

**Follow-up Study for the Economic
Development Policy in the Transition toward
a Market-oriented Economy in Viet Nam**

Executive Summary

December 1999

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Ministry of Planning and Investment
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Foreword

This study entitled "Follow-up Study for the Economic Development Policy in the Transition toward a Market-oriented Economy in Viet Nam" was conducted within the framework of the technical cooperation program of the Government of Japan.

The study was carried out as joint research by professional experts specializing in economic policy from both Japan and Viet Nam. The research groups organized for this purpose were led by Prof. Shigeru Ishikawa, Professor Emeritus of Hitotsubashi University for the Japanese side, and by Dr. Nguyen Quang Thai, Vice President, Development Strategy Institute, Ministry of Planning and Investment for the Vietnamese side.

The research groups held discussions with the Vietnamese government organizations concerned, and conducted jointly field surveys. This report was prepared jointly by the Japanese and Vietnamese research groups on the basis of mutual trust and understanding.

I hope that the useful suggestions presented in this report will contribute to the formulation of policies for economic transition and sustainable development of Viet Nam, and it would be my great pleasure if the report would be used practically by concerned organizations, officials and experts.

I wish to express my sincere appreciation to Professor Ishikawa, Dr. Thai and each research members for their serious efforts in finalizing this study, and to the officials concerned for their valuable opinions.

December 1999

Kimio Fujita
President
Japan International Cooperation
Agency



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Preface

This report introduces the results of the Follow-up Project of the "Study on Economic Development Policy in the Transition Toward a Market-oriented Economy in Viet Nam" which has been conducted under a "Japanese-Vietnamese Joint Research" program between September, 1998 and September, 1999. The main survey was carried out on the basis of formal agreements between the Japanese and Vietnamese governments between August, 1995 and March 1998. The survey was separated into two phases (Phase 1 and Phase 2) and conducted for the purpose of giving advice on the formulation of a new Vietnamese Five-Year Economic and Social Development Plan (1996-2000) and related matters. At the end of Phase 2, while there were in many circles demands for the successive implementation of Phase 3, it was considered desirable, prior to it, to conduct a comprehensive evaluation of new internal / external situations of Viet Nam that had started to emerge as early as in mid-Phase 2. This process resulted in the birth of this follow-up project. This project was implemented by the Japan International Cooperation Agency (JICA) through its technical assistance program, and in particular its expert assignment scheme.

Among many such new internal / external situations, two must be cited. First, Vietnamese Government came to realize that its commitments to AFTA as a member nation to reduce custom duties on producers goods imported from the AFTA area to 5% or less by 2006 and further to eliminate completely the existing non-tariff barriers placed severe constraints on the paths to industrialization of the country. Secondly, the currency / financial crisis, as well as resulting economic slump in general, which originated in Thailand in July, 1997 and expanded over many East Asian countries have had an impacts on the Vietnamese economy in a variety of ways, including decreases in exports and foreign investments and a serious increase in unemployment. These have served as an important factor to Viet Nam's recent serious economic recession. This also raised new questions regarding how Viet Nam's future external economic integration should proceed, particularly from the aspect of external current / capital accounts, and in what speed the corresponding domestic economic system reform should be carried out..

The follow-up project has taken up three topics (1) agriculture / rural development, (2) monetary and financial matters, and (3) industry / foreign trade and conducted small-scale studies on each. The framework of the study envisaged consists of: Part 1, a comprehensive assessment of the current economic situation in Viet Nam and a listing of the issues currently facing the Vietnamese economy; Part 2, a small-scale ad hoc survey of certain selected issues from among the above issues; and Part 3, an agenda for further studies. This final report consists of three chapters corresponding to the above three topics, and one additional chapter for

General Commentary. Each chapter is arranged according to the above framework.

For the comprehensive assessment of the current economic situation, naturally, Japanese members mostly depended upon the findings of Vietnamese members, resulting in a much larger input by Vietnamese members' in the final report.

