head is very small. Low productivity in crop and livestock sector. Abundant labor force as a result of over-population in rural area with limited agriculture land.

Off-farm activities as handicraft and services have not yet developed, employment absorption capacity of urban areas is low, because of under developed industry, poor infrastructure, and poor interconnection between urban and rural areas.

--- Some ideas suggests that the incentives/dynamism brought about by the renovation policies has reached its climax. For the purpose of rural agricultural development, therefore, many other appropriate measures should be additionally taken up.

3) Present rice policy

This part successfully presents.

Being fully aware of the importance of food production, the Government has promulgated policies on rice price stabilization, on the one hand, the rice market is liberalized, i.e., free circulation and trading of rice, on the other hand, price stabilization fund and food marketing SOEs will be applied as an intervention tool which ensures fixed ceiling and floor price. The experiences of other Asian countries like Thailand and Indonesia are also illustrated.

4) Potential and challenges of food production in the coming period

The report suggests that increase in food production in also necessary for national food security. Given the present growth rate, the target of 30-32 million tons by the year 2000 is within the reach. However, the major challenge to overcome are the possible reduction of paddy area, caused by the replacement of other crops with economically higher value. This challenge needs persistent investment in infrastructure as irrigation, transportation, and agricultural material supply. Together with industrial development, the rural labor cost increases which results in an increase of agricultural production costs. This may demand the adjustment of agricultural structure in the near future. In the process of crop diversification, emphasis should be put on the investment in food production. For the short term major obstacles may not be seen, but for the long run, the negligence for food production may jeopardize national food supply. Regarding this matter apart from fulfilling the target of 2000 investment policy for the long run purpose of the rural and food and nutrition strategy should be commenced in this plan period. One of the solution is the discussion on the Master Plan of Research and Development system.

5) Agricultural diversification

This part comes to the conclusion that diversification of agriculture is not only a solution but a strategy for agriculture development as well. In the pat years, the diversification has taken place staggeringly at household and nation level both in the form of state management and spontaneity. The report also analyses the situation of production, import-export, consumption manner, and processing methods in Viet Nam, the trend of world market of other non-food crops such as rubber, tea, coffee, and vegetable. The report also pointed out the weakness and disadvantages of those commodities.

The measures to promote diversification are improvement in soil quality for growing different Crops, creation of effective marketing system, establishment of financial system for both state and private sector. In order to increase the income in rural area with limited land, off-farm activities like agricultural product processing are very important, in combination with generating jobs in adjacent regions.

6) Rural credit

This part generally describes the changes in credit system in rural areas of Viet Nam, Rural Credit currently functions badly. At present this system comprises Viet Nam Bank for Agriculture, Credit Cooperatives and People's Credit Fund, Rural Share holding Bank, the Viet Nam Bank for the Poor, and other special programs. Besides, there is also an informal credit system such as "chui ho".

The Viet Nam Bank for Agriculture is the leading financial institute of the State in rural areas. Now only 50-60% of the farm households can access to the loans of the bank. The primary problem in the rural credit system now is the lack of mid-term and long-term loans (taking up only 25% of total outstanding). Short-term loans are the majority. Taking good advantage of farmers organization efficiently reduce operation costs and risks.

7) Farmers organization

This part draws the past and present situation of cooperatives, the roles of farmers organizations in the coming period, and suggests the possibly suitable forms for Viet Nam (either Thai or Japanese style) and other measures to improve the efficiency of cooperative activities. The topic of cooperative is written concisely and noteworthy, since the fact in Viet Nam now is that farmers in many parts of Viet Nam are really fed up with the function of the old-typed cooperative, presumably reject its existence in the market economy. Instead the autonomy of household production is highly welcome whereas in other parts farmers get to be aware the necessity of cooperatives. This part refers to the necessity and also recommends alternative solutions for the form of cooperative in the future.

8) General comnient on the Five-year Plan

This part says:

--- Warning is needed for optimistic forecast on the development of agriculture and rural sector made by many organizations and researchers.

--- Attentions as much as possible should be drawn to the development of rural sectors.

--- The restoration and development of rural and agriculture and industries are vital to the success of Five-year Plan of Viet Nam.

These remarks are accurate and straight-forward, revealing and experienced way of thinking which can be treated as useful suggestions.

In general, the above-constructive ideas are beneficial to identify the situation, causes, and proposals of the solution, theoretical grounds, especially on the roles of credit system and former organizations. These remarks are sound. The proposals are highly practicable.

(2) Issues for further discussion and study

1) Food production increase

Recommending agricultural and rural development policies, professor Hara mentioned that at the national level Viet Nam's agriculture is approaching to the point where its growth rate start going down, due to the standstill situation of food production. In order to overcome this, the strategy for non-food production is required based on the ecological system in each region, creating spearheads in the food production

industries. This is an interesting viewpoint that needs further discussion.

Professor Sakurai states;

--- Increase of hybrid varieties (rice and maize) should be in small number. This is a good idea but needs further discussion because according to him, only Chinese market accept this variety. In the north, IR8 was replaced with CR203, in the south farmers are developing varieties with high quality for exporting demand.

Hybrid variety produces high output, and this is what the areas producing low yield need. In addition to domestic human consumption and export, food is also used as cattle feed. Some hybrid varieties produces high yields. Further more diversification is necessary in order to meet different demands for domestic consumption, animal feeds and export.

--- "The south Viet Nam has exported 1.5 million tons of rice so far. But it does not say much for the certainty of its food production capacity by all means. Exporting amount is coming close to critical point as population is high and demand for food is still high."

This comment is interesting thought it needs more discussion. Regarding the production and exporting capacity of this area, especially of Mekong delta, its important position in food protection of Viet Nam has affirmed.

All the areas in the intensive farming stripe in the north has reached 10 ton/ha, while that of the south is 15 ton/ha. It means that production growth in that area is hardly achieved in terms of technology.

This is correct. However, looking at the situation from international standpoint, paddy yield Viet Nam is more or less 3.6 ton/ha, equipment to 60% of that of other countries, like Japan, South Korea, Taiwan. In other words, the paddy yield has the possibility to increase. "Even if the increase by 5 million tons is feasible by the year 2000, it will result in the income increase of US$20/head, for the agricultural population of 50 million. It does not have much."

This judgment is right in terns of income. It is impossible to get rich by doing agriculture and food production though the stability of agriculture is the precondition for the development of other industries, especially for Viet Nam, a country which has just practiced commodity economy. Food shortage may bring difficulties for economic development.

Aiming at alternatives for agricultural development, the professor insists that the burden of overpopulation in the rural communities should be relieved for the purpose of the expansion of farm activities because regarding the 4 million hectare of planted area in deltas, the figure of 30 million is an excess. The main reason for this burden is that cities are unable to handle the highly condensed population because of poor infrastructure, lack of accommodation, and backwardness of industries.

The necessary measures are as follows;

Setting up linkage between big cities and provincial towns, road network connecting villages and provincial towns. Upgrading industries in the cities and towns promoting interconnection between rural and urban industries. Allowing farmers to access to credits of larger amount and of longer terms.

These are correct and notable recommendations. However, there should be more specific and concrete suggestions as what should be done and how can it be done.

With a view on agricultural development under the circumstances of overpopulation and land scarcity, professor Hara draws, attention to the viewpoint of the World Bank in the book entitled "The East Asian Miracle" emphasizing that unlike the previous experience of developed countries which used to impose tax on agriculture to protect industry, East Asian countries relaxed this tax thus encouraged the development of agriculture and overall economy. Moreover, East Asian countries allocated more budgets for investment in rural infrastructure and R&D.

That is an attractive viewpoint, although there is a need for further studies on concrete measures of some other countries, and for figuring out what are the appropriate and what are the inappropriate in Vietnamese agricultural tax system and what should be added to this system.

2) Diversification of Agriculture

In addition to food crops, Viet Nam has advantage and potential to develop rubber, tea, coffee, fruit and vegetable, though there is a limitation to these products in both domestic and world markets. For rubber, the main challenge is to make financial decision to cope with changes in the world market. For tea, the problem is the competition with China. For vegetables, the present level of quality does not permit Viet Nam to enter into world market.

Quality improvement is needed through the introduction of new varieties, production selection, processing technology and farming methods. However, the problem for Viet Nam is now how to enhance the popularity of its products in the world market and Japanese market. This requiters necessary measures as capital investment and policies. This requirement is one of the most important thins for Viet Nam agricultural products to have its place in the international market. Suggestions of Japanese side, who has experienced this distress, are very useful.

3) Credit

Some Vietnamese economists are interested in how to mobilize deposits successfully from people, and polices to create a healthy financial market in rural areas, appropriate therapy to natural risks and crop failure happen to farm borrowers.

Debts collecting policy can be possibly reformed, but it is not advisable to collect debts at the harvest time as it may compel farmers to dump their products. Is it an apparent tendency to shift from monopolized state credit system to more diversified credit sources with the participation of different economic institutions in credit service?

4) Farmers organization

Cooperative are very important but experience new style cooperative is still limited. Experiences of other countries like Japan, Indonesia are highly appreciated. The highlights are organizations, ownership of property, land mortgage management and execution, function, size, training of cooperative staff, remuneration, profit sharing, and the role of cooperative federation.

(3) Comments on the study results phase 1

Within the short period of time, based on statistical data, survey data, related documents, exchange of opinions with other authorities, central and local, interviews with staffs of cooperatives and with farmers, experts have made reports on 4 major issues on agriculture and rural situation. Generally speaking these good reports with invaluable advises to promote the development for the above aspects. These reports can be used as good reference for researchers, managers, policy makers and leaders of Vietnamese government in their way to find out solutions for agriculture and rural development in the future. Several issues can not be dealt with deeply and specifically due to the time limitation. So they would be supplemented for study further in the second phase.

II. Issues to be studies in phase 2

(1) Diversification of agriculture and transformation of rural economic structure

At present, 80% of the population, accounted for 70% of the country labor force are living in the rural areas in Viet Nam. But they are poor, because of the low productivity and lack of jobs. The urgent problem is how to increase income and living standard of rural population. This is a question for all researches and policies on agriculture and rural area in the coming years.

To solve this issue, it is necessary to generate more jobs, to increase labor productivity, to change the economic structure, to diversify agricultural and rural economy, both in farming and off-farm activities in rural areas.

--- For farming activities: it is necessary to diversify crops, livestock, intensify processing and marketing services. It is also important to pick up the strategic products for development. For off-farm activities: to expand and develop the already existing craft, to create new craft for areas where have not.

The first phase has suggested and evaluated some products from the view point of Japanese market and the second phase should preferentially keep thinking of follow-up steps or brief plan for the exportation of these products.

What should Viet Nam do to export some vegetables to Japan, and what policies should Viet Nam introduce to compete with fruits and vegetables of ASEAN countries?

It can be said that the highlights of second phase study is the diversification, structural transformation of agricultural and rural economy aiming at higher income and living standard for rural population.

(2) Farmer organizations

Special attention should be put on suitable form, size, function, and assistance from the State.

(3) Rural infrastructure

It consists of irrigation system, rural transportation, market system, towns, and other infrastructure facilities like communication, social culture, and ones for capital mobilization.

(4) Financial and monetary system in rural area

This is characterized by different forms of institutions, sources of capital and lending policies with various interest rates meeting different purposes.

Farmers organizations, infrastructure, credit system will help to accelerate the process of diversification and transformation of rural economy.

(5) Regional economy in agriculture and rural areas

Based on geographical characteristic, soil condition, crops, Vietnamese agriculture and rural areas can be categorized into 3 regions: Delta region, coastal region and mountainous region. Each one has its advantages and drawbacks.

1) Delta region

It has the advantages of high level of education, good and favorable infrastructure, better soil quality. The most severe disadvantage is population density other than soil, climatic and marketing conditions which impede the diversification process. Many areas are dominated by paddy crop which, produces low value compared to other crops. Most people do not have any jobs other than farming. With regard to these features, how to improve the income and living standard is a brainstorming question.

2) Coastal region

This region has the constraint of small agricultural land. However it has large coastal deposited land and good opportunities for development of special aqua culture with high value. If financial investment is provided, it is possible to make good use of off shore fishing potential.

3) Mountainous region

The biggest difficulty is complicated geography, poor infrastructure, especially of transport system, low intellectual and education rate, sparse population. Considerable portion of land and hills are un-cultivated. This features is good to the development of industrial trees, fruit trees and forest trees which have the consumption demand. If financial investment is poured into, this aspect will contribute to increase in income.

The studies of regional economy will involve the research on available conditions, potential, and constraint and solution to development of strategic products. The first phase has studied some issues and come up many invaluable recommendation. However, this phase is merely confined to the strategic in theory and proposal of general solution. In the second phase the issues should be handled in a strategic manner but at the same time concrete measures should be recommended. For instance, a conclusion like what form and size of cooperative are suitable for Vietnamese rural areas to adopt, should be offered. If necessary, some forms or models can be carried out as the pilot ones and used as experience-learning.

3
Viet Nam—Agricultural and Rural Development

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The basis for managing Viet Nam's domestic economy is currently being shifted from a fully State-controlled system to a market economy system. At the same time as agriculture and rural communities undergo the transition to a market economy, agricultural development in Viet Nam is characterized by a shortage of land resources due to the country's high population density. Agricultural development in Viet Nam must be characterized as a process which simultaneously combines aspects of systemic transformation or transition, with aspects of development.

I. Agriculture under the old system

Viet Nam's change of policy direction, or Doi Moi, was launched in the late 1980s. The fully State-controlled system in existence up to that point could be described a type of developmentalist political system aimed at industrializing the country's economy, instituted by a developing country after the formation of a nation-state. Under the market economy principle of "adopting, as a general rule, competition based on a private property system," many Asian countries have attempted to stimulate industrialization in an environment of tariff protection and other policy measures. In Viet Nam's case by contrast, the State tried to hasten industrialization of the national economy through direct control of the allocation and utilization of resources, and of the accumulation of capital in the domestic economy. Viet Nam chose a system that enabled the maximum economic surplus that could be utilized for developing the industrial sector to be secured by the State through the nationalization of farmland and the collectivization of agriculture in the form of cooperatives. This agricultural collectivization process, however, was an extreme form of developing country agricultural policy in which the State attempted to secure as much of the agricultural surplus as possible.

