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GUIDE BOOKS TO  
FRENCH CO-OPERATION IN VIETNAM

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**ECONOMIC GROWTH  
AND POVERTY REDUCTION  
IN VIETNAM:  
STUCK IN FIRST GEAR?**

**A CASE STUDY  
OF THE O MON DISTRICT  
IN THE MEKONG DELTA**



This document was made possible thanks to work conducted by Jean Francois Le Coq of CIRAD, as well as Duong Ngoc Thanh, Nguyen Thi Kim Nguyet, Vo Van Ha, Hua Hong Hieu and Tu Van Binh of the Can Tho University, O Mon district – Mekong Delta

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## SOCIAL COHESION: A NEW CHALLENGE FOR VIETNAM

In-depth work was carried out in O Mon district, near Can Tho, in the mid 1990's in order to understand the economic and social impact of Doi Moi on the Mekong Delta rural areas. In 2002 the French Embassy sent that study's authors back to O Mon in order to analyse the changes after one more decade of Doi Moi.

This study shows three successive periods since liberalisation: the rapid growth of rice production between 1986 and 1990 as a direct response to free market prices and access to fertilisers; an attempt to diversify production at the beginning of the 1990's, after rice cropping systems had reached their profit potential; and a return to rice production since 1995 after diversification had proven to be too problematic. These three periods are a normal part of the economic innovation process: responding to economic incentives, exploring new markets, finding the middle ground between risk and profit.

The study also highlights a more worrying trend: a progressive disconnection between economic growth and poverty reduction. Growth brought positive changes to everyone during the first two periods: the rich got richer faster than the poor and income disparity increased, but overall economic progress was a factor in job creation. Agricultural planning, a diversity of cropping systems, the planting of orchards and the digging of fish-farming ponds all helped spread the wealth. It can easily be said that everyone was able to improve his economic and social situation at the time.

The link between growth and poverty reduction is not an automatic one. The return to rice production goes hand in hand with a change in farmers' perspectives. Progress no longer means increasing the quantity of production factors, but rather getting the most out of them. Doing this leads to less employment and wealth sharing. That is why we have been able to observe a greater number of well-off farmers and an even greater increase in the number of landless peasants over the past 10 years, to the detriment of mid-size farms. This is not a passing phase: it is implicit in today's powerful economic trends and must be considered as a long-lasting change. It is even expected to amplify with the development of the land market.

The State must now consider how it can re-establish the link between growth and employment. It must look for the conditions of inclusive growth in the countryside, while trying to create an environment of shared innovations. Less fortunate farmers must be granted access to technical training and adapted financial mechanisms. Risk reduction mechanisms must be set up to avoid their being impoverished by the wave of economic and social progress. The State must also attempt to create non-agricultural employment opportunities so that the poor can make a living outside of agriculture.

To ensure that growth rhymes with poverty reduction, Vietnam must now consider not only the pace of its growth; it must consider the job-content of growth as well. In the long run, the strength of its social fabric depends on it.

*Từ cordialment  
Antoine POUILLIEUTE*

Antoine POUILLIEUTE  
French Ambassador to Vietnam

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## 1. INTRODUCTION

### 1.1. GROWTH AND POVERTY REDUCTION: WHAT DOES THE FUTURE HOLD IN STORE FOR VIETNAM

The recent history of Vietnam is impressive: in 2003 it had a growth rate of 7.2% and over the past 13 years it has doubled its GDP. During the same period the number of those living under the poverty line<sup>1</sup> went from 58% to 28%.

Vietnam will be facing just as many challenges in the future. Official predictions foresee the population booming from 80 to 100 million inhabitants over the next 20 years. Of these, the number of city dwellers is expected to double, from 20 to 40 million people; while the rural population should remain stable at 60 million.

Vietnam is facing three major challenges:

- Responding to exceptional urban growth: the only other historical precedent to urban growth on this scale is South Korea in the 1960's. Providing infrastructure, services and jobs to these new city dwellers will be a major task.
- Maintaining 60 million people in the countryside over the next 20 years while continuing the economic and social growth of the past decade.
- Maintaining a dynamic balance between city and country so as not to tear the social tissue asunder.

Recent statistics show that the rapid development seen in the agricultural sector over the last few years is slowing down. Agriculture still provides 60% of the jobs, but agricultural growth is now less than the national average, especially in the wealthiest parts of the country such as the Mekong Delta. Moreover, while the proportion of poor people is decreasing, the gap between rich and poor, city and country and between provinces themselves is widening.

It is then important to analyse the processes at work in order to understand their origins and

trends and evaluate whether those processes may endanger the Vietnam's achievements in term of sustainable development and poverty reduction ?

This paper will resume the conclusions of a joint French Vietnamese study that was undertaken in O Mon district in the Mekong Delta and will attempt to give some answers to those questions.

### 1.2. THE MEKONG DELTA: A RAPIDLY DEVELOPING AREA WHERE POVERTY ISSUE REMAINS

The Mekong Delta is representative of the changes affecting Vietnam. It is the most populated region and the largest agricultural area in term of agricultural production. The Mekong Delta symbolises the Vietnam success stories of agricultural growth and increased incomes (the Delta ranks third in this domain). This region also highlights the limits of agricultural development. Its rhythm is slower than the national average (5.5% against 7.6%), and despite ideas to the contrary, the Mekong Delta ranks third in national poverty statistics, just in front of the Red River Delta and certain mountainous regions which have received a lot of development attention.

O Mon district is located in the heart of the Delta. It is a small area that reflects the changes affecting the country as a whole. This paper deals with the factors of those changes in the district and attempts to evaluate the impact of present and past policies in order to draw some lessons for the future.

### 1.3. A PLURI-DISCIPLINARY APPROACH

In order to study current changes in a small rural area, the research team used a method that combined several disciplines: economy, sociology, agronomy and environmental sciences so as to be better able to understand the conditions of sustainable development. This method relies on three approaches:

<sup>1</sup> According to Vietnamese calculation methods

- **A systematic approach.** The analysis in terms of *agrarian systems* aims at studying in a comprehensive way the changes taking place therein by taking into account the characteristics and the human uses of its natural resources (the agro- ecosystem), the social organisation of the area and their interrelations.
- **A multi-scale approach using the farm as central actor.** The analysis of agricultural policies allows us to identify, on the very different levels of country, region, province and district, the changes in the farmers' socio-economic conditions upon whom farmers' are basing their production and resource allocation choices. Analysing farming systems is at the very heart of the method: it encompasses analysis of farm structures (endowment in land, labour and capital) and of the functioning of the farm system. On this basis, the answers brought by farmers to agricultural policy makers can be analysed as a result of a farmers' rational choices according to their access to information, production factors and their perceptions of changes. A typology thus based on farm structure and functioning allows us to characterise different categories of farmers.
- **A historical approach.** The evolution of policies and their impact are studied over time. This lets us identify the bottlenecks of the past as well as highlights the current dynamics which enable us to have a prospective vision.