Before submitting the final report, a Hanoi Workshop was held on July 20 and 21, 1999 for discussions on the results of joint research. At the workshop, the Japanese government, given the results of the follow-up work, officially announced its preparedness to assist Phase-3 Vietnamese – Japanese joint research with its principal aim now shifted to the advice to the Vietnamese Government on the formulation of a new Five-Year Plan (2001 – 2005) and related matters.

For the implementation of this Follow-up project, we were able to obtain the valuable cooperation / assistance from many circles as was the case during Phases 1 and 2. We would express our profound gratitude for this.

The Japanese joint research group is particularly impressed with the strong concern of and support for this project extended by the new Secretary General Le Kha Phieu, and other Vietnamese government leaders.

The Vietnamese joint research group gives special thanks to JICA and its Vietnam office for the assistance for the research implementation.

In addition to submitting this final report to Vietnamese government leaders, we have also sent it to you. We solicit your opinions in advance of the implementation of the Phase-3 Joint Vietnamese-Japanese Research Project, which is expected to be start soon.

December, 1999, Hanoi / Tokyo



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General Commentary

1. This report's purpose is to announce the results of the Follow-up Project of the Study on Economic Development Policy in the Transition Toward a Market-oriented Economy in Viet Nam which was been conducted from September 1998 to September 1999; the project followed the Joint -Vietnamese - Japanese Research (JVJR) method, which was also used in the main Study. This main Study itself was done during the period of August 1995 - March 1998 with the aim of making studies and offering advice on the formulation of a new Vietnamese Five-year Economic and Social Development Plan (1996-2000) and related matters, under agreements between the Vietnamese and Japanese governments. It was carried out by separating itself into Phase 1 and 2. The two governments decided in July 1999 to implement Phase 3 of this Study, however prior to this decision the Follow-up project was started with the aim of performing a general assessment of new internal and external developments which had already emerged in Viet Nam, and thereby preparing carefully the possible Phase 3 Study.
2. There are a number of factors to consider regarding these new internal and external situations. But it must first be mentioned as a background that the current 5-year plan had made a successful start in 1996 for both long-term economic development and market economy-oriented system reform. In fact, the preparation of this 5-year plan itself was made possible only after the Vietnamese economy finally recovered from the effects of war damages and an economic crises (hyper-inflation, foreign currency reserve losses, and huge financial deficits), which occurred between the end of the 1980s and the beginning of the 1990s. The economic crises took place mainly due to the collapse of the former Soviet Union and its bloc which ended support of Viet Nam's public finance and international balance of payments during the period. A swift changeover from the old Soviet Bloc to the US dollar Bloc in the by-area-of- destination stricture in the foreign trade and international balance of payment was successfully carried out. The agricultural sector overcame its crisis by introducing higher-yielding varieties of rice. Also, the relation ship with major donors, including Japan and the IMF / World Bank was normalized around 1993. The "Joint Vietnamese country's -Japanese Research"

program was started under such circumstances in the purpose of giving advice for drafting and operating the country's 5-year plan. The Vietnamese economy started to show encouraging growth in terms of its GDP, exports, FDI inflow, and other indicators between 1992 and 1996.

The first of the new situations was observed as an abrupt downturn in all of these indicators, starting from the middle of 1997. This downturn exerted an impact not only on public finance and banking as well as the international balance of payments, but also on state-owned and private enterprises. This was directly caused by the currency / financial crisis and, general economic slump that originated in Thailand in July 1997 and later expanded to other East Asian countries. This crisis raised new problems, namely, how should the Vietnamese external economy be integrated eternally in the future from the aspects of both current and capital accounts of the international balance of payments. (The East Asian crisis and its impacts on the Vietnamese economy had been already preliminarily reviewed in Phase 2.)