This fully State-controlled developmentalist strategy failed in Viet Nam, however, because when all assets were nationalized, they became "publicly owned" assets that ultimately belonged to no-one. People then no longer had the incentive and motivation to efficiently utilize those limited resources. There is now no room for doubt that this economic management style that denied private ownership for the nation's resources and assets did not result in an efficient economic system.

In relation to the collectivization of agriculture, moreover, I would like to focus on the belief that large farm management would be a precondition for achieving economies of scale in agriculture and in particular in rice farming. It was not possible, however, to achieve economies of scale to any great extent in the Red River and Mekong delta areas, where fixed capital assets such as tractors were not utilized. Nevertheless, this fact was influenced by the ideology of belief in large farm management and almost ignored, an outcome that was ultimately unfortunate.

Further, because the activities of the merchant class were labeled as being "non-productive" under the

total system of State control, economic activities by private merchants were either completely banned or regulated. Coupled with the collectivization program, it is undeniable that this system of control failed to adapt and coordinate the productive activity of rural people living in Viet Nam's diverse ecological regions. The merchant is no doubt an economic actor who pursues his own private profits, but he also gathers useful economic information at his own expense and risk in his pursuit of private profit, and thus functions as an intermediary, linking the numerous producers and consumers living in scattered regions, and through his activities, plays a role in the "productive activity" of creating distribution routes and developing transactional modes. Ignoring this was also a mistake.

II. Agriculture under the Doi Moi reforms

The basis of the evolution of the Doi Moi policy in Viet Nam involved a systemic reform process of relaxing and abandoning the total State control that had been in force. Reforms in the agricultural scene were also undertaken very much in parallel with this trend. The first stage involved the abolition of the cooperatives that had been formed for collectivizing agriculture, and the transition to a subcontracting system comprising individual farmers. The second stage involved the provision of land-use rights to these individual farmers, and allowed the inheritance and resale of these rights of use. Moreover, simply by paying the land tax known as the agriculture tax, a farmer is subject to no restrictions on what may be produced on his land. Despite the continuation of the principle of state ownership of land, the essence of this systemic reform process is identical to that adopted in other Asian countries which hold to the principles of the market economy; that is, the establishment of a system of family-based agricultural businesses based on individual land ownership. Furthermore, in parallel with the systemic reform process for agricultural management described above, the unfettered entry of private merchants in the distribution of agricultural produce and agricultural inputs was also sanctioned.

Such a transition policy for the agricultural sector has reaped a significant dividend to the present. Rice production—centered about the Mekong Delta—has grown substantially, so much so that two million tons became available for export in 1992. In addition, real GDP in the agricultural sector is estimated to have grown at 6.5% on average in the period from 1988 to 1992.

III. Agricultural development issues

Today, however, ten years after the launch of the Doi Moi policy, it has become clear that there are major limits to agricultural growth through economic incentives alone to farmers and merchants as a result of the systemic reform process that the transition policy put into place. The powerful limitation is the shortage of land caused by the historically high population growth rate. This shortage continues unchanged while employment opportunities in the non-agricultural sector fail to grow. As far as land productivity is concerned, high yield levels have already been attained, and the country has no option but to await the development and adoption of new varieties for boosting yields to higher levels. While success has been achieved from the systemic transition perspective, Viet Nam still faces a substantial stumbling block in developing the agriculture sector under conditions of land resource shortages and high population density.

The following are some statistics for the Red River and Mekong deltas, the two core regions of Viet Nam's agriculture sector. The population of the Red River delta grew from 6.5 million in 1930 to 11.9 million in 1990, an annual growth rate of 1.0%. By contrast, the area of arable land in the region has declined annually at 0.6% from 1.2 million hectares to 0.8 million hectares over the same period. Land density (per capita farm area) has thus fallen at an annual rate of 1.6%, from 1,846 square meters to 689 square meters. In the same period, production of foodstuff grain crops has risen at an annual rate of 1.7% from 1.8 million tons to 4.9 million tons; the principal background factors including improvements in land use ratios and the 2.3% annual increase in food yield (crop produced per unit area) from 1.5 t/ha to 5.9 t/ha.

Food production per head of population has grown at an annual rate of 0.6% from 277 kilograms to 411 kilograms. (Table 1) Real per capita income (in equivalent unhulled rice terms) for farmers in the Red River delta grew only marginally between 1930 and 1990, from 584 kilograms to 692 kilograms. Further, while the Gini coefficient, representing the distribution of income in the delta region, was calculated at 0.43 in the 1930s, land redistribution as a result of subsequent Socialist reconstruction has seen it decline to 0.25 in 1990. What should be noted here is that the output of foodstuff grain crops per unit area of arable land has reached its maximum with current technological levels. Yields per unit crop area have grown as the Doi Moi policy has unfolded, and while they almost reached the levels of the Mekong delta in the 1990s, have not always demonstrated a clear rising tendency, fluctuating around an average of 3.5 tons. There is probably no more room available for growth in yields at current technological levels.

The population of the Mekong delta rose from 3.2 million in 1930 to 11.8 million in 1990, equivalent to an annual growth rate of 2.2%. By contrast, arable land area only grew marginally from 2.0 million hectares to 2.3 million hectares, an annual growth rate of 0.2%. Land density has declined at an annual rate of 2.0% from 6,250 square meters to 1,949 square meters as a result of the high population growth rate. Food production has risen from 2.6 million tons to 9.6 million tons, a growth rate of 2.2%. Most of this 2.2% growth rate, however, in the amount of 2.0%, can be ascribed to an increase in food yield from 1.3 t/ha to 4.2 t/ha. The extremely interesting point here is that, most likely due to the high population growth rate, the 812 kilograms per capita food production in the Mekong delta in 1930 was nearly double the 1990 figure for the Red River delta, but thereafter remained virtually unchanged, with 816 kilograms recorded in 1990. (Table 1) Real per capita income levels for farmers increased from 782 kilograms in 1930 to 1,259 kilograms in 1990, and further, with the socialist reconstruction program following the North-South reunification in 1975, the Gini coefficient fell to 0.35 in 1990 from 0.87 in 1930 (Dao Tha Tuan, "The Peasant Household Economy and Social Change," Viet Nam's Rural Transformation). Compared with the Red River delta, foodstuff grain production per unit area of cultivated land in the Mekong delta is low. This is mainly due, however, to the land utilization ratio that is affected by rainfall and other conditions. Yield per unit crop area reached around 3.8 t/ha in the 1990s, and it is unlikely that any increase in yield will be possible at current technological levels.

IV. Characteristics of rural communities by region and the agricultural economy

The following are some characteristics of rural communities and the agricultural economy in the various regions of Viet Nam, including the Red River and Mekong deltas.

The first characteristic of rural community economies arose as a result of the Socialist reconstruction. No matter what region of Viet Nam one takes, there is no great inequality in the household income distribution in any rural communities. Traveling from North to South, the distribution of income does become unequal, but even in the Mekong delta, where the inequality is highest, the Gini coefficient is only 0.37, as described above (Fig.1). Viet Nam's rural communities are relatively egalitarian in comparison with other Asian countries.

Turning next to land, the typical agricultural resource, we find that the area of agricultural land in both the Red River and Mekong deltas is high in comparison with the total area, and moreover, the proportion of agricultural land given over to rice paddies is also high (Table 2). Mountainous districts are common in the remaining regions, except for the North-East of the Southland. In these regions, the ratio of agricultural land to total land area is small, and the ratio of rice paddy land to total agricultural land is lower than is the case for both deltas, while the area given over to non-rice farming is larger.

Corresponding with the circumstances of agricultural land resources affected by the topographical aspects described above, substantial differences are also observed in labor productivity (food output per farm worker) (Table 3). The highest figure was 1.96 tons per capita, recorded in the Mekong delta, while the lowest was only 0.79 tons per capita, for the North-East region of the Southland. The reasons for this

disparity can be found in differences in per capita areas under cultivation, and differences in yield per area under cultivation. What I would like to draw attention to even more than regional disparity is the fact that growth in per capita food output stagnated in the 1990s. This was due in part to a declining tendency in the per capita area under cultivation due to population growth, and to the fact that no marked rising tendency in yield per unit area was shown. Closer analysis does show some minor differences between regions, although the basic trend is practically uniform across the country. At least as far as foodstuff crop production is concerned, we can probably conclude that a major limit to agricultural growth is now being reached. As a whole nation, it appears that Viet Nam is approaching the condition known as "Ricardian Trap," in which economic growth fails to make steady progress as a result of stagnation in domestic food production.

Despite the country having the advantage of a relatively egalitarian rural society as the initial condition for long-term development, agriculture in Viet Nam is presently approaching a limit due to the land shortage caused by its growing population, and the stagnation in land productivity resulting from the currently usable technologies being virtually pushed to their limits. To overcome this limitation, strategies are needed for expanding production of non-food agricultural crops that make the best use of the ecological characteristics of each region, as well as technological breakthroughs in relation to basic foodstuffs must be made.

V. The Red River delta

The Red River delta was the first delta region in the world to undertake full-scale cultivation of non- and weakly light-sensitive rice in the winter and dry season when there is no risk of flooding. Unlike other deltas in South-East Asia, the Red River delta does not back onto a large, arid plain. In the wet season, the river flows swiftly, and there is a high risk of the banks breaking in flood. Engineering modifications to the delta—through the construction of embankments and encircling dikes—had already begun as early as the 10th century. In the 13th century, the State itself undertook a massive dike construction project to protect more than 300,000 hectares from the main flow of the Red River, boosting the land area that could be cultivated with summer rice crops. The villages enclosed by the dikes formed small, self-supporting communities, and attempted to sustain as many people as possible on the limited land available. In order to create an environment in which everyone could be fully employed, a village structure was created that would equally distribute all the land and prevent the concentration of wealth. From around about the 15th century, a system emerged known as the public paddy system. In many villages where this system operated, either all or at least 20% of the total paddy area was set aside as a common paddy for the whole village's use, and the land was allocated between the people of the village with almost complete equality. The village controlled the private economy, and the reins of government were held by distinguished or senior villagers chosen from the homogeneous peasant group. If the village paid in full its share of taxes and met the requirements for providing compulsory labor, the national government protected its freedom. Between 1960 and 1990, the villages of the Red River delta were combined into a cooperative, but this cooperative was created on the premises of the traditional village described above.

VI. Mekong delta

Northern Viet Nam is hidden away behind Hainan Island in the secluded Tonkin Gulf, far from the South China Sea. It was therefore left isolated on the outer fringes of the network of commerce and trade in Asia that developed from the 15th century onwards. When we look across Southeast Asia as a whole, we find that exceptional politico-economic regions were created in which agro-centric monarchical regimes based on regional domination held sway. Southern Viet Nam, with the Mekong delta at its heart, has historically been home to a flourishing port city state, a trading emporium that linked two oceans. Because

the delta region, centered around the flood plain at the lower reaches of the Mekong River, the mightiest waterway in Southeast Asia, was almost completely inundated in the wet season by the slowly flowing river and floodwaters, permanent settlement was virtually out of the question. Human settlement of the Mekong delta was therefore significantly set back, and similar to the Chao Phraya and Irrawaddy deltas, is a recently opened-up area that was stimulated by the expansion of the global market in the latter part of the 19th century, and economic utilization was only achieved through the construction of drainage systems and other facilities. The resources that had not been utilized for they were worthless until new international trading opportunities became available were rapidly developed in association with capital inflows from overseas, in an archetypal example of a "Vont-for surplus "-type development. In contrast with the Red River delta, the oldest settled delta system in the world, the Mekong delta is one of the most recent and last ecological zones that humans have come to occupy. The farmers of the Mekong delta are indeed living in a frontier region, and they are thoroughly capable of responding to opportunities generated by the market economy. They have practically no tradition of life as a village community, and the delta region may even be described as a "commercial zone".

Historically,selection of crops suitable for the ecological conditions has been the basis for the agricultural practices in the region, as is characteristic of deltas. Up to 1975, the delta was characterized by single-season cultivation, with farmers growing traditional crop varieties (floating rice plants).

The Mekong delta is an important center of agricultural production for Viet Nam, and while cultivation intensity has been enhanced in existing arable areas in which population pressures were growing, policies have been implemented to open up marginal land (wet season flooded regions with weak to moderate sulfuric acid-type soils). From 1975 to the launch of the Doi Moi policy in 1988, the excavation of new irrigation canals by laborers working under national government orders continued apace. In the central part of the delta where farmland is presently concentrated, the density of secondary and tertiary irrigation canals grew, and in the newly opened-up Reed Plateau region, arterial irrigation waterways were excavated and the area of arable land boosted. These facilities were placed under centralized State control. Contrary to government intentions, however, double- and triple-cropping through the introduction of high-yielding species to make the most of these waterways did not materialize. This was because the nationalization of farmland and the collective farming system worked to flatten individual farmer motivation.

The Doi Moi reform policy drastically changed this situation. Firstly, farmers became freely able to sell their produce, and secondly, a system of registration of land usage rights and a land valuation system (graded according to soil and water supply conditions) were introduced. A system of de facto land titles and the resale of land thus became permitted as a substitute for paying land tax.

On the other hand, the decentralization of government authority has proceeded apace, and policy decisions are being increasingly taken at the provincial level. As regards the management of irrigation facilities, funding for arterial canals is provided by the provincial government, with management carried out at the district level. Funding for secondary canals is a district-level responsibility, with management carried out at village government level. Funding and management for tertiary canals are both the responsibility of the village level.

Individual farmers have begun to become more motivated to produce with the rapid spread of high-yielding varieties and the development of multiple cropping since the doi moi reforms, and foodstuff production in the Mekong delta has thus grown sharply. The facilities that had been in place before Doi Moi are closely bound up with this motivation to produce. On the other hand, multiple cropping has brought with it the need to actively coordinate cropping and water utilization among producer groups seeking to share the same secondary and tertiary canals, sluices and dikes. The net result is that even among the highly individualistic farmers of the Mekong delta, farmers' groups comprising around about 120 households have been spontaneously created to oversee the collection of management fees and other charges, and to coordinate water utilization.