## 2. O MON DISTRICT: A MAN-MADE FERTILE BASIN

### 2.1. FAVOURABLE CONDITIONS FOR AGRICULTURE

O Mon district is blessed with natural farming conditions: a humid monsoon tropical climate, high temperatures with low yearly thermal extremes and sunny conditions. Rainfall is plentiful at 1,700 mm per year, although tempered with a dry season of 5 months and a rainy season of 7 months. Growing is then possible all year long, if irrigation is provided during the dry season.

Likewise, the soil is potentially very rich and presents a low level of toxicity. The water is fresh, floods are low and do not last long. There is a large natural river system affected by tidal movements, facilitating irrigation and drainage of the fields.

### 2.2. DIFFERENT ECOLOGICAL LEVELS INFLUENCE LAND USES

Even though the district is blessed with good natural conditions, agricultural land use depends on local conditions. The main ecological factors influencing land use are: the height and duration of floods in the rainy season and the level of flooding in the dry season. The level of the land defines five ecological units: rainfed or slightly flooded unit of the natural levee, medium deep waterlogged unit, deep water unit of the upper alluvial plain, deep water unit of the lower alluvial plain and very deep water unit.

Each unit is used differently in function of its characteristics: at the present time irrigated rice production is practiced in all units, although the main rice cropping systems change depending on

the units. Thus, triple crops systems are to be found mainly in the slightly flooded, the medium deep waterlogged and the deep water unit of the intermediate plains. If, in the first two of these, non-rice crops is sometimes practiced, in the deep water unit only rice is grown. Also, double rice crop irrigated systems are used everywhere, but most especially in the deep water and very deep water lower alluvial plain units. The rice-fish system has been developed mostly in the medium deep waterlogged and deep water units within rice paddy fields enclosed by an individual dike system. Other than rice, perennial crops, mostly fruit trees planted on raise bed, can be found. The fruit orchards are mainly found in slightly flooded areas.

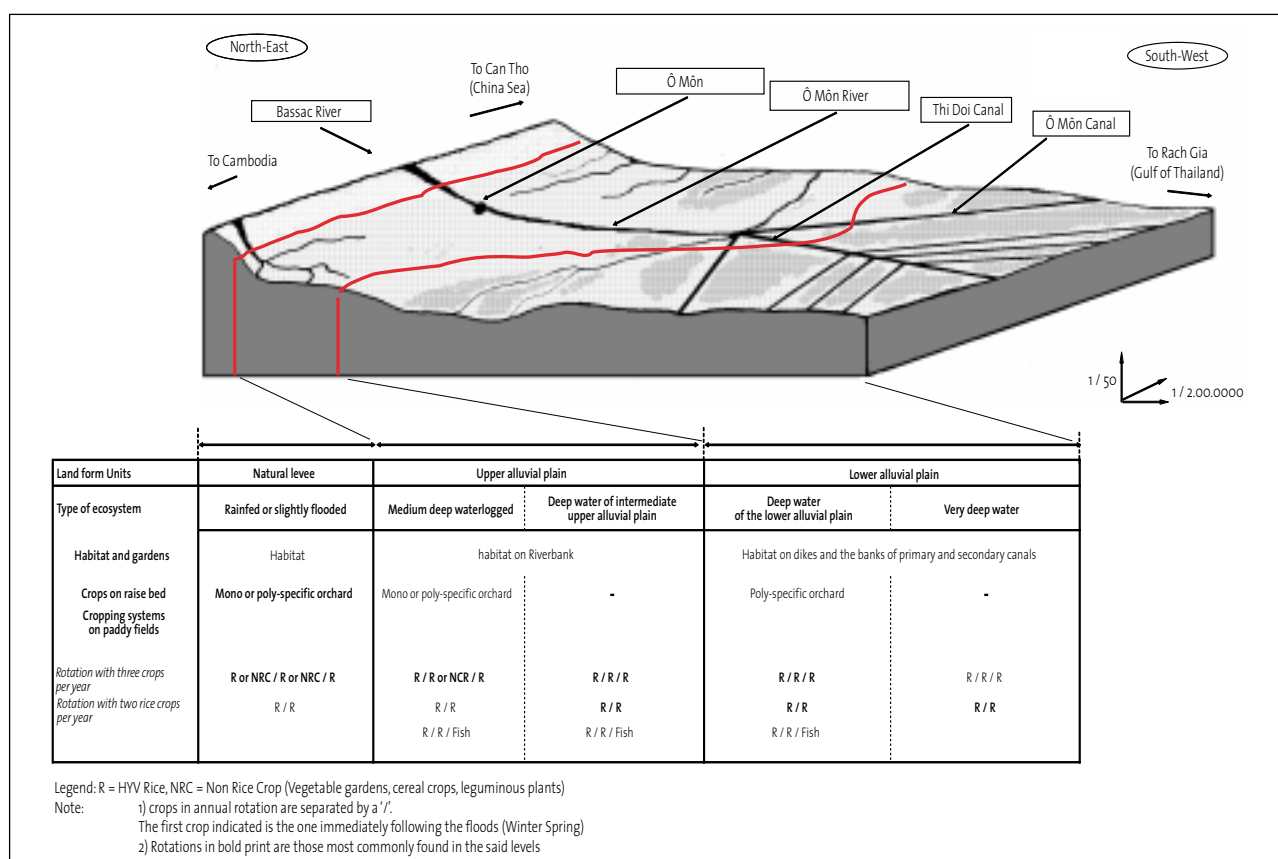
A comparison between the present situation and that of the late 1980's, before the implementation of economic liberalisation policy, shows that agricultural growth comes from the intensification of rice production systems and the diversification of agricultural production which are a result of the development of:

- irrigated rice cropping systems : the development of double, then triple high-yielding rice varieties (HYV) cropping systems to the detriment of deep water rice cropping systems on deep water units of lower alluvial plain as well as the recent development of rice-fish farming systems;
- perennial crops on raise bed, especially fruit trees on slightly or moderately flooded units of the natural levee and upper alluvial plain, and sugar cane on lower alluvial plain in the first half of the 1990's followed by its disappearance during the second half of the 1990's.

## O MON DISTRICT: A MAN-MADE FERTILE BASIN

The analysis of present land use shows a high level of sophistication and anthropogenic land improvement of the ecosystems, which is the result of a long agricultural history. In order to understand the role played by recent reforms, an historical overview is necessary.

### Present land use of the different ecological units



### 2.3. LAND SCULPTED THROUGHOUT THE AGES

Agriculture in O Mon district was shaped during different stages of the conquest of the Mekong Delta and the political history of Vietnam.