Secondly, Viet Nam promised, under the rules of AFTA (which it joined in 1995), to implement a reduction in custom duties on imports from the AFTA areas ' to 5% or less by 2006 as well as a total elimination of non-tariff barriers. The Vietnamese government has, however, realized that agreement placed a great burden on its progress toward.

3. The follow-up project, based on the same "Joint Vietnamese –Japanese Research" method as used in the preceding two phases, conducted research that was narrowed down into three fields (agriculture / rural development, fiscal / monetary matters, and industry / foreign trade), was staffed with much fewer people, and limited had a more the scope in its survey range than those of in Phases 1 and 2. The framework of the survey envisaged for all topics consists of: (Part 1) a for comprehensive assessment of current economic situations in Viet Nam to list up the issues currently facing its economy, (Part 2) an ad hoc survey of a few issues from among the above list, and (Part 3) an agenda for future research. During Phases 1 and 2, we were asked by the Vietnamese government to present our views and opinions on the problems which were not foreseeable at the time of research planning.

The survey results were included in the Section entitled "Commentary" in the Phase 2 Final Report. This time, such ad hoc surveys were not conducted, but at the initiative of the cochairmen of both sides, papers were prepared relating to overall comments on the measures taken by the Vietnamese government to cope with the new situations and to deal with longer term economic reform.

I. General Discussion (Chapter 1)

1. The Vietnamese Cochairman's paper, starting with a broad description of the economically critical situation now existing in Viet Nam, stresses that the Vietnamese economy is in the process of a transition from a regime of direct planning mainly for the state sector to a regime of a market economy premised on indirect planning for the economy as a whole or the government's macro-economic management. The Vietnamese economy is changing over from the supply side-emphasized type which was suitable at its less-developed stage with excess demand to the demand side-emphasized type that carefully watches signals both at home and abroad. It has already abolished all the mandatory output indicators, except for five produced items of produces: electric power, oil, gas, rice and exports. Other points for comprehensive evaluation include the following:

- (1) The problem of regional / global economic integration has been more and more critical to Viet Nam while, on the other hand, the serious difficulties due to the Asian region's economic crisis are intensifying. This requires a dramatic "breakthrough" toward the success of long-term economic development as well as economic system reform.
- (2) For agricultural / rural development, dependence on the growth of net farm production alone is not sufficient at present, but diversification and industrialization are indispensable. On the other hand, rural labor is still poorly utilized, implying a large potential. There is room for the "richness-first theory" in parallel with the eradication of poverty.
- (3) In industrial policy-making, efficiency and competitiveness during the international integration process must be considered. It is, therefore, unavoidable to protect infant industries, but in resorting to tariff protection it is necessary to clarify beforehand the schedule for abolishing protective tariffs in stages after the goal is achieved.

- (4) Implementation of costly projects such as the Thai Nguyen Steel and Cast Iron Company and the Ha Bac Fertilizer and Chemical Company should be decided with careful consideration.
- (5) Long-term unconditional relief of state enterprises that are running deficits only causes an excessive burden to government budget and finance and, therefore, is useless.

2. The Japanese Cochairman's paper was specially prepared, in consideration of the situation recently faced by the Vietnamese government, the matters to be negotiated with international organizations, including the IMF / World Bank and individual donor countries, are incurring and becoming more complicated. The paper argues that progress in the economic system reform toward market economy direction in a country in transition could be assessed by the degree in which the economic policy-making authorities' preparation of the scenario (or economic development strategy) for the said country's transition to the market economy has taken good shape. The paper further compares on the basis of this argument on the Chinese and Vietnamese experiences. The scenario denotes a program of transition which fairly concretely describes three items, (i) the goal of transition to a market economy, (ii) the process to reach the goal, and (iii) a time table of achieving (i) and (ii).

