Agriculture and rural development

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Foreword

In April 1999 the Government requested UNDP assistance in the preparation of strategic policy-based research for Viet Nam's new Ten Year Socio-Economic Development Strategy 2001-2010. A Technical Assistance project agreement with MPI was signed in September 1999.

The Project subsequently undertook and synthesized policy-based research aimed at offering international perspectives in four key areas central to the new ten year socio-economic development strategy:

- The Role of the State and the Market
- International Economic and Financial Integration
- Rural Economic and Social Development
- Science, Technology and Industrial Development

In addition, the Project offered advice on the long term socio-economic objectives to 2010 and provided practical principles and recommendations for the coherent implementation of the proposed strategies.

The Project also organized a series of technical workshops on the draft research papers as well as two high level Round Table Consultations between senior officials from the Government and the donor community. The first of these Round Tables was held in June 2000 and focused on the various draft research papers and related recommendations. The second high level Round Table was organized in November 2000 with a focus on the Government's draft of the new ten year socio-economic strategy.

MPI has been the national executing agency responsible to the Government and UNDP for the achievement of the Project's objectives, and DSI – the Development Strategy Institute - has carried implementation responsibility. Throughout, the research and consultation process was directed jointly by DSI and UNDP. In addition, the Governments of Australia and Sweden, as well as UNIDO contributed financing as well as technical support for the Project.

In the course of the project, twelve research reports and two Round Table Proceedings Reports were produced jointly by international and local experts.

The foreign experts who participated in the Project included Bob Warner, Keith Bezanson, James Riedel, Lars Holmstrom, Rebecca Dahele, Scott Fritzen, Garry Smith, Frank Flatters, Mia Huyn, David Dapice, Borje Lunggren, Suiwah Leung and Ari Kokko.

Local experts contributing to the Project's work included Dao Le Minh, Vu Van Toan, Vu Quang Minh, Nguyen Van Chi, Bui Tat Thang, Nguyen Van Phuc, Pham Dinh Lan,

Le Viet Hoa, Tran Ngoc Ca, Tran Thi Thanh Hong, Bui Thien Son, Dang Kim Son, Bui Van, Phan Minh Ha, Nguyen The Hien, Nguyen Van Thanh, Nguyen Xuan Thu, Le Thi Kim Dung, Luu Duc Hai, Le Anh Son, Hoang Minh Hai, Ta Thi Thu, Nguyen Quang Thai and Pham Quang Ham.

The research and consultation process benefited greatly from the guidance and substantive advice provided by Dr. Luu Bich Ho, President of DSI/National Project Director, Nguyen Van Vinh, National Project Manager, Bui Bich Hoa, Assistant to Project Management Board as well as by officials from UNDP Viet Nam including Robert Glofcheski, Vu Quoc Huy, Johan Fredriksson, Eliane Darbellay, Ernst van Koesveld, Michael Zuyderduyn and Klaus Greifenstein.

A listing of the reports produced by this unique initiative is provided below:

- The Role of the State and the Market in the Economy of Viet Nam
- Non-State Business Sector Development and Job Creation
- Globalization and International Economic Integration
- International Financial Integration
- Further Perspectives on the Challenges of Integration
- Agriculture and Rural Development
- Rural Development and Off Farm Employment
- A Rural Social Development Strategy
- Science, Technology and Industry Strategy for Viet Nam
- Strategic New Generic Technologies
- Choices and Opportunities
- The Synthesized Report of the Research Project

The views expressed in this research report do not necessarily reflect the official views or policies of MPI or UNDP.

