

4. Lesson learned from effective operation of ACs

4.1 ACs transformed from old model

These ACs have strictly followed the Resolution No. 10 of the Policy Bureau on renovation of agricultural economic management since 1988, and well implemented the cooperative law approved by National Assembly in 1996. These ACs have effectively performed their operation. Their agricultural households are regarded as autonomous economic units. ACs have focused their operation on providing related services to its members in lieu of production management mechanism that was based on collectivization.

Basically constraints inherited from old cooperative, especially those of fixed assets and capital, have been solved. Effective measures to revalue and liquidate assets as well as to recover loans and to pay debts were worked out and strictly implemented before their transformation according to the Cooperative Law.

Established their own rules and carried out appropriate business alternatives that fully met their member's requirement and market mechanism.

Management structure is renewed in favor of reduction in personnel but focusing on quality of cadres.

ACs' staffs are enthusiastic and dynamic in their task performance for the sake of members' benefits.

Relation between ACs and their members are based on equality and democratic for benefits of both sides.

Operated under the effective supervision of local Communist Party units and State Authorities as well as great supports from unions and associations.

4.2 Newly established ACs

Established as Cooperative Law has been introduced on the basis of voluntary participation of households

Generally these ACs are formed from qualified simple cooperation groups. Therefore, in communes where there is a lack of conditions qualified for AC establishment under the Law, it is necessary to give instructions and facilitate households to form their cooperation groups under different forms to gradually build up a strong base for AC establishment.

Regarding ineligible ACs for transformation: The fact shows that in some ineligible ACs for transformation, after dissolution of those ACs, households who had a strong desire to cooperate with others under the form of cooperative joined together to form new ACs, which quickly operates effectively. This lesson is very useful for cases of ACs ineligible for transformation. It is essential that these ACs are dissolved as soon as possible to facilitate favorable conditions for new establishment of ACs according to the Law

Newly established ACs effective in their operation prepared their own rules and carried out appropriate business alternatives that fully met their member's requirement and market mechanism. At the same

time, those ACs have staffs, enthusiastic and dynamic in their task for the benefits of members and ensured the democracy and equal distribution of profit.

5. Recommendations on policies to improve operation efficiency of ACs

In reality, in the transformed ACs and newly established ACs, those in good performance are small in number and exposed to many limitations, and there is a large number of ineffective ACs. Furthermore, many ACs ineligible to transformation have not dissolved due to many inherited constraints especially in assets and capital.

In order to overcome these difficulties, it is suggested that the following solutions should be worked out:

5.1 Facilitating ACs to access to loans

Although Article 9 in the Decree 15/CP issued by the Government stipulated regulations to allow ACs to be given loans, there is few ACs actually borrowing. It is due partly to a lack of feasible business alternatives, which is a prerequisite condition for lending approval. However, more importantly, financial institutions such as banks, national employment creation fund and other development investment assistant funds should give specific instructions and facilitate ACs to prepare feasible business alternatives as well as to simplify lending procedure to help ACs to access to loans.

Suitable credit guarantee regulations should be issued to facilitate ACs that have demand for capital but have not enough assets as mortgage to have access to loans from banks

It is necessary to set up legal environment for ACs to implement internal credit services to their members. AC acting as a credit service provider is in accordance with the Law on credit organizations approved by National Assembly on October 1st 1998

5.2 Writing off debts

Given the fact that most of the old ACs suffered from bad debts accumulated for years, resulting in total debt currently valued at over VND 550 billion, of which VND 80 billion come from unions and members, the rest is from banks, agricultural tax, district's budget and state enterprises. These debts are beyond of repayment ability of most ACs. Accordingly, the following solutions are suggested:

- Write off debts related to agricultural tax and state budget.
- Write off debts related to loans from the banks. Compensation for these banks would come from risk contingent fund or from supplement allocation from state budget
- Write off debts related to loans from state enterprises in the following lists: debts from irrigation fee, from production materials for buying fertilizer, pesticide, and animal medicine
- Give instructions to both debtor (ACs) and debt owners (AC's members and unions) to facilitate suitable measures to solve debts that ACs owe members and unions

5.3 Exempting ACs from taxes imposed upon service activities to serve household economy

The Decree 15/CP of the Government and Circular 44/1999 of Ministry of Finance guide preferential tax to service activities carried out by ACs with aim of tax exemption or reduction for two years. However, given current level of tax exemption and reduction is not sufficient for ACs to further develop. Most ACs operates in narrow range, mainly focuses on input services such as irrigation, plant protection, land preparation and seedling supplies, while other services such as material supplies, processing and marketing of products have developed at a moderate level. Since production input services brings about low profit, even no profit, these operations are generally unstable and difficult to compete in market mechanism. Accordingly, in addition to existing preferential regulations, the government should consider the exemption of taxes regarding service activities in production of member households, especially taxes imposed upon output product and agro-product processing services, namely, production material supply service, agro-product marketing and processing service.

5.4 Encouraging linkage between state enterprises and ACs

State enterprises can facilitate ACs to work as their agents or sign economic contracts with ACs on product sales for long term.

- Facilitate ACs to act as grassroots providers for extension services of agriculture, forestry and fishery through the following method: provincial extension centers, plant protection and veterinary divisions assist ACs in training ACs' technical staffs then use ACs as points to transfer advanced techniques to households.
- Facilitate ACs to develop irrigation services in favor of suitable management level of irrigation works in accordance with ACs' capacity, while Irrigation Management Company cooperates with ACs to assign specific responsibilities in management and operation of irrigation schemes.

5.5 Giving high priority to train staffs working at ACs in pursuant to Decree 15-CP

While many weak points and constraints appeared in ACs are caused by a number of reasons, the important one is low staff competence, even the persons in key positions such as heads of cooperatives, chief accountants and supervision commanders. For the time being, out of about 20,000 staff belonging to these positions, only 5% have received training on managerial skills applied for new ACs. The large number of untrained staffs is blamed for a lack of training centers for ACs' staffs and a shortage of fund. The State supplies fund for training of ACs' staff up to 50% of total required fund.

To facilitate training for AC staff, the State should assign the task to qualified representative regions. Fund for training of three key positions in ACs should be supplied up to 100% instead of 50% as done before.

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Annex Table 1 Situation of agricultural cooperative movement as of the end of 1999

Order	Regions	Total ACs by December, 1996	ACs completely dissolved of in procedures toward dissolution			Remaining	Completed transformation procedures		Completely transformed and received business license		Newly establi- shed	Total ACs as of December, 1999
			Total	Completely dissolved	Nearly dissolved		Total	%	Total	%		
1	The whole country	13,782	4,818	2,902	2,247	8,598	5,740	66.8	4,449	51.7	1,093	9,691
2	The North	12,112	4,386	2,677	2,040	7,356	4,755	64.6	3,496	47.5	654	8,010
3	The South	1,670	432	225	207	1,242	985	79.3	953	76.7	439	1,681
4	Northern Middle and Mountain	6,075	2,384	403	1,981	3,686	1,802	48.8	1,123	30.4	115	3,804
5	Red River Delta	2,558	430	397	33	2,224	1,812	81.5	1,477	66.4	414	2,638
6	North Central Coast	3,479	1,572	1,877	26	1,443	1,141	79.1	896	62.1	125	1,568
7	Central Coast	917	166	160	6	761	701	92.1	700	92.0	6	767
8	Central Highlands	295	117	15	102	172	84	48.8	75	43.6	6	178
9	Northeast South	398	127	28	99	271	162	59.8	140	51.7	34	305
10	Mekong River Delta	60	22	22	0	38	38	100.0	38	100.0	393	431

Source: The Ministry of Agriculture and Rural Development, 1999

Annex Table 2 Services provided by agricultural cooperatives (summarized from 1,686 ACs)

Regions	Total ACs	Irrigation	Plant protection	Veterinary	Seedling	Agro. extension	Agro. materials	Land preparation	Output marketing	Processing	Electric power	Others
Total	1686	94.9	61.9	37.7	41.3	47.5	36.0	14.8	10.3	0.4	52.2	3.9
Northern Mountain	93	93.5	60.2	37.6	79.5	75.2	79.5	2.1	13.9	0.7	9.6	9.6
Red River Delta	715	93.1	59.0	14.2	33.7	30.3	13.9	17.7	1.2	-	65.1	8.1
North Central Coast	551	99.4	95.6	16.3	32.1	51.1	47.9	0.9	17.6	1.2	43.9	10.4
Central Coast	279	97.4	11.1	51.9	73.1	82.5	55.2	40.5	17.9	-	57.7	-
Central Highlands	50	90.0	26.6	-	03.3	-	53.3	13.4	16.6	6.6	10.0	-

Source: The Ministry of Agriculture and Rural Development, 1999

Chapter 3

The Industrialization of Vietnamese Rural Areas: A Comprehensive Report

Yumio Sakurai
University of Tokyo

1. Rural industrialization as a social policy

1.1. Purposes of the rural industrialization policy

Basically, rural industrialization has two aspects: (1) as a social policy, designed to increase the income of farm households and to produce a labor market in rural areas; and (2) as a strategy for developing the entire Vietnamese economy.

1.1.1 Rural industrialization as a means of generating cash for farm households

Agricultural production has progressed remarkably in Viet Nam since the 1980s. However, the land area per labor unit is extremely small, and despite the improved productivity the amount produced per farm household is small. Moreover, the price of paddy is very low in Viet Nam because international prices are stable at low. Paddy production costs, including fertilizers, and various fees amount to more than around 60% of the production and significantly reduce the net agricultural income.

Therefore, in many rural areas in overpopulated regions, including the Red River Delta, and low-productivity regions, including mountainous ones, most rice that is produced is consumed by the producers themselves or used as feed for raising pigs. That is, rice generally is not marketed. Even for large-scale farmers in the Mekong Delta, the labor productivity in rice growing is low¹.

Since the adoption of the Doi Moi policy, however, there has been a growing call for electrical appliances and education even in Viet Nam's rural areas, which are largely self-sufficient and isolated². For Vietnamese farm households, the highest priority is to secure cash-generating resources making the use of diversified living-related information³. A rise in farm-household incomes during the past 5 years (1995-2000) is primarily due to an increase in incomes from the nonagricultural sector, including temporary work outside farmlands⁴.

1.1.2 The labor market for surplus laborers in rural areas

According to 1998 statistics, Viet Nam has a population of 78.06 million, of which 60.6 million people live in rural areas. That is, almost 78% of the people are deeply connected with agriculture. In

1997, urban laborers amounted to 20.45% of the nation's total labor force, while rural labor accounted for 79.55%. The number of urban workers has increased by only 0.25% over the total for 1977, which was the heyday of the socialist planned economy⁵. The agricultural sector absorbed 42.35% of the increase in laborers during 20 years. The Doi Moi economy has not had much effect on the movement of workers from rural to urban areas. In addition, the demand for urban workers has been declining rapidly since 1995, and rural areas have a large number of unemployed workers. Especially in the Red River Delta, where small-size farms are common, the accumulation of surplus labor is the most serious problem.

In the Mekong Delta, the number of farmers without land or without sufficient land, who did not exist in the Bao Cap period, is rising sharply. During the 1994-1998 period, 220,000 farm households came to have no land or insufficient land, for the following reasons, resulting in rural areas having a great number

¹ To increase farm-household cash income requires diversifying agriculture, which now focuses on growing rice, and introducing a market mechanism into agriculture. In order to diversify farm products, it is necessary to develop new species of crops, to obtain market information, and to develop markets. In the Phase-2 report, we proposed the establishment of an information center for gathering information concerning the potentials of cooperatives in the Red River Delta and for providing market information. This strategy, however, has the following four problems and is very difficult to pursue.

First, the markets are very small. Urban markets, which account for 20% of the nation's population, cannot consume all farm products produced by rural residents, who are 80% of the population. Except for rice produced in the south, tea in the western highlands, and plantation products such as coffee, most farm products are not marketed overseas. Because of a lack of a technical infrastructure for cultivating, they require investment in advance, as a result of which product prices are higher than they need be. Many farm products cannot meet the demand of overseas markets because there are poor facilities for collecting, preserving, and processing products, and so it is very difficult to enter foreign markets. The existing limited markets provide farmers with no incentives to cultivate crops other than rice, because such efforts require heavy investment and much labor.

Second, it is difficult to develop commercial crops. In Viet Nam many farmers live in the delta or on lowlands along the coast. Such areas are suitable for rice growing, but cannot respond to the diversification of products. Commercial crops for wetland are limited to hoa sen, rau muong, etc. and compete for urban markets, resulting in lower market prices.

Third, Vietnamese small-scaled farmers cannot constantly meet market demand. Agricultural bodies for organizing farm households have not yet been established in most areas.

Fourth, it is quite difficult to diversify agriculture and to cultivate crops other than rice in the delta. Therefore, the second choice for increasing farm household income is to introduce non-farm industry into rural areas.

² The percentage of households that have televisions rose from 25% in 1993 to 58% in 1998. Our survey shows that educational expenses account for the largest part of farm-household cash expenditures. The level of education also rose significantly from 1993 to 1998. See the Government-Donor-NGO Working Group, *Attacking Poverty, Consultative Group Meeting for Viet Nam, December 14-15, 1999*, p. 7.

³ At present, farm-household cash income primarily derives from non-farm jobs, including working at the frontier. Minorities in mountainous areas and other people who have no access to cities and no connections for gaining non-farm income are reduced to deep poverty.

⁴ In 1995 and 2000, our group conducted comprehensive surveys regarding the agricultural production and household budgets of about 150 families of a production team (doi san xuat) at the Thanh Loi Commune in the Vu Ban District (Nam Dinh Province).

⁵ This figure does not include part-time workers from rural areas, which constitute the majority of the urban informal sector.

of unemployed workers.

- 1) The traditional land-holding structure was restored as a result of the collapse of the collective-production system, including former agricultural cooperatives.
- 2) Since the Doi Moi policy was introduced, the number of farmers who gave up reclaiming the frontier, including new economic districts, and who returned home, increased.
- 3) The number of farmers who lost the right to use land as security for a debt increased enormously.

At present, in the Red River Delta most surplus workers go to urban areas to get jobs, and in the Mekong Delta they work in the agricultural sector. In both areas, their income is low and unstable. The aim of rural industrialization is to provide a stable labor market for unemployed workers in rural areas⁶.

1.2. Regional features of the rural industrialization policy

In Viet Nam, the economic structure differs significantly from region to region. Although the Vietnamese economy as a whole has been modernized and has become international, it is quite difficult to develop manufacturing in rural areas, which are inferior in production-related features, including infrastructures, markets, the quality of labor, the distribution system, and capital. Therefore, to develop industry evenly in all rural regions is not realistic, so it is necessary to target certain areas.

The industrialization plan is not applied to areas where people can easily get cash and secure a labor market through focused rice growing, agricultural diversification, an increase in the rate of workers who find jobs in urban areas, or commercial activities. In this sense, a rural-development strategy other than rural industrialization should be drawn up in the following areas:

- (1) the Dong Thap area, where agricultural development is highly possible and rice growing is important in commercial terms,
- (2) areas not involved in rice growing, including the northern fan, where commercial crops can be cultivated, a terrace (Trung Du area), and highlands (Tay Nguyen area in the central highlands and the southeast fan in the Dong Nai river area), and
- (3) suburban areas having abundant job opportunities (Ho Chi Minh, Hanoi, Mekong Delta, and Red River delta along National Highway 1).

A strategy for developing the nonagricultural sector must be incorporated in each region's economic-development strategy. The geographical division of Vietnam's agricultural structure is described below, together with a major development strategy for the areas.