The reasons why this scenario is decisively important for developing countries experiencing economic transition such as China and Viet Nam are as follows : (i) As for a transition to a market economy, the IMF / World Bank model available serves as a ready-made model that is very useful understanding the state of the economy and its structure when it reaches the goal go in but it does not specifically let us know the state of the goal of the specific country nor does it the process to reach it. (ii) In countries like China and Viet Nam, where the market economy has been only poorly developed, it is necessary for the government as well as those concerned to attempt a trial-and-error-type search for the best method to nurture such an economy. The passage to reach the goal will never be identified, even gradually, without such efforts. (iii) The scenario of transition to a market economy found for each country is public goods and has strong external effects. It serves as a guidepost for government departments/agencies as well as the private sectors in their policy decision-making and, for foreign donor countries, as a factor by which to

have a confidence on its future path of systemic facilitating negotiations for assistance from a longer-term perspective.

The progress of transition to a market economy in terms of scenario-making is lagging behind much more in Viet Nam than in China. The message this research delivers is as follows:

- (1) It is desirable that the Vietnamese government will take every opportunity to announce that the goal of its economic system reform is a complete transition to the market economy, and that the steps toward that goal form an irreversible single passage in the long term that will to be followed steadily until the goal is established as a whole as well as in each individual field. It seems that such this kind of announcement is of extreme importance, particularly during hard economics time such as have been seen in recent years that so, necessary emergency relief measures for the economy in general or for individual fields are not be mistaken as a retreat from the already committed road toward the market economy.
- (2) For the international organizations and individual donor countries now rendering economic assistance to Viet Nam, it is advisable that they be aware that the task of transition from the economics planning system of the former socialist economy to a market-oriented economic system is an extremely difficult one, both in understanding an exogenous model for marketization and in designing the steps toward transition. (It took China 15 years from its decision to part with the planned system to its preparation of a scenario of transition to a market economy.) It is also necessary for them to be sympathetic of the serious hardship Viet Nam is facing as this process begins. All in all, they might refrain from being too impatient and making inflexible demands; instead, they might extend technical assistance (TA) or other services that will facilitate the transition.

The above message is a common one to those given in the following chapters, particularly for fiscal and monetary matters and industries and foreign trade.

Industry and Trade

Viet Nam is in the process of rapid global economic integration. During the 1990s, Vietnam has moved vigorously and decisively from the status of international isolation to open and active external economic relations. Important diplomatic relations have been restored, trade and investment links have been activated, and ODA inflows began to contribute significantly to infrastructure-building and social development. These new changes resulting from external integration have now become the primary driving force of the Vietnamese economy which achieved very high growth until very recently. The Government is determined to continue with the policy of bold international integration despite the regional economic difficulties in 1997-98.

In the area of international trade, the Government is now committed to the obligations of AFTA and APEC and currently negotiating to enter WTO. An open trade regime provides a strong impetus to systemic reforms and domestic enterprise restructuring, which is highly desirable. But free trade also poses potentially serious challenges for a country like Viet Nam with underdeveloped markets, industries and governing structure. To maximize the benefits of free trade and minimize its potential costs, the country needs to be well prepared to cope with possible difficulties along the way. The workshop discussed existing problems and future tasks as Viet Nam inserts itself in the highly competitive global market.

The Vietnamese side, consisting mainly of officials directly involved in AFTA, APEC, and WTO trade negotiations, contributed papers identifying past achievements and remaining policy inconsistencies. The first paper from the Vietnamese side reviewed key issues in overall industrial development, including the quality of business environment, shortage of SMEs and rural enterprises, and the need to re-focus industrial strategy under free trade commitments. The second paper provided a detailed list of WTO-inconsistent policies currently practiced in Viet Nam. These included import bans and quotas, lack of procedural transparency, (partial) state monopoly in foreign trade, export subsidies, and incompatible technical standards.

The third paper characterized the formulation process of Viet Nam's trade policies from the operational viewpoint. It noted the lack of clear trade and industrial policies behind committed tariff rates, and frequent uses of quantitative restrictions.