Agriculture came to the Delta in the middle of the 18<sup>th</sup> Century and grew under imperial Vietnamese and later French colonial regime. At the end of the 1940's most of the primary hydraulic system was completed and almost all lands in O Mon district and the Mekong Delta were being farmed. This allowed for a high level of production and a large rice exports volumes, but the productivity was low and the vast majority of the farmers who were mainly tenants lived under difficult conditions because

of the heavy rents they have to pay to the landlords. The immense gap between classes blocked progress and led to an explosive social situation. Starting at the end of the 1930's peasant revolts began and Vietnam was plunged into a long period of armed conflict that will last until 1976. Between 1940 and 1954 the Indochinese War created a massive rural exodus and a reduction in cultivated areas.

From 1955 to 1966 in the context of the war and following agrarian reforms initiated by the government of Ngo Dinh Diem, landlords with more than 100 ha found themselves expropriated. Some farmers became land owners and some tenants saw their land rents reducing. The government of South Vietnam also began to organize the import of agrochemicals and farm





machinery. During lulls in the fighting, farmers planted abandoned land but the context of conflict was still an impediment to further agricultural growth.

From 1967 to 1975, and with financial support from the Americans, the government of Nguyen Van Thieu enforced policies aimed at reforming land distribution ('land to the tiller' reform) to promote a more productive agriculture conducted by land owners farm households of less than 3 hectares. It also introduced the first rice HYV of the 'green revolution', imports of fertiliser and provided credits to farmers to help them buying imported farm equipment.

In 1975, after 30 years of armed conflict, the highly differentiated agrarian society created during the French colonial regime was totally reformed. Small farmers that became land owners were free to make their own technical choices and put their profits back into the farm. On their tiny plots they had interest in increasing production per land unit. Where water conditions were favourable, HYV rice based cropping systems were developed, often at a cost of intense labour. While differentiation among farmers in terms of owned area per household has been strongly reduced, a new form of disparity appears based on the production systems they themselves had set up, i.e. adoption of irrigated HYV rice cropping system development of non rice production, and their capital endowment in the form of farm animals and mechanised farm equipment.

From 1976 to 1981, in order to produce enough food for the population, the government of the socialist republic of Vietnam decided to extend to South Vietnam the system it had set up in the North. If state control on trade was put in place, collective structures (cooperative) were very scarce. In spite of an increase of agricultural growth thanks to the peace condition and the development of irrigated rice farming in areas where it had begun, Vietnam faced serious food shortage and the government decided to change direction.

#### **2.4. AT THE DAWN OF LIBERALISATION, A PLANNED REGION AND FARMERS EAGER FOR OPPORTUNITIES**

In the middle of the 1980's, irrigated cropping systems, in the form of two HYV rice crops per year, was practiced on the natural levee and upper flood plain on the ecosystems unit where irrigation and drainage conditions were the most suitable. Deep water rice cropping systems continued to be practiced in the lower alluvial plain. The level of agricultural production diversification was low. Two key elements for agricultural development had been achieved:

- The first was on the level of infrastructure: the primary canal network had already been built and the secondary network was almost complete thanks to State investment and the mobilisation of the work force within collective structures which were set up at the beginning of the 1980's. Thus, the extension of irrigated rice crops system in lower alluvial plain only required local investment in term of land improvement (small dikes and field levelling) and of tertiary canals that farmers can realize by themselves.
- The second was on the social structure. Agriculture was conducted by small family based farmers. Without non farm incomes opportunities, the objectives of those farmers was to increase their incomes per land unit. But the "state planned system", in which these farmers are, did not allow them to develop more intensive land use and/or increase their rice productivity because (1) the state planned system was not able to provide farmers with the necessary agrochemicals and farm tools such as pump for irrigation and (2) the price system and the high level of tax were rarely reinvested in local production, except for some scarce State-farms. Finally, within this state controlled system, almost all the farmers, who became small land holders following the equitable land distribution that took place when the "production groups" were set up in the early 80's, were just able to barely survive and, thus, have no investment capacity.

### 3. FROM 1985 TO 1995: THE FRUITS OF LIBERALISATION ARE WELL SHARED

#### FROM 1986 TO 2001: 15 YEARS OF ECONOMIC REFORMS IN THE AGRICULTURAL SECTOR

**December 1986:** the 6<sup>th</sup> Congress of the Vietnamese Communist Party and introduction of a new VCP secretary.

**April 1987:** 2<sup>nd</sup> Plenum of the Central Committee announced elements of resolution number 10.

**April 1988:** Resolution number 10 of the VCP Central Committee. Official recognition of the farm household economy: allocation of agricultural lands to family farm households for up to 15 years; orientation of agricultural co-operatives to such agricultural services as the manufacture of agrochemicals and the marketing of produce; increase of funds available to the agricultural sector from 6/1000 to 8/1000 after 1988 and to 10/1000 in 1995.

**August 1988:** Resolution number 16 of the Politburo of the VCP. Affirmation of the willingness to develop the private sector.

**February 1989:** Ordinance number 13 of the Ministerial Counsel. Lands confiscated before or after the war cannot be given back to their old owners.

**May 1989:** Price liberalisation. Liberalisation of domestic trade of agricultural products and inputs. Ration cards and subsidies are abolished (Decision 150-CT).

**June 1991:** First credits for family farm households (Directive 202-CT).

**March 1993:** Credit policy for family farm households (Directive 14-CP). Establishment of a State agricultural

extension system (Directive 13-CP). Creation of a regulatory fund to stabilise rice and sugar prices.

**September 1993:** Land Law: liberalisation of the “land market” (Law 64/CP): allocation of land use rights to family farm households for 20 to 50 years. Even if the land remains State property, land use rights can be transferred, sold, rented, mortgaged, inherited or are subject to compensation if confiscated. The agricultural credit system is extended: the agricultural bank’s budget is increased; a Bank for the Poor is established. Medium and large scale farms are promoted.

**March 1996:** A new co-operative model is created – the “commercial share holder co-operative”.

**March 1997:** Liberalisation of domestic rice transport, abolition of transport licenses and controls. Increase of export quotas to 3.5 million tons (Law 140/TTg).

**May 1997:** Decentralisation of export rice purchase loan obtaining and follow-up responsibilities to the provincial committee level.

**January 1998:** Beginning of liberalisation of fertiliser market: private firms with quotas can now import.

**December 1999:** Fertiliser import quotas abolished.

**March 2001:** Total liberalisation of rice exports: abolition of quotas and export taxes (Decision 223/TTg).

**May 2001:** Total liberalisation of agrochemical imports: abolition of all agrochemical import quotas and control of importer management.