One village on the Reed Plateau provides an excellent example of this trend. Since the doi moi reforms

were instituted, the planting of high-yielding winter-spring varieties (planted in the period between December and March when the waters have subsided) has spread rapidly. Further, given the excellent water conditions in the dry season, high-yielding summer-autumn varieties (planted in the dry season between April and August, and harvested before the floods come) are now being planted. By 1990, the planting of floating rice plants had all but disappeared. Since the introduction of high-yield species, boosting the area in which dry season cultivation (impossible due to the depth of the flood waters in the wet season between September and November) is feasible has become an issue common to all farmers. Given this situation, the village as a unit began to collect fees, and has started to build tertiary irrigation canals and low dikes surrounding the village block. These facilities slow down the rate of flow and promote sedimentation during the flooding period (as the water recedes), and prevent acidification of the soil by admitting and maintaining water levels in the dry season. At the same time, the village installed heavy-duty pumps (each capable of covering 100 ha) for raising water into the tertiary canals from the arterial waterways. The ownership and control of the pumps resides with individuals (farmers and merchants), and the funds were provided by the government at low interest rates. Charges are set by a method that has a significant public interest component: the pump owner prepares a draft schedule of usage charges, which is then discussed, approved and ratified by a village People's Committee composed of users.

Let us also look at another example, in the central part of the delta. After the Doi Moi reforms were implemented (that is, especially after the land use-right registration system was launched in 1990), the double-cropping of high-yielding varieties rapidly became widespread, involving winter-spring (cultivated when the floodwaters have receded between mid-November and mid-February) and summer-autumn crops (planted in April and harvested at the end of July before the coming of the floods) in the dry season. Triple-cropping has also begun in areas where the topography facilitates water control. As one element of the Doi Moi transition reforms, the State government control of irrigation canals is being decentralized, but following the introduction of high-yielding varieties, the balancing of double-crop production has become a common problem for all farmers. A group of around 100 households (approximately 90 ha) which had shared use of a tidal irrigation water introduction and drainage system has found it necessary to coordinate their cultivation and harvest schedules. The coordination of water rights by farmer groups has been revived as a result. The fairness of water management practices using the secondary and tertiary canals that were built prior to the Doi Moi reforms has been enhanced, and water-rights disputes have not arisen. Against a background of deadlocks in specialist rice production in those areas protected by natural dikes and with minimal natural limitations and subdivision of farmland, extremely diverse commercial farming practices have unfolded, such as the triple-cropping of rice, combined rice cultivation and prawn farming, fish farming, and orchid growing. On the other hand, the soil water content is high even in the dry season in the center of the delta, making dry field cultivation difficult; at the same time, since the amount of cultivated land per household is greater than that in the natural dike-protected region, specialization in the double-cropping of rice has come about as a result.

VII. The market economy and agriculture

The implementation of the Doi Moi transition policies has resulted in Viet Nam's regional and rural societies introducing a market economy system, and more specifically, "an unstructured market economy in which price-setting is led by merchant intermediaries." In relation to the distribution of rice and other agricultural produce, and fertilizers and other agricultural inputs, market transactions are being integrated on a national scale as a result of spontaneous activities by these merchants. In the 1990s, the price differentials between Hanoi and Ho Chi Minh City for rice and fertilizer gradually began to disappear, indicating that the integration of market transactions on a nationwide scale is continuing (Fig. 2).

There are, however, some remaining monopolistic features of the distribution sector, due to the fact that a State Corporation is still involved in the distribution of rice. According to the SPC and FAO document,

An Agriculture-led Strategy for the Economic Transformation of Viet Nam: Policy and Project Priorities. "While the distributor's margin for rice is around 10% in Thailand, it is 30% to 40% in Viet Nam. This is due to the presence in the market of the State-owned agricultural produce distribution corporation, and the remaining inherent monopolistic factors." While it is indisputable that State intervention in the distribution of foodstuffs is essential in terms of seeking to stabilize domestic food prices, there is also at the same time the possibility that such intervention may act as a factor impeding moves towards greater market efficiency in the distribution mechanism.

The market economy that is emerging as a result of the Doi Moi reforms has numerous inherent deficiencies. Among them, a significant problem for agricultural development is the availability of financing for agricultural activities. The Viet Nam's Agricultural Bank was established in 1990 as a public financial institution for providing short- and medium-term credit to various public organizations for farmers and rural communities, but at present, has been able to provide only 8-9% of the loan funds required by the rural sector. Farmers have basically sourced the funds they require through private savings and informal credit networks, but poor farmers in particular are virtually unable to access funds through these channels.

VIII. The policy framework for agricultural development

The major problem facing agricultural development in Viet Nam is the fact that growth in agriculture through the provision of economic incentives alone under the Doi Moi transition policy can be stimulated no further. The issue that needs to be addressed in the future is how to develop the country's agriculture sector, given its high population density and shortage of land.

As a precondition to proposing a policy framework for the development of agriculture in Viet Nam, I wish to focus attention on the position adopted in the World Bank Report *The East Asian Miracle* that sound agricultural development and the agriculture policy that gives rise to it are essential components of the process of realizing the "East Asian Miracle". In the following paragraphs, I shall set out the Report's characterization of the agriculture policies adopted in East Asian countries that translated "shared and equitable economic growth" into a reality for their domestic economies as a whole, and moreover, contributed to the formation of a favorable economic environment through the expansion of the domestic market resulting from growth in the agriculture sector.

First, in order to secure the revenue needed for their import substituting industrialization strategy, developing countries have tended to implement policies that exploit agriculture—by levying various taxes and charges. The net result has frequently been a diminution of the economic stimulus on agricultural production and impeded growth in the agricultural sector. In East Asian countries by contrast, the severity of such taxes and charges has been relatively low. That is, agricultural growth has not been impeded by distortion of the market economy as a result of levying taxes on agriculture.

The next issue on which to focus is that of government expenditure on agriculture. In many developing countries, this expenditure is frequently takes the form of food subsidies and other grants in areas not directly associated with production. In the countries of East Asia by contrast, expenditure on agriculture has reinforced the foundations for growth of the sector, by placing a high priority on fiscal outlays for infrastructure and research and development which the market cannot provide. Among the developing countries of the world, East Asian nations have been pre-eminent in their provision of basic infrastructure, including such facilities as agricultural research and development projects, irrigation, roads, safe water supplies, and power supply projects. Governments have undertaken no small amount of public investment in order to provide such agricultural and rural infrastructure. On this point, agriculture policy in East Asian countries has actively supported growth in the agriculture sector.

To further examine the policy of levying taxes on agriculture, we shall look at another report of the World Bank that exhaustively takes up the issue of developing countries in various regions and estimates the degree of protection and exploitation of agriculture (A World Bank Comparative Study, *The Political*

Economy of Agricultural Pricing Policy, Vol. 4: A Synthesis of the Economics in Developing Countries, by M. Schiff and A. Valdes, The John Hopkins University Press, 1991). The distinctive characteristic of the report is that it not only provides estimates of the degree of direct exploitation or protection---levying taxes on exports of agricultural produce, and quantitative restrictions or tariffs on competing agricultural imports---but also of the level of indirect exploitation, such as the degree of exploitation of traded agricultural produce through an overvalued exchange rate, or the degree of exploitation that arises from manufactured products purchased by farmers or the agriculture sector being more expensive than they would be under a liberalized trade regime, as a result of a government's import substitution protection policies directed towards the manufacturing industry.

From the countries that were studied in this research, let's look at the estimates for three ASEAN nations.

		Direct Protection Rate	Indirect Protection Rate	Total
Philippines	1960-1986	-4.1(%)	-23.3(%)	-27.4(%)
Thailand	1962-1984	-25.1	-15.0	-40.1
Malaysia	1960-1983	-9.4	-8.2	-17.6

The first common feature to all three countries is that they have a negative level of indirect protection. This indicates that these countries, in seeking to promote their own industrialization programs by adopting a protectionist policy of import substitution, have made purchasing of agricultural inputs or consumer durables more expensive for farmers and the agriculture industry than it would be under a liberalized trading framework, or that agriculture has been disadvantaged by an overvalued exchange rate. It would seem indisputable that macroeconomic policies and import substitution industrial policies aimed at industrialization will overwhelmingly disadvantage the agriculture sector when developing countries seek to industrialize.

While there are differences in degree among these three ASEAN countries, we can also note that the direct protection figures are negative for each. Statistically, this indicates that domestic price levels for agricultural produce are lower than international levels, and typically, this comes about as a result of government interventionist policies of levying taxes on the export of agricultural products. On this point, the agricultural policies in these three ASEAN countries can be said to be typical of the exploitative policies that are commonly found in developing countries.

The fact that should be stressed here, however, is that the degree of exploitation of agriculture in ASEAN countries is not so great in comparison with developing countries in Latin America and Africa.

IX. Proposal

In Viet Nam, macroeconomic stabilization policies implemented by the government have alleviated to a considerable extent the exploitation of agriculture arising from an overvalued exchange rate. I should emphasize in this context that the maintenance of macroeconomic stabilization is a decisively important issue for agricultural development. At the same time, the easing of the regulatory framework for trade and distribution of agricultural inputs is also powerful in promoting agricultural development.

The conditions for trade and commerce between the agricultural and non-agricultural sectors have demonstrated a certain amount of variability as the Doi Moi policies have unfolded, but there are no trends indicated at present that are advantageous or otherwise to agriculture. This could be said to be a result of the maintenance of the macroeconomic stabilization policies, but we should note that there is a risk of the agriculture sector being disadvantaged and agricultural development being impeded if these policies were to collapse and the exchange rate become overvalued. Furthermore, if the level of State intervention in the distribution and trade of rice and other agricultural produce were to increase, there is also a risk of greater

direct exploitation of agriculture and impeded agricultural development.

In relation to the medium and long term development of the agricultural sector, it is clearly vital to realize that without public investment in rural roads, electrification, irrigation and the development and diffusion of new agricultural technologies, long-term growth in agriculture will be impossible to achieve. We should also remember that there may also be situations where it is essential to incur public expenditure in these areas of agricultural development even if it means occasionally accepting a budget deficit. While Viet Nam is considering relying on overseas funds for nearly 50% of its development as a nation overall, boosting exports will be an essential condition to ensure that the country's dependency on overseas funds does not force it into debt problems. There is a significant role to be played by rubber, tea, coffee and other agricultural products in addition to rice in this growth in exports, and at what may be called its initial stage of agricultural development, there may be a need for short-term concentration of public sector investment in agriculture.

At the same time, farmers' organizations must be created that more efficiently utilize expenditure on these developments in rural communities. Unlike the cooperatives of the past, farmers must become organized in disseminating information, distribution, and credit provision. In the Red River delta where the farmers have a tradition of organized activities and the average farmer has only a tiny scrap of land at his disposal, interest is intense in the introduction of crops other than rice, and there exist strong demands for guidance and instruction not only on various cultivating techniques, but also on quality control and marketing methods. The cooperatives are currently only renting machinery and providing other support services to farmers, but it is essential to organige these bodies into more effective agricultural education projects. In the Mekong delta, how to organize cooperative action is a major issue to be addressed. As a number of examples have already shown clearly, when the economic benefits of acting cooperatively are made clear, farmers will spontaneously organize themselves, even in South Viet Nam. A thoroughly effective strategy will be to provide low-interest agricultural development loans, focusing on these spontaneous groups.

There is a substantial regional disparity in the traditions of organizational and cooperative activities by farmers in Viet Nam. In all regions, however, we can consider that cooperative activities will be spontaneously organized when farmers anticipate that significant economic benefits will be forthcoming from such activities. For the government's part, it will be essential to closely examine such spontaneous activities by farmers, and combined with seeking to encourage moves in that direction, provide loan funds at low interest rates, and promote the formation of farmers' organigation aimed at agricultural development.