The fourth paper discussed the official master plan for the textile and garment industries in terms of industrial structure, capacity, equipment and technology—and necessary policies to support it. The fifth paper reviewed the past improvements and current status of Viet Nam's trade statistics with special attention to methodological consistency and international comparability.

From the Japanese side, the first paper numerically assessed free trade impacts (import penetration, trade diversion, etc.) by combining GSO's trade data with the proposed tariff reduction. The cement industry is further analyzed as an illustration. This industry, now protected with import bans, must overcome a cost gap of over 50 percent to be internationally competitive. The second paper reviewed recent trade and FDI policies in the neighboring ASEAN countries. During the Asian crisis, movement towards open trade and investment accelerated, with less room for active industrial promotion. The automobile industry was studied as an example. The third paper reported the status of Viet Nam's SME sector, with its lack of linkage and supporting industries. The fourth paper introduced the experience of General Corporations in China, from which tentative lessons were drawn for Viet Nam.

Throughout the session, the need to establish industrial policies consistent with AFTA, APEC and WTO (whether for promotion or downsizing) was well recognized by all participants. Despite this general consensus, at present, the Government does not have concrete and feasible action plans for individual industries to meet free trade challenges. Instead of further arguing the general merits of free trade versus industrial promotion, participants felt that actually drafting such action plans—even for a limited number of industries—is essential in the next stage of research.

Another related issue was consistency between short-term stopgap measures to cope with crisis and recession (such as import bans and quotas, now frequently used) and the long-term commitments to free trade. Temporary safeguards are permitted even under WTO, but they must take the form of surcharges rather than quantitative restrictions. Moreover, the timing and conditions for removing short-term barriers must be specified.

For successful negotiations with WTO, IMF, World Bank, etc., Viet Nam should commit to a clear long-term timetable for trade liberalization while requesting temporary protection of a small number of industries, backed by workable restructuring plans and firm deadlines. Without such careful preparations and strong ownership in trade policy formulation, bold commitments to open up may lead to inadvertent foreign dominance, high unemployment, social outcry—and even reversion to tight trade controls.

Financial and Monetary Matters

Issues and findings: Reform of the financial sector

1. Background of the Follow Up project

1. Viet Nam has started the historical process of integrating its economy with the regional and world economy more than a decade ago. And it has been quite successful. It has boldly implemented an innumerable number of changes necessary to integrate its economy with the world economy, including the transformation of its economy from a centrally planned economy to a market based economy. The crucial component of the transformation was the separation of the Government, SOEs and the commercial departments of the mono-bank. The Government stopped financing the investment of SOEs for commercial purposes. Commercial banks separated from the mono-bank assumed the function to mobilize funds from the public in general and to allocate the mobilized funds to SOEs and other business firms for their investment.
2. But the reform effort of Vietnam to continue the transformation process is now facing a serious challenge because of a change in its external environment. The Asian economies were hit by unexpectedly harsh financial and economic crises and were striving for their recoveries. In comparison with the hard hit ASEAN economies, Viet Nam was weathering the storm with minimum damages to its growth paths. This was partly attributable to the various ad hoc policy measures taken by the Government in response to the crisis. They helped Viet Nam stay close to its long term growth path planned before the Asian crisis.
3. Nevertheless, one could not avoid asking the question whether the growth path supported by the ad hoc policy measures taken in response to the crisis would be sustainable. What would be the long term effects of the ad hoc measures on the economy? The question was important because the ad hoc measures often seemed to contradict with the key characteristics of the long term financial reform to realize effective and sound financial sector: In order to answer the question concerning the sustainability of the growth path, it is necessary to clarify the financial states of banks and enterprises as accurately as possible. How are they affected by the Asian crisis? How are they affected by the ad hoc measures? How are the ad hoc measures

related with the long term structural policy measures implemented during the same period? These are the questions that formed the background of the Follow Up Project for the financial sector reform.