1.2.2 Suburban areas

These are found in a few metropolitan areas, including Hanoi, Ho Chi Minh, and Da Nang. Their

⁶ According to past surveys, many Vietnamese farmers gain cash income from engaging in non-farm businesses and from the expanding consumption. Farmers working in non-farm sectors are roughly divided into two groups: those working in non-farm industries within their local area, and those working outside their area. The way of working also differs significantly among areas. In rural areas near big cities such as Hanoi and Ho Chi Minh, some farmers work as full-time workers for the state sector or for a private-sector company operating in the urban economic zone. Some gain part-time jobs in the urban economic zone. Some work in the non-farm sector, including the transporting business, within the rural area. Others are involved in family-scale independent commerce or manual industries. Generally, jobs that ensure regular work generate larger incomes, and for farm households this income far exceeds agricultural income. Foreign companies (for example, a La Vie drinking water plant in Long An Province) offer social security benefits, including insurance, and wages of 0.6-0.8 million dong per month. Successful state enterprises (for example, a nuoc mam plant in Dien Chau District (Nghe An Province) also pay monthly wages at that same level. In rural areas near cities, working in the non-farm sector is already indispensable for farm households. In Khanh Hau Village in Long An Province where involvement in side business is common, although agricultural wage labor is the primary means of earning a living, 41 of 43 households without land and 26 of 44 households with land are engaged in non-farm jobs, too. In 1997, such non-farm jobs included: (a) teachers, district officials, and organizational staff, (b) factory workers, (c) construction workers, such as carpenters and plasterers, (d) transporting by motor car (*xe ba gat*), and (e) working at tea shops (*quan*) or sewing shops. A survey of Ha Tay Province around Hanoi shows the same results. In addition to independent businesses, including sewing, bicycle repairing, restaurants, and daily-goods retailing, there are (f) many food makers in Ha Tay, because areas around Hanoi have long supplied food to Hanoi. According to our survey, areas where internationally marketable plantation crops, such as gum, tea, and coffee, which are produced in the western highlands, can be grown are quite limited. Promising areas that have a potential for developing commercial products in terms of accessibility to markets are: (a) the northwestern mountainous area and highlands of Nghe An Province (sugarcane, beef cattle), (b) the fan, terrace, and the area near the delta (tea, sugarcane, etc.), and (c) the coastal dunes in the Red River Delta (various vegetables). All such commercial products, however, are cultivated on an extremely small scale and sold almost only in domestic markets. If such products can be successfully exported, they are sold at extremely low prices due to their low quality. For instance, the Thanh Loi Commune cooperative in the Vu Ban District (Nam Dinh Province) exports several tons of vegetables a year through the district, but the price is only 600 dong VND per 1 kg, and producers are deeply discontented. Since 1995, however, as urban consumers' lives have improved, independent poultry farming (*Ga Cong Nghiep*) has grown in rural areas near cities. But, due to the limited market for poultry products, their prices are already falling. According to a survey in the Tu Son District (Bac Ninh Province), the selling price of an adult chicken fell from 19,000-20,000 dong in 1993, when such business started, to 14,000-15,000 dong in 1997, and sometimes to 12,000 dong.

The central provinces, including Nam Dinh, Thai Binh, Nghe An, and Thanh Hoa, where workers have few opportunities to get jobs in the non-farm sector, are distant from cities, and are overpopulated, jobs (a) and (b) declined, and (c)-type jobs are in construction work outside the area. Many workers are engaged in transportation businesses. The cash income is low, and markets are not developed within villages, and so the number of workers for jobs (d), (e), and (f) is small. According to a 1995 survey of a hamlet of the Thanh Loi Commune in the Vu Ban District (Nam Dinh Province), 18 of 113 households were self-employed in small-scale transportation or goods-retailing businesses, and 10 households were engaged in construction work.

Moreover, in mountainous areas from which it is difficult to access cities, the number of farmers with side businesses is far smaller. Particularly minorities in the mountainous areas have few opportunities to get jobs in urban areas, due to the problem of language and lack of connections. There are a lot of poor people in distant mountainous areas, mainly because they have no opportunities for finding non-farm jobs.

The primary purposes of the rural-industry development strategy are to secure non-farm-sector opportunities for rural residents and to solve the problem of surplus labor in rural areas. Therefore, this strategy should not be pursued throughout the country. It should target areas where agricultural diversification and access to an urban labor market are difficult.

residents include people willing to work in the nearby urban area. They also have consumer markets for goods manufactured in rural areas. Many of their farm households are involved in other businesses.

In the north, a rural area that is situated in Ha Tay and Bac Ninh Provinces and is within about 20 km from central Hanoi is in this category. Many successful manufacturing businesses are concentrated in this area⁷.

In the Hoai Duc District in the suburbs of Hanoi the number of farm households whose members have both regular or temporary jobs in urban areas and paddy fields is growing. In these paddy fields, rice is cultivated for self-sufficiency purposes by family members or employed laborers.

In the south, an area along National Highway 1, which connects Bien Hoa, Ho Chi Minh, My Tho, Vinh Long and Can Tho, is similar in that regard⁸. In these cities, the unit farmland parcels is small, commercial crops are cultivated, and the percentage of farm households without land is higher than in other cities in the Mekong Delta. The number of farm households that are also involved in other businesses or that have given up agriculture is increasing.

This region's economy is largely based on the market economy and therefore is very easily affected by urban economic conditions. In other words, this region is a rural area attached to a city. Governmental support is not necessary for this area, which should be in the hands of the market.

1.2.3 Self-sufficient rural areas

They are typical of the northern Red River Delta. They are distant from metropolitan areas. Basically most popular approaches to an urban area are to work there as a temporary worker. To diversify commercial crops is difficult because there are many wet fields suitable only for growing rice, and there is little farmland for other dry crops. Rice is primarily cultivated for self-sufficiency. Surplus rice as a result of higher productivity since 1990 is largely used for raising pigs and is rarely marketed. Farmers do not see rice as a commercial crop. Small-scale commercial agricultural production, such as raising pigs and growing vegetables, is indeed an important means of gaining cash for self-sufficient farmers. But the scale of such production is very small, so both labor productivity and profitability are low. Many farmers believe that stock farming does not benefit them.

Product diversification is difficult because of geographical reasons. Because the kinds of products in a regional market are limited, price competition is intense. Prices change significantly with the seasons. Therefore, development can rarely be expected.

Traditional village industries, including sewing, furniture making, metal-forging, and production of bamboo goods which met local demand in the early 1990s have only local markets and are weak in terms of such factors as technology, capital, and markets. These industries cannot compete with goods produced

⁷ In March and August 2000, we conducted a survey in the Hoai Duc and Ba Vi Districts (Ha Tay Province).

⁸ Our group has continued research at the Khanh Hau Commune in Tan An City (Long An Province) since 1995.

at modern factories in urban areas, and therefore they are declining.

The development of rural industries in these areas should not be based on the development of village industries, but on the expansion of the modern urban sector. In northern rural areas, National Highways 1 and 5 were widened. The electricity supply and modern information networks there are superior to those in southern rural areas. Also, the educational level of the younger generation is very high. Concerning textiles and sewing, the traditional system of contracting with neighboring villages still survives. The Nam Dinh textile factory adopted this system.

In contrast, Hanoi, which lies on a narrow natural levee (*de dieu tu nhien*), is surrounded by back swamps (*vang thap*), and it is now difficult to expand the city's area. Without large-scale land reclamation, the expansion of the city is limited. The establishment of a new plant in the delta, not only contributes to the development of urban industry, but also has great significance for expanding the local labor market. Areas some 50-100 km distant from Hanoi, from which commuting is difficult, have no choice but to utilize local labor⁹.

It is vitally necessary to actively attract private companies from modern urban sectors¹⁰. Specifically, (1) The central government should improve the road system in the Delta, particularly building a road between isolated points like Thai Binh and Hanoi, and should modernize power-transmission networks; (2) The provincial government should be given wider authority; (3) Modern infrastructures, including taxation, water-supply, power-supply and information facilities should be improved; and (4) Proper measures should be taken to facilitate personnel management.

1.2.4 Isolated areas

Viet Nam's rural-area development policy is based on isolated areas having a certain relationship with urban markets. However, the population is concentrated in Hanoi and Ho Chi Minh. In areas other than the Red River and Mekong Deltas, which have access to these two big cities, economic development based on the big-city markets is quite difficult.

The provinces of Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien, Quang Nam, Quang Ngai, and Binh Dinh in the north central region are specially isolated from the big cities¹¹.

These areas have the following characteristics.

- 1) Paddy cultivators concentrate in small coastal plains and share only small parcels of cultivated

⁹ A drinking-water plant having modern equipment, which was established in the Khanh Hau Commune in Tan An City (Long An Province), has not contributed to the expansion of a local labor market because it hired employees on the basis of connections. The utilization of local labor requires institutionally securing open employment opportunities.

¹⁰ Concerning the policy for attracting modern urban industries to rural areas, concrete measures formulated by Japanese prefectures pursuant to the Comprehensive National Development Plan in the high-growth period will offer some useful hints.

¹¹ We conducted a survey of local industries in the Dien Chau and Nam Dan Districts in Nghe An Province.

land.

- 2) Because the agricultural infrastructures are poor, productivity per land unit is low and much labor is used only for self-sufficiency purposes.
- 3) Modern infrastructures, including those for water supply, roads network and power supply, are lacking, so these isolated areas cannot contribute, even as consumer markets, to the domestic economy.
- 4) Because access to metropolitan markets is difficult, commercial agriculture is not diversified, and low-level self-sufficient economies are common. The commercialization of tobacco, sugarcane, and wood is also limited to the regional market, due to quality-related considerations.
- 5) Therefore, almost the only means by which farmers can gain cash is for those with specific connections to migrate to big cities, or to Laos and Cambodia, to work.
- 6) A few local industries such as fish sauce (nuoc mam) production are also limited to local markets and cannot export products.

These areas need a new economic zone that is independent from metropolitan markets.

- 1) It is necessary to free labor from the land through improving the agricultural output of very small-scale farmers. It is also necessary to raise the level of irrigation infrastructures to the same level as that of the Red River Delta.
- 2) It is necessary to build road networks that radiate from port-cities along National Highway 1 such as Thanh Hoa and Vinh and to create local markets. The ongoing work of making National Highway 1 wider and the modernization of the Thong Nhat railroad have no meaning for local economies if such local roads are not built.

All of these areas are located along the South China Sea, the center of the Southeast and East-Asian economies. The coast of this sea consists of coastal terraces and sand dunes, and it has numerous good ports, including Vinh and Da Nang. On its west, this region borders on Laos. The distance between the coast and Laos is a minimum of 20 km. This region also has access to Tay Nguyen or the Central Highlands. Products from this region should be able to be sold in markets in South China and in the ASEAN countries.

Each of these areas should improve agricultural productivity and develop export industries. In the Nghe An area, for example, the fisheries industry, as well as the shipbuilding and fish-processing industries, is export-oriented. Although not profitable now, stock raising and sugar manufacturing in the highlands of west Nghe An have potential for exporting products if productivity is raised by efficient management. Some foreign capital is flowing into this region, mainly from the UK. The future prospect for exports depends on efforts to develop markets.

1.2.5 Former frontiers

The Mekong Delta has already finished developing. One serious problem here is that even on the frontier farmland parcels are small and the number of farmers without land is increasing¹².

Although the Dong Thap area on the Cambodian border was the last frontier of the Mekong Delta, it is still difficult to develop this area in the rainy season because it forms a vast back swamp. Farmers in the area have no choice but to engage in paddy cultivation in the winter, spring, and summer. There are many relatively small cities in the Dong Thap area. But this area has little access to big cities and has no significant urban market. Indeed, it is necessary to create non-farm industries for an abundance of surplus workers in the rainy season. In reality, however, it is impossible to create manufacturing industries here, due to problems relating to transportation and market conditions, as well as difficulties in finding locations for factories. The economic development of the Dong Thap area basically means improving both the productivity of rice growing and the profitability of rice to be exported. Toward these ends, it is quite important to generate and foster full-time farm households having more than 3 ha of farmland¹³. Huge investments irrigation pump network and hand tractors, and the polder embank system are necessary for raising productivity. However, because of the current wholesale price of rice, only large-scale full-time farm households can afford such investments. A stable labor market cannot be provided for farmers without land unless farmlands are merged and the scale of farming is expanded. In this region, where integration is already progressing, creating and retaining very small-scale owner-farmers cannot solve the problem of surplus labor.

In this region, however,

- 1) Access to urban markets is difficult;
- 2) There are no traditional handicraft techniques, because agricultural development has been the focused activities;
- 3) There is little capital accumulation, because surplus agricultural income is often sent to farmers' native homelands; and
- 4) The form of the family is unstable, and family management is also difficult.

¹² 1) Thanh Hoa, Nghe An, and the Ha Tinh zone that centers on Vinh City
2) Quang Binh, Quang Tri, and the Thua Thien zone that centers on Dong Hoi City
3) Quang Nam and the Quang Ngai zone that centers on Da Nang City
4) Binh Dinh and the Phu Yen zone that centers on Quin Nhon

Our group surveyed the Khanh Hung District (Loang An Province).

¹³ However, in the Dong Thap area that was developed in the late 1980s and early 1990s so as to solve the problem of farmers without land who emerged as a result of the dissolution of collective agriculture, new immigrants hold land parcels as small as 0.5-2.0 ha and earn a living by working for large-scale land managers. These people find no meaning in working at the frontier in a bad environment, and sooner or later they will become urban workers. Our group surveyed Tay Bac in the northeast mountainous region in December 1999 and Tay Nguyen in the middle-western highlands in December 2000.

Therefore, efforts should be made to Increase agricultural products especially rice cropping by exploiting the region's comparative advantage in the area of farmland and making intensive use of land.

1.2.6 Mountainous regions

Mountainous regions are roughly divided into two.

1) Highlands, slight slopes at the feet of mountains, and the like.

They have rich soil, a means of transportation to lowland areas, and are suitable for producing export commodities, including coffee, tea, gum, sugarcane, and beef cattle. Typical areas are (a) Tay Nguyen of the central highlands, (b) the middle basins of the Red River Trung Du, including Phu Tho and Yen Bai, and (c) Nghe An of the Thanh Hoa highlands. Areas (a) and (b) have already been developed with state farms or private large-scale farmlands such as plantations. Area (c) has not yet been developed, because access to cities is difficult. These areas have no problem of surplus labor; they produce little rice and cultivate mainly commercial crops. A new labor market should be created through the diversification, integration, and internationalization of commercial agriculture in these areas. Non-farm industries except agricultural-products processing are unlikely to develop.

However, management is unstable because products are subject to fluctuations in international prices. For example, small-scale coffee-growing farmers live quite difficult lives because the selling price of coffee in 2000 is only one-half the price of 1995.

It is critical to stabilize the market and to improve profitability by securing relative independence from international prices through improving the species of products¹⁴, establishing international brand images, and modernizing the distribution structure. It also is important to expand the labor market by integrating production workers and by finishing processing at the local level.

2) There are many basins in the northern mountainous areas and rice is grown intensively. In such a big basin as Dien Bien Phu, commercial rice is grown extensively. But because of the transportation and market conditions, most of the rice is consumed by the producers themselves¹⁵. There are no opportunities to go to a city to work, because the existence of many minorities results in differences in language and culture. The region faces a severe shortage of cash and is a poverty area.

In particular, cultivators who have shifted to rice growing under the "chinh sach dinh canh" policy, which is unfamiliar to them collectively live on land having inferior irrigation and soil conditions.