Sources : Pingali et Vo Tong Xuan 1992 ; Jesus F et Dao The Anh, 1998 ; Dao The Anh et al., 2003

#### 3.1. MARKET LIBERALISATION: THE BASIS OF RICE CROPPING SYSTEM INTENSIFICATION

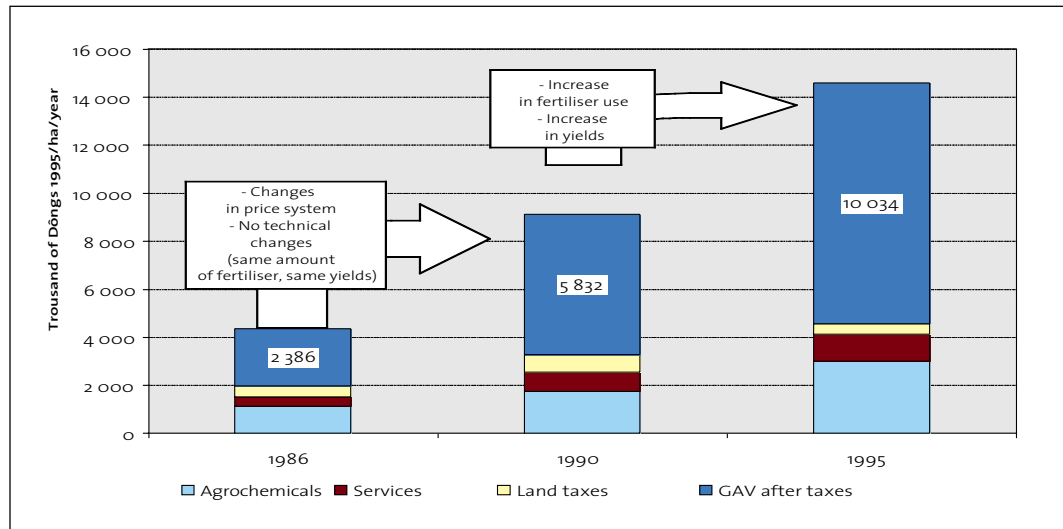
By abolishing the system of state controlled prices in 1990, the government let farmers increase the value of their products and restore their investment abilities. Also, by liberalising the domestic market for products and agrochemicals and by reorienting its export

potential to the international market, the government allowed a private commercial network to develop thus increasing the availability of agrochemicals. Finally, the new price system encouraged increased use of fertiliser and pesticides. This market reform has loosened the bottlenecks which existed under the planned economic system: it enable farmer to recover an investment capacity and increased their access to agricultural inputs.



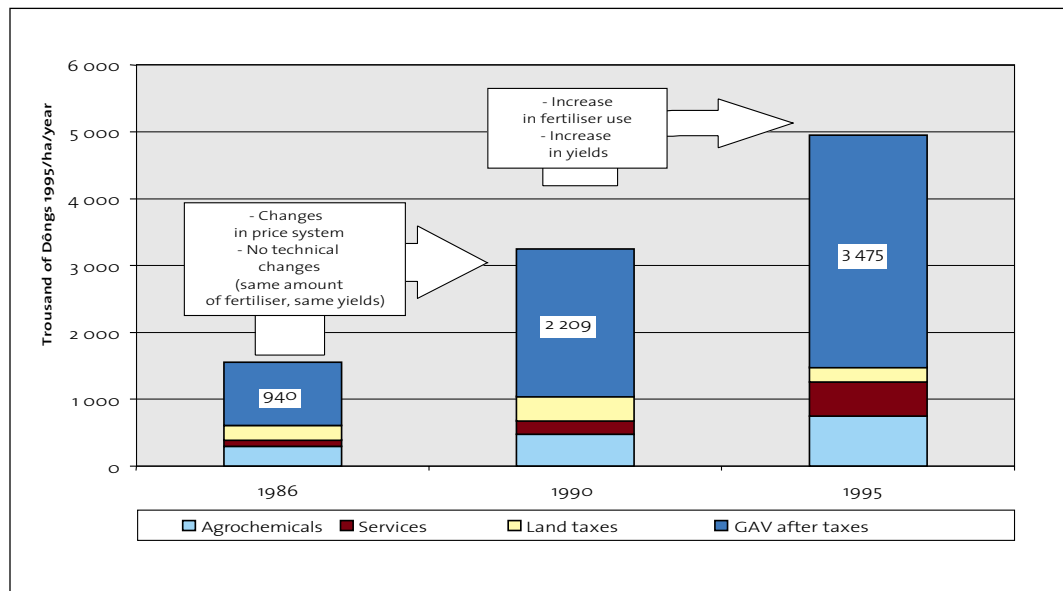
## Evolution of the Gross Added Value (GAV) of one hectare of rice land between 1986 and 1995

DOUBLE HYV RICE CROPPING SYSTEM ON A SLIGHTLY AND MODERATELY FLOODED ECOSYSTEM UNIT



Source: Author's estimates following studies in O Mon district and data from the Price Institute.

## DEEPWATER RICE CROPPING SYSTEM ON DEEP WATER ECOSYSTEM UNIT



Source: Author's estimates following studies in O Mon district and data from the Price Institute.

During the first years of liberalisation, without a development of credit system dedicated to farm household in order to replace the in-kind advance provided through contract system within the "production groups", some farmers were unable

to mobilise enough capital to buy inputs on the private market and were forced into debt. The development of a formal rural credit system at the beginning of the 1990's has helped reverse this situation.

### 3.2. RECOGNITION OF THE FAMILY-BASED ECONOMY: THE RETURN OF MOTIVATION AND INEQUITY

The recognition of the family-based economy meant the end of the egalitarian land reform that were put in place in the “production groups”. Land was redistributed to farmers according to the land they had before the creation of “production groups” and co-operatives. This agrarian counter-reform reinstated differences in agricultural areas per family worker and, thereby, a difference in a farmer’s ability to accumulate capital. Five main categories of farmer reappeared, in function of their agricultural area per worker and assets endowment:

- ‘landless peasants’ who, in order to survive, only have their labour;
- very small family-based farmers owning only manual tools and have very small land area which do not allow them to raise enough income from on farm production to sustain their farms;
- small and medium-sized family farms owning manual tools and enough cultivated area per worker to permit them to earn from on-farm agricultural activity enough money to sustain their farms and even for the largest one save a small amount;
- large scale farmers owning more often manual tools but having enough cultivated area to raise an important investment capacity;

- farmers - entrepreneurs who were able to recuperate draught animal, motorized tools e.g. pumps, 2 wheel drive or 4 wheel drive tractors from co-operatives and who have, like the large scale farmers, a relatively large cultivated area per worker.

### 3.3. NEW MARKETS AND AGRICULTURAL DIVERSIFICATION: OPPORTUNITY KNOCKS

From 1990 rice market prices began to stagnate. With the development of an urban middle class and new access to international markets, the demand for diversified agricultural production increased. This gave farmers the chance to grow non-rice high value added crops. The farmers who were well enough off, invested in these different crops and agricultural production, mainly in fruit trees. Even those who could not invest reaped some benefits thanks to the creation of new agricultural jobs opportunities.

### 3.4. MARKET BASED GROWTH, BUT SUPPORTED BY STATE INVOLVEMENT

This acceleration of agricultural growth was made possible by restoring of farmer’s investment capacities (by dismantling the State administered redistribution system), by developing a private commercial sector and by transforming the pricing system.