2. Major results of the Final Report of the Follow Up Project

6. The financial states of a large number of banks and enterprises are found to be quite precarious. But this is more or less expected. What is surprising is the sheer number of ad hoc policy measures that have been implemented since the mid 1997 in order to mitigate the financial difficulties of SOEs. They all have the effects of weakening the incentives of SOEs to keep stringent financial disciplines, postponing the solution of their financial problems to the future, and as a consequence increasing the vulnerability of state owned commercial banks (SOCBs) to credit risks. While it is not possible to evaluate the credit risks in the balance sheets of the SOCBs accurately, the financial positions of some of them might have become negative already if credit and market risks were fully taken into account. They are becoming more vulnerable to external shocks.
7. Furthermore, little progress has been made in creating institutional environment which help the private business sector develop. Ad hoc measures to assist the flow of funds to SOEs have had no effect on credit crunch to private firms. Legal environment is not well developed yet that enables banks to control the adverse selection problem among private borrowers. Consequently, many private firms have little or no access to bank credits.
8. The financial states of joint stock banks are extremely unstable. A number of joint stock banks are deeply insolvent and their balance sheets are even closer to that of a pyramidal scheme. The policy environment is not conducive for the development of joint stock banks. The regulation on interest rates might have been a primary reason for the instability of joint stock banks.
9. But the picture of the financial sector is not overwhelmingly bleak. The long term institutional reform of the financial sector continued during the same period. The Law on State Bank and the Law on Credit Institutions were enacted on 26/12/1997 and made effective on 01/10/1998.

The Government and the SBV issued various prudential regulations under the Laws and provided the guidelines how to classify their assets and to set aside loan loss reserves and when to write off bad loans. They aimed at strengthening the capability of credit institutions to manage their credit risks. Income taxes on banks were revised also to help them creating more adequate loan loss provisions. A criterion based on the CAMEL rating was established to evaluate the risks of joint stock banks and to identify the problem banks among them. The new accounting system made effective since 1996 were fully implemented in 1998. The restructuring process of joint stock banks started in HCMC in 1998 and is being in progress. The Government took some steps to increase the capital base of the SOCBs. A basic legal framework was established that provides a financial infrastructure for issuing and trading securities, such as stocks and bonds. A new mechanism was established to enhance the equitization process of SOEs. The restriction on the spread between loan and deposit interest rates was abolished. A new legal framework was established to provide a coherent and comprehensive framework for regulating foreign exchange transactions in view of achieving convertibility of dong for current account transactions in the future.

10. It is clear that these long term reform measures are creating the foundation of a market based economy in which the functions of the Government, SOEs and banks are sharply separated and in which banks perform the function of financial intermediation on the basis of their own evaluation of credit risks. But the ad hoc measures are sending the message to SOEs and banks that stringent financial disciplines should not be applied to the relationships between them. And the latter message often seems to be stronger than the message implied by the long term measures. This has created confusion among banks and enterprises and made it more difficult to predict the dynamics of the financial states of banks and enterprises. This is because the dynamics of financial states depend not only on the long term reform measures implemented in the past or at present, but also on the expected structural policy measures to be taken in the future. But, being confused, many firms and banks do not have clear expectation about the institutional environment to which they have to adapt their behavior in the long run.

3. Policy implications

11. In order to minimize the negative incentive effects of ad hoc measures, further efforts are needed to clarify the final goal of the financial sector reform and to implement the long run structural policy measures consistently to achieve that goal.
12. Stronger efforts should be made both to find prudential regulations that can be easily monitored and effectively enforced in Viet Nam and to improve the organizational capability of the SBV, banks and enterprises to implement the regulations.
13. It is important to assess the magnitude of the credit risks and market risks being accumulated in the banking sector accurately and to take remedial actions to reduce its risks and make it more robust to external shocks.