¹⁴ The majority of the species of original beans currently cultivated are lobster beans, which have a market only in Viet Nam. Profitable arabica beans are rarely grown. Farmers say that this is because of a lack of techniques, while local governments say it is because of the bad climate conditions. They are not very enthusiastic about improving the species and introducing new cultivating techniques.

¹⁵ As seen in the Vinh Yen District (Vinh Phuc Province), efforts to grow fruits, specific forest goods for Chinese medicine and other purposes, and flowers are effective on the gentle slopes facing the lowlands. But in distant areas it is difficult to commercialize such products except for very expensive ones.

Therefore, the productivity of rice growing is extremely low. Before non-farm industries can be fostered in these areas, fundamental infrastructures for such industries are necessary. It also is necessary to improve the productivity of agricultural production, mainly rice growing. Toward this end, the following efforts are needed.

- a) Providing small-scale and high-quality irrigation facilities;
- b) Building village roads that connect villages and markets;
- c) Setting up a power-transmission network that can maintain a minimum level of cultural life;
and
- d) Spreading education by building small-scale schools.

These infrastructures must immediately be developed throughout the country as measures against poverty.

1.2.7 As the above geographical division shows, the areas that need the government's support for developing non-farm industries and that have great potential are: (a) the self-sufficient farming area in the Red River Delta, and (b) isolated areas along the central coast. The non-farm sector in the former area should adopt a strategy of expanding the existing urban companies. In the latter areas, a strategy of strengthening direct connections with international markets should be adopted. Efforts should be made to support promising companies that are now active in areas that have surplus rural labor and that have few opportunities to gain income from non-farm businesses. That is to say, the target of industrialization should be clarified.

2. Successful rural industries

2.1 Concept of rural industry

Professor Nguyen Dinh Phan defines the concept of a village industry (CNNT) as follows.

- 1) Small-scale manual industries;
- 2) Manufacturing in rural areas, irrespective of the scale or level of techniques utilized;
- 3) Manufacturing for rural areas, irrespective of the place of the factory (whether a rural area or a city);
- 4) A segment of the manufacturing industry in a rural area, having a close relationship with agriculture and rural areas; and
- 5) Manufacturing industries in which farmers invest.

However, in this paper, the purposes of developing rural industries are limited to increasing farm household income, expanding opportunities for members of farm households to get jobs within their rural area, and promoting the development of market economies in rural areas. Therefore, rural industries are defined as industries that are operated in a rural area, that employ workers within a rural area, and that promote the development of market economies in rural areas¹⁶.

2.2 Status of rural manual industries

Rural industries are divided into several categories, according to their form of management¹⁷.

- 1) Manual industries In village called lang nghe often utilize traditional handicraft techniques and are managed by a household or unincorporated enterprise¹⁸. Such enterprises are divided into four types, according to their market:
 - (a) Enterprises that have a province-level market;
 - (b) Enterprises that have a regional market;
 - (c) Enterprises that have a market in major cities (Hanoi, etc.); and
 - (d) Enterprises that have an international market.

2.2.1 Type-(a) enterprises often are seen in the Red River Delta. Many of them engage in woodworking, metal-forging, sewing, agricultural-tool making, and producing daily necessities. During the French occupation, they were situated in the former Ha Dong Province and other parts of the Delta and met the daily needs of farmers¹⁹. In the Bao Cap period, however, most of these enterprises were absorbed into cooperatives. According to a survey of Ha Tay Province's villages in the vicinity of Hanoi²⁰, the manual industry revived after 1990 along with the revival of the market economy, but it has been declining since

¹⁶ Truong Dai Hoc Kinh Te Quoc Dan, Cong Nghiep Hoa, Hien Dai Hoa, Nong Nghiep, Nong Thon Dong Bang Song Hong, December 1999, 1-2.

¹⁷ Truong Van Phuc classifies small rural companies, in terms of ownership, into family-managed business, unincorporated enterprises, and cooperatives (collectively owned). Our study is basically based on this classification. See Truong Van Phuc, "Phat Trien Doanh Nghiep Nho Nong Thon theo Phuong Cong" [Development of small rural companies pursuant to the industrialization policy], Tap Chi Cong San, No. 8, 1994, pp. 25-29; Akie Ishida, op. cit., p. 67.

¹⁸ An unincorporated enterprise is a private business entity with a fixed amount of legal capital pursuant to the private business law (Luat Doanh Nghiep Tu Nhan), as modified in June 1994. See Hideo Watanabe, "Consideration of Company Laws by Economic Sectors in Viet Nam," New Development of Viet Nam's Doi Moi (Institute of Developing Economies, 1999), pp. 239-40.

¹⁹ Pierre Gourou, *Les paysans de delta tonkinois*, 1936, Hanoi, pp. 455-60.

²⁰ In March and April 2000, survey were conducted in Ngai Cau Village, An Khanh Commune, Hoai Duc District, and in Tay Dang Village, Tay Dang Town, Ba Vi District (both in Ha Tay Province). Concerning all of the village industries of Ha Tay Province, see Nguyen Ngoc Khoa, *Lang Nghe Ha Tay, Thuc Trang va Cac Giai Phap Cab Thuc Hien Phat Trien, Cong Nghiep Hoa, Hien Dai Hoa Nong Nghiep, Nong Thon Dong Bang Song Hong, Truong Dai Hoc Kinh Te Quoc Dan, December 1999, pp. 280-91.*

around 1995. Why? There are only a few manual industries that need high technology and capital. When demand rises, many households can rush to production. As a result, production exceeds demand, prices sharply fall, and the business becomes unprofitable²¹. Managers of the Red River Delta household enterprises utilizing low-level techniques emphasize agriculture for providing food for themselves and do not hope to expand the scale of manual industries beyond the scope of supplementing cash income. In this sense, such manual industries are nothing but side businesses for farmers. In rural areas near cities such as Hoai Duc, manual-industry workers easily change into urban workers²². Manual enterprises rarely grow to become small businesses. Even if the flow of the right to use land becomes free and the use of land as a security becomes common, farmers are unlikely to give up their land and to specialize in one industry. The only profitable household business having a market within rural areas is rice polishing. But that business is not promising, because its market is limited.

If goods produced at modern factories flow into rural areas, the manual production of such goods ends sooner or later. Generally, rural manual industries appear only in a transition period from a self-sufficient economy to a market economy. Then, as modern manufactured goods are introduced in urban areas, the manual industries decline²³. Rural industries are typically not included in an industrialization strategy because their techniques are low-level, their markets are limited to rural areas, profitability is low, and such industries are nothing but side businesses for farmers.

2.2.2 There are three patterns of household enterprises that have a regional (type b), big urban (type c), or International (type d) market and that are developing.

(1) Traditional manual industries that produce cheap, mass-consumption goods

A typical industry of this type is the food-processing industry in Ha Tay Province. This province has been famous for the food industry for years, and it has a local, stable market (Hanoi and its surrounding area) and a distribution network. The province is important in terms of labor, revenues²⁴, and its economy²⁵. Its products have gained good reputations and specific consumers in the market.

²¹ According to a survey in the Hoai Duc District (Ha Tay Province), in 1995 a household could buy a knitting machine for 3 million dong, and the pay for knitting a pair of trousers was 2,000 dong. But the wage fell to 900 dong in 1998, and so in 1999 some households sold their knitting machines and closed their businesses. Although in the Hoai Duc District many households knew techniques for knitting hammocks and other items, not a few of them have begun to quit production since 1997 because product prices have declined.

²² The average annual income per labor unit in village industries in Ha Tay Province is estimated to have been 3,486,000 dong in 1997. This is far lower (at least 0.3 million dong) than that for urban workers. So rural workers easily quit or change jobs.

²³ According to a 1997 survey in Vu Ban District (Nam Dinh Province), agricultural tools (spades, etc.) produced by using traditional metal-forging techniques cannot compete with urban products in terms of quality and cost, and so such rural industries are declining.

²⁴ According to a survey of the food processing industry of the An Khanh Commune in the Hoai Duc District (Ha Tay Province), the manager earns 0.4-0.5 million dong per month.

This industry grew steadily until the mid-1990s.²⁶

Although metal-forging is declining in many regions, the Da Hoi Commune in the Tien Son District (Bac Ninh Province) specializes in metal-forging and puddling, produces agricultural tools and carpenter's tools, and markets them in the north provinces.

As mentioned above, such production, which depends on simple techniques and little capital, loses markets and declines in scale as modern urban industries develop. Many household enterprises engaged in sewing and manual industries followed that path in the late 1990s. Product differentiation is necessary for such production to secure a market and to grow. Efforts must be made to advance the technology used, to get information so as to be able to quickly respond to market demand, and to constantly develop new markets.

(2) Traditional manual industries, which produce handicrafts using advanced techniques

Pottery produced in Bat Trang Commune in the Gia Lam District (Hanoi) has a national market and is also growing in international markets. Dong Ky Commune in the Tien Son District (Bac Ninh Province) makes high-quality furniture, and 80% of its products are marketed in China, Taiwan, and Europe. Traditional rattan made in the Chuong My District (Ha Tay Province) employs 9,000 workers and has a national market, including Ho Chi Minh²⁷.

The production techniques of these traditional handicrafts are handed down from generation to generation. But if that fails to happen, special efforts must be made to ensure continuation of the techniques. For example, Yen So Commune in Hoai Duc District now has an educational facility for teaching embroidery techniques and the means of responding to the demand for new products²⁸.

(3) Rural industries emerging in the early 1990s

Many rural industries emerged in the early 1990s in rural areas near cities, in line with urban

²⁵ In the Hoai Duc District (Ha Tay Province), there are three communes (My Canh, Duong Lieu, and Cat Que) involved in food processing including bun, and 90% of the households participate in the communes. The market is large, and there is a distribution network of tu tuong (local cargo collectors). The three communes account for 60% of the district's industrial production, and 70%-80% percent of the GDP of the three communes is derived from manual industries. The district's GDP is 1.4-1.5 times as large as that of others.

²⁶ The Duong Lieu Commune, well-known for its food processing industry, grew at an annual average rate of 24.3% during the 1990-1995 period. Nguyen Sinh Cuc, *Phat Trien Ket Cau Ha Tang Cho Cong Nghiep Nong Thon Vung Dong Bang Song Hong, Cong Nghiep Hoa, Hien Dai Hoa, Nong Nghiep, Nong Thon Dong Bang Song Hong*, 1999, p.124.

²⁷ Phung Ngoc Khoa, pp. 284-85.

²⁸ Although the Yen So Commune has a strong tradition that each household hands down embroidering techniques to its girls, a training course was offered under the leadership of a cooperative even during the Bao Cap period. In 1993, when the agricultural cooperative decided to make obis to be exported to Japan, it offered a 3-month training course that 30 women who graduated from middle school or who had a higher educational background enrolled in for 15,000 dong per month. The instructor was paid 0.6 million dong by the cooperative. This course was continued until 1997. See Misaki Iwai, "Second Report on a Survey of the Reality of Employment in the Non-farm Sector: The Case of the Yen So Commune in the Hoai Duc District (Ha Tay Province)," *Thong Tin Bach Coc*, No. 8, 1998, p. 96.

development after the adoption of the Doi Moi policy and the revival of frontier trade. Typical industries are the waste-metal collection business and the wholesaling of plastic sandals in Trang Liet village in the Tu Son District (Bac Ninh Province). The village's Xom Dung (Da Hamlet) consists of 148 households, 35 of which are engaged in collecting waste metals, and 57 in collecting used sandals. Of 151 households in Xom Da, 23 are engaged in collecting waste metals, and 56 in sandal making²⁹. The Yen So Commune in the Hoai Duc District (Ha Tay Province) is engaged in embroidering Japanese kimonos and obis as a contractor linked with a company in the south³⁰.

2.2 Former collective enterprises

Enterprises whose forerunners were either industrial cooperatives established in rural areas during the Bao Cap period³¹ or enterprises that were established as state enterprises during that period and that are now engaged in activities adaptable to a market economy

Most of industrial cooperatives established during the Bao Cap period continue production activities as cooperatives or companies³². Like unincorporated companies, they are concentrated in Ha Tay and Bac Ninh Provinces. There are only a few in Nam Dinh and Thai Binh Provinces and other overpopulated areas along the lower Red River and distant from the cities.

The Nghe An and Thanh Hoa areas are distant from urban markets, including those of Hanoi and Ho Chi Minh. They have few unique products. Like the lower Red River Delta, those areas are basically devoted to self-sufficiency agriculture. During the American-Vietnamese War and the Bao Cap period, however, efforts

²⁹ Many metal-collecting businesses were set up as small family enterprises in the mid-1980s just before the Doi Moi policy was adopted. With the start of trade in the frontier areas, they collected and sorted scrap iron, then transported abstracted copper to Lang Son and sold it for export to China. This business prospered until 1994, but since then it has been declining because the government strengthened its embargo on the export of copper. Sandal businesses that were started illegally in the 1960s, began to grow gradually in the 1970s, and grew greatly after the adoption of the Doi Moi policy. This business involves collecting used plastic sandals, transporting them to a plant in Hanoi by motorcycle, buying products for retailing, and selling them to peddlers. Both metal collectors and sandal wholesalers often invest equity capital in starting a business. The per-day profit was 30,000-60,000 dong in 1997 for a large business, and 10,000-20,000 dong for a smaller one. See Misaki Iwai, "Report on a Survey of the Reality of Employment in the Non-farm Sector: The Case of Trang Liet Village in the Tu Son District (Bac Ninh Province)," *Thong Tin Bach Coc*, No. 7, 1997, pp. 69-88.

³⁰ In the Bao Cap period, an embroidering business was organized by a cooperative, and its products were exported mainly to the Soviet Union and East Europe through exporters in Hanoi. Although the business was stopped in 1980, it resumed embroidering on Japanese kimonos pursuant to consignments with exporters in the south in 1993 and on obis in 1994. In 1997, 21 regular workers and many apprentices were engaged in the business. A regular worker's monthly wage declined from 0.4-0.5 million dong in 1994-95 to 0.2-0.3 million dong in 1997. See Misaki Iwai, "Second Report on a Survey of the Reality of Employment in the Non-farm Sector: The Case of the Yen So Commune in the Hoai Duc District (Ha Tay Province)," *Thong Tin Bach Coc*, No. 8, 1998, pp. 89-109.

³¹ Under Viet Nam's current company law, companies are classified into *doanh nghiep nha nuoc* (state enterprises), *hop tac xa* (cooperatives), *cong ty* (companies), and *doanh nghiep tu nhan* (unincorporated enterprise).

toward industrialization were made; so many cooperatives and state enterprises expanded their business into rural areas, though the number of unincorporated companies is small. Most of them face considerable difficulties due to the spread of the market economy, because of such factors as the loss of routes to purchase materials, the closure of markets, backward techniques, and outdated equipment and facilities.

Some enterprises, however, have successfully responded to market-demand conditions and continue to grow.

2.2.1 HTX (cooperatives) co khi 12 thang 9

Hung Chinh Commune's equipment cooperative, established in 1960, in the Hung Nguyen District (Nghe An Province), had employed 300 workers and produced agricultural machines (tractors, threshers, and so on) for the markets of Nghe An and Ha Tinh Provinces. After 1990, however, as the Bao Cap policy was abandoned, the cooperative reduced the scale of its operations. Local 70 workers bought 4 million dong of stock, and corporate activities were resumed. At present, the cooperative engages in making threshers, several agricultural vehicles, load carrying platforms, and a variety of window frames, and also repairs vehicles and performs other services. The cooperative has about 150 workers, all of whom work full-time. Their wages range from 350,000 dong to 700,000 dong per month.