Table 1 The evolution of agrarian systems in the two largest deltas in Viet Nam

Region		Rural Population (million)	Arable Permanent (million ha.)	Land Density (m^2/capita)	Food Crops Production (million tonnes)	Food Yield (t/ha.)	Food per Capita (kg)
Red River delta	1930	6.5	1.2	1,846	1.8	1.5	277
	1990	11.9	0.8	689	4.9	5.9	411
Growth rate (%)		(1.0)	(-0.6)	(-1.6)	(1.7)	(2.3)	(0.6)
Mekong delta	1930	3.2	2.0	6,250	2.6	1.3	812
	1990	11.8	2.3	1,949	9.6	4.2	816
Growth rate (%)		(2.2)	(0.2)	(-2.0)	(2.2)	(2.0)	(-0.01)

Source : Dao The Tuan, "The Peasant Household Economy and Social Change", Viet Nam's Rural Transformation, ISEAS, 1995

Table 2 Land use of Viet Nam (1993)

	Total Land	Agricultural Land	Agricultural land to Total land	Paddy Land	Paddy land to Agricultural Land	Industrial Crops	Industrial Crops to Agricultural Land	Forestry	Forestry to Total Land
Whole Country	33,103,711	6,993,241	21.13%	4,108,858	58.75%	1,129,172	16.15%	9,395,204	28.38%
North Mountain and Midland	9,807,810	1,226,926	12.51%	561,091	45.98%	284,108	23.16%	5,709,337	17.43%
Red River Delta	1,733,270	801,023	46.21%	624,931	78.02%	67,818	8.47%	238,782	13.78%
Central Coast of Northland	5,117,819	710,700	13.89%	428,383	60.28%	116,101	16.34%	1,710,626	33.42%
Central Coast of Southland	4,582,373	540,370	11.79%	273,284	50.57%	180,836	33.47%	1,478,389	32.26%
Central Highland	5,556,891	444,991	8.01%	135,537	30.46%	105,295	23.66%	3,336,614	60.04%
North-East of Southland	2,348,352	804,980	34.28%	255,868	31.79%	246,433	30.61%	572,783	24.39%
Mekong river Delta	3,957,893	2,464,251	62.26%	1,826,760	74.13%	128,589	5.22%	248,673	6.81%

Table 3 (1)

Gross Output of foods*(Paddy Equivalent; 1000ton)*

	1985	1990	1991	1992	1993	1994
Whole Country	18200.0	21488.5	21989.5	24214.6	25501.7	26198.5
North Mountain	2319.4	2349.6	2367.4	2832.9	3162.1	2955.8
Red River Delta	3386.9	4100.7	3456.7	4693.1	5388.1	4619.1
Central Coast of Northland	1886.4	1998.1	2010.5	2175.2	2247.6	2307.8
Central Coast of Southland	1976.1	1875.6	2027.3	1853.9	1732.2	2034.3
Central Highland	559.2	581.0	606.9	618.6	634.2	664.4
North-East of Southland	1086.0	975.7	1056.7	974.3	1135.6	1327.8
Mekong river Delta	6986.0	9607.8	10464.0	11066.6	11201.9	12289.3

Sown Area of Foods*(1000ha)*

	1985	1989	1990	1991	1992	1993	1994
Whole Country	6833.6	7089.6	7110.9	7448.0	7707.4	7796.7	7827.2
North Mountain	1064.4	1117.0	1087.8	1144.6	1230.0	1246.2	1217.6
Red River Delta	1185.2	1289.4	1246.9	1262,7	1235.9	1233.3	1209.4
Central Coast of Northland	937.9	905.5	889.1	893.7	931.9	911.9	911.2
Central Coast of Southland	673.2	634.5	627.7	648.7	657.7	659.3	655.1
Central Highland	252.9	245.1	246.8	256.8	267.8	275.9	271.9
North-East of Southland	419.7	403.5	387.5	395.2	417.6	430.6	472.0
Mekong river Delta	2300.3	2494.6	2625.1	2846.3	2966.5	3039.5	3090.3

Table 3 (2)

Labour of Agriculture *(1000persons)*

	1985	1990	1991	1992	1993
Whole Country	15766.0	17723.9	18458.5	19538.8	20482.9
North Mountain	1509.0	1779.3	2131.3	2259.0	2338.8
Red River Delta	3137.6	3699.9	3327.8	3503.4	3959.0
Central Coast of Northland	1960.4	2212.4	2476.1	2701.3	2691.7
Central Coast of Southland	1508.7	1641.2	1656.4	1758.9	1895.7
Central Highland	530.2	600.5	686.2	712.4	734.4
North-East of Southland	1198.4	1358.8	1173.3	1392.4	1444.7
Mekong river Delta	4869.4	5189.7	5524.8	5720.0	5725.1

Labor Productivity *(ton/per capita)*

	1985	1990	1991	1992	1993
Whole Country	1.15	1.21	1.19	1.24	1.25
North Mountain	1.54	1.32	1.11	1.25	1.35
Red River Delta	1.08	1.11	1.02	1.34	1.36
Central Coast of Northland	0.96	0.90	0.81	0.81	0.84
Central Coast of Southland	1.31	1.14	1.22	1.05	0.91
Central Highland	1.05	0.97	0.88	0.87	0.86
North-East of Southland	0.91	0.72	0.90	0.70	0.79
Mekong river Delta	1.43	1.85	1.89	1.93	1.96

Sown Area per Agricultural Labor *(ha per capita)*

	1985	1990	1991	1992	1993
Whole Country	0.43	0.40	0.40	0.39	0.38
North Mountain	0.71	0.61	0.54	0.54	0.53
Red River Delta	0.38	0.34	0.37	0.35	0.31
Central Coast of Northland	0.48	0.40	0.36	0.34	0.34
Central Coast of Southland	0.45	0.38	0.39	0.37	0.35
Central Highland	0.48	0.41	0.37	0.38	0.38
North-East of Southland	0.35	0.29	0.34	0.30	0.30
Mekong river Delta	0.47	0.51	0.52	0.52	0.53

Yield of food *(ton/ha)*

	1985	1990	1991	1992	1993	1994
Whole Country	2.66	3.02	2.95	3.14	3.27	3.35
North Mountain	2.18	2.16	2.07	2.30	2.54	2.43
Red River Delta	2.86	3.29	2.74	3.80	4.37	3.82
Central Coast of Northland	2.01	2.25	2.25	2.33	2.46	2.53
Central Coast of Southland	2.94	2.99	3.13	2.82	2.63	3.11
Central Highland	2.21	2.35	2.36	2.31	2.30	2.44
North-East of Southland	2.59	2.52	2.67	2.33	2.64	2.81
Mekong river Delta	3.04	3.66	3.68	3.73	3.69	3.98

Table 4 (1)

Central Coast of Northland(1000ha)

	1990	1991	1992	1993	1994
Total	882.7	887.8	924.1	904.6	904.7
Spring Paddy	312.3	314.9	315.3	314.8	317.2
Winter Paddy	244.1	240.6	247.2	238.5	245.4
Autumn Rice	120.7	119.7	124.5	120.9	117.5
Maize	44.9	46.1	53.1	52.2	61
Sweet Potato	117.9	124.1	137	133.1	121.1
Cassava	42.8	42.4	47	45.1	42.5

Central Coast of Northland(1000ha)

	1990	1991	1992	1993	1994
Total	-0.92%	0.58%	4.09%	-2.11%	0.01%
Spring Paddy	-0.27%	0.29%	0.05%	-0.05%	0.27%
Winter Paddy	-3.86%	-0.40%	0.74%	-0.94%	0.76%
Autumn Rice	7.06%	-0.11%	0.54%	-0.39%	-0.38%
Maize	3.45%	0.14%	0.79%	-0.10%	0.97%
Sweet Potato	0.43%	0.70%	1.45%	-0.42%	-1.33%
Cassava	-6.54%	-0.05%	0.52%	-0.21%	-0.29%

Central Coast of Southland(1000ha)

	1990	1991	1992	1993	1994
Total	623.1	643.7	652.7	654.1	633.3
Spring Paddy	168.6	172	174.5	176.7	176.8
Winter Paddy	191.2	196	204.8	202.7	201.1
Autumn Rice	135.2	142.9	142.9	145.7	140.9
Maize	28.2	29.2	29.4	29.4	34.1
Sweet Potato	40.6	42.5	41.4	41.4	38.9
Cassava	59.3	61.1	59.7	58.2	41.5

Central Coast of Southland(Growth rate:%)

	1990	1991	1992	1993	1994
Total	-1.61%	3.31%	1.40%	0.21%	-3.18%
Spring Paddy	-0.17%	0.55%	0.39%	0.34%	0.02%
Winter Paddy	0.06%	0.77%	1.37%	-0.32%	-0.24%
Autumn Rice	0.05%	1.24%	0.00%	0.43%	-0.73%
Maize	-0.22%	0.16%	0.03%	0.00%	0.72%
Sweet Potato	-0.85%	0.30%	-0.17%	0.00%	-0.38%
Cassava	-0.41%	0.29%	-0.22%	-0.23%	-2.55%

North Mountain and Midland(1000ha)

	1989	1990	1991	1992	1993	1994
Total	1099.7	1070.0	1201.9	1211.7	1221.4	1204.2
Spring Paddy	251.9	253.7	280.2	279.9	279.8	280.5
Winter Paddy	501.2	495.0	540.4	530.5	531.9	519.3
Autumn Rice						
Maize	202.6	183.8	208.7	213.3	226.1	229.4
Sweet Potato	54.6	58.8	75.9	83.8	85.4	85.1
Cassava	89.4	78.7	96.7	104.2	98.2	89.9

Table 4 (2)

North Mountain and Midland(growth rate:%)

	1989	1990	1991	1992	1993	1994
Total	-4.57%	-2.70%	12.33%	0.82%	0.80%	-1.41%
Spring Paddy	-5.49%	0.16%	2.48%	-0.02%	-0.01%	0.06%
Winter Paddy	0.14%	-0.56%	4.24%	-0.82%	0.12%	-1.03%
Autumn Rice						
Maize	0.62%	-1.71%	2.33%	0.38%	1.06%	0.27%
Sweet Potato	0.17%	0.38%	1.60%	0.66%	0.13%	-0.02%
Cassava	0.00%	-0.97%	1.68%	0.62%	-0.50%	-0.68%

Red River Delta(1000ha)

	1985	1989	1990	1991	1992	1993	1994
Total	1156.7	1253.1	1209.4	1154.6	1211.2	1206.5	1184.2
Spring Paddy	502.9	508.9	513.1	494.7	503.0	505.1	509.8
Winter Paddy	548.9	548.6	544.6	519.0	521.6	528.3	517.0
Autumn Rice							
Maize	33.7	112.9	69.3	57.7	73.4	74.6	75.7
Sweet Potato	47.5	59.8	63.1	75.6	104.9	90.6	74.7
Cassava	23.7	22.9	19.3	7.6	8.3	7.9	7.0

Red River Delta(growth rate:%)

	1985	1989	1990	1991	1992	1993	1994
Total	8.33%	2.08%	-3.49%	-4.53%	4.90%	-0.39%	-1.85%
Spring Paddy	0.52%	0.13%	0.34%	-1.52%	0.72%	0.17%	0.39%
Winter Paddy	-0.03%	-0.01%	-0.32%	-2.12%	0.23%	0.55%	-0.94%
Autumn Rice							
Maize	6.85%	1.71%	-3.48%	-0.96%	1.36%	0.10%	0.09%
Sweet Potato	1.06%	0.27%	0.26%	1.03%	2.54%	-1.18%	-1.32%
Cassava	-0.07%	-0.02%	-0.29%	-0.97%	0.06%	-0.03%	-0.07%

Central Highland(1000ha)

	1989	1990	1991	1992	1993	1994
Total	243.6	245.8	255.4	266	274.1	272
Spring Paddy	25.9	25.6	26.9	27.2	28.6	30
Winter Paddy	134.9	139.7	143.1	152.2	158.1	151.9
Autumn Rice						
Maize	48.7	45.9	48.5	47.3	47.7	46.8
Sweet Potato	11.5	13.4	14.2	15	14.5	14.4
Cassava	22.6	21.2	22.7	24.3	25.2	28.9

Central Highland(growth rate:%)

	1989	1990	1991	1992	1993	1994
Total	-0.77%	0.90%	3.91%	4.15%	3.05%	-0.77%
Spring Paddy	0.23%	-0.12%	0.53%	0.12%	0.53%	0.51%
Winter Paddy	0.09%	1.97%	1.38%	3.56%	2.22%	-2.26%
Autumn Rice						
Maize	-0.48%	-1.15%	1.06%	-0.47%	0.15%	-0.33%
Sweet Potato	-0.76%	0.78%	0.33%	0.31%	-0.19%	-0.04%
Cassava	0.15%	-0.57%	0.61%	0.63%	0.34%	1.35%

Table 4 (3)

North-East of Southland(1000ha)

	1990	1991	1992	1993	1994
Total	383.8	391.5	412.8	425.7	466.0
Spring Paddy	48.0	50.6	52.5	53.7	56.8
Winter Paddy	204.0	191.9	213.9	217.0	228.9
Autumn Rice	52.0	62.5	60.6	64.4	67.3
Maize	48.5	46.0	48.8	52.2	65.6
Sweet Potato	7.9	8.1	7.0	6.1	5.4
Cassava	23.4	32.4	30.0	32.3	42.0

North-East of Southland(growth rate:%)

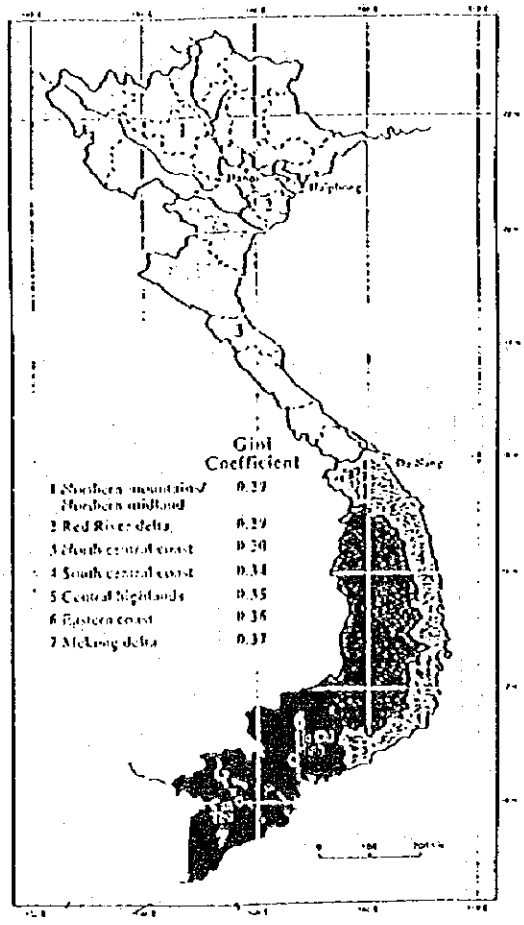
	1990	1991	1992	1993	1994
Total	-1.80%	2.01%	5.44%	3.13%	9.47%
Spring Paddy	0.47%	0.68%	0.49%	0.29%	0.73%
Winter Paddy	0.01%	-3.15%	5.62%	0.75%	2.80%
Autumn Rice	0.00%				
Maize	-0.51%	-0.65%	0.72%	0.82%	3.15%
Sweet Potato	-0.11%	0.05%	-0.28%	-0.22%	-0.16%
Cassava	-1.63%	2.34%	-0.61%	0.56%	2.28%

Mekong Delta(1000ha)

	1990	1991	1992	1993	1994
	2622.6	2844.4	2963.4	3034.4	3083.4
Spring Paddy	752.4	820.4	926.9	966.9	1010.3
Winter Paddy	919.8	928.5	877.7	808	776.6
Autumn Rice	907.7	1058.1	1120.1	1218.2	1251.2
Maize	11.2	11.4	12.6	14.2	22.2
Sweet Potato	19.4	15.7	15.8	16.1	12.9
Cassava	12.1	10.3	10.3	11	10.2