*“3 reductions – seeds, urea and pesticides. 3 raises – quantity, quality and income”. State extension services play an important role in teaching new techniques*



Nevertheless State played a key role. It helped this process by continued investment in the sector and by reforming its services. Continued State investment in infrastructure, notably hydraulic network (irrigation and drainage) inherited from prior investments led to the expansion of irrigated HYV rice cropping systems. Active agronomic research into new rice varieties has led to even greater productivity. Reforming the financial system and developing a credit system for family farms facilitates farmers' intensification of their production system. Finally, reforming the extension system has given the farmers technical backup for their projects.

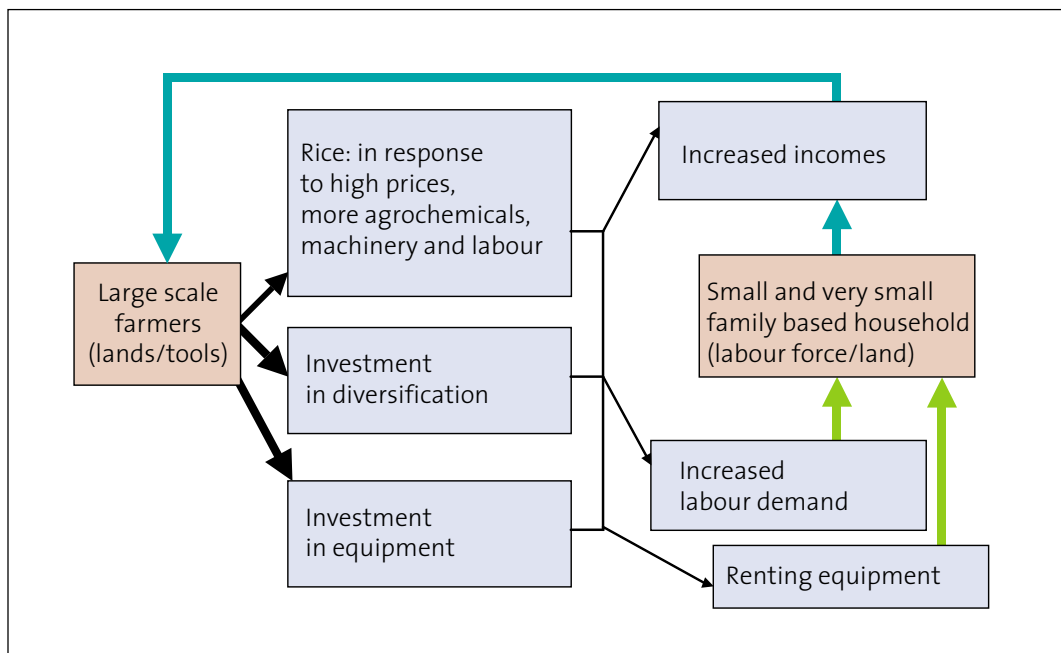
### 3.5. THE FRUITS OF GROWTH ARE WELL DISTRIBUTED THANKS TO AGRICULTURAL EMPLOYMENT

The initial disparity generated by the land counter reform created a class of large scale farmers which was able to rapidly acquire the

motorized tools (tractors or axial flow thresher and especially pumps) that were necessary to intensify rice production system (adoption of the third rice crops per year, and development of HYV rice cropping system in lower alluvial plain). These producers enables poorer ones to access rapidly through renting to those necessary equipment and thus to intensify their rice production system in their own fields. Also, by increasing the number of rice crop per year and by developing non-rice crops which required manpower, they created agricultural employment.

A spill over process took place between rich and poor farmers allowing for rapid and broad-based shared production system intensification, which directly or indirectly increased the incomes of most of them. This process was, however, accompanied by increased disparity between farmers based on their initial endowment in production factors, such as land, labour force and capital.

#### Before 1995, growth was shared thanks to a spill over effect of employment and access to equipment



## 4. 1995-2003: THE MACHINE IS STUCK IN FIRST GEAR

From 1995 onward, the dynamics of agricultural changes of the area is facing some difficulties.

### 4.1. TOO RISKY, DIVERSIFICATION IS ONLY PROFITABLE FOR THE HEALTHIEST FARMERS

The diversification process, which started at the beginning of the 1990's, was thought to be the best way to raise farmers' incomes and fight poverty. It has had mixed results.

The first problem is that the crops farmers began growing in the middle of the 1990's have proven to be technically and economically risky. The diversification process has been fast thanks to the rapid response time of the large scale farmers first and numerous medium family farmers to market opportunities. But new diseases appeared and were rapidly disseminated (e.g. the development of *Hoang Long Binh* disease on citrus fruits through rapid dissemination of unsafe plant). The extension reached unsuitable lands (the citrus

trees were planted on lower lands, where, despite raised-bed, flood occurred and led to heavy losses). Or, as was the case for vegetables, rapid development of production, a quickly saturated market seasonally.

Planned development experiments for non-rice crops also ran aground. The policy of sugar cane development in deep water areas led to the destruction of traditional units and the failure of State-Owned units. Sugar cane was eventually abandoned and these areas returned to rice.

The idea of practicing contract farming, notably to develop upland crops in rotation with rice also met with some problems: the agreement made by both parties were not respected. The firms set a floor price but then paid less when the local market price fell under, or farmers refused to sell to food industries when the market prices were above those agreed upon. Quality standards were not respected and technical support was not forthcoming.

### THE EVOLUTION OF VIETNAMESE RICE QUALITY

*Vietnam has had spectacular growth in the quality of its export rice. From 1989, when 83% of exported rice was 35% broken rice, to 1999 when 62% of its exports were less than 20% broken rice, according to the Ministry of Trade and FAS in Nguyen Tri Khiem, 2001. Despite this rapid evolution in export rice quality to international standards, which increased the product's value, the global decrease in the price of rice on the international market has meant that domestic prices have remained stable.*

*In order to increase the value of its exports and the local valorization of rice, two ways to improve rice quality have been developed in the Mekong Delta. On one hand, the development of perfumed rice for export based on the introduction of new and often imported varieties into areas where production is mostly dedicated to export (such as Can Tho and notably O*

*Mon district). On the other hand, the development of perfumed rice production for the domestic market using local varieties in areas long famous in Vietnam for their rice quality, such as Gao Thom Cho Dao in Long An province.*

*In O Mon district, quality rice improvement is based on the introduction and the development of new perfumed varieties such as the Jasmine, VD20 and OM 3536 for the international market within supply area of local firms, such as the Mekong Company. The production of these new varieties is sold under a contract system with a farmers' price level being 1/3rd higher than that of 'normal' varieties, and lets farmers earn about 30% more despite slightly lower yield and higher seeding costs. (Study conducted by the UCT – Cirad in O Mon).*





*Two recent examples of diversification (Goats and fish farming in floating cages)*

The instability of non-rice crop prices, coupled with limited technical know-how, drove some family farms into debt, increased their vulnerability and led finally some of them out of agricultural sector.