2.2.2 Cong Ty co phan thuy san Dien Chau, nuoc mam production of the Dien Ngoc Commune in the Dien Chau District (Nghe An Province)

In Dien Chau, the coastal area of Nghe An Province, the fisheries and salt industries are prospering. Taking advantage of the area's accessibility to materials-producing areas, its abundant labor, and regional markets (Nghe An and Ha Tinh Provinces), the area focuses on producing nuoc mam. The Dien Chau Fishery Company was established in 1947 as a state-owned marine-products processing center. Before the Doi Moi policy, this state-owned enterprise employed 120 workers and produced 1.2-1.3 million liters of nuoc mam per year. After the adoption of the Doi Moi policy, the company lost the state market

³² For example, there are 12 industrial and transporting cooperatives and 12 private companies in the Hoai Duc District (Ha Tay Province), where rural industries have prospered. The forerunner of Cong ty thu cong nghiep det Hop Thanh (Hop Thanh textile manual industry company) was HTX det Le Loi (Le Loi textile cooperative) established in 1967 as a contractor of Nha May Det Nam Dinh (Nam Dinh state textile enterprise). In 1970, the textile cooperative had 800 weaving machines and 900 workers. In 1989, however, it broke off its relationship with the Nam Dinh textile company, and its workers lost jobs. In 1993, the cooperative was dissolved, and the 328 weaving machines it held were distributed to workers. In the same year, Cong ty thu cong nghiep det Hop Thanh was established as a limited company and began to produce mosquito nets as a contractor of Son Nam Textile Company in Nam Dinh. In 1997, it also began to produce towels to be exported to Japan. At present, only 40 machines are in operation, and most former workers of the plant get income from other jobs, including peddling. Concerning towel manufacturing, workers contracting with the company buy materials, deliver products, and get paid. Five million dong was invested in machinery and another 5 million dong in materials. Revenue from producing 400 towels per day totals about 24,000 dong. The company depends on a large amount of surplus labor in the area.

and reduced its scale of operation. It now employs 68 local workers and went public in January 2000. It still produces 1.3 million liters per year in spite of its personnel being reduced by one-half. There are 70 sales agents in Nghe An Province and 38 full-time sales personnel.

In these two cases, a cooperative or a company and an unincorporated company having capital and expertise in the same business have merged into a kind of conglomerate that acts as a buffer for adjusting production³³.

2.2.3 HTX Chau Hung, Hung Chinh Commune's shipbuilding cooperative in the Hung Nguyen District (Nghe An Province)

Although the Hung Nguyen District has a tradition of shipbuilding, it acquired modern wooden shipbuilding techniques by technical transfer via the Japanese military during World War II. In 1959, a shipbuilding cooperative was changed into a large shipbuilding company having 670-700 employees. After the introduction of the Doi Moi policy, the company lost the state market and reduced its personnel to 70. In 1997, it was converted into a new joint-stock cooperative. It now employs 40-50 full-time workers and about 200 part-time workers. In the 1997-1999 period, it built 32 fishing and shipping vessels of 50-70 tons each. Its major markets are fishing villages in the north, including Nam Dinh and Thai Binh, mainly in Nghe An and Ha Tinh Provinces. Although the cooperative does not make special efforts to develop a market, it receives orders because of its credible techniques. Employees' wages range from 0.6 to 1 million dong per month.

2.2.5 Problems with successful rural companies

A typical currently developing rural company has the following characteristics.

- 1) It limits its market to the local area and can meet the demand of the area.
- 2) It specializes in labor-intensive production and does not need to make heavy new investments, because its production costs are largely materials and labor expenses, and because facilities and equipment used before Doi Moi are still being used.
- 3) Its materials and labor force are closely related to the local area.
- 4) Its technical capabilities, management organization, labor organization, and reliance on products that were accumulated when the company was a state enterprise or cooperative are greatly

³³ After the adoption of the Doi Moi policy, many cooperative members quit and started independent businesses. They obtain bank loans, gather workers, and make simple goods, including load-carrying platforms. This shows that the rural market in Nghe An Province, which has a population of 3 million, is rather large. There are 62 small, household-managed nuoc mam plants around the state enterprise in the Dien Chau District. Each household produces 5,000-6,000 liters of nuoc mam annually. The state enterprise produces goods of middle-class quality, while unincorporated enterprises process high-quality goods. Each of the households supplies products of a certain quality, to suit a specific taste, and has its own clients.

contributing to the company's adaptation to the market economy.

All of these companies, however, face the following problems.

- 1) Many entrepreneurs are unwilling to make new investments, but merely want to maintain the status quo, and they do not have prospects for new growth.
- 2) Many companies have very primitive facilities and machines that also are out-of-date. These days no other companies are entering the markets of these companies. In other words, there is no competition. Therefore, these companies can enter a market even in this production environment, but they cannot compete with modern enterprises. These companies urgently need to modernize their facilities and techniques.
- 3) Many companies whose forerunners were cooperatives or state enterprises have very little fixed capital and find it difficult to secure bank financing. Such developing companies need industrial protection and promotion measures, including modern technical guidance and help in establishing financing systems³⁴.

³⁴ There are several problems with modern joint ventures that were established in rural areas after the Doi Moi policy. Although the expansion of modern joint ventures into rural areas is expected to help resolve the problem of rural surplus labor, in fact, insufficient transportation and fuel infrastructures prevent modern companies from entering rural areas. Except for industrial parks, there are no successful cases.

The mineral water maker La Vie is doing business in the Khanh Hau Commune in Thi Tran Tan An City (Long An Province) in the south. In 1992, the company applied to the province for approval of operations as Long An Mineral Water Joint Venture, and it began operations at a Khanh Hau plant in 1994. Despite its large scale, La Vie employs a relatively small number of workers, because its operations are almost entirely automated. In 2000, the company employed 172 regular workers and many part-time workers. Getting hired depends on an introduction from a manager of Cong Ty Thuc Luong Long An (Long An food company), which was closely related with La Vie when the latter venture was established. As a result, 100 workers are from Long An Province (mainly Tan An City), while others are from Ho Chi Minh. Forty percent of the regular workers are college graduates, and the rest have graduated from a technical college or higher-quality middle school. Regular workers receive social insurance and health insurance under the labor law. Regarding the social insurance, the employer and worker pay amounts equal to 15% and 5%, respectively, of the worker's salary. Regarding the health insurance, the employer and worker pay 2% and 1%, respectively, of the worker's salary. Regular workers earn about 0.8 million dong. Even part-time workers are paid 0.6 million dong. Bonuses and additional allowances also are given. Such pay is relatively high in Viet Nam. That is to say, La Vie is a typical modern urban-type company that has begun to operate in rural areas.

There are 6 workers from Khanh Hau. There is only 1 part-timer. There are so few workers from Khanh Hau because recruitment is limited to people with connections to the Luong Long An food company and because farm-household children without high educational backgrounds are not accepted by the company. Although the La Vie plant is situated along National Highway 1, it makes no contribution to the local economy.

La Vie is the most successful foreign company in Viet Nam's rural areas. But it has had no effect on increasing rural incomes or creating a labor market. The entry of a modern urban plant into a rural area generally requires sophisticated workers having high educational backgrounds. Because the facility does not need much labor, it contributes little to the local economy despite the huge investment necessary to create it. But to truly benefit a rural area, a modern urban plant that is invited to a rural area must be basically labor-intensive and able to employ workers having low educational backgrounds.

2.3 Rural industrialization strategy as a social policy

2.3.1 I have pointed out that the development strategy for the non-farm sector should differ among areas.

I have also emphasized that many unprofitable industries never are included in the mainstream of Viet Nam's industrialization strategy in terms of capital, techniques, and markets, and that they are merely means of gaining cash within self-sufficient local economies.

However, this does not mean that I am opposed to the development of rural industries, if that occurs under certain conditions. First, rural industries must respond to local needs and culture, even though their markets are rather limited. Second, they are important for the transitional period until Viet Nam's urban industries develop and become able to meet the demand for all daily goods. Therefore, promising lang nghe should be promoted in any area, particularly in such overpopulated areas as Nam Dinh and Thai Binh³⁵.

2.3.2 The rural industrialization strategy basically aims to remedy the above five deficiencies. The following strategies are desirable.

- 1) To provide market information;
- 2) To raise entrepreneurship through adequate management guidance, public financing, and introducing markets;
- 3) To give advice concerning the renewal of equipment and technologies;
- 4) To encourage the development of new products that meet market demand; and
- 5) To improve the investment environment by introducing public financing

Toward this end, it is necessary to survey each area's industrial potential, to conduct research to

³⁵ Many village-industry products can meet the demands of markets. Our survey in Nam Dinh revealed the following cases.

1) At the Hai Tan Commune in the Hai Hau District (Nam Dinh Province), dau Bac Ha (Japanese mint oil) once generated a large income. After the Doi Moi, however, it was replaced by competitive chemical products and it no longer is produced. But the products were of high quality, and given the environment-oriented and organic-goods-oriented market, advertising will help to reestablish a big market for them. A small amount of financing, simple technical guidance, and a small-scale distribution network could easily revive production. The problem is that the potential buyers have no information concerning producers, and producers have no information concerning potential buyers or the market, as a result of which many promising village industries are declining.

2) The Quang Trung Cooperative in the Vu Ban District (Nam Dinh Province) has traditionally been involved in low-skill repair work. Even today, 30% of the cooperative's members are engaged in such work on a semi-unemployment status. The nearby Vinh Hao and Dai Thang Cooperatives were famous for producing goi may (rattan pillows) and embroidering, respectively. After the Doi Moi, however, both cooperatives lost their markets, and now all of their former workers are unemployed. If lock-making, rattan work, and embroidering techniques can be combined to create new furniture and small box goods, their designs might be able to arouse market demand. One problem, however, is that farmers are conservative about commercialization.

identify promising companies, and to strengthen local governments in charge of the above five items. In Viet Nam, however, small companies, which characterize almost all rural industries, are supervised by the Ministry of Labor, Invalids and Society with regard to the social policy of employment security³⁶. Given the experience of Chinese township and village enterprises, however, the backup role of local governments is very important. In Viet Nam local governments do not play such a role.

2.3.3 Huyens (districts) as the core of the rural industrial development plan

The direct and primary economic zone for farmers is huyen (district). However, Vietnamese economic policies are formulated on the basis of provinces. But provinces are not categories that are adequate for classifying environmental conditions, including climate and geographical features, nor economic conditions, such as economic zones. They also are inappropriate for describing various other characteristics, including historical and cultural values.

A district consists of about 30 communes that have a similar natural and cultural environment. Planning at a district level is the most effective from the viewpoint of historical, cultural and environmental aspects. Fundamental information for a rural industrialization plan should be collected primarily at a district level³⁷.

The district should gather the following fundamental information.

- 1) Survey of materials suitable for industrialization consistent with the market economy within the district;
- 2) Survey of technical workers involved in materials processing;
- 3) Survey of product markets within the district;
- 4) Survey of companies' capital;
- 5) Survey of finance-related factors within the district;
- 6) Drawing up an original plan for rural industrialization within the district; and
- 7) Pointing out problems in implementing the original plan.

³⁶ Akie Ishida, *op. cit.*, p. 66.

³⁷ We conducted surveys in 2 districts in Ha Tay Province, in 1 district in Nam Dinh Province, in 2 districts in Nghe An Province, and in 2 districts in Long An Province regarding capital, techniques, management, markets, labor, and production materials. The results show that each of the districts has a remarkable ability to gather information on its economic environment.

3. Rural industrialization policy as an economic development strategy

3.1 Rural industry as an engine of national economic development

The economic development of urban industries has significantly slowed since 1997. Industrialization and modernization using capital and labor in rural areas are necessary for the development of the Vietnamese economy as a whole. Initially, industries in rural areas should be regarded as important sectors for industrialization of the Vietnamese national economy. Then the development of rural industries should lead to an increase in farm-household income, which should expand rural markets. Moreover, this should encourage investment in rural industries, which should expand rural labor markets and increase farm-household income further. Such a positive cycle needs to be created in the markets' economic structures.

3.2 Comparison with Township and Village Enterprises (TVEs) in China

3.2.1 In order to ensure reform of the national economic structure, introduction of the model of Chinese TVEs (TVA model) will be considered, because both countries share the following points in common.

- 1) The country has rural markets with enormous potential and poor distribution networks.
- 2) The existing strong state enterprises cannot meet the potential market demand.
- 3) State capital is weak and cannot finance private companies.
- 4) Private urban companies focus on profitable tertiary industries, and production industries are unlikely to develop.
- 5) As a result of the expansion of agricultural production, capital has been accumulated and markets have been created in rural areas.

3.2.2 Chinese TVEs can be described as follows.

- 1) By the end of the 1980s they accounted for 25% of the industrial output in China, and they have become an essential factor in the national economy.
- 2) They can absorb surplus labor in rural areas. In 1988 they provided a labor market for 95 million workers, or 24% of the labor force in rural areas.
- 3) TVEs can prevent non-farm workers from leaving rural areas or concentrating in urban areas.
- 4) TVEs in some coastal areas are becoming a driving force that promotes an outward development strategy
- 5) Autonomous TVEs that bear profits and losses are models for market-based state enterprises.
- 6) In summary, the development of Chinese TVEs in the 1980s played an important role in realizing China's policy of developing industry and implementing structural changes³⁸.

³⁸ Shigeru Ishikawa, Scenario-Making for Vietnamese Industrialization under Globalization (3), p.4.

3.2.3 Fundamental differences between China and Viet Nam regarding these basic conditions should be taken into account in applying the Chinese model to Viet Nam. Why did Chinese TVEs succeed as mentioned above? There were several favorable conditions in China.

- 1) Rural areas along the coast in China had a tradition and experiences of commercial and industrial management.
- 2) Chinese coastal-area farmers who have long produced commercial crops were willing to pursue profits.
- 3) Urban markets were large.
- 4) Techniques were actively exchanged between metropolitan and rural areas³⁹.
- 5) Local governments took several supporting measures, including (a) holding trade fairs and special product exhibitions, (b) collecting and providing information about foreign and domestic markets for companies, (c) providing technical guidance and recruiting technicians, and (d) providing legal protection of TVEs⁴⁰.

The basic conditions of Vietnamese rural areas differ from those in China in regard to the following points.

- 1) Company-management experience is lacking.
- 2) Domestic markets are weak.
- 3) Rural areas lack their own capital.
- 4) Technical experience is lacking.

Both the favorable conditions in China and the disadvantageous conditions in Viet Nam are products of long histories. The aforementioned four problems cannot be resolved by a rural area's own efforts.

3.3 Exchanges of information between districts and cities through provinces

Therefore, in order to foster TVEs in Viet Nam, it is necessary for urban companies to offer capital, markets, and technical expertise, and to develop rural companies as contractors. Unlike Chinese TVE model, Viet Nam need capital and technologies from urban areas. A government policy for strategically linking rural and urban areas is necessary. However, although district officials are good at collecting local information, they have no experience in analyzing information and controlling a district's economic structure. Their ability is not reliable, either.

For the time being, rural industries are forced to find markets overseas to some extent, because domestic

³⁹ Michiki Kikuchi, "Potentiality of rural industrialization in Viet Nam; Lessons from China's Experience," June 25, a draft for a workshop, p. 4.

⁴⁰ Ibid., p. 6.

markets are limited. Therefore a province-level consulting agent is necessary for analyzing a district's basic survey and linking the district with urban and overseas markets.