4. The agenda for further studies

14. Firstly, it is important to evaluate the combined effects of ad hoc measures and long run reform policies on the incentives of bankers, managers and workers of SOEs, and their regulators. How are the moral hazard problems caused by the ad hoc measures being controlled? The answer to this question will depend on how effectively the long run reform policies are enforced in the economy.
15. Secondly, it is equally important to examine when and how to implement the long run reform policies. The problem is inherently difficult because every country is different and the difference matters in its solution. The unique historical conditions of Viet Nam are that it is in the transition process to a modern market economy from both a centrally planned economy and a peasant economy at an early stage of economic development. For the development of the financial sector, it is equally important to note that Viet Nam experienced hyper inflation in the middle 1980s and that the credit unions collapsed nationwide at the end of 1980s. But still the experience of other economies should be helpful in analyzing the problems to the extent that common factors exist.

This is especially true because many Asian economies have been implementing radical financial reforms after the latest financial crises, aiming at establishing financial systems robust to external shocks in the open economy.

16. Thirdly, it is important to examine the nature of the safety net that is being used to protect depositors of banks. The information is extremely limited on how the costs of insolvent banks were allocated among their owners, depositors, other creditors and so on. Nevertheless the nature of the safety net is extremely important for determining the efficiency and stability of the banking sector.

Agricultural and Rural Development

Background of the Follow-up Project

1. The joint research project of Phase 1 and Phase 2 focusing on important issues of agriculture and rural sector in Viet Nam gave rise to many useful results. One point to be born in mind is that the Phase 1 and Phase 2 studies were conducted separately for the topics selected, hence the interrelations among the topics were not much studied. This follow-up study started with a view to understanding the agricultural and rural development comprehensively while giving deeper considerations to the interrelations among the aspects.
2. However, since such comprehensive studies, if conducted evenly for all agricultural products, may cause us to lose the heart of the matter, it was decided to focus only on the rice economy that is the main agricultural production in Vietnam. In short, the follow-up study of our team is to analyze "the reproduction process of rice economy" assuming that rice economy represents agricultural and rural economy of Viet Nam.
3. Based on the above mentioned principles, the list of research topics was determined after having discussion between Japanese and Vietnamese side. Then, among the research topics of the list, the following four issues were selected as specially important research subtopics for this project. These are: present stage of rice economy, structure of rice economy including bipolarization of farm households in the Mekong Delta Areas, post-harvest problems and distribution of rice, and supporting institutions for agriculture and rural sector.
4. To the final report, six Vietnamese experts contributed. In addition, the chief of the Vietnamese side wrote separately the comprehensive report named "Agricultural and rural development in the 1990s." From the Japanese side, three researchers submitted their reports. One of them is the survey report on rice economy of the Mekong Delta Areas. Survey reports conducted by the Japanese side with the cooperation of the Can Toh University, on the distribution system of rice and the rural financial system in the Mekong Delta Areas were also attached to the final report.

Major results of the Final Report

5. Viet Nam is a rice country. In 1987, the share of Vietnamese agriculture in GDP was 27 percent, much higher than surrounding ASEAN countries. Among many products in the Vietnamese agriculture rice farming is producing the half. The share of rice production in national income is one-seventh, and the rice sector earns more than 10 percent of total export. Besides, around two-third of the country's food energy is supplied by rice. In the diet of Vietnamese people, rice occupies an important position.
6. However, the conditions for rice production in Viet Nam are not favorable. Paddy field is about 60 percent of arable land, but the arable land is only 21 percent of whole land area. Arable land is absolutely limited compared with the huge number of rural population, that is counted as around 80 percent of the total population. Arable land per one agricultural worker is extremely small. In terms of average farmland for one agricultural household, it is about 0.8 ha. Besides, the share of irrigated land is only about 30 percent. Scattered landholding is another problem for efficient farming. Also it should be noted that Viet Nam is characterized by agro-ecological diversity among regions. Rice farming is not available in some regions.
7. Even under such unfavorable conditions, rice production grew significantly in Viet Nam since the Doi Moi reform policies. The average annual growth rate of paddy production during the period from 1988 to 1998 was as high as 5.2 percent. This growth rate was much higher than growth rates of agriculture of ASEAN countries in the 1990s. Such a high growth rate of paddy production can not be found in the hundred year' s history of Japanese agriculture. The growth of rice production in Viet Nam after the Doi Moi was remarkable.
8. With respect to factors for the growth of rice production, several important points should be referred. First and foremost factor is the reform (Doi Moi) in 1986, which liberalized the economic incentives of farmers. Farm households were recognized as independent economic units, so they could use all their ability and capacity to enrich their family. In addition, owing to the right investments especially in irrigation, bases for the development have been arranged. Changes in rice prices compared with input