Facing problems in their first attempts to diversified their production, most of the farmers, looking for new incomes opportunities, tried new crops: replanting citrus orchards with longan or mango trees, or developing new types of animal husbandry such as milk cows (with the help of the State) or goats (the latest fad on the market) or – and this is possibly the most sustainable production – fish farming. This implies developing and intensifying the raising of fish in rivers or ponds as well as in association with rice production in paddy fields.

#### **4.2. THE RETURN TO INTENSIVE RICE PRODUCTION IS COSTING JOBS**

In some areas, and most notably in deep water ecosystems of the lower alluvial plain, we can see that diversification is being abandoned and rice crops are once again being grown. These areas have few advantages for non-rice crops due to the extent of the flooding and their distance from

roads and consumption centers. Because it is less risky than other crops, and even if it generated less incomes, farmers try to increase their rice production. They are also adopting new cost-cutting and profit generating strategies.

This usually means using less manpower by using more working capital, for example chemical weeding replacing manual weeding, or more mechanisation in tillage and harvest.

Thus if in the phase before the 1990's, the intensification of rice production systems in working capital (agrochemicals) and fixed capital (mechanised tillage and water



*There are more and more farm machines – and fewer jobs*

management) led to increased demand in manpower thanks to the increased number of harvests per year. Following step of intensification now tends to require less labour.

Strong demographic growth and the specialisation of production systems in rice mean that rural landless households or very small-holders find it increasingly difficult to get much needed off farm work. They are caught in a vicious cycle: less job opportunities force small farmers out (temporarily or definitively); which leads to high labour costs during rush periods, such as harvests; which incites farmers to use less extra-family labour (through simplified cropping techniques, uses of chemical and possible mechanisation); which leads to further job loss.

The second way to increase the land productivity in rice production systems is the development of high quality rice, such as perfumed rice for the domestic and international markets through contracts with buyers. This is still actually limited to the few farmers who presently hold contracts.

#### **4.3. THE LIMITED DEVELOPMENT OF NON-AGRICULTURAL ACTIVITIES**

Non-agricultural activities, by which we mean those activities that are not linked to agricultural production in the strict sense of the term, represent additional incomes for farmers. Non-agricultural activities are developing but changing in nature. 'Traditional' non-agricultural activities such as fishing or crafts are stagnating because – as is the case for fishing – natural resources are becoming scarce, or due to increased competition with industrial units – as is the case for clothes making. Also, agricultural services such as threshing, tillage and irrigation offer less income opportunity since the number production units now having their own means of production increase. At the same time, other professions are developing. On one hand, some are directly linked to the processing and transportation of rice, which is being produced in ever greater quantities. On the other hand, the sales of agricultural products (or

agrochemicals) or of non-agricultural products (clothing, building materials,...) and food services are on the rise. Finally, processing activities in and around Industrial Zones such as Tra Noc (the processing and conditioning of agricultural products for export) are developing. These units create jobs, but they cannot provide enough regular work to a large number of rural labourers. Also, these non agricultural activities are growing mostly on the edge of major roads between Can Tho and Long Xuyen. In more remote areas, they are few and their growth is slow.

The income farmers are able to make from these activities depends on how much was invested. Two criteria seem to be important: the rate of return on invested capital and the regularity of income received. Also, not many intervention have been foreseen for the development of local non-agricultural activities and those which do exist remain largely dependant on local farmers' investment capacity, which is linked to their agricultural performance.

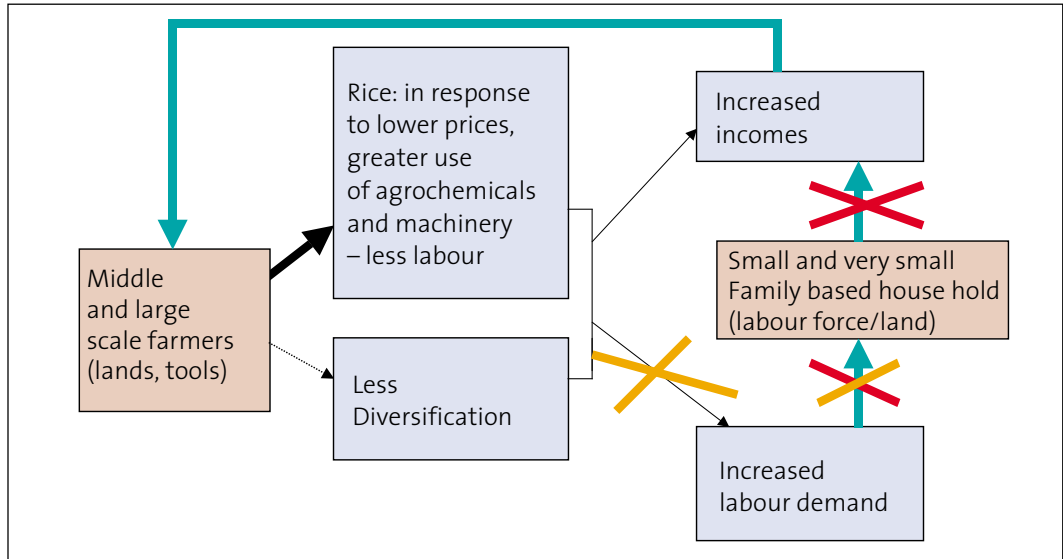
The bottom line is that after 1995, with a reduction of the diversification, a rice production intensification process creating few labour demand, and few non agricultural activities created in local areas, non-agricultural activities are increasingly sought after outside the local context (village, district) and on the scale of networks which are further a field (other provinces and mainly in the area around Ho Chi Minh City).



*Non-agricultural activities in the countryside are still largely dependant on agriculture.*



### After 1995, the redistribution mechanism slows down

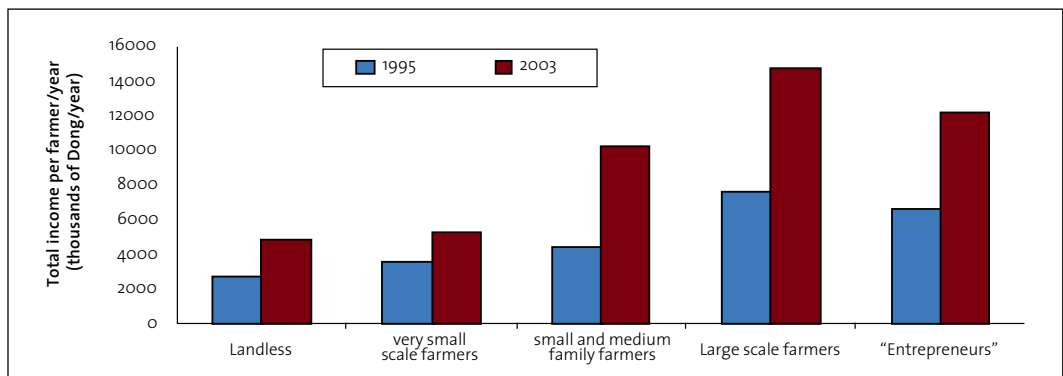


#### 4.4. THE GAP WIDENS AS THE POOR TAKE LESS ADVANTAGE OF GROWTH

The early disparity between farmers, created with the onset of the new economic liberalisation policy and the recognition of the family based economy, grows. The initial disparity, based on holding sizes and production assets, which was mostly due to cultivated areas and fixed capital (equipment), split farmers in the 1990's into five categories. A comparative analysis of the economic results of