Provinces should help in exhibiting local products in big cities and in surveying market responses and identifying the conditions necessary to attract urban companies. There is needed a system for immediately providing information actively collected by provinces and for providing producers in districts with market-related evaluations of products. Technical guidance and financing measures also are needed.

Constraints of the Rural Development in the North of Viet Nam

Dao The Tuan

Viet Nam Agricultural Science Institute

The rural and agricultural development of Viet Nam after the Economic reform have a rapid growth due to the effect of two factors: the return to the peasant household economy and the return to the market economy.

But in this process of development, many new problems appeared. The Department of Agrarian Systems of the Viet Nam Agricultural Institute is conducting many field research in order to identify constraints of the development of peasant household systems and the rural economy and to search to ways of overcome.

The peasant households and the rural market.

A study on the agricultural development of 7 ecological regions of Viet Nam showed that the rapid growth happened only in the Central Highlands and the two regions of the South Viet Nam (Dao The Tuan, Dao The Anh, 1998)

The highest diversification coefficient is in the East of the South, and the Northern Mountains. And the lowest of this coefficient are in the Mekong and the Red River Deltas. During the past 10 years the diversification coefficients increased in the East of the South and the Central Coastal area, while it decreased in the Mekong Delta and the Central Highlands where the specialization process is taking place.

So the development is only favorable in the South Viet Nam and the Central Highlands where the output of the peasant economy is created by the traditional rice and tropical crops, whose market already existed in the colonial time. The market in the South is almost perfect, while that of the North is new and difficult to be developed due to the decreasing man land ratio and to the lost of the East European socialist market in the beginning of 90's. Since then Viet Nam has not found new markets to replace it. So the rural market in the North is imperfect.

A study on the diversification process of the Red River Delta (Dao The Tuan, Dao The Anh, 1998) shows that this process is increasing in some districts but decreasing in others. Further surveys (Dao The Anh, 2000) show that both process of diversification and specialization is occurring simultaneously: medium and poor households diversify their activities in order to lower risks of the changing market, while rich peasants are specializing in animal husbandry or non agricultural activities. Animal husbandry is developing together with food processing in order to use it by-products as animal feed for reducing the production cost.

A study on commodity chains in the show that in the Red River Delta (Dao The Tuan, Le Thi Chau Dung, 2000) it exists 4 types of peasant households on the relation to the market:

- Poor subsistence, less land, no paddy sold, few pigs: 15 %.
- Medium rice producers, more land, paddy sold, few pigs: 36 %.
- Rich rice and pigs producers : 14 %.
- Rich pigs producers: 35 %. In this type there is a group combining food processing with pig raising.
- Rice is the main source of peasant income: 73 % of agricultural households have income from rice in about a half of their income on average, and 27 % have it only about a quarter to complete the income from animal and non agriculture. The Red River Delta is now self-sufficing in rice. Most of household don't sell rice, but use it as animal feed. Sometimes they process rice in order to use by-products as animal feed.
- The upland food crops and winter vegetable crops develop unequally. Only maize and soybean have some growth while other crops were decreasing. One of the causes is the loss of the East European market. Maize and soybean are used for the animal feed, but this production now is controlled by foreign companies using imported raw materials.
- Vegetables and potato decreased in general, but they still develop in some districts like Gia Loc and Tu Ky of Hai Duong province. In these areas some local entrepreneurs organise the trade to the South market (Dao The Tuan, Bui Thi Thai, Tran Ngoc Han, 2000). This operation help farmers to develop new cropping patterns and improve technology to respond to the market demand.
- In the Delta, fruit crops are developing in old gardens, on raised beds in lowland and on hills surrounding the plains. Litchi, longan, jujube (samll green apple) are developing but the processing and market are limited.
- Animal husbandry is still a complementary activity in order to use by-products. Few households is developing its industrial production, because the activity is not very profitable. A study of the animal system in Hai Duong (Vu Trong Binh, Bui Thi Thai, 2000) shows that in spite of high demand of lean meat in cities, farmers don't develop the production of high quality meat due to that there is no price difference among pigs according to meat quality. In some villages where farmers associations help farmers in technology and marketing the production of high quality pork is increasing.
- The market is mainly controlled by private merchants. But in the North Viet Nam the market margin is very low (8% for pig and 15 % for rice) comparing with the South. The cause is due to that peasants are involving also in marketing. This situation is favourable to the consumers but don't promote the commercial production.
- There is a lack of marketing institutions, for example in the North there are not yet a wholesale market as in the South. There are many farmers involving in the supply services to farmers (trade of inputs, products, technological services...) but they are not organised since the effect is limited. Cooperatives don't consider that the marketing of products is the most important farmers' collective action, they are concentrating their activities on the supply of inputs.

- The State do not support the construction of marketing infrastructure and provide marketing information to farmers. The lack of marketing information is favourable for the speculation.
- The rate of under employment in the rural area is very high. The increase of agricultural labour force in the last 25 years is 3.1% per year. So why the non agricultural activities are increasing very fast. About 13% of labour is emigrating temporally to cities in search of jobs. The development of handicrafts villages is very active. But the number of households specializing solely non-agricultural activities is not so many. Surveys show that handicrafts, food processing and trade are the main activities. The two last activities have the most rapid growth. The most important constraint is risks and the lack of output.
- Non-agricultural activities are a part of the household economy. Except some specialising households, all households are involving in small trade, handicrafts, small industries or selling labour force. Many households have people working in cities or other regions. All these activities supplement household income (Dao The Tuan, 2000).

The development of non-agricultural activities

Non-agricultural activities in villages have a long history. The specialization in these activities created handicraft villages. Nguyen Trai mentioned about craft villages in XV century. P. Gourou (1936) estimated that in the 30's craftsmen in the Red River Delta were about 6.8 % of the rural population, but few people left the agriculture.

In the rural area existed a network of rural market. In the Red River Delta there was a market for every three to six villages. These markets, functioning in every three to five days, allow farmers to exchange their products with industrial ones. The number of specialized traders was few. Some villages were specialized in trade.

The distribution of craft and trade villages is similar to that of the population density. But there is a exception that in the low delta (Nam Dinh, Thai Binh) where the population density is the highest area in the delta, the number of craftsmen was not so many due to the high rate of emigration.

P. Gourou described the rural industry: "Peasants of the Tonkinese Delta ask for industry a complement of resource; they can be transformed into craftsmen during the period of forced leisure which gives them the redundancy of labor and periods of inevitable unemployment and is ascribed to the agricultural calendar, thus not causes damages to agriculture. They have created an industry well-matching with their scope, a small industry, labor-intensive and without machines, an industry which have means and sometimes technology very subtle, an irrational industry and illogically distributed but faithful to tradition, an industry unique to the village, a poorly remunerated industry which only helps the farmer, insufficiently fed by the land but not die from hunger. In brief it is a peasant industry, peasant because craftsmen are firstly and foremost peasants who will devote only to agriculture if the size of their land is sufficient, and also because it is practiced uniquely in

villages, within the family house”.

During the period of collective agriculture, these activities were also collectivized in some areas. In some other areas they are carried out by agricultural, handicraft or trade cooperatives. There were policies encouraging the development of sideline and local industries. During the de-collectivization all these activities were bankrupted. Afterward there was a resurrection of traditional craft and trade villages.

In Viet Nam the development of rural industry after the economic reform was not very impressive like in China, because before the reform there was a galloping inflation, which destroyed all capital of enterprises. All cooperatives were indebted to banks and local governments didn't have enough funds for the development of industry.

Development strategy and policies.

Experiences of Asian countries show that countries, which have a large agricultural sector and high population pressure, must have a development strategy based on agricultural development with technological change and intensification.

Firstly this development strategy must be based on a relatively equitable income distribution among peasants. Therefore why the land reform plays an important role. Experience also shows that the development of non-agricultural activities in the rural area have an effect on the creation of employment, the increase and the equitable distribution of income and also have an effect to the development of agriculture. The raising of peasant income led to increase of demand on commodities and services in the rural area. This is the condition for the extension of rural industries and the technological improvement for the productivity growth.

This technology can be realized only in emergence of a commercial agriculture, and a developed rural market, not only commodities but also capital, labor and technology markets. So it needs an agricultural development strategy.

At the same time, this strategy must be developed in a strategy of industrialization with emphases on rural industrialization and an adapted development of infrastructure and human capital.

In order to simulate the effects of policies on the development of the agriculture and the household economy, we elaborated a model of MATA type (Gerard, Boussard, Deybe, 1994). In the model, we simulated the behaviors of agricultural households in four ecological sub-regions of the Red River Delta. Three main groups of economic activities of the farmers: crop cultivation, animal husbandry and non-farm activities were presented.

Different scenarios simulated the impact of the diversification through the raising of the price of different products and of the improvement of policies on the extension, infrastructure improvement and credit.

Simulation results

The increase of rice price has the highest impact to the growth of the production, followed by the increase

of secondary food crops with the animal husbandry.

The reduction of inputs prices has the highest effect on the growth of the production, then come the improvement of the production technologies and of the irrigation and the drainage. The improvement of credit has the lowest effect.

In general the diversification of the production is more favorable to the rich than to the poor and the differentiation will increase. Measures of stimulation of the production are favorable to the poor in the intensive sub-region but not in the rainfed and lowland sub-regions, which are poorer.

The simulation shows that the diversification of economic activities creates the fastest growth in the coastal sub-regions and lowest growth in the rainfed sub-region, which means that the differentiation will increase. Among measures of stimulation of the production, improvement of the production technology and reduction of inputs prices are more favorable for the rainfed sub-region. The improvement of the irrigation and the drainage has the greatest impact in the coastal and lowland sub-regions.

Table Effect of agricultural policies on growth rates of total household output
(% change per year)

Scenario	Ecological sub-regions of the Red River Delta			
	Intensive	Coastal	Lowland	Rainfed
1. Tendency	4.8	7.5	5.5	4.5
2. Rice price increase	10.9	12.7	10.8	9.0
3. Secondary crops and pork price increase	6.1	9.3	7.1	5.4
4. Cash crops price increase	4.4	7.7	5.6	4.7
5. Non-agricultural value increase	5.5	8.0	6.4	5.5
6. Improvement of crop technology	7.0	7.7	6.5	12.1
7. Improvement of irrigation	6.6	8.1	6.7	5.2
8. Reducing inputs price	7.9	8.5	7.2	8.8
9. Increasing credit	6.3	7.5	5.5	5.2
10. Decreasing bank interest	6.2	7.5	5.5	5.3

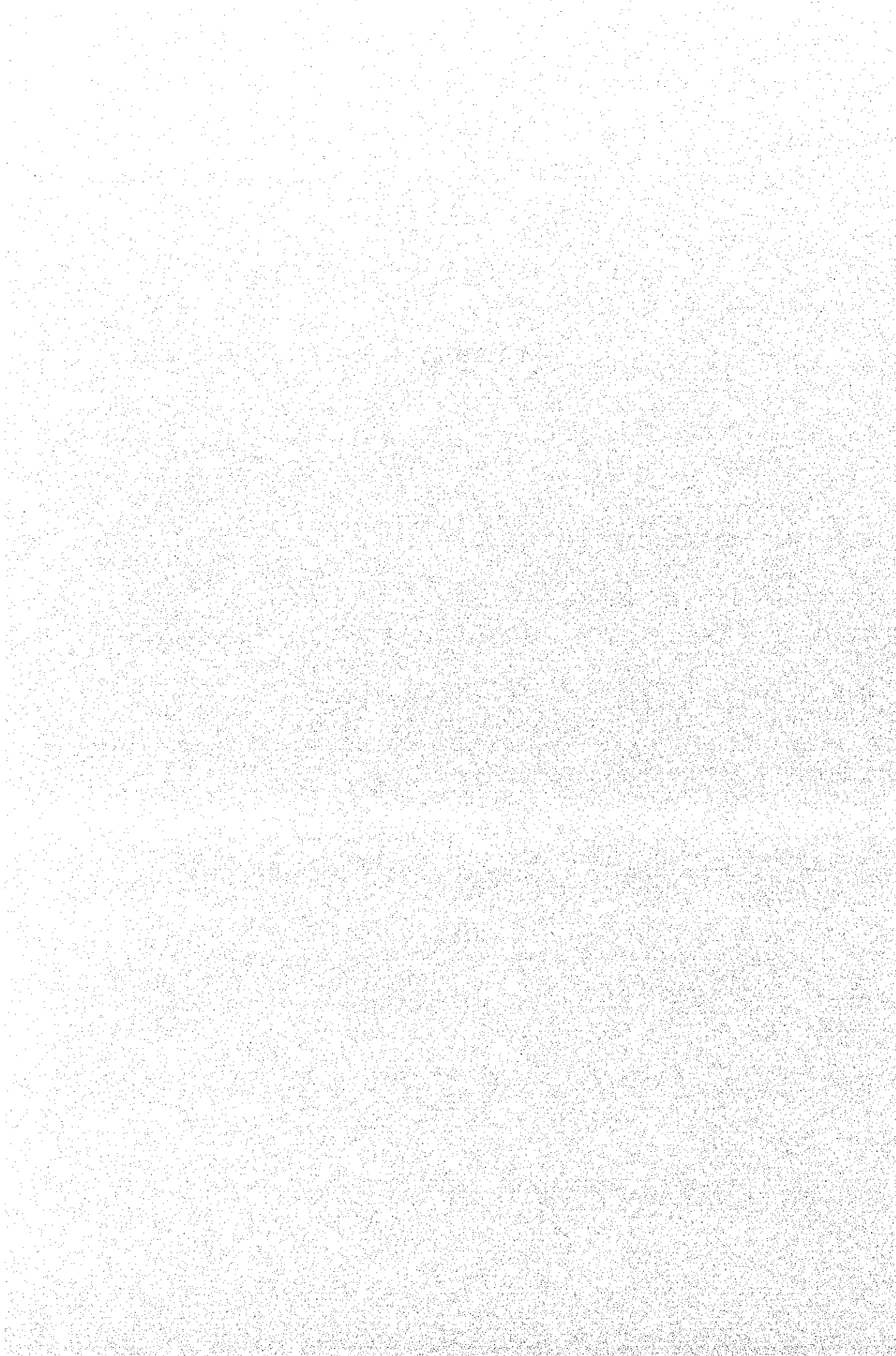
Source: Dao The Tuan, Le Thi Chau Dung, A model for the simulation of agricultural policies on the Red River Delta, 1998.

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Chapter 4



Poverty Alleviation Policies for Ethnic Minorities: A Capability Approach

Yukio Ikemoto
University of Tokyo

"From now to the 2000, active and steady measures should be taken to achieve the three main targets of eradicating hunger, alleviating poverty and stabilizing and improving the living conditions and the health of people of ethnic minorities as well as of inhabitants in mountain and border areas; to wipe out illiteracy, raise the people's intellectual standards, respect and promote the fine cultural identity of ethnic groups ..."
(Development Orientations in Key Fields, VIIIth National Party Congress Documents)

Introduction

In Viet Nam there are 53 ethnic minority groups that account for 14 percent of the total population, 29 percent of the poor people in 1998. This means that incidence of poverty among ethnic minorities is higher than Kinh, 75 % and 31 %, respectively. These figures suggest that poverty among the ethnic minority people is much more severe than among Kinh people. Even though the incidence of poverty of ethnic minority people decreased from 86% in 1993 to 75% in 1998, the decrease is much faster for the Kinh people and as a result the share of ethnic minority people in the poor increased from 20% to 29% in the same period. During this period the ethnic minorities were benefited less than the Kinh in terms of poverty reduction.