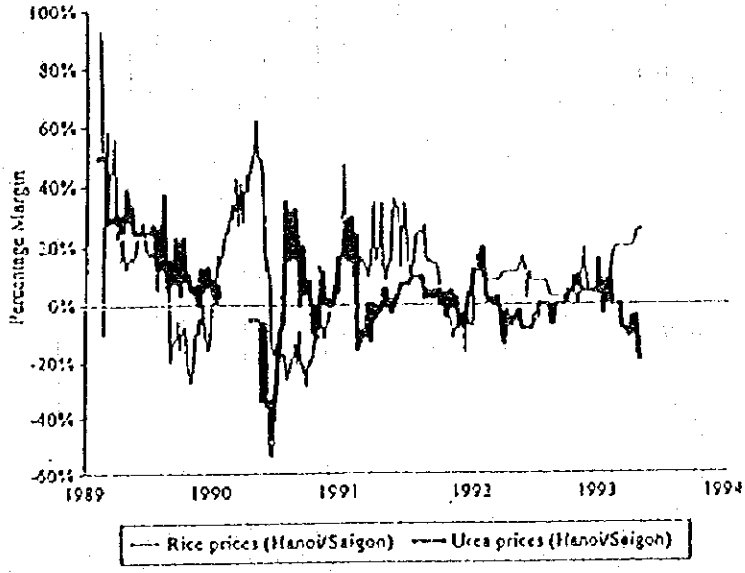
Mekong Delta(growth rate:%)

	1990	1991	1992	1993	1994
	3.55%	8.46%	4.18%	2.40%	1.61%
Spring Paddy	3.17%	2.59%	3.74%	1.35%	1.43%
Winter Paddy	-3.15%	0.33%	-1.79%	-2.35%	-1.03%
Autumn Rice					
Maize	0.00%	0.01%	0.04%	0.05%	0.26%
Sweet Potato	0.00%	-0.14%	0.00%	0.01%	-0.11%
Cassava	-0.03%	-0.07%	0.00%	0.02%	-0.03%



Source : Dao The Tuan, "The Peasant Household Economy and Social Change", Viet Nam's Rural Transformation ISEAS, 1995.

Figure 1 Household economic differentiation 1993



Source : Adam Florade and Steve Soneque, "The Economy and the Countryside : The Relevante of Rural Development Policies", Viet Nam's Rural Transformation, ISEAS, 1995.

Figure 2 Price ratios between major market

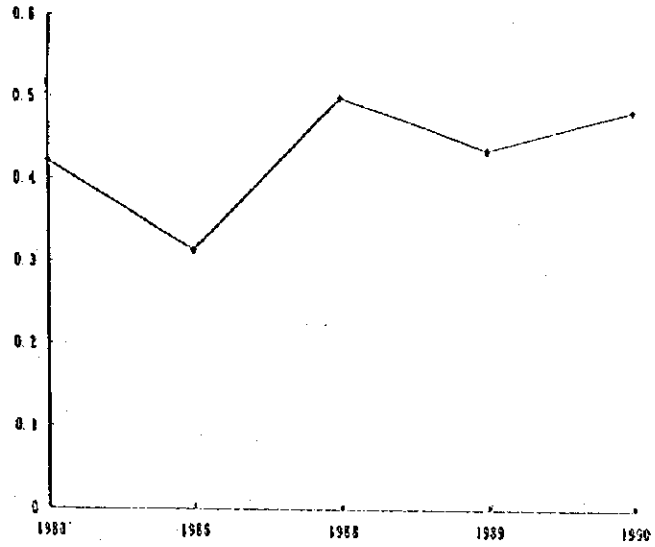


Figure 3 (a) TOT of agriculture against non-agriculture

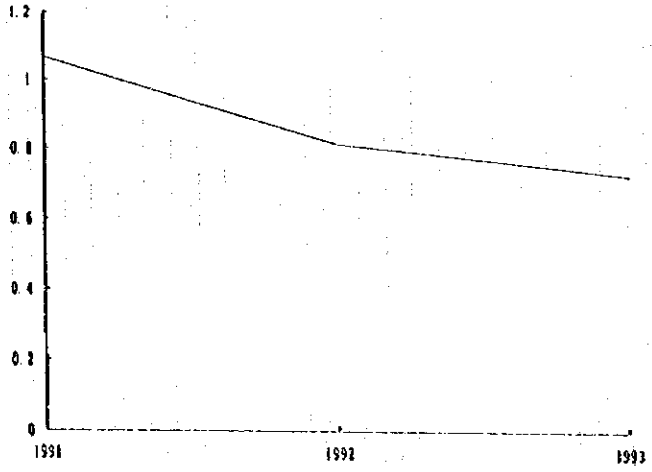


Figure 3 (b) TOT of agriculture against non-agriculture

4
Proposal for Addressing Agricultural Problems in Five-year Plan (1996-2000)

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I. Summary of agricultural sector development plan within New Five-year Plan

1. Reform of agricultural and fishing industry production framework

To link the current pure agriculture system with industry and to rationalize the service sector, so that the industrialization and modernization of agriculture might start to take its first step.

(1) To raise the current ratio between agriculture, industry and services within the rural community from 37%:21%:42% to 27%:26%:47%. To change the ratio of farm production to livestock production from 75%:25% to 65~70% : 23~22%.

(2) Direction of reform of agricultural framework

1) Food remains an issue of particular importance. Investment is to continue, with the level to be raised to 3,000 tons by the year 2000. This is designed to guarantee national security, further develop livestock production, and meet the needs of society. Retain 2 million tons as emergency storage and for export. Convert low-production grain-growing districts to industrial crops, fruit and vegetables. Select new types of high-yield crops suited to the ecosystem. In particular, increase the area used for hybrid varieties from the current 200,000 hectares to somewhere between 500,000 and 1 million hectares, so that the area will occupy about 8% to 12% of rice fields. Increase maize from the current 150,000 hectares to between 300,000 and 350,000 hectares. Selective use of hybrids can increase food production by some 3 to 4 million tons.

2) Increase the area under fruit and industrial crop cultivation from the current 1.5 million hectares to 2 million hectares to occupy 45% of the total area under cultivation (currently 35%).

Establish fruit and industrial crop zones that employ advanced technological systems.

- Locate cotton production in the southeast and Tay Nguyen (Central Highlands).
- Increase sugar cane production to 200,000 hectares in each zone by the year 2000. In particular, establish large-scale production zones in the southeast (highlands to the east of Ho Chi Minh City), in the Mekong Delta, the Central Coastlands, and in some of the provinces of the Northern Mountains. Establish sugar-refining industries close to these zones.

3) Over the five years, cultivate rubber, coffee, and tea over 300,000 hectares. This is to be principally in the southeast, Thai Nguyen, the 4th district or central coast to the north, (Thanh Hoa, Nghe An, Binh Tri Thien), and the terrace lands in the Northern Mountains. Develop a further 30,000 hectares of coffee in the Northern Mountains in particular.

4) The growth rate for these industrial crops is to be about 10% per annum.

(3) The focus of development in terms of livestock production is to be dressed meat (pork and beef), fresh milk, and poultry. The current rate of livestock production is to be increased from 25% to somewhere

between 30% and 35%. Export sales are to be increased by 4 to 5 times the current amount. Effort is to be directed towards improved breed production and consolidation by combining traditional livestock farming with industrial livestock production. In terms of zoning, the main location for beef cattle is to be the 5th district of the central coast to the south (Quang Nam, Da Nang and Nghia Binh) and the Central Highlands; top grade pork is to be located in the delta areas, and fresh milk in the 2 districts of Duc Trong and Moc Chau, and surrounding the bigger cities.

(4) Investment in the fishing industry is to focus on offshore fishing methods and on the processed marine products industry. Fishing is to reach 1.5 million tons by the year 2000; export sales for the 5-year period are to reach US$4 billion.

(5) Forest conservation is to achieve Plan 327 for reafforestation of denuded mountain areas. Cultivation of useful plants is to be encouraged. The right to use forests is to be allocated to the family unit as quickly as possible. Over the 5-year period, 3 million hectares of forest is to be conserved, 1 million hectares is to be recovered, and 2 million hectares is to be afforested. Over the 5-year period, 5.4 million cubic meters of sawlog timber is to be produced, and 4.5 million hectares of deforested mountain areas to be reforested.

2. Development of industries to service rural communities

Investment is required to provide for industrial systems for manufacturing of marine and agricultural products. Investment in food processing is essential, as well as investment in new equipment for the handicraft industry work force following harvest time.

Investment in small-scale industry and in the handicraft industry is needed to restore and expand traditional handicraft manufacturing in rural communities. The first reason for this is to soak up much of the work force available in the rural sector; the second reason is to preserve export value. Products that come within these types of industry include pottery, tiles, fine art, textiles, building materials and so on.

Various types of rural community services (including technology, credit, materials, handicrafts, advice and guidance, information, transport, manufacturing, marketing, social welfare, and medicine) are to be developed and diversified. The national business management and production system is to be reinforced and each family farming operation improved and developed to provide links with the various service facilities.

II. Observations

1. Stepping up food production

The only concrete proposal is to increase, by a small amount, the area of hybrid species under cultivation in maize and rice fields as well. This cannot increase the estimated average of 22 millions tons for the first half of the 1990s to 30 million tons. The farmers of the Red River Delta exist chiefly by being rice self-sufficient. By the very nature of things, even if it were possible for them to produce extra rice for the government (to make various unavoidable payments in paddy [unhulled rice]—i.e., taxes, public dues, agricultural expenditure), there is little likelihood that they would expand into large-scale production because of their attitude towards keeping paddy to themselves. In the same way as IR8 was abandoned in favor of SR203, and the area of land given over to the cultivation of glutinous rice suddenly increased when government controls relaxed during the latter half of the 1980s, it is not now possible to change farmers' attitudes towards cultivation simply by increasing their crop yield. The New Delta in the Mekong Delta is irrigated land, with possibilities for cultivating hybrids for export. It is doubtful whether the farmers who possess high-quality paddies producing top-grade rice would want to cultivate hybrid species. If they were to concentrate on only one type of hybrid, this would surely cause extreme instability in production. Additionally, at this stage, it would seem that the only conceivable market for hybrid species is China. Changing the best-quality paddies in the Mekong Delta to produce inferior species of hybrid rice for the

sake of guaranteeing an export product is too much of an exposure in terms of the quality of Vietnamese export rice.

Until now, south Viet Nam was exporting in the vicinity of 1.5 million tons of paddy, which is by any measure a precarious position for the south to be in. United Nations' estimates put Viet Nam's population at 82,427,000 by the year 2000, while Viet Nam estimates a population of 78,987,000. If you multiply this by the amount of paddy considered sufficient per person (i.e., 280 kilograms), then in the former case you will need 23,070,000 tons, and in the latter you will need 22,110,000 tons to sustain the population. Paddy production for the first half of the 1990s, however, is only around 20 million tons. Viet Nam has guaranteed export rice levels until now, including roughly 2.5 million tons (paddy equivalent) of minor grains. In terms of the dietary habits of the Vietnamese people (they verge on a complete rice diet), then the export situation is very close to crisis point. Therefore, in order to guarantee export and reserve levels of 2 million tons of rice by the year 2000, production of paddy alone has to reach 25 million tons. With the addition of the minor grains, setting a target of 30 million tons has been an unavoidable choice.

All of the areas in the intensive farming belt in the north (which was the center of production development following the Doi Moi economic reform program) have reached an annual production per hectare of 10 tons (paddy equivalent). The New Delta in the south (taking in Tan An, My Tho, Vinh Long, Can Tho) has now reached three harvests, and 15 tons per year. In these areas, high-yield varieties are already in general use, the soil is enriched with large quantities of chemical fertiliser, and advanced technology for use in intensive agriculture is deployed throughout. It is fair to assume that increasing production would be technically extremely difficult in this superior farming area.

The total area given over to planted rice paddies throughout Viet Nam is 6.43 million hectares (1992). This gives a yield of just over 3 tons per hectare. Almost 30% of the low-quality rice paddies are regarded as being incapable of managing two harvests per year. Both the north and the south have large tracts of marshlands. Year after year of flood damage has put rice production on extremely shaky ground. It is important to stabilize and increase the yield of these currently deteriorated rice paddies by introducing such basic services as modernized drainage systems. This will increase the ratio of paddies that can yield two or three harvests per year. Promoting the drying out of rice paddies also allows for their more diversified usage. Taken as a whole, this is more important than the facile notion of increasing production via the use of hybrids and other breeds. Improvements in infrastructure for fields have already reached a limit in terms of the scale manageable by traditional or individual means, or by cooperative societies. For the sake of national food security, powerful national investment in the improvement of infrastructure for rice paddies is desirable, by such measures as perfecting large-scale drainage facilities.

Even if proper improvements in infrastructure made it possible to achieve a lift in yield of 5 million tons however, the producer's price in Viet Nam at present is 2,000 Dong per kilogram of paddy. Seen from the perspective of international market conditions, it is doubtful if the domestic price in Viet Nam—directed as the nation is towards export of paddy—will show any huge fluctuations in the coming five years. For arguments' sake, even if an increased yield of 5 million tons were feasible, the net proceeds per person over a farming population of 50 million people would still only mean an increase of a mere $20. In short, even if the rice yield growth plan is essential for guaranteeing national food security and providing a means for acquiring foreign currency, it still holds little meaning in terms of improving the incomes of the farming population or turning the rural economy into a market-oriented system.