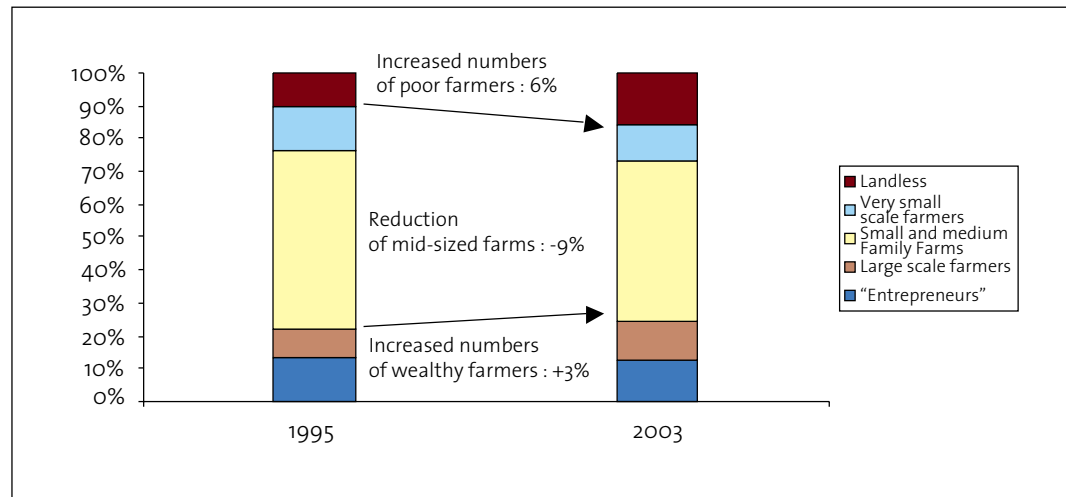
a sample of farmers in O Mon district between 1995 and 2003 shows a net increase of 155% in average revenues. The revenue gap also widened during the same period, as can be seen by a VLSS study (NCSH 2002). If the ratio between the poorest 20% and the richest 20% has gone up by 27%, from 3.4 to 4.3, during the same period; the ratio between the top and bottom 10% has gone up even more – 64%, from 6.3 to 10.4. These figures indicate increasing revenue polarisation within the rural community.

#### Evolution of total income per type of farmer between 1995 and 2003 in thousands of Dong per family worker per year.



Sources: UCT CIRAD studies, 1995 and 2003

### Evolution in the proportions of farm types between 1995 and 2003



Sources: UCT-Cirad studies - 1995 - 2003

Poverty is also progressing due to exclusion from land ownership. This occurs as a result of debts incurred due to the instability of economic results, be it from price fluctuations, natural disasters or plant disease problems. It can also occur due to health problems which lead to high health-care costs and a reduction in the family's work force. It is also important to mention difficulties in obtaining institutional loans. These difficulties are increased by the reduction of local job opportunities. Rural poverty is thus concentrated in households which (1) cannot find local work, in either agricultural or non-

agricultural sectors, due to their weak labour potential, (2) cannot develop local money making opportunities due to lack of funds and (3) cannot find work in the cities – since this also requires relations and capital.

Finally, the land market is vibrant, leading to price rises. This reflects the speed of the capitalisation/de-capitalisation process at work. The process of land concentration, although begun, remains limited. Medium scale farmers and large scale farmers manage to buy enough land for their children to live on comfortably.



Fishing, which is an important activity for the poor, is threatened by agrochemicals.





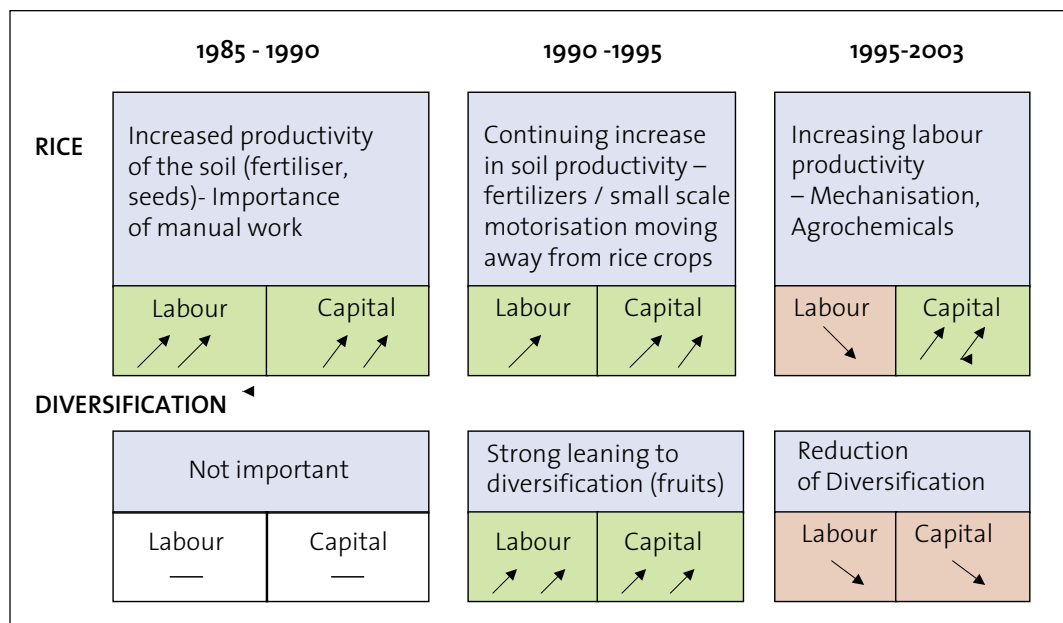
Even if one must be prudent in extrapolating the results obtained in the framework of a small area case study, the analysis of current dynamics in O Mon district allows us to see that production areas in the Mekong Delta, that have comparative advantages for rice production, have trouble in maintaining the sustainable development of other products on a large scale. This handicaps land unit value added growth and local labour demand. Although a certain number of small local family firms dealing in trade, building, processing or transportation developed, the development of small local industries or services, which may create value added and non-agricultural jobs in the countryside, is not enough to offer employment to the poor. This is mainly because of non-access to capital.

The current trend is therefore, at least in the large lower alluvial plains, to the specialization toward rice production. This process tends to widen the gap between rich and poor and exclude farmers having only small plots of land because land productivity level had actually reached the maximum capacity (in terms of cropping index and yield) and leave thus little room for progression and job creation through

increasing cropping index. Thus further gains in productivity can only be obtained by more efficient farming methods, better agrochemical management, further development of mechanization and/or an increase in product quality (perfumed or high quality rice) but all of those improvement may not create job opportunities and even may reduce job opportunity (e.g. mechanisation of harvest) for those who already cannot leave from rice production and have to rely on off farm incomes.