Table 1 Poverty incidence in Viet Nam

	Population share		Incidence of poverty		Distribution of the poor	
	1993	1998	1993	1998	1993	1998
All	100	100	58	37	100	100
Kinh	87	86	54	31	80	71
Minority	13	14	86	75	20	29

source) World Bank, *Attacking Poverty*, 1999.

If we focus on the number of the poor, the Kinh accounts for 80% and 71% in 1993 and 1998, respectively. The poverty is a phenomenon of the Kinh people in terms of the number. If we define the poverty just in terms of the number neglecting the severity, poverty alleviation policy should be focused on the Kinh.

On the other hand, if we define the poverty taking into consideration the severity of the poverty, the poverty alleviation policy should emphasize the ethnic minority groups. This point has been discussed in the argument of the poverty index. If we pay attention only to the number of the poor people, the head count ratio is enough,

which is expressed as the ratio of the number of the poor in the total population. On the other hand, if we pay attention to the severity of poverty, the head count ratio is not suitable because it evaluates the severe poor and the moderate poor the same only if their income is less than the poverty line. Those more sophisticated indices such as Sen' poverty index can capture the severity.

The difference in the definition of poverty affects the policy. If the head count ratio is adopted as the definition, the policy will focus on reducing the number of the poor and an easy way to reduce the number is to focus on the moderate poor (the Kinh people in the case of Viet Nam). To the contrary, if a definition that emphasizes the severity is adopted, the policy will focus on the severely poor people (the ethnic minority people in the case of Viet Nam).

This is an example of how the definition affects the policy. This paper argues what is the suitable definition of poverty for the ethnic minority groups. One of the most important aspects of the ethnic minority groups is the diversity in various aspects of their life. Diversity in environment and culture among the ethnic minority groups will make the poverty alleviation policy for the majority inappropriate. If the policy for the majority is applied for the ethnic minorities exactly in the same way, it may worsen the situation. This occurs when some of the policy targets (and therefore the criteria of the poverty) contradict to each other and when some contradicts the important values of the ethnic minority groups that are not mentioned in the policy explicitly. The economic definition of poverty is too narrow to capture the well-being of the ethnic minority groups. For example, the official policy to "respect and promote the fine cultural identity of ethnic groups" (VIIIth National Party Congress Documents) is not reflected in the definition and therefore often neglected in the poverty alleviation policies. Sen's capability approach can capture the well-being of the ethnic minority groups and make the poverty alleviation policy more adequate.

1. Definition, policy and diversity

This paper discusses the relevance of poverty criteria and applicability of Amartya Sen's capability approach to Viet Nam. And this introduction shows an example of the relationship between the criteria and capability in order to show how important the definition of poverty is. *The Development Orientations in Key Fields* (VIIIth National Party Congress Documents) cited above refers to some policy targets for the ethnic minority groups, which may be summarized as follows:

- (1) Eradicating hunger
- (2) Alleviating poverty
- (3) Improving living conditions
- (4) Improving health
- (5) Wiping out illiteracy
- (6) Raising intellectual standards
- (7) Respecting and promoting the fine cultural identity of ethnic groups

What is the relationship of these seven factors? Hunger may be defined as shortage of foods and poverty may be defined as shortage of foods and other necessary goods. This is the basic idea of the poverty line. The poverty line is defined in terms of minimum quantities of foods and other necessary goods. And those households whose income (or consumption) is below the poverty line are defined as poor. If poverty and hunger are defined in terms of goods, the way to identify poverty is to estimate income or the amount of goods consumed. And this definition will make us to focus on simply increasing supply of goods as a policy for eradicating hunger and alleviating poverty. The definition of poverty is thus directly related to the policy. In other words, when we have defined poverty, we already have the policy. Therefore if we define it appropriately, the policy will also be appropriate. If not, the policy will be inappropriate.

If we define hunger as shortage in nutrition intake, we may calculate the nutrition from what a person eats. However, this may not reflect what is actually absorbed. All the nutrition may not be fully absorbed due to some disease. In order to take into consideration such cases, we have to take into consideration the health condition as well as food consumption. When hunger is defined in terms of actually absorbed nutrition, the target (1) is closely related to the target (4). If hunger is identified more accurately simply by measuring body weight¹, we need not calculate nutrition intake from consumed foods. The process to identify poverty will be much simplified.

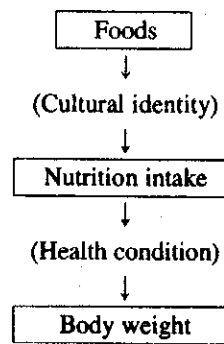
Now we have three levels of identifying hunger; foods, nutrition and body weight (see Figure 1). If we focus on foods, we have to define the recommended minimum quantity of each kind of foods. We may define it as a national standard. However, this neglects the fact that consumption pattern may be different among the ethnic minority groups. If an ethnic minority group is forced to consume the national standard, their cultural identity may not be respected. This contradicts the target (7). This problem can be avoided if hunger is defined in terms of nutrition. Each ethnic group has freedom to choose foods according to their culture to achieve the minimum quantity of nutrition intake. If we define at the level of nutrition, we can take into consideration the cultural diversity of ethnic groups.

The traditional approach to poverty is to define the poverty line based on the minimum calorie intake. An international standard of minimum calorie intake is applied to each country and consumption basket is identified according to their consumption style to achieve the minimum standard. Thus the consumption pattern, or cultural identity of each country has been reflected in the tradition poverty line approach. We may follow the same procedure to define the poverty line of each ethnic groups. This meant that we will have as many poverty lines as the number of the ethnic groups, which makes the poverty analysis very complicated.

However, we can avoid this problem by focusing on body weight. Body weight is a result of food consumption, nutrition intake that reflects cultural diversity, and health condition. If we choose body weight as an index of poverty, we need not conduct such a costly, time-consuming and unreliable survey to identify poor communes².

¹ This may not be enough. This is given just as an example.

Figure 1 Threelevels of hunger identification



A merit of this method is that it takes into consideration the diversity in health condition of the people. It has another merit that it can take into consideration the intra-household distribution. A household may have enough food if equally distributed but if it is distributed unequally within household, for example, men consume much more than women and children, some member may not have enough foods. We may be able to check this situation by weighing all members of the household.

The change in the definition affects the policy. If we use the definition in terms of food consumption, the policy will be focused on increasing the supply of foods. If we adopt the definition based on body weight, the policy would be not only to increase food supply but also to improve the health condition. Production and health are also related to each other. If production of foods is enough, health condition will be improved. And when health condition (and therefore labor productivity) is improved, production of foods will be increased as the work capacity theory suggests.

This is just an example of how the definition of poverty affects the policy and how it can allow for the diversity of ethnic minority groups. This paper is not to recommend adopting the definition based on body weight, which is used just as an example³.

The above-mentioned example indicates the importance to make clear in what space we define the poverty. It may be defined in the space of foods, or in the space of nutrition intake, in the space of body weight, or in other spaces. The importance of the space is also applied to measure well-being as Amartya Sen argues. Well-being may be defined in the space of income, or in the space of utility, etc. However, human being is so diversified that the level of well-being cannot be measured by income or goods adequately. For example, people differ to each other in the ability to make use of the income for their well-being. People may differ in preference. Diversity of human being is a very important factor in measuring well-being as the diversity of ethnic groups is important in defining poverty.

² This does not deny the importance of a well-designed household socio-economic survey such as the Vietnamese Living Standard Survey (VLSS).

³ Though it seems better in efficiency than the current definition that requires much more detailed survey on households, it needs advices from experts.

In order to allow for the diversity, Sen proposes the *capability approach*. *Capability* is a set of vectors of *functionings* and *functionings* are what people can do or can be. An example of functioning is “adequately nourished” that does not specify how it is achieved in order to allow for diversity. We have to look for the *capability* or *functionings* that the poor people should achieve in an appropriate way that allows for diversity of the ethnic minority people.

2. Poverty alleviation, efficiency and economic growth

Viet Nam has achieved high economic growth as well as reduction of poverty. For example, the poverty incidence in terms of general poverty line decreased from 58% in 1992/93 to 37% in 1997-98. In terms of food poverty line it decreased from 25% to 15% in the same period. In terms of rice poverty line, it decreased from 20% in 1995 to 11% in 2000. If this reduction was brought about by the rapid economic growth, the Vietnamese experience may be called “growth-led poverty alleviation.” If this is true, the best way to alleviate poverty may be to accelerate economic Growth⁴.

On the other hand, the approach to poverty that identifies and concentrate on the extremely poor people may cause inefficiency in various senses. One is that it may affect the overall economic growth adversely. This is known as a trade-off between income equality and economic efficiency. Resources that are allocated to the poor in order to reduce income inequality (or to reduce poverty) may have been used to promote economic growth. If there exists a simple trade-off between economic growth and poverty alleviation, we have to choose a combination of economic growth and poverty alleviation. However, if such a trade-off does not exist, or in other words, if economic growth accompanies reduction of poverty as assumed above, it will be better to devote resources for economic growth. The problem is whether there exists such a trade-off in Viet Nam.

Efficiency depends on the definition of poverty. If poverty is defined as head-count ratio, efficiency is measured by the decrease in the number (or percentage) of the poor people. In this case, resources will be devoted to the less poor people so that their income will be raised above the poverty line. The efficient way is to concentrate on the less poor people because it is easier than to raise the income of the poorest people above the poverty line. On the other hand, if poverty is defined in terms of severity, or more weight given to the poorer people, resources must be devoted to the poorer people according to the weight. The majority of the poor in Viet Nam is Kinh people due to their large population share. On the other hand severe poverty is found among the minority people. Thus the target group differs according to the weight given to the poorer.

Another inefficiency arises when the relationship between and between poor communes and non-poor communes are neglected. If a non-poor commune has a potential to be a “growth center” in an area, it may be

⁴ This is based on the assumption and does not mean that we had better neglect the really poor people. We are discussing efficiency.

better to develop the commune so that it will provide neighboring poor communes with income opportunities. Information on new technology may spread from the center to the surrounding communes. The center may subcontract jobs to them⁵. People in the poor communes may find out job opportunity in the center. The target approach neglects the geographical pattern of economic development⁶.

Village economy is a *complex system* and if a factor is changed the whole system may collapse, or may not change at all, or may begin to develop. Village economy is on an equilibrium that may be stable or unstable. And the development of a village economy is an evolutionary process. This complexity makes it very difficult to predict results of poverty alleviation policies. The diversity of ethnic minority people makes it much more difficult. Applying the same approach to all may succeed in some communes but not in other due to the diversity. Problems of the poverty alleviation policies for ethnic minority groups arise from the complexity and diversity.

3. Limits of the poverty line approach

Poverty is usually defined in terms of income. The household whose income is less than a minimum amount is defined poor. The minimum is called poverty line. It is calculated based on the minimum requirement for foods and other necessary expenditures.

In Viet Nam, two different poverty lines are used; one is *food poverty* line and the other is *overall poverty* line. The food poverty line corresponds to the minimum food expenditure while the overall poverty line corresponds to the minimum food expenditure plus minimum non-food expenditure. The estimated poverty lines are shown in Table 2. This table indicates that Viet Nam successfully reduced the number of the poor under the growth-oriented economic policy. If this statistics is reliable, it seems that Viet Nam needs not to change the economic policy toward poverty-oriented.

Table 2 Poverty lines in Viet Nam

	Year	Poverty line	Poverty incidence
Food poverty line	1992-3	VND 749,723	24.9%
	1997-8	VND 1,286,833	15.0%
Overall poverty line	1992-3	VND 1,160,363	58.1%
	1997-8	VND 1,789,871	37.4%

Source: World Bank, *Attacking Poverty*, 1999

(1) Price level

Poverty line is affected by the price level. It is usually adjusted by inflation rate. This table implies that

⁵ An example is the production of the triangular pillow in the Northeast Thailand. The growth of rural industry depends on the center and the surrounding villages and the subcontract among them. See Ikemoto [1996].

⁶ A similar inefficiency may arise when the relationship between poor people and non-poor people.

food price index increased 71.6% from 1992-3 to 1997-8 while overall price index increased 54.2% in the same period if there was no change in the composition of the poverty line. The difference in the inflation rate indicates that food prices increased much faster than non-food prices in this period.

Differences in price level between rural and urban areas also should be taken into consideration. The urban poverty line is generally higher than the rural one because the price level in urban areas is generally higher than in rural areas.

Price level is also varied among regions. We need price index by region.

(2) Composition of necessary goods

Region affects the poverty line not only by the price level but also the composition of the necessary goods. For example, climate affects it. In cold regions it will require more non-food expenditure such as clothes and heating than hot regions.

Household size affects the minimum non-food expenditure. The larger the household size, they can share more common expenditure. An example is newspaper. Therefore poverty line should be adjusted by household size, which is sometimes done.

Age structure of household also affects the composition. For example, the proportion of young children will affect the minimum food requirement because children eat less. Children need expenditure for education. Man or woman, pregnancy, health condition, job, etc. also affect the minimum food requirement.

Disease makes people poor because they have to spend more for medicine and their income decreased at the same time. Thus poverty is seriously affected by disease. If disease can be avoided, poverty will be reduced even if the income level is unchanged. However, this aspect is not captured by income-oriented poverty line approach.

Ethnicity also affects the composition. They may differ in the contents of foods and non-foods. If the "fine cultural identity of ethnic groups" is to be promoted, the difference should be reflected in the composition of the poverty line. Thus each ethnic group will have their own poverty line.

Human being is so diversified that the simple poverty line approach cannot capture the poverty adequately. The poverty incidence is at most a very rough indicator of poverty and cannot be used to identify the poor.

4. Limits of goods and services

The same argument as the poverty line can be applied to the definition of poverty in terms of goods and services. Poverty may be judged by counting the number of holes of house, utensils, clothes, etc. to identify the poor. However, the minimum number of these goods may be varied according to the climate, environment, social condition, culture, etc. For examples, the minimum number of the clothes is different according to the climate. Thus the definition in terms of goods and services cannot adequately capture the poverty.

(1) Poor commune

The criteria to identify poor communes have the same problems. The criteria may be summarized as follows:

- 1) Location: Poor communes are located more than 20 km away from development center.
- 2) Key infrastructure: Poor communes lack electricity, road, irrigation, clean water supply, school, hospital, and so on.
- 3) Social indicators: The illiteracy rate of poor communes exceeds 60%.
- 4) Production conditions: People's life in poor communes depends on forest and shifting cultivation.
- 5) Credit and market access: Poor communes lack credit and market access.

Actually these criteria are adjusted by taking into consideration the location and other characteristics of the commune. The ambiguity that is brought about by the adjustment is necessary in order to take into consideration the diversity of ethnic minority groups. Poverty is ambiguous and ambiguous phenomena must be defined ambiguously. To the contrary, if it defined strictly and applied uniformly to all communes, some problems will arise.

For example, when poor commune is defined as those which locates more than 20 km away from a development center, what is the meaning of the 20 km? If the road condition is so bad that it takes a few days to arrive at a development center which locates within 20 km, this commune would better be classified as poor. To the contrary, if a commune locates far away more than 20 km from a development center but the road condition is so good that it takes only one hour to arrive at a development center, this commune could not be classified as poor by this criterion. The criterion simply defined by the distance cannot take into consideration other conditions. What we should focus on is not the distance but the functioning of transportation and communication. It will be more appropriate to redefine it as to reach a development center within half a day irrespective of the type of transportation. This new definition allows for the diversity of geographical conditions.