2. Industrial crops

Agriculture in Viet Nam is, and always has been, primarily rice-based. Both regionally and historically, rubber and coffee plantations constitute an exceptional result of the injection of French capital during the 1920s. With the exclusion of a few places such as the New Delta, where fields and rice paddies can be diverted to grow different crops, much of the rice belt has little to do with industrial cropping. The industrial crop five-year plan has established priority areas that are outside the so-called delta areas and outside the

framework of the doi moi economy, such as the Central Coast, Central Highlands, southeast Viet Nam, Northern Mountains, and the 4th and 5th districts. These areas are not, by their nature, suitable for rice paddies, but they do have a tradition of having produced industrial crops since before the war. Coffee: The main focus is, appropriately, on coffee, a crop that appeared on world markets relatively early and maintains a strong position. As long as quality control remains scrupulous in Viet Nam, coffee has the potential for growth. Coffee development in the North Mountains will probably be rather difficult, though, because of the problem posed by too cool a climate. Rubber: The challenge with rubber is deciding what type of financial measures to take in order to cope with price fluctuations on the international market. Tea: The domestic market is saturated because the north delta villages can support themselves. Internationally, competition with Chinese tea poses a problem. Fruit: Currently, compared to countries like Thailand, product quality means that cannot possibly hope to enter overseas markets.

Regardless of government investment enthusiasm, there has been no close investigation of international markets. With the exception of coffee, the "simple" reinstatement of the long-established plantation-type agricultural system needs to be approached carefully, both with a view to profitability and based on a thorough investigation of world markets.

The greatest problem for areas that give priority to commercial crops is that as far as the delta farming population (which comprises over 60% of the nation's entire farming community) is concerned, they are geographically removed from the priority areas. This means that rather than making an impact on agricultural issues overall, giving priority to commercial crops only serves to advance a few parts of the country.

Jute and lotus can be grown in the less marshy lands of the northern delta. The prices for these raw materials are too low, which therefore makes it important to contribute added value by processing them close to where they are produced. The areas around the big cities in the north provide rows of natural levees. In the south, fruit and vegetable production is thriving along a line from Ho Chi Minh City, My Tho, Vinh Long and Can Tho. In future, the region will probably develop to a large extent, along with urban demand, but because of logistical problems (transport, distribution and location), a large percentage of rice-growing farms — both north and south— are distancing themselves from commercial crops. The promotion of commercial crops within rural communities makes infrastructural systems like distribution and transport essential.

3. Promoting livestock-husbandry

As a result of the various regulations in place regarding livestock production, Viet Nam is not yet in a position to enter the world market. Vietnamese meat consumption is currently running at a very low level. For example, Viet Nam has around 12.2 million pigs; this means pig consumption runs at about 1 per 6 people per half year. As incomes in the urban sector improve, meat consumption can be expected to soar. Problems include the issue of fodder for domestic livestock. Most of the farms in north Viet Nam have pig-raising as their only source of cash income. For the time being anyway, they are self-supporting in terms of fodder for their pigs; they feed them rice bran, left-over rice, and aquatic plants from the marshlands. However, the problem of calories has already reached a limit, in that increasing the pig population will mean the need to bring in fodder such as maize from elsewhere. If this happens, further business expansion is likely to pose problems, because of meat prices. From the point of view of fodder, the cattle-raising industry has already reached its limits; business expansion for the ordinary farming household will be more difficult than ever. Financial problems and the problem of finding a market will have to be resolved.

4. Fishing and forestry

Discussion of the problems inherent in these industries is excluded from this paper. Both fishing and forestry are making progress in finding solutions to financial and technological problems.

5. Mechanization of agriculture

In Viet Nam, modernization of agriculture means the same as mechanization of agriculture. The plan is that urban industry is expected to provide agricultural machinery for the rural community. Judging by the current state of affairs, however, individual rice-growing farms could not possibly think of purchasing machinery. With an average of about 0.1 to 2 hectares of farmland per farming household in the north in particular, and with rice prices running at less than ¥20 per kilo, the cost prohibits mechanization. Sluggishness in international prices for paddy is making it harder still for former NAIC-like farming communities to find ways of acquiring cash. Additionally, the self-sufficient nature of Vietnamese agriculture is hindering any move towards a market economy by agricultural communities. The means for raising cash is limited to employment in cities called thoatly. But in most cities, there are few employment opportunities other than construction work. Moreover, the urban housing shortage prevents the gravitation of laborers who are seeking work away from home. In that respect, the urban labor force is therefore limited to people who live in and around cities and towns.

III. Proposal

The following recommendations are hereby put forward as a way of solving the above-mentioned problems:

1. Resolving the problem of overpopulation in the rural sector: Advancement of regional industry

The biggest reason that the idea of superior productive capacity holds no great meaning as far as farm management is concerned is that close on 80% of the population resides in farming villages. As a result, the size of each operation is shrinking out of all proportion. There is an urgent need to remove the excess population from the rural communities to allow the scale of farming operations to expand.

Compared to the roughly 4 million hectares of delta rice paddy land available, 30 million farmers are far too many. The greatest reason for this overpopulation is the inability of cities to handle large concentrations of population. The movement of population from rural communities to urban areas is hardly evident, despite 10 years of the doi moi economic process. The most fundamental problem with industry in Viet Nam is the abnormal concentration of investment into modern industry in and around Ho Chi Minh City, Hanoi, Haiphong and Da Nang. Because of their location and inferior infrastructure, Vietnamese cities remain terribly backward in terms of participation in the modern industrial sector. Basic investment in such areas as infrastructure—especially, improvement of water supply and sewerage, and the power supply grid—is essential for the advancement of provincial towns, as is the establishment of a national railway network joining major cities and provincial towns. At the same time, a uniform political approach towards preferential tax measures and so on is also required in order to promote investment interest in non-urban areas.

2. Improving farm management: The rural handicraft industry

Revitalization of the rural handicraft industry is desirable. In some of the villages in the provinces of Hanoi and environs, Ha Bac, Son Tay, Ha Dong, etc., the rural handicraft industry (producing articles made of matting, thatch, and plastic; also, articles fashioned from the bones of domestic livestock) is showing signs of renaissance, with Hanoi as its main market. There is no outlook for export, however, added to which the cramped domestic market offers little hope of development. As was evident in the case of the state-run spinning mills of Nam Dinh prior to Doi Moi, a coordinated subcontracting relationship typically existed between villages and modern factories. Currently, though, for reasons of commercial profit, this relationship has ceased to exist anywhere in Viet Nam. It is imperative to develop agricultural industries that have labor-intensive sectors with real prospects for export, such as weaving and sewing. As is the case with successful village-based businesses in parts of south China, the agricultural community needs to be incorporated in the

urban industry and manufacturing network. In the period just prior to Doi Moi, in a link-up with the former East Germany, there was the example of the growing production of hand-woven rugs in many of the Red River Delta villages.

The main problem for the farming sector (excluding areas surrounding Hanoi) is the definite shortage of the following: (i) access to cities (i.e., lack of a proper road system and lack of hardware like trucks and other forms of transport); (ii) distribution systems including wholesalers, brokers, etc.; (iii) the introduction of sufficient market information and technology to allow entrepreneurial farmers to participate; and, more than anything else: (iv) initial financing.

Regarding (i) distribution hardware, there is a need for blacktop roads to be built from rural villages to national highways to allow access by bicycle, motor bike and four-wheeled vehicles. Every effort should be made to have the construction work carried out by unemployed members of the farming community, as well as having workers' wages banked through the involvement of such mobilization groups as cooperative societies.

Regarding (ii) and (iii) distribution software, there is a need for surveys that will provide a firmer understanding of the actual state of affairs within the rural handicraft industry. The information from such survey projects needs to be made available to entrepreneurs in provincial towns. Non-profit consultancies, or agencies, also need to be established to give advice and guidance on suitable ways of introducing capital. In this respect, the skills for gathering information possessed by academic staff, consultants and trading companies from Japan could help immensely.

Information regarding (iv) initial financing, is supplied below.

3. Financing the agricultural community

(1) Current situation regarding finance for the agricultural community

If radial road access from villages to local towns becomes a reality, it is anticipated that industrialization within rural communities and diversification of various agricultural products will make rapid progress. This point is further borne out by the fact that in the Mekong Delta, where the road system is relatively good, the growing of fruit destined for the market of Ho Chi Minh City is an industry that is expanding along the national highway. The problem is the raising of agricultural capital to meet the expense of the distribution hardware required. Finances within the agricultural community have grown quite markedly since 1993. Take for example, the use of funds in 1994 by the 1,784 farming households in the villages on the New Delta near Ho Chi Minh City in the south. Firstly, loans from the Bank for Industry and Commerce (Ngan Hang Cong Thuong) and the Agricultural Bank (Ngan Hang Nong Nghiep) increased rapidly, to the point that 250 of the 1,784 households had borrowed a total of 700 million Dong from the former, while 370 households had borrowed 1,400 million Dong from the latter. Approximately 30% remain in debt. The total amount has reached US$210,000, which only equates to about $300-$400 per loan. The loan period is four months if the money is to be used for growing rice, and six months if it is for buying pigs for breeding. The monthly interest rate reaches 2.8% to 3%. The money cannot be used to finance anything but business expenditure such as seed rice, fertilizer, pigs for breeding, and fodder - meaning that it cannot be used as investment in infrastructure (such as tilling equipment, pumps, motor bikes) to aid production development. Secondly, there are poverty relief funds. From 1994, a total of 25 million Dong has been given in the poverty relief fund Quy xoa doi giam ngheo, doan the to 63 households. Additionally, 67 million Dong was distributed to 67 households in the form of unemployment relief funds Quy giai quyet viec lam. In total, US$9,300 was provided in finance. The monthly interest rate was 0.6%; loan size per household was just less than a tiny $40 in the former case, and only about $100 in the latter. Such loans were therefore nothing more than temporary relief measures. Private funding involves somewhat larger amounts; 250 households are using this type of funding, but the interest rates are running at about 5% to 8%, and sometimes even 10%. It is hard to regard this as investment aimed at production. Despite the huge amount of funding since 1994, neither 1994 nor 1995 has seen any conspicuous changes

in agricultural production. This is because the financial system (based on small, short-term, high-interest loans) prevents farmers' funds from being used towards investment in production. The main reasons are: ① Farmers have no collateral to offer as security against large, long-term, low-interest loans. The right to use land can certainly be used as collateral since they were allocated in 1989. However, the current situation means that there is not even a fixed registration system in place. One's house has little value as property, so collateral is mainly limited to farm produce. ② Even the problem of access restricts individual farmers from being able to complete an application for a loan from the local bank.

(2) Establishment of agricultural loan agencies

Judging by the two points above, there is a need to organize a credit supply system in local villages. In the delta basin of north Viet Nam, it is possible for cooperative societies to perform such a function. The point to note here is that the cooperative societies of the north are generally viewed as socialist organizations both inside and outside Viet Nam, but the social unifying power of the cooperative societies of the north relies on the unifying power of the traditional villages. The cooperative society setup therefore has to be recognized as the most powerful social organization within a village. At present, the distribution of active cooperative societies is no different to the distribution of districts having the former, traditional type of village setup. As a consequence, village leaders tend to concentrate their numbers within cooperative societies. At the same time, cooperative societies are also structured to monitor each other, given that they are organizations consisting of members of the agricultural community. The northern cooperative societies, in particular, have been operating over a period of 30 years and boast a powerfully organized membership of as many as 10,000. In the north, it would be logical to allow cooperative societies to act as tail-end credit institutions.

In the south, it is often said that the traditional village system has disintegrated. In the first place, however, such a viewpoint ignores local deviation. In the second place, it is nothing more than a viewpoint weighed against the northern village model that was turned into doctrine during the era of French colonization. It is wrong to regard this as a Model of a Loosely Structured Society, for example.

The Mekong Delta in the south may be classified into three areas, based on its history of settlement and development. The first area is the New Delta area opened up from the 18th century until about the mid-19th century. The villages in this area are dispersed or strung out, but basically speaking, they constitute part of a village society based on a core group of farmers—as is the situation in north Viet Nam. The second area lies west of the line that joins Bac Lieu and Long Xuyen, opened up from the latter half of the 19th century to the 1930s. This is the so-called west Mekong Delta area. This area has developed the relationship between the big landowner and the tenant farmer to an extreme. And because villages are strung out along the long, narrow edges of the waterways, there has been little room for formation of a village society; an individual, self-reliant lifestyle is the norm. The marshy areas of the hinterland like Dong Thap and other areas, where settlement is even more advanced following liberation, still show no signs of forming village societies.

When all is said and done, the lengthy wars and the economic reforms that followed are having a disintegrating effect on the fabric of traditional society in the villages of the New Delta as well. The cooperative societies have all but dissolved; worse still, they are seldom being replaced with youth groups or other necessary forms of social organization. In the south, revival of the rural community needs to be addressed. Our survey points to a system involving the party branch and its women's groups in villages called hoi phu nu that use their credit to act as intermediaries between banks and borrowers. They introduce around 2% of loans for rural communities. This type of loan mediation is often the sole, main function of such groups. It is therefore feasible to restructure local community groups, giving them the ability to act as loan mediators. Existing social organizations could be vested with larger amounts of credit, and could therefore act as loan guarantors (instead of there having to be some form of collateral involved).

IV. Conclusion

Advancement of agriculture in Viet Nam requires the introduction of the following measures:

(1) The establishment of link roads between large cities and provincial towns;

(2) The formation of a radial road network between villages and local towns;

(3) The promotion of industry in provincial towns;

(4) The promotion of rural industries linked with industries in provincial towns;

(5) The granting of credit to village organizations such as cooperative societies, thereby establishing within villages loan mediation agencies and guarantor agencies that would obviate the need for collateral. Ultimately, this measure would give the farming population access to large, long-term, low-interest loans.

5

The Applicability to Viet Nam of East Asian-Style Peasant Organizations and the Thai BAAC with a Focus on Peasant Financial Organizations

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I. Introduction

This report examines the question of what type of peasant organizations, specifically peasant financial organizations, are best suited to Viet Nam.

It is common knowledge that the agricultural economic organizations-the cooperatives-that once existed in Viet Nam have failed, forcing substantial changes upon peasant organizations. They have been left no choice but to reduce the number and significantly alter the functions of those that have been able to continue in existence. The cooperatives that have survived have reportedly transformed themselves into organizations engaged in construction and maintenance of irrigation facilities, providing agricultural technology and production equipment, occasional agricultural work on consignment using the agricultural machinery at their disposal, tax collection and so forth. On the other hand, there are also reports of new peasant organizations being born amidst the process of scaling down the ranks of existing ones.[1] Thus, it would be fair to say that Vietnamese peasant organizations are now in transition.