prices were also favorable. Advanced technologies, such as HYVs (High Yielding Varieties) were available to Vietnamese rice farming. Credit supply from Agricultural Bank also contributed to the development of Vietnamese agriculture. Introduction of competition in rice distribution system enhanced the efficiency of the system.

9. The growth of rice production has favorable effects on farm economy. First, per capita food supply increased remarkably. The amount of food supply (rice equivalent) per capita increased 24 percent from 1990 to 1998. Hunger problems which used to be serious in Vietnam in the 1970s and 1980s were mostly eliminated. Second, the income of rice growing farmers was improved, although their income level was still generally low, and much differed depending on their land size. Third, export volume of rice increased significantly, which ranked Vietnam as the second largest exporter of rice in the world. In addition, it is worth noting that the quality of export rice has been improved gradually although still there are many problems to be solved.

Problems and future directions of agriculture and rural sector in Viet Nam

10. Although many important achievements were attained, Vietnamese agriculture and rural sector have still many problems and weaknesses. First, there is a problem whether Vietnamese rice economy will be able to grow at such a high rate as in the previous decade. Judging from historical reviews for agricultural production in various countries, it is unlikely that this high growth will continue for the coming decade. No further expansion of farmland is expected. Allowance for further improvement in productivity is small. There is a criticism from environmental viewpoint against the overuse of agricultural chemicals. Vietnamese agriculture will be forced to change from the existing policy that is simply seeking the goal of larger production than ever.
11. Second, improvement in farmers income through the expansion of rice production is harshly restricted. The biggest constraint for this is the limited land size of paddy farmers. Probably, improvement in agricultural productivity and farmers income can be possible only by solving the problem of excessive labor force in rural Viet Nam. The problem of abundant rural labor force is already appearing through the phenomenon of the increase in the number of landless and land lacking households in the Mekong

Delta Areas. This problem should be solved by creating employment opportunities in rural areas. However, the dense population of the poor in the rural areas cannot be reduced in a day. The Government must continue to cope with this problem by implementing social policies.

12. Third, infrastructure and supporting institutions for rice economy are still weak. Infrastructure such as irrigation, drainage, rural roads and so on, is still poor. Post-harvest losses are high because facilities and technologies are backward. Rural finance is not sufficiently developed to meet the credit needs of farmers and rural enterprises. Agricultural cooperatives are being transformed from old types to new ones, but the speed for the transformation is slow. Especially the problem of farmers organizations should be discussed further.
13. One of new directions is to improve the quality of agricultural products. Rice for export has been already significantly improved, though its quality is still lower than foreign rice. It is also important to seek more value added by improving agricultural related activities, such as distribution, storage and processing of agricultural products.
14. Another is to change the rice based monoculture. Diversified agriculture is required. To detail the way for diversification, it is necessary to accurately know the demand in both the domestic and overseas markets. Change in dieting pattern comes suddenly. In order to prepare for the change, it is important to collect food consumption data by conducting several surveys.

Member List of Research Group

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Leader of the Research Group	Shigeru Ishikawa	Vo Hong Phuc Nguyen Quang Thai Ho Quang Minh
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