Some of the key infrastructures are just a means but not the aims. A means may not necessarily lead to the aims. And the aims may be achieved by other means. For example, there are various types of education, formal, informal, non-formal, etc. To build a school as a key infrastructure is neither a necessary nor a sufficient condition of education. Diversified education that reflects the life style of the local people may sometimes be more efficient in educating people.

Irrigation may not be necessary depending on the types of agricultural production. To put the irrigation in the criteria implicitly means to force a type of agriculture.

If shifting cultivation is prohibited, the criterion 4) needs not to be a condition of poverty. If it is allowed and it is sustainable, this criterion is not suitable as a condition of poverty. In any case, the criterion is not suitable and does not allow for the diversity of ethnic minority groups.

The criterion 5) is not suitable either. This criterion is an objective to be achieved but just one of the means to improve living condition.

(2) Policy

If poor communes are identified by the above-mentioned criteria, the policies to alleviate poverty are directly derived from them. 1) To construct road. 2) To provide electricity, to construct road, to supply clean water, to build school and hospitals. 3) To improve literacy rate. 4) To prohibit shifting cultivation or to improve its productivity. 5) To provide credit and to construct market. Even if all these conditions are met, some people may still remain poor, especially those who cannot make use of these infrastructure. The criteria is not suitable as a condition of poor commune because it is not based on the analysis of poverty. They are rather the targets of the government. Road, electricity, irrigation, clean water, school, hospital, education, etc. are all the basic activities that the government should do not only for poor communes but also for non-poor communes. In other words, the poverty alleviation policy is just what the government should do irrespectively of poverty.

(3) Functionings of the criteria

Some of the problems of the criteria arise from confusion between aims and means. As mentioned above, some of the factors are related to the means and the means are neither sufficient nor necessary condition of human well-being. We have to focus on the well-being of people rather than the means. The criteria can be reinterpreted in relation to well-being.

For example, the criterion 1) "Location: Poor communes are located more than 20 km away from development center" has some meaning for well-being. People may go to the development center to get information (1-a), or to buy and sell goods (1-b), or for pleasure (1-c), and so on. If the criteria are expressed in these functionings, we can shape various type of policy suitable to the geographical condition, ethnic culture, etc.

The criterion 2) "Key infrastructure" includes school and hospital. The policy directly derived from this criterion is to build a school and a hospital in a poor commune. The result is unnecessarily modern buildings of schools and hospitals in remote areas that we often encounter in developing countries. However, sometimes it occurs that people are so poor that they do not afford the expense of sending their children to school. People may be too poor to go to hospital. And hospital may have modern medical equipments but no staff may be able to use them. On the other hand, it may not have necessary medical equipments or enough medicines. The functionings of school and hospital should be expressed as: (2-a) To educate people and (2-b) People can receive minimum medical treatment. The expressions allow for diversity in the way to achieve these functionings. For example, Viet Nam is a long country and the climate is different among regions. If an uniform academic term is applied to all the country, the academic term is not suitable in some

regions. If the summer vacation is fixed for a certain period of the year, for example, August, and applied it to all regions, some regions may have "summer vacation" even though it is not summer in the region. Some regions may waste the good season for education due to the uniform academic term. The academic term may be adjusted according to the agricultural season. When children have to help their parents during farming season, school hour would better be adjusted so that children continue to study at school. If they are forced to go to school when they have to help their parents, children may give up to go to school at all. The diversity in the life requires the diversity in the education.

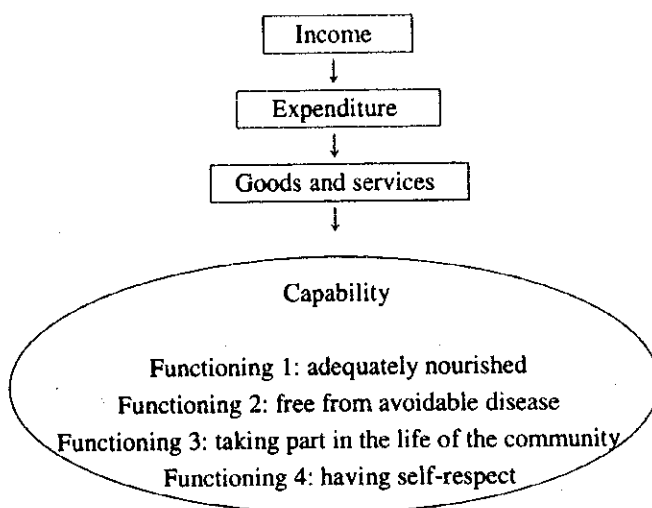
5. Functionings and capabilities

"In the context of some types of welfare analysis, e.g. in dealing with extreme poverty in developing economies, we may be able to go a fairly long distance in terms of a relatively small number of centrally important functionings and the corresponding basic capabilities, e.g. the ability to be well-nourished and in other contexts, the list may have to be much longer and much more diverse" (Sen [1992], pp.44-45).

Amartya Sen's capability approach focuses on the well-being of the poor people directly. As mentioned in "Development Orientations in Key Fields" of the VIIIth National Party Congress Documents, if we "respect and promote the fine cultural identity of ethnic groups," the poverty alleviation policy should not contradict this target. The simple criteria discussed so far, however, sometimes contradict this when the policy is implemented. In order to avoid this contradiction, we should have more comprehensive criteria of poverty. The capability approach provides us with some ideas.

Capability is defined as a set of vectors of *functionings* and a *functioning* is defined as "the various things a person may value doing (or being). The valued functionings may vary from such elementary ones as being adequately nourished and being free from avoidable disease, to very complex activities or personal states, such as being able to take part in the life of the community and having self-respect"(Sen [1997] p.199). The functionings in the capability include all achievable functionings, not only the actually achieved ones but also those which are potentially achievable but actually not chosen. Capability indicates the range of what a person can do and in this sense it reflects the freedom of a person. "Capability is, thus, a set of vectors of functionings, reflecting the person's freedom to lead one type of life or another. Just as the so-called 'budget set' in the commodity space represents a person's freedom to buy commodity bundles, the 'capability set' in the functioning space reflects the person's freedom to choose from possible livings" (Sen [1992], p.40).

Figure 2 Functionings and capability



When we measure people's well-being by the actually achieved functionings, we neglect the freedom to choose. "This 'well-being freedom' may have direct relevance in ethical and political analysis. For example, in forming a view of the goodness of the social state, importance may be attached to the freedoms that different people respectively enjoy to achieve well-being. Alternatively, without taking the route of incorporating well-being freedom in the 'goodness' of the social state, it may be simply taken to be 'right' that individuals should have substantial well-being freedom" (Sen [1992] p.40). An example is an ethnic minority group who has two alternatives; one is to become economically rich but lose their cultural identity and the other is to remain poor while preserving their cultural identity⁷. If they have only one alternative, either of these, their capability is smaller than the case that they have two alternatives. And the capability approach evaluates the two alternatives case higher than the single alternative case. The economics-oriented definition of poverty neglects this aspect. By doing so, we neglect the important aspects of ethnic minority groups. Wherever the human diversity is important, the well-being freedom should be included in the definition of poverty.

Any kinds of activities and states can be defined in terms of functionings. They range from elementary to trivial ones. Some examples are given as follows:

(1) Elementary functionings

- a. Adequately nourished
- b. Free from avoidable disease
- c. Avoiding premature mortality
- d. Adequately educated
- e. Having essential non-food consumption goods
- f. Being well-sheltered

⁷ This does not mean that we need not do anything for them even if they choose the latter.

(2) Complex functionings

- g. Being happy
- h. Taking part in the life of the community
- i. Having self-respect
- j. Improving intellectual standard
- k. Promoting the cultural identity
- l. Preserving culture

(3) Trivial functionings

- m. Playing basketball

The examples of elementary functionings may seem to be the same as the Basic Human Needs (BHN). The difference is, however, that the latter is usually expressed in terms of goods and services while the former is expressed in terms of what a person can be and can do. The limitation of the BHN approach is mentioned above as the limits of goods and services. It does not take into consideration the human diversity.

We can define as many functionings as we like but most of them are trivial and irrelevant to evaluate the well-being of the people. We have to choose those functionings that are really important for the well-being. As is the prices in economics, we may think values that an individual or a society attaches to the functioning. While higher value may be attached to the elementary functionings, lower or no value may be attached to the trivial functionings. Those functionings whose value is negligible will be omitted from the capability set.

If there is no diversity in the value, or if every people attach the same value to each functionings respectively, there is no difficulty in selecting those high-valued functionings. However, when the diversity in value is important as is the case of ethnic minority groups, the selection becomes a very difficult task. Even though playing basketball is cited as a trivial functioning, it may be one of the most important activities for a community. The community may choose it as a factor of the capability but may be trivial for the other.

Some people may argue that religious and cultural activity should be classified as trivial. Constructing a big temple may seem to be a waste of money, which should have been used for economic development. However, for some people it may be the most important functioning for their life, which is closely related to the complex functionings. The traditional definition of poverty cannot take into consideration these aspects.

If the value is diversified, people choose their own capability by themselves. To choose is, by itself, an important functioning and therefore it makes their capability richer.

A merit of the capability approach is that we need not collect detailed data on what a person actually consumes and their market prices. It is very difficulties to collect such detailed data. In order to collect them a large number of trained interviewers will be needed. This is a burden for the government budget and for the local government staffs. The interview may cause the problem of self-respect as mentioned above. As a

result, we may not be able to collect accurate data of consumption and prices. And we may not be able to take into consideration the differences price levels between regions appropriately.

On the other hand, the capability approach can avoid such difficulties. If the function “adequately nourished” can be judged by a simple medical check, we need not collect detailed data on consumption. The medical check is much more useful than the data on consumption for the poor people. They can learn from the check how to improve their health. On the other hand, they may learn nothing how to improve their life from income and expenditure survey. Thus the capability approach is more efficient in the sense of the government resource allocation.

The functioning “d. adequately educated” may allow for the diversity in the level of education for people to attain. The minimum level that people should attain will be different according to their work. If to the contrary an unnecessarily high level is fixed as the target for all people uniformly, it will cause inefficient allocation of the government resources.

The functioning “f. being well-sheltered” can be achieved in various types of houses according the climate, culture, and so on. Therefore this functioning can allow for the human diversity.

The second category “complex functionings” seems to be difficult to define but should not be neglected as emphasized above in relating to self-respect. Sometimes participation is emphasized. However, it is sometimes involuntary, or forced participation. They are implicitly forced to answer as they are expected and they are forced to behave as they are expected. The expectation is based on the globally standardized solution to poverty, not on their own choice. This superficial participation worsens the situation by reducing their capability. It sometimes hurts the complex functioning “having self-respect.” Policies to improve intellectual standard also sometimes conflict with their cultural identity and damage the self-respect.

Culture is an important factor of well-being. This is not because it can be used for tourism but because it has its own value. It also contains the wisdom to live in their environment. Their culture might have been evolving by adapting to their environment while their environment also has been evolving by the efforts of the people. Therefore both culture and environment constitute a kind of complex system which emerged as a result of interaction to each other. Poverty alleviation policies often change their environment and this affects their culture, too. These changes may improve or worsen their living condition. We cannot predict the direction because it is a complex system. The result may partly depend on their ability to adapt to the new situation. If they cannot adapt, they may become poorer and gradualism may be better. When their environment is drastically changed, for example by resettlement, some people may not be able to adapt to the new situation because their old knowledge is not suitable in the new situation. Some people may become poorer than before and want to return to their old place. On the other hand, some people may be able to adapt to the new situation and escape from poverty. When the poverty alleviation policy requires drastic changes, the ability to adapt should be taken into consideration.

6. Capabilities and means

Poverty alleviation policies sometimes confuse the means and objectives, which can be seen clearly by the capability approach. For example, building a school is a means for education; building a hospital is a means for health; and constructing a market is a means for transaction of goods. On the other hand, in the capability approach these means may be expressed as functionings; adequately educated, free from avoidable disease, transaction of goods and information. We can identify multiple functionings for an activity. It is clear that what is important is not a means but functionings. Or what is really important is what kinds of education are given at school, what kinds of medical care are provided at the hospital; what kind of goods and information are transacted. We sometimes encounter those cases where the means do not fulfil the functionings. For example, a hospital in remote areas which looks very modern does not have enough medicine, medical equipments, doctor, nurse, etc.; in a big modern school few students study without textbook and notebook; in a big modern market only a small amount of transaction is conducted, which has been done in the traditional market. These building are neither necessary nor sufficient condition to achieve functionings. If we can appropriately define the functionings, we can avoid such waste and use public resources more efficiently.

If we can define functionings appropriately, we can allow for diversity in the means to achieve these functionings. The functioning "adequately nourished" can be achieved by various ways according to the environment, tradition, culture, etc. We may define it in terms of calorie intake. The most efficient way to attain the minimum level of calorie intake may be solely depending on a kind of bean as a solution of linear programming as was the case in India. People may obtain the minimum level of calorie but the function of eating is not only to take calorie. Eating has other functionings such as enjoy eating. To achieve this functioning people need diversity in the way to take the minimum calorie.

The functioning "adequately educated" also needs diversity. In the poor region children may help their parents when their parents are very busy at agricultural season. The agricultural season is affected by climate and agricultural pattern. This fact necessitates diversity in schooling. Children may learn from parents. Or they may study at evening when they finished their work. If ethnic minority people have difficulty in learning by Vietnamese language, they may better be allowed to study by their own languages. Relating to this point, MPI and UNDP [2000] mentioned as follows: "Conduct a comprehensive review of the curriculum in minority education. In particular consider making adopting methods of instruction in which Vietnamese is learned as a second language in some context. Adapt the content of the curriculum to better include culturally relevant material in minority areas." There are various ways of studying and styles of education. Such diversity should be allowed for in the education for people. In any way, we should not confuse the means with functionings.

7. Self-targeting and self-monitoring of the poverty

The arguments so far seem to be too abstract to derive any concrete policy. However, the main argument of this article is how to take into consideration the diversity of ethnic minority groups. For this purpose it is recommended to define poverty in terms of capability.

Once a capability set is identified, the way to achieve the capability should be determined by the people themselves. Even the functionings of the capability set may better be determined by the people. This idea is consistent with the idea of participation and self-respect. This process will have an educational effect on the people by thinking and discussing what is the minimum capability to be achieved. And when it is identified and expressed in a concrete form, it becomes the target of the people. If they monitor themselves, they will know their own situation well. To the contrary, if the target is given from outside, it may neglect the diversity of the ethnic minority groups and, what is worse, they may have no chance to think what is really important for their well-being.

Of course, this does not mean that the government need not do anything to support the poor people. The government should focus on the more basic aspects such as health, education, infrastructure or what the government should do. This will make the government expenditure more efficient.

8. An experience in Thailand

Some aspects of poverty can be removed even without economic growth. Viet Nam has been rated at a higher level of human development compared with its income level because its achievement was already high in the aspects of health, education, etc. Thailand also succeeded in improving health condition and alleviating malnutrition among children in the early 1980s when the Thai economy was stagnant and the incidence of poverty was increased (see Table 3).

The improvement was brought about by the efforts of the Thai government that reallocated the budget in favor of the rural sector, especially for poor villages and poor people. This was an important factor but it was not sufficient for the impressive results. The public expenditure could be more efficient when people's knowledge on health is improved. There were many kinds of activities organized by the Thai government and volunteers to educate people on health. People monitored their situation by a questionnaire distributed to every household. It was filled out by the household head and then it was tabulated by the village headman and sent to the local government and then to the central government. The questionnaire filled by the household head is kept by the household and pasted on the wall or pillar of their house. It shows how many criteria the household does not pass, which become their target.