On a macroeconomic level, meanwhile, diversification of agriculture and enhancement of the productivity have been cited as essential components of economic development strategies. The greatest obstacle to agricultural development is said to be a lack of capital. It has been emphasized that there is not sufficient capital in Vietnamese agriculture, nor adequate financial organization to cope with this problem.

Leaving aside for a moment the question of capital, Vietnamese agriculture requires peasant organizations in some form or other for the marketing of agricultural products, joint purchasing of equipment and agricultural materials, water management, and road construction. In certain circumstances, peasant organizations may be necessary from the viewpoint of equity in rural society. Be that as it may, we should not forget that although they may differ in function and form, peasant organizations have been formed in almost all countries.[2]

The question of how peasants should be organized is a very difficult one. There are many local

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1) According to JICA [13], Matsuda [14], Takano [19] and Kosugi [12].

2) China may also be said to be searching for the appropriate form for peasant organizations. See Tajima [18], p.59: "Although basically they assume an indirect or intermediary form, we think the auxiliary functions of groups, government organizations, and small village groups towards individual businesses will be reinforced." With regard to research on agricultural economics in China: "From the perspective of the discipline of new systems analysis-which postulates substitute relationships between organizations and markets on the assumption of the incompleteness of the markets-we find that the reconstruction of village organizations to function as intermediary organizations that will support individual business has become a matter for serious consideration." (Ibid., p. 37)

peculiarities that do not permit easy application of standardized theory. Each peasant organization should be formed on its own ground, considering the degree of village solidarity, value system of the people, and the relationship to the government. Fundamentally, the people in a village need to approach the problem as their own. It should also be realized that peasant organizations created solely through top-down initiatives and thrust upon peasants do not perform well.

The peasant organizations we are referring to here are organizations of people directly or indirectly involved in agricultural production. However, the organizations in this paper are not necessarily run by peasants themselves. Mention of peasant organizations brings to mind agricultural cooperatives, but throughout the entire Southeast Asian region there have been few examples of successful agricultural cooperatives actually run by peasants themselves even though they may be peasant-run in name only. In our discussion of peasant organizations, we are not talking only about agricultural organizations formed by peasants themselves, but also the organizations formed by service institutions. The latter ones are to help service institutions, say, agricultural banks, operate smoothly. Joint liability groups (JLGs), whose members collectively assume obligations in order to be able to receive loans from agricultural banks are included in the organizations.

In this paper, we will seek to clarify the picture for considering Viet Nam's peasant organizations on the basis of the above-mentioned premises. In the next section, Part 2, we will present a theoretical summary of the economic strengths of peasant organizations and the backgrounds from which these strengths derive. In Part III, we will look at the criteria for success of peasant organizations, specifically from a financial perspective. Here we will offer two criteria: viability and contribution. In Part IV, we will look at two examples of peasant organizations in Asia that have achieved relative success: Japan's prewar Credit Associations and the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand. Finally, in Part V, we will offer some preliminary opinions concerning Viet Nam's peasant organizations based on the preceding analysis.

II. Economic strengths of peasant organizations

First, we will discuss some presumptions concerning peasant organizations, drawing on research conducted up to present time. Although this discussion is largely theoretical, it of course draws on lessons learned through experiences in Asia.

The first aspect of peasant organizations that should be confirmed is the failure of collective farming. Collective farming is a type of peasant organization in which agricultural production and management are carried out on a collective basis. That these organizations fall into a state of inefficiency is now almost self-evident, judging from the failure of people's communes in China and Viet Nam's cooperatives. It is also quite clear that the basic reason for these failures in collective farming has been their inability to offer incentives to the people involved in production and management.[3] Offering those who work well greater rewards, and giving those who work less well only what they deserve, is a simple but powerful principle for arousing a desire toward greater productivity. This point is very important in deciding what form peasant organizations should take. Whether or not incentives are at work in economic activities is one of the most basic criteria for judging the viability of an organization.

While the inviability of collective farming is virtually self-evident, that does not by any means signify, of course, that peasant organizations are always doomed to failure. Yujiro Hayami [6] argues that while it is natural that collective farming should fail, peasant organizations engaged in marketing, finance, and joint

3) Watanabe [22].

purchasing can still play extremely important roles in developing economies. This is so because developing countries lack a market infrastructure or sufficient information due to their highly segmented markets. Peasant organizations must therefore be created to help develop a country's markets and help overcome the lack of adequate information. Moreover, peasant organizations must be formed in such a way that they heighten market competition. Government policies towards cooperatives should not be protectionist and paternal, and cooperatives should not be given monopolies. The government's commitment should be limited to technical guidance and initial subsidies for the establishment of such associations. And above all else, local initiative is the key to the success of these associations. Although further detailed theoretical and experimental verification is required, Hayami's theory contains several points which merit our attention.

If we were to characterize the economic strengths of peasant organizations, making reference to Hayami's theory and taking into consideration recent findings in information economics, we could say that their economic strengths lie in their ability to share transaction costs and reduce risks through partnership.[4]

What makes this reduction in transaction costs and risks possible is the monitoring mechanism among the parties involved. Hayami describes the situation as one in which, "In the village community everyone is watching everyone."[5] This mechanism significantly reduces the expenses related to gathering information required in financial transactions. We could perhaps borrow the expression "peer monitoring system" from information economics to describe this situation.[6] For a peer monitoring system to function, a sense of community is required within a group. That is to say, such a system demands that when one member violates a group's rule, the group suffers serious injury and that this has more than a slightly harmful impact on all of the group's members. That is where the monitoring incentive comes into play. Whether or not the strengths of a peasant organization are manifested depends upon whether the incentives for communal monitoring are at work or not. Thus, monitoring of moral hazard by a group is premised on group awareness of the damage done to the group by moral hazard.

This explains why the initiative for forming peasant organizations must come from below. The performance of peasant organizations receiving supervision from above has not, in general, been very impressive. This is not to say that the performance of peasant organizations organized from above is always poor, as is evidenced by examples from South Korea and elsewhere. Rather, performance seems to depend upon how peasants perceive and understand their organization "from above." If they interpret the establishment of agricultural cooperatives as an attempt by the government to try to win political popularity, then they are likely to feel that those "above" are different from "us peasants." In such cases a peer monitoring system is not likely to function effectively. If agricultural cooperatives become one-sided organizations developed solely through the injection of national funds, even if borrowed funds are not repaid, it is not likely to affect a village's sense of community at all. At times, such organizations can actually lead to greater moral hazard.

III. Criteria for the financial success of peasant organizations

In this section, we will look for special characteristics shared by peasant organizations-limiting ourselves to those in Asia that have proved economically successful-and the background to their success based on the

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4) The term "mutual finance" is used to describe a characteristic of cooperative finance. Mutual finance refers to a process in which people who know each other well come together so that those who have money can provide funds to those who do not. Such an arrangement offers important economic merits, such as obviating intermediary costs, allowing members to borrow funds at lower interest rates than they could from outside, and enabling them to earn more interest than they would if the money were deposited with an outside organization. In addition, risks are reduced to a bare minimum because everyone knows everyone else, and there is no need to spend money gathering information to investigate the background of a business partner beforehand.

5) Hayami [6], p. 106.

6) Stiglitz [17].

theory described above. First, we must discuss the meaning of the success of a peasant organization. This will always be a point of dispute when evaluating peasant or peasant financial organizations.

Generally speaking, the criteria for judging the success of a peasant organization differ depending on the objectives of the evaluation. In certain cases, a group will be evaluated highly because it has managed to continue functioning without any official assistance, while, in other cases, one might be evaluated highly because it has brought benefits to poor peasants, even if it has benefited from policy protection. For our purposes, the specific criteria for judging the performance of peasant organizations, and especially their financial activities, must be demonstrated from the two standpoints described below.[7] First, there is the standpoint of the viability or sustainability of an organization. Criteria with respect to financial activities would include viability in raising funds for loans (namely, the ability to secure or mobilize deposits), sustainability of operations (a high loan recovery rate and the setting of appropriate interest rates), and viability vis-a-vis the government (no government assistance).

Second, there is the standpoint of an organization's contributions. The way in which contributions are made will depend on their objectives. Generally speaking, organizations are evaluated on the degree to which their contributions help achieve policy objectives. For example, if the policy objective is to boost agricultural production, evaluation will revolve around gauging the extent to which growth in agricultural loans has contributed to growth in agricultural production. If the objective is to alleviate poverty among peasants, then the issue is the level of credit outreach attained by agricultural credit programmes.

It must be noted that satisfying only one of the two criteria mentioned here is insufficient. Even if an organization makes a large contribution, if the loan recovery rate is extremely poor, the organization cannot be considered a success. Conversely, if viability becomes the sole goal, then the extent of an organization's contribution -especially the degree to which it reaches poor peasants- is likely to be neglected. There is a danger that in an extreme situation the complete absence of intervention by the government might be considered ideal.

The criteria for evaluations naturally differ depending on the goals involved, and that clarification of policy goals is important in determining the form that an agricultural organization should take. Of course, it may be possible to evaluate a peasant organization solely in terms of the degree to which it attains its policy goals (such as attaining self-sufficiency in food). However, such an evaluation will not be effective if the question of sustainability is completely ignored. On the other hand, emphasizing viability alone should not be considered appropriate either.

Peasant organizations in East Asia typically Japan's agricultural cooperatives and Thailand's BAAC, discussed below, have not achieved complete viability. They both received government assistance to cover their start-up costs, as well as subsequent assistance to cover their running costs. Nevertheless, their loan recovery ratio has not been at all bad, and these organizations have enjoyed some degree of success in terms of savings mobilization. Consequently, they have been able to sustain their operations without subsequent increases in government aid. Sustaining operations based on government support might be termed viability in a weak sense. Such sustainability is dependent on the continuous receipt of government aid, although it does not require gradual increases in the amount of that aid. In contrast, viability in the strong sense means that operations are sustained without any financial aid from the government whatsoever. Private financial institutions that sustain themselves in the market as business enterprises are a classic example of viability in the strong sense.

If we limit our discussion of the performance of peasant organizations in Asia solely to financial organizations, we can differentiate two patterns. The first is one of organizations that have not even

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7) Egaitsu [4] and Izumida/Yamagi [11].

achieved viability in the weak sense. The second includes organizations that, while not totally self-reliant (i.e., partially dependent on government assistance, etc.), are performing well in terms of the deposits they attract and their loan recovery rate, and are making a certain contribution through the attainment of set policy goals (e.g., making loans to comparatively small-scale farmers, promoting agricultural production, etc.). The first pattern is one of failure and the second one of success. The failures include Thai agricultural cooperatives and farmers' associations, and rural banks in the Philippines. The successes include agricultural cooperatives in East Asia and the BAAC in Thailand. It should be noted, however, that the types of agricultural cooperatives which exist in East Asia have generally failed in Southeast Asia.

IV. Japan's credit associations and Thailand's BAAC

1. Japanese Prewar Credit Associations

A classic example of East Asian-style peasant organizations are the Credit Associations (Shinyo Kumiai in Japanese) that existed in Japan prior to World War II.[8] When we discuss peasant organizations in Asia, comparisons with agricultural cooperatives in present-day Japan are not appropriate because the differences are too great. It is more appropriate to make comparisons with Credit Associations in prewar Japan, given that Viet Nam has reached a stage of economic development comparable to that in prewar Japan.

Around 1900, when prewar Credit Associations, the forerunners of today's agricultural cooperatives became systematized in Japan, the agricultural financial market exhibited a dual structure commonly seen in developing countries. Namely, formal and informal means of finance existed side by side.

According to a 1912 Ministry of Finance survey, 70% of farmers' debt was incurred through informal financial channels, which exhibited a startling diversity in form. This informal finance was best suited to small, unsecured loans. In this respect, informal finance played an extremely important role prior to the formation of formal financial organizations.

In agricultural finance at that time, formal financial institutions accounted for only about 30% of all loans. Most of these institutions were special financial organizations established by the government for policy reasons. The Kangyo Bank, for example, established in 1897, was a private bank which was nevertheless protected and regulated by the government. From 1888 to 1900, Agricultural and Industrial Banks were established in every prefecture with the exception of Hokkaido, where the Hokkaido Takushoku Bank was set up in 1900. In the same year, Credit Associations (the forerunners of today's nokyo, or agricultural cooperatives) were established.

With regard to the historical background of special financial institutions other than Credit Associations, proposals for the establishment of institutions for the provision of long-term funds to stimulate economic development had been made as far back as 1881. However, because of anticipated difficulties in raising funds through the issuance of bonds, because of a lack of private savings, their establishment was put on hold. Eventually, part of the reparations paid to Japan after its victory in the Sino-Japanese War was used to finance the establishment of these special financial institutions.

The Japanese government's main role was providing the funds initially required to establish these organizations, by giving financial aid for the payment of the Kangyo Bank's dividends, and by providing incentives for the issuance of bonds with premiums, subsidies for Agricultural and Industrial Banks, government expenditures for the Hokkaido Takushoku Bank, and so on. The role of these special banks was to issue bonds to raise funds with which they could make long-term, low-interest land-collateralized loans for the development of agriculture and industry or colonization activities. Poor peasants and tenant farmers, however, were not able to borrow these funds; the loans were made mostly to landlords. Moreover, landlords

8) This refers to the East Asian-type seen in Japan, South Korea and Taiwan. In these three countries we find common characteristics: the development of agricultural finance centered on agricultural associations, rather well-developed markets, and the involvement of the government to a certain extent. See Egaitsu and Izumida [5].

used these borrowed funds not only for their own businesses, but also to extend loans to tenant farmers. This was named as de facto intermediate finance.