H.E Tran Xuan Gia
Minister
MPI

Edouard A. Wattez
Resident Representative
UNDP

Abbreviations

ABARE	Australian Bureau of Agricultural Resource Economics
AFTA	Asian Free Trade Association
AGDP	Agricultural Gross Domestic Product
ASEAN	Association of South East Asian Nations
CH	Central Highlands
DARD	Department of Agriculture and Rural Development
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HAACP	Hazard Analysis Critical Control Point
HDI	Human Development Index
HCMC	Ho Chi Minh City
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
JV	Joint Venture
LUR	Land Use Rights
MARD	Ministry of Agriculture and Rural Development
MOF	Ministry of Finance
MOLISA	Ministry of Labour, Invalids and Social Affairs
MRD	Mekong River Delta
mt	metric ton
NAFIQACEN	National Fisheries Inspection and Quality Assurance Centre
NCC	North Central Coast
NE	North East
NES	North East South
NGO	Non Government Organization
NW	North West
OCV	Occupational Communes And Villages
PCF	People's Credit Fund
RRD	Red River Delta
SCC	South Central Coast
SFE	State Forest Enterprise
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
TVE	Township and Village Enterprise
UNDP	United Nations Development Programme
USDA	United States Department of Agriculture
VBARD	Viet Nam Bank for Agriculture and Rural Development
VCP	Viet Nam Communist Party
VND	Viet Nam Dong
WTO	World Trade Organization

Summary

Introduction

Viet Nam has a high growth potential—

Viet Nam has a population of 76.3 million, an area of 331, 041 square kilometres including an extensive coastline, about 6.7 million ha of relatively fertile agricultural land, 9 million ha of forest and proven mineral and hydroelectric capacity. Located in East Asia, the most economically dynamic region in the world, Viet Nam is widely recognized as having high growth potential. That potential, released through the policies of *doi moi*, was clearly expressed in both rural and urban economies in the early 1990's, however, over the last 5 years, starting before the Asia crisis, Viet Nam has experienced diminishing investment and growth in most sectors of its economy. While *doi moi* is unprecedented in its empowerment of ordinary Vietnamese people to permanently improve their wellbeing, its impact remains limited by the conditionality of State economic leadership and the equating of socialism with egalitarianism.

—that the process of Doi Moi has released —

— empowering rural Vietnamese to permanently improve their wellbeing

The present agriculture economy is farm family based—

The agricultural economy can be caricaturised as a farming-family based rural economy, where new socio-economic organizations are primarily to be encouraged in the form of cooperatives and linked to world markets through State Owned Enterprises (SOEs), combined with substantial inward FDI creating joint ventures between foreign companies and SOEs. These principles, of a State-led market economy, were most recently confirmed during April 2000 9th plenum of the Communist Party of Viet Nam Central Committee. While Viet Nam is progressively adopting a reform agenda, there remains considerable uncertainty within Government as to how far the market reform process should proceed.

—with market links primarily through State-owned enterprise—

— bound in a system where liberalisation carries high risk

A new paradigm is needed—

Given Viet Nam's international commitments to an open market, it would seem an appropriate juncture for the re-evaluation of its present development path and formation of a new paradigm that allows it to proceed toward an uncertain future with greater assurance of prosperity, equity and improved social welfare. In essence, the new paradigm would involve a partnership between the State and the private sector at both community and commercial levels and across industry, services and the natural resource sectors. Essential elements of a new paradigm might include:

— creating partnership and trust between government and private enterprise—

—underpinned by reform in key areas—

- the establishment of an "open economic playing field";
- the adoption of best practice policies in budgetary control and financial systems management;
- a time-bound programme for the implementation of existing trade commitments;
- partnership between public and private sector enterprises and institutions;
- the rise of civil society, including the implementation of the "grassroots democracy law";
- a law governed state, wherein reoriented state agencies eschew commercial activity.

—leading to a wealthier and more specialized society

By 2020, Viet Nam will have shifted from being a predominantly rural to a more urban society, possessing a labour force far more specialized than now and considerably wealthier. In this process, growth in agriculture will have promoted household level enterprise and non-agricultural rural industry will have expanded significantly. This growth however, will not be universal, in fact, over the next decade it is likely to be highly specific to areas with adequate road access and influenced by the three growth poles.

The rural resource base

Agricultural growth will come through improved productivity and diversification—

In agriculture, growth in farm incomes will come through diversification towards higher value crops, livestock and aquaculture production, improved marketing and input supply financing and through the use of improved technology. The composition of domestic demand will shift away from staple foods toward livestock products, cooking oil, fruits and nuts, vegetables, and processed foods that require less preparation time. These changes are likely to be rapid given the expected future pace of economic growth in Viet Nam. International demand is also changing as a result of growing world income and the reduction of trade barriers. This will create opportunities for Viet Nam to produce high-value commodities such as seafood products, coffee, some spices, cut flowers and forestry products. By contrast, rice farmers, who presently underpin the agricultural sector