Table 3 Inequality, poverty and malnutrition in Thailand

Year	Gini coefficient	Poverty incidence	Malnutrition		
			Total	2nd degree	3rd degree
1979			56.0%	13.1%	2.0%
1981	0.431	17.5%			
1982			58.0%	13.0%	2.1%
1983			48.0%	11.8%	1.9%
1984			35.2%	5.9%	0.8%
1985			28.5%	3.9%	0.21%
1986	0.466	22.4%	26.0%	3.2%	0.13%
1987			23.5%	2.4%	0.06%
1988	0.474	16.1%	22.0%	2.0%	0.04%
1989			20.6%	1.3%	0.01%
1990	0.488	15.0%	18.6%	0.8%	0.004%
1992	0.515	10.9%			

Source) Ikemoto [1993]

Note) "Malnutrition" indicates percentage of malnourished pre-school children.

"2nd degree" and "3rd degree" indicate moderate and severe malnutrition, respectively. The degree of malnutrition is based on Gomez's classification.

The impact depends on the contents of the questionnaire. If questionnaire is made only to calculate household income, the members of the household would learn little from the process the knowledge to improve their well-being. Such a process lacks participation of the people and cannot provide information and knowledge to the people by answering the questionnaire. The questionnaire conducted in Thailand includes those questions more directly related to well-being. For example, the questionnaire composed of 39 questions. 12 questions are related to health, 5 to living conditions, 7 to education, 4 to family welfare, 1 to income, 3 to participating in community activity, 5 to virtue, 2 to environment. The questionnaire was designed so that people can learn from it what they should do and what they should not do. For example, they could learn what kind of food they should take and should not take.

The questionnaire was intended to evaluate the quality of life. And when poor households were identified, they were supported by the government, for example, food stamps and free medical treatment were provided for the poor. As a result Thailand succeeded in eradicating severe malnutrition significantly without high economic growth.

The methodology adopted in Thailand does not necessarily reflect the idea of the capability approach but it shows a social impact of a questionnaire.

In Viet Nam a survey has been conducted to identify poor people and poor commune but its contents are income-oriented rather than "well-being"-oriented so that people can learn little from it. Some people are not willing to be identified poor so that they may not answer correctly. They may feel humiliation if they are identified poor and may answer as if they were not poor, which results in the underestimates of poverty incident. If the process of identifying the poor makes people feel humiliated, the target of poverty alleviation may be achieved superficially by such underestimation. On the other hand, some people may be willing to be

identified poor, expecting to receive assistance from the government. If clever people receive assistance and poor people who really need the assistance do not receive it, the really poor people will feel inequality.

A way to avoid this bias is to conduct a much more detailed survey by devoting a larger number of personnel and a larger amount of budget. However, the current situation of Viet Nam does not allow it. And such a large amount of budget as well as personnel should be devoted directly to alleviate poverty if they are used efficiently. The capability approach can avoid such inefficient expenditures as discussed in this paper.

To reduce the burden on the budget, to be free from the humiliation, to avoid the inequality, and to allow for the diversity of ethnic minority people, the capability approach will be more appropriate.

9. Conclusion

The difficulties of the poverty alleviation for ethnic minority groups arise from the diversity of their culture, environment, etc. The diversity makes it extremely difficult to identify the causes of poverty because the causes are also diversified. If the definition of poverty is expressed in terms of the causes, the definition also should be expressed in diversity. However, if it is expressed in terms of capability, the diversity can be taken into consideration.

The diversity is not limited to the causes of poverty. The targets of poverty alleviation policy are also diversified among ethnic groups. Those functionings that each ethnic group attaches high value may vary between Kinh people and the ethnic minority groups and among the latter. Such important functionings for the ethnic minority people may be deteriorated if an uniform package of poverty alleviation policy is applied irrespectively the ethnic groups.

The complexity makes it difficult to identify the causes of poverty and the diversity makes it difficult to apply results obtained in a village to other villages.

The capability approach can take into consideration the diversity. People have freedom to choose and decide by themselves. It may take longer time but would be much less harmful.

Efficiency should be taken into consideration because the resources are very limited. By focusing on functionings rather than infrastructure resources will be allocated more efficiently.

World Bank et al. [1999, p. xii] and MPI and UNDP [2000, p.90] recommend facilitating the short-term monitoring of poverty so that "faster action can be taken to reach the poor during times of hardship." However, the purposes of the monitoring system recommended in this paper are more than this. It is expected to educate people, change their consciousness and attitude, make people find out the solution by themselves. This will be more efficient in resource allocation and less harmful to the cultural identity and self-respect.

We can review from various documents what is suitable for the functioning to be achieved. For example, poor health is resulted from "lack of clean water, unsanitary conditions, malnutrition and lack of basic supplies, such as mosquito nets and warm clothes" (World Bank et al. [1999], p.33). From this sentence people may

learn what functionings are lacking in their life and what should be done to achieve them. It is important for people to think their situation and choose functionings according to it by themselves. This is a way to assure the diversity in the way of development.

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Appendix I. Viet Nam's development goal for the period 1996-2000

- (1) Economic well-being
 - Economic growth
 - Eradicate hunger
 - Reduce below 10% the percentage of the population fed with less than 2,100 calories per day.
 - Reduce by one-half the proportion of people living in extreme poverty from 20% to 10%.
- (2) Social development
 - Population, health and nutrition
 - Bring the population growth rate down to below 1.8 %.
 - Reduce the rate of malnutrition among the under-fives from 42% to 30%.
 - Reduce the infant mortality rate of under-one to less than 30 per thousand and of under-five to less than 55 per thousand live birth.
 - Reduce the maternal mortality rate to under 50 per 100,000 births.
- (3) Education
 - Eradicate illiteracy for those aged between 15-35 years.
 - Ensure universal primary education.
- (4) Labor market
 - Provide employment for the 6.5-7 million new entrants into the labor force.
 - Reduce urban unemployment rate to below 5%.
 - Increase employment in rural areas to over 75% of available labor time.
 - Increase the ratio of trained labor from 10% to 22-25% of the workforce.
- (5) Gender equity
 - Raise the educational and professional standards of women.
 - Foster more women officials.
- (6) Infrastructure
 - Provide access to safe water for all urban residents and 80% of rural residents.
 - Provide electricity to 100% of districts and 80% of communes.
 - Improve access to knowledge infrastructure by ensuring that 80% of households are able to watch TV and 95% are able to listen to the radio.
- (7) Environment sustainability
 - Check environment pollution.

Source: VIIIth National Congress Documents (1996) cited in World Bank et al. [1999].

Appendix II. Hunger Eradication and Poverty Reduction (HEPR)

- Department of Social Protection, MOLISA
- Established in 1998
- MOLISA uses a rice-equivalent poverty line; 15 Kg for mountainous areas.
- Four essential sections for poverty reduction
 - i) Health
 - ii) Education
 - iii) Infrastructure
 - iv) Agriculture
- Started as subsidized credit and later expanded to free health care and free education for the poor. However, free health care is limited to free check-up and medicine for malaria.
- 9 projects
 - i) Construction of infrastructure (small scale project, transportation)
 - ii) Assistance to the absolute poverty (54 out of 57 are for ethnic minorities)
 - iii) New economic zone for resettlement
 - iv) Training
 - v) Business guideline (forestry, fishery, extension services)
 - vi) Credit assistance
 - vii) Health care assistance
 - viii) Education assistance for the poor
 - ix) Production instruments for the poor

Appendix III. 135 Program

- CEMMA (Committee for Ethnic Minorities and Mountain Areas)
- 1715 absolute poor communes
- 5 main criteria
 - i) More than 60% of the households in a commune is poor.
 - ii) More than 20 km away from developing centers.
 - iii) Illiteracy rate is higher than 60%.
 - iv) Infrastructure (clean water supply, electricity, road, irrigation, school, hospital) is missing or temporary.
 - v) Exploiting forest, practicing shifting cultivation.

Strategy

- Build concentrated residence zone.
- Promote forestry.
- Construct basic infrastructure such as transportation, electricity, clinic, school, etc.
- Establish about 500 Commune Cluster Center for 4000 communes.
- Management training emphasizing the role of leadership.
- Scholarship for students.

Appendix IV. Recommendation of MPI and UNDP [2000]

This paper points out six measures as highest priority as follows:

- (1) Continuing reform and momentum for economic growth: Economic growth is a necessary condition for poverty alleviation.
- (2) Reforming macro-economic and investment policy substantively towards rural development.
- (3) Prioritizing basic social services within the state budget through increased allocation and intra-sectoral reallocations.

Health:

- i) Expanding village health worker program
- ii) Training subsidy for nurses, midwives and pharmacists
- iii) Free or subsidized essential drugs

Education:

- i) Refocusing onto basic education
 - ii) Curriculum reform
 - iii) Raising teacher quality
 - iv) Expansion of Alternative Basic Education (ABE)
 - v) Expanding program of adult literacy
- (4) Ensuring access of poor to basic services through a concerted multi-pronged effort.
 - (5) Reform intergovernmental finance and boost weak capacity in poor areas.
 - Fiscal transfers to poor provinces
 - (6) Adjusting relationship between state and non-state actors in service and welfare provision.

Appendix V. International development goals

(1) Economic well-being

- A reduction by one-half in the proportion of people living in extreme poverty¹⁾ by the year 2015.

(2) Social development

- Universal primary education in all countries by 2015.
- Demonstrated progress toward gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2015.
- A reduction by two-thirds in the mortality rate for infant and children under the age of 5 years and a reduction by three-fourths in maternal mortality by 2015.
- Access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015.

(3) Environmental sustainability and regeneration

- The current implementation of national strategy for sustainable development in all countries by 2015 so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

Source: *Shaping the 21st Century: The Contribution of Development Cooperation* (OECD, 1996).

Note: The IDG defined extreme poverty in terms of the proportion of people with incomes of less than USD1 per day (in 1985 Purchasing Power Parity terms.)

Member List of Research Group

Tittle	Japanese side	Vietnamese side
General Supervisor		Vo Hong Phuc (MPI)
Co-Chair	Shigeru Ishikawa	Nguyen Quang Thai (DSI)
General commentary (Topic 1)		
Leader	Shigeru Ishikawa	Nguyen Quang Thai (DSI)
	Yoshiaki Nishimura	Tran Dinh Nghiem (PPH)
	Tran Van Tho	Kieu Dinh Thu (OOG)
	Koichiro Fukui	Do Quoc Sam (MPI)
	Koichi Ohno	Vo Dai Luoc (WEI)
	Michiki Kikuchi	Pham Quang Ham (DSI)
	Mitsuo Ezaki	Nguyen Dinh Phan (NEU)
		Vu Quang Minh (OOG)
	Seiichi Masuyama	Tran Phuong Lan (MOT)
	Hisami Mitarai	Han Manh Tien (CONCETTI)
	Hitoshi Sakai	Nguyen Van Phuc (NEU)
	Shoichiro Hara	
	Takao Aiba	
	Hiroko Hashimoto	
Trade and industry (Topic 2)		
Leader	Kenichi Ohno	Pham Quang Ham (DSI)
		Pham Chi Cuong (VSC)
	Fukunari Kimura	Nguyen Huu Tho (VSC)
	Nozomu Kawabata	Do Huu Hao (MOI)
		Duong Dinh Giam (MOI)
		Le Minh Duc (MOI)
		Nguyen Van Vinh (DSI)
		Nguyen Thi Nga (DSI)
		Vu Thi Ngoc Phung (VEA)
		Nguyen Van Thuong (NEU)
		Pham Hong Chuong (NEU)
		Mai Ngoc Cuong (NEU)
		Hoang Duc Than (NEU)
		Nguyen Ke Tuan (NEU)
		Do Duc Binh (NEU)
		Truong Dinh Chien (NEU)
		Nguyen Duy Bot (NEU)
		Pham Dang Tuat (NEU)
		Pham Thai Hung (NEU)

Tran Van Hoe (NEU)
 Pham The Anh (NEU)
 Ngá Thi Hoai Lam (NEU)
 Nguyen Suc Hien (NEU)
 Hoang Viet (NEU)
 Nguyen Thuong Lang (NEU)
 Vu Minh Duc (NEU)
 Vu Huy Thong (NEU)

Fiscal and monetary policy (Topic 3)

Advisor		Lai Quang Thuc (MPI)
Leader	Akiyoshi Horiuchi	Le Quoc Ly (MPI)
Acting Leader	Shinichi Watanabe	Nguyen Doan Hung (MPI)
	Eiji Tajika	Ha Xuan Tu (MPI)
	Masahisa Koyama	Le Viet Duc (MPI)
	Nobuo Hirohata	Tran Van Son (MPI)
	Toshiyuki Katagiri	Dang Van Thanh (MOF)
		Nguyen Quynh (MOF)
		Nguyen Ngoc Tuyen (MOF)
		Ngo Huu Loi (MOF)
		Nguyen Van Phung (MOF)
		Pham Ngoc Thach (MOF)
		Nguyen Duc Tang (MOF)
		Quach Duc Phap (MOF)
		Truong Ba Tuan (MOF)
		Nguyen Thu Thuy (MOF)
		Nguyen Thi Kim Thanh (SBV)
		Chu Thi Hong Minh (SBV)
		Nguyen Ngoc Bao (SBV)
		Nguyen Phuong Lan (SBV)
		Nguyen Thu Ha (SBV)
		Nguyen Van Tan (SBV)
		Nguyen Thi Hong (SBV)
		Le Phuong Lan (SBV)
		Nguyen Son (SSC)
		Dao Le Minh (SSC)
		Phung Xuan Nha (HNU)
		Cao Cu Boi (NEU)

Agriculture and rural development (Topic 4)

Leader	Yonosuke Hara	Le Hong Thai (MPI)
Acting Leader	Yoichi Izumida	
	Yumio Sakurai	Dao The Tuan (VASI)
	Yukio Ikemoto	Nguyen Sinh Cuc (GSO)

Seiji Shindo

Nguyen Van Tiem (Farmers Asso.)
Nguyen The Nha (NEU)
Dang Kim Son (MARD)
Nguyen Thanh Duong (MPI)

SOEs reform and private sector promotion (Topic 5)

Leader

Shigeru Ishikawa
Masahiko Ebashi
Tomoo Marukawa
Yasuo Okamoto
Katsuhiko Nagase

Hitoshi Sakai
Nobuaki Takada
Naoyuki Teshima
Eri Habu

Le Dang Doanh (CIEM)
Tran Tien Cuong (CIEM)
Nguyen Dinh Tai (CIEM)
Bui Van Dung (CIEM)
Cu Ngoc Huong (CIEM)
Nguyen Van Huong (CIEM)
Nguyen Kim Anh (CIEM)
Nguyen Thi Luyen (CIEM)
Nguyen Anh Dung (CIEM)
Nguyen Nam Hai (CIEM)
Ta Minh Thao (CIEM)

Secretariat

*** JICA Tokyo**

Kazuhisa Matsuoka
Masaru Todoroki
Takashi Hatakeyama
Kenta Seto
Akiko Saito
Saeko Nakabayashi
Yuko Odake
Kiyono Uno

*** JICA Viet Nam**

Morimasa Kanamaru
Masato Togawa
Daisuke Hosokawa
Kei Fukunaga
Kuniaki Amatsu
Chiaki Konuma
Miho Ota
Luong Mai Dzung
Dinh Thi Kim Oanh
Pham Viet Duc

Ho Quang Minh (MPI)
Nguyen Xuan Tien (MPI)