The social tissue of rural society is being threatened by the predominance of rice farming. With current production and price levels, a farmer needs at least 2 ha of double rice crop per year or 1.3 ha of triple rice crop year to make the same (400,000 VND/month) as a city labourer. Under present density levels, about 50% of all households do not possess enough cultivated area to reach this level. Under these conditions, and in the absence of land productivity gains in rice farming or the development of other rural activities, we are facing the threat of a massive rural exodus. The future may hold the development of very large farms, since they will be the only ones promising an urban standard of living.

### Production systems change by replacing work with capital



## 5. WHICH POLICIES CAN REDUCE POVERTY AND INEQUALITY WHILE PROMOTING GROWTH?

### 5.1. PRESENT POLICIES NO LONGER PERMIT THE REDISTRIBUTION OF THE FRUITS OF GROWTH

It must be said that present agricultural policies, based as they are on improving rice production competitiveness on one hand and poverty reduction targeted programmes on the other hand, cannot break the trend described above.

Improving competitiveness by reducing production costs and achieving better management of agrochemicals may be good for the environment and help preserve natural resources which can be used by the poor, mostly for fishing. This will not create rural job opportunities, however. Also, if improved quality

through seed research and promotion of contract farming helps increase rice farmers' revenues, it cannot help those who are landless or very small scale farmers since they are excluded from such developments because they cannot get contracts or afford to take risks. Even if these policies may help to sustain some small scale farmers, these policies are mainly well adapted for larger farms.

The second component of this policy, which is direct aid targeted at the poorest segments of the population, allows them to develop income generating activities, such as animal husbandry or small scale trade, thereby allowing them to stay in the countryside. But it will never be able to compensate for the size of current disparity growth.

#### POVERTY REDUCTION MECHANISM AND SOME RESULTS

Poverty reduction policy is based on two instruments: low interest loans aimed at helping the poor develop income generating activities, and direct aid such as free education, health care or a 50,000 VND gift envelope for Tet. In order to get this help, people must have a 'poor card' (So ho Ngheo) which is distributed by a hamlet, commune, and district level commission. Landless families and those with an income of less than 100,000 VND per family member per month are considered as poor. Loans given in the framework of the poverty reduction programs are between 3 and 5 million VND per family, to be reimbursed within the year at an interest rate of 0.5%. Capital and interest are to be reimbursed at the same time.

This programme helps poor farmers improve their lot, although some problems do persist: on one hand, not enough funds have been allocated to the programme to reach all the country's poor. As is the case with most mechanisms, this one began in the most accessible areas. Due to this, as of 2003, no help had as yet been given in the lower alluvial plain village.

Despite this, the level of success for project support has been

more than 50%. In an hamlet located in the upper flood plain, for example, 8 families out of the 14 who had received financial help saw a real improvement in their standard of living. Even if this programme has had positive effects, there have been several problems in setting it up. The amounts involved may be small but the one time reimbursement is a handicap to the poorest households. In the case of households practicing animal husbandry, they are often forced to sell their animal (mainly pigs) prematurely at low price and thereby lose the benefit of their labour. Sometimes they will go into private debt to pay back the loan, which makes their situation even worse. Also, this help is often used to develop husbandry which requires regular investments in daily feed, and has its fair share of technical (mortality) and market (price fluctuation) risk.

To sum up, only those families having some off farm or non-agricultural activities linked to a large productive work force, such as temporary farm work for example can take full advantage of these loans. Finally, without specific technical or organisational support, these families find it very difficult to get the most out of the production initiated with the poverty reduction program support.





## 5.2. PROMOTING TECHNICAL AND INSTITUTIONAL INNOVATION TO COMBINE GROWTH AND JOB OPPORTUNITIES.

Taking control of the wealth gap requires new policy orientations to break the cycle:

- **Technical priorities aimed at reducing technical, sanitary and market risks** as well as promoting high value added labour intensive production: emphasising quality rice production; help in developing diversified and integrated systems which will be better equipped to absorb price fluctuations and reduce health risks; promoting integrated fish-farming within production systems in order to avoid the kinds of problems we have already seen in fruit production, which was too massive and rapid.
- **The development of new institutional arrangement:** the absence or weakness of local level institutions, for example farmer organizations, leads to individual and uncoordinated actions in the marketplace and the poor adaptation of services to farmers' needs. The development generated by the recognition of the family based economy and individual farms is undeniable. The role played by existing farmer organisations for improving water control, for example, is important. But the challenges facing farmers to secure their market access and increase their products' value requires new producers' organisations to be formed and the strengthening capacities of existing ones to better

organize the production, negotiate and fight for the recognition of their produce in the marketplace.

- **An support policy for small processing units and rural job creating economic initiatives.** The production and sales of unprocessed goods creates few new jobs. An support policy in this direction may give higher value added to the production and higher income to the producers. It will also contribute to job creation for the landless and very small holders. In this framework, the types of specific aid packages must be well considered. Financial help in the form of loans for the poor as well as the development and adaptation of technical training to encourage richer farmers to invest in these sectors are all to be considered.
- **Reforming State services supporting agriculture:** giving special attention to: **extension service**, by promoting more participatory methods and partnerships mechanisms with farmers to better adapt their support to farmers needs. The system in place lets medium-sized farmers learn new techniques, but its top-to-bottom nature means that all types of farmers do not necessarily get the message; **credit** development in order to facilitate credit access to the poorest. Also, faced with producers confronted with market and agrochemical access problems, extension services do not always have the expertise required to help set up new forms of organisation. Discussions on functioning modes and intervention theme definition are necessary.

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## 6. CONCLUSION: RETHINKING THE STATE'S ROLE FOR JOB-INTENSIVE GROWTH

This study has shown that the first years of economic liberalisation benefited the greatest number thanks to efficient public policies which restored the role of the market while giving access to services meant to help farmers attain that market. This created a snowball effect bringing all categories of farmers higher revenues.

This mechanism has today reached its limits: market opportunities are fewer and riskier; techniques taught and public services do not take into account new needs related to the risk factor, the necessity of rural job creation, the need for new market organisations to improve farmers' access to markets. Public policy has trouble reaching the least well-off and has little effect on non-agricultural activities.

These observations mean we must rethink public agricultural policies to promote the sustainable development of the countryside and offer jobs to the greatest number. The State today must ensure the conditions for growth, as well as keeping the gap between rich and poor small enough to maintain the social tissue, since the relationship between growth and job creation is not always an easy one.

The results of this study tend to show that this requires an agricultural policy where the State plays a role in market regulation and in supplying public goods. This implies setting up technical, economic as well as institutional innovations since most foreseeable measures cannot reach small farmers individually. New and innovating institutions are therefore required to give them access to new techniques and new markets.



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