The Credit Associations can be considered representative of financial institutions for peasants in prewar Japan. Without going into extensive detail, we should mention the following important background elements behind the founding of the Credit Associations. First is the cooperative, autonomous nature of Japanese rural communities that was the cornerstone for the Credit Associations. In these communities a peer monitoring system was at work. A second element was the alienation of small tenant farmers from public financial institutions, despite the need for some form of financial system, especially for short-term finance. Third, many mutual self-help organizations for peasants existed prior to the establishment of the Credit Associations. For example, there were organizations for the exchange of technical information, the Hotoku-sha movement reflecting the spirit of hard work and other moral principles embodied in the figure of Ninomiya Sontoku, and arrangements for mutual finance, such as Koh and Mujin. All of this goes to show that the establishment of Credit Associations was not a one-sided process from above.

As for the government's involvement in the Credit Associations, we should note that extended discussions on the issue began in the Diet in 1891, reflecting a long period of preparation. Initially, government policies toward the Credit Associations were not particularly protective. In fact, the only special privilege they received from the government was exemption from income and business taxes. There were no special regulations on interest rates, and the Credit Associations were left to compete in a very competitive market environment.

The Credit Associations grew rapidly in number, as did their membership. The fact that the ratio of loans to deposits fell below 1:1 in 1917 is evidence of the success that these organizations had in mobilizing deposits. At the same time, however, many Credit Associations were disbanded.

To sum up, the development of Credit Associations in prewar Japan was less a product of top-down government action than a response to demands from below which fit well with government policies. The government provided funds and the legal system required for the establishment of the agricultural financialsystem, but overall the system was characterized by a great deal of free competition. The government only began a full-scale reinforcement of its rules and extended protection to the agricultural financial market as a result of critical impoverishment in villages following the Showa Depression in 1930s. As for finance, there were no special low-interest loans for peasants. Still, these institutions were successful in collecting deposits, and their loan recovery ratio was not bad. There was criticism, however, that the loans did not reach poor farmers, and they were unable to completely drive informal financial institutions out of the market.

2. The Thai BAAC [9]

Thailand's agricultural financial market also exhibits a dual structure. Although the ratio of formal finance has been rising in recent years, it is reported that at the start of the 1980s the formal sector accounted for only some 40% of finance in this sector. The Bank for Agriculture and Agricultural Cooperatiues (BAAC) is at the center of the country's rural financial system. As its name suggests, the BAAC provides loans not only to agricultural cooperatives and farmer associations (wholesale financing) but also to farmer clients (retail financing) directly. The BAAC was established in 1966 and is under the supervision of the Bank of Thailand. The amount of loans increased after the adoption in 1975 of a fund recycling policy under which commercial banks have to lend a given ratio of deposits from rural regions back to rural sector, and when that is impossible, deposit the remainder with the BAAC. It is worth noting that around 75% of these loans are for short-term funds needed between July and September. The BAAC's fund sources are: 35% from deposits at commercial banks under the fund recycling policy, 17% from

9) With regard to this section, see Ammar et al., [2], and Izumida [9].

abroad, and 17% from public deposits.

From a look at the BAAC's performance it is clear that the bank has done better than Thai agricultural cooperatives and other such groups. For example, the ratio of loans to deposits at agricultural cooperatives in 1985 was 13.5 (loans were roughly 13 times the level of deposits), while the loan recovery ratio in 1984 was a mere 42.9%. In contrast, the BAAC's loan to deposit ratio was 1.2 in 1985. While the overdue loan ratio in 1987 was in the 20 to 29% range. Around 80% of these overdue debts are considered ultimately recoverable. And the loan recovery ratio on short-term funds for farming was 97%. Incidentally, these short-term agricultural funds are referred to as group lending, or loans in which a group jointly assumes debt burden.

The BAAC's group lending represents a system under which the bank provides short-term funds to groups of 8 to 15 peasants which assume joint debt liability. If a group does not repay its loan, it will not be able to receive loans the next time. Out of fear of this penalty, these groups are not eager to include highly risky individuals in their ranks. For its part, the BAAC has not adopted policies that would favor growth in the size of these groups.

Agricultural finance in Thailand is to a large extent privately handled, and it has not become a closed sector as exists in present-day Japan. Merchants and commercial banks make comparatively large collateralized loans in cases where land ownership is clearly established (around 50% of all cases). On the other hand, however, there appear to be many poor peasants who do not have access to formal finance. The BAAC's activities are directed at middle-scale farmers. For this reason, it has come under criticism for not making funds available to poor peasants.

Regardless of whether or not Thai rural society is what J. Embree refers to as a "loosely structured society," we can probably characterize it as a relatively open form of society, or at least as one not having as strong a sense of community as we see in Japan. In such social conditions, it is no doubt quite difficult for peasants to develop self-governing communal organizations rooted in voluntary and communal sentiments. Thai agricultural cooperatives give the impression of having been created from above through bureaucratic initiative (Akin [1]).

One characteristic of the BAAC as an organization is its relatively unbureaucratic nature, being directly under the jurisdiction of the central bank, it is clearly demarcated from other bureaucratic organizations. We might say that, in a good sense, it carries on in the liberal tradition of Thai policies.[10] It is also important to note that it eschews as much as possible political intervention, and emphasizes elements of economic rationalism. The BAAC places great emphasis on the character and training of its personnel, and it is very interesting that it has appointed key local persons (restaurant managers, etc.) to its lower echelon of decision-making bodies. It is noteworthy that in its financial operations it emphasizes the mobilization of savings through such measures as the issuing of passbooks and establishment of mobile banks. In contrast, Thai agricultural cooperatives have shown little interest in acquiring deposits.

Before proceeding further, we must address one concern that readers may have. Although it is clear that the BAAC is a successful financial institution according to the criteria we outlined above, it is not really a peasant organization. Thus, discussing the BAAC in the context of a discussion of peasant organizations may seem to be somewhat of a digression. The explanation for this apparent digression is that we are more interested in the peasant groups organized under the BAAC than the BAAC itself.

As we pointed out earlier, the BAAC refers to farmers who can use its services as "client farmers." As this expression indicates, the BAAC provides services to peasants. Joint liability groups (JLGs) made up of farmers are not groups in which peasants operate certain business activities by themselves. It is always the BAAC that is responsible for managing the business. A basic principle for cooperatives, however, is that the members themselves should run the organization. It is therefore clear that JLGs are totally different from agricultural cooperatives. Nevertheless, JLGs are economically meaningful as a different kind of farmers'

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10) See Hara [7] for the tradition of liberal economic policies in Thailand and the founder of BAAC, Dr. Puey.

organization. Applying the argument used in the previous section, JLGs organized by the BAAC deal with problems arising from insufficient information for financial activities, coping with the risks that arise from such insufficiencies. If the BAAC were to make small, short-term loans, it would incur excessive costs collecting information needed to ascertain loan security. The screening process for finding creditworthy farmers involves a great deal of time and effort. In some cases, the bank would no doubt end up collecting nothing but false information. The BAAC, however, transfers the costs of collecting information and assuming risk onto the farmers themselves. The farmers of a given region are in the best position to know which members of their community are reliable. Also, the farmers in a group are best equipped to decide how responsibility should be taken when a farmer defaults on a loan.

Although East Asian-style peasant organizations are faced with the same problem of coping with inadequate information, these organizations are more regionally inclusive. That is to say, these peasant organizations have high participation rates of peasants and there is a strong flavor of egalitarianism to them, evidenced in their not allowing dropouts. For JLGs organized by the BAAC, however, it is important only that the participation ratio is maintained at a moderately acceptable level. Farmers who lack economic strength and reliability are not allowed into JLGs. By following this rules, the BAAC has heightened its loan recovery ratio. In recent years, the BAAC has begun organizing its client farmers in the marketing field, although management responsibility in all cases remains with the Bank. These peasant organizations are based on a different principle than that upon which agricultural associations are based (Yamao's "quasi-cooperatives" [21]). They are perhaps more thoroughly devoted to economic rationality than organizations readily susceptible to political interference.

One difference between cooperatives and peasant service institutions is that the former are based on investments by peasants themselves, while the latter are not. A natural result of this is that when a surplus arises, in the case of a cooperative it is returned to the investors -the members of the cooperative- while in the case of a service institution this does not happen.

V. Applicability to Viet Nam

In this section we will attempt to identify the ideal form for peasant financial organizations in Viet Nam based on the above analysis. First, we will address the question of financial requirements. This involves consideration of universal requirements as demanded by economic principles. In this process it is worth consulting the criteria for judging the success of peasant financial organizations as explained in Part 3. The success of peasant financial organizations in Asia is attributable to their viability, albeit in the weak sense. Viability is required if an enterprise is to be sustained. In order to foster the growth of peasant financial organizations in Viet Nam, the problems of achieving viability, even in the weak sense, and sustainability must always be resolved.

The three financial requirements are: (1) that deposited funds account for a large share of loan funds, (2) that a satisfactory recovery ratio be maintained, and (3) that the level of ordinary assistance from the government be relatively low. In order to achieve these goals, all-out efforts must be made to mobilize deposits and offer deposit acceptance services or to take similar steps that are not aimed solely at making loans, and there must always be an awareness of the link between deposits and loans. Some may argue that Vietnamese peasants are too poor to save. Nevertheless, the presence of large amounts of funds in the form of gold and U.S. dollars (JICA [13]) suggests that there are latent assets financial institutions could absorb in the form of deposits. It is true, however, that the deposits of the country's financial institutions are still weak in terms of creditworthiness and economic attractiveness.[11]

11) Even poor peasants in Bangladesh-which is said to be the poorest country in the world-can be a major source of savings . Savings are not necessarily a function of income. See Fujita [3].

With regard to interest rates on loans, it is important to set rates high enough to cover costs and not be overly concerned with keeping rates low. An absolute prerequisite is that real interest rates are positive, at the very least, after inflation is taken into account. Achieving this would make it possible to set interest rates on deposits high enough to make them attractive. In any event, the most important factor in fostering financial markets is controlling inflation. In addition, procedures must be streamlined to make it easier for peasants to receive credit and deposit acceptance services. In this respect, Viet Nam needs to promote the training of bank personnel and the establishment of local bank offices, together with measures such as creating bank passbooks and mobile banks. Above all else, a consciousness among those involved that they are cultivating the country's financial system is required.

Fostering the growth of peasant financial organizations will inevitably become intertwined with such macroeconomic goals as agricultural modernization, diversification, and productivity enhancement. Government agencies will naturally be involved, and they will have to provide a certain amount of aid for lending as well as for management. Considering the conditions in Viet Nam's agricultural sector, it is clear that policies will inevitably be needed to guide the distribution of funds. Policy goals will need to be set and consideration given to how agricultural finance can contribute to their achievement. Criteria for the level of contribution to society cannot be ignored either.

However, finance has its own principles, and policy goals cannot be achieved merely by letting loose a flood of funds. There must not be any arbitrary political or bureaucratic interference in individual loan determinations. Moreover, since finance involves both lending and borrowing, strict discretion should be exercised to ensure that funds are not provided from the perspective of advancing social policies. Funds should be loaned to individuals with the ability to repay them.

One problem is that the ideal financial requirement described above cannot be achieved overnight. Nearly all developing countries have encountered difficulties in sustaining financing while, at the same time, circulating funds smoothly. As pointed out in Part II, the problems of high transaction costs and risks cannot be solved without using appropriate peasant organizations.

That brings us to the problem of what form these peasant organizations should take. As was pointed out in the previous section, among the comparatively successful peasant organizations in Asia are East Asian-style cooperatives, typically Japanese Credit Associations and the BAAC in Thailand. The former are peasant organizations that were outgrowths of regional communality and a tradition of village autonomy, so naturally the farmers themselves are the chief decision-makers. The latter is a service organization for agricultural finance, with its base in a relatively open and competitive local environment. From the standpoint of finance, a low degree of farmer's participation is the condition under which the BAAC can function so well.

These two models may be prove to be important reference points in the consideration of what type of peasant organization is most appropriate for Viet Nam. However, that does not mean that one or the other must be chosen. Both types may coexist depending on local socioeconomic conditions. However, one thing is certain: Viet Nam will probably not develop a style very different from either of these two models.

Viet Nam is rich in local diversity. There are great differences between the northern and southern parts of the country in terms of topographical conditions, levels of economic activity, style of communality in villages, and people's ways of thinking. According to 1988 data, nearly 100% of all peasants in the north were organized into cooperatives, while in the Mekong Delta region in the south only 7% were.[12] Yonosuke Hara has pointed out, with northern Viet Nam in mind: "Viet Nam's political culture is surprisingly close to that of South Korea." [7] However, he adds: "Southern Viet Nam, centered on the Mekong Delta, is an 'open-space' society similar to Thailand, where it is highly likely that it will be hard to impose a strong bureaucratic administration such as that seen in the north."[13] If Hara's observations in these two excerpts are

12) IMF[9].
13) Both excerpts are from Hara [7], pp. 400-401.

correct, it may be that East Asian-style peasant organizations are the most appropriate models for northern Viet Nam, and Thai BAAC-style peasant organizations for southern Viet Nam.

As explained earlier, one characteristic of the BAAC's work is that it has always involved providing financial services to both agricultural cooperatiues and farmers. There seems to be no principle that would prevent peasant organizations from differing among regions. Even if the north were to be organized according to the agricultural cooperative-model and the south according to the JLGs-model, the BAAC would, in principle, be able to accommodate them both. Such a situation, however, would require some type of organizational adjustment.

There are still many issues that must be considered before a definitive answer can be given to the question of what form peasant organizations should take in Viet Nam. An experimental operation like the one discussed by Rabo [15] would probably be required to judge the feasibility of a BAAC-style organization. Consideration must be given at the present juncture to the largely negative images associated with cooperative organizations-images associated with land redistribution and debt problems.[14] In addition, a close look must be taken at self-initiated peasant organizations that have sprung up around the country. Vietnamese peasants themselves will be the ones who ultimately decide what form their peasant organizations will take. Indeed, without this type of bottom-up push by peasants themselves, it would be difficult to develop effective peasant organizations. In any event, for the time being the Vietnamese will have to continue searching through a process of trial and error.

14) According to Tran and Nguyen [20]

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3), 7), 8), 10) ~ 14),16), 18), 19), 21), 22), are unofficial translations of the original titles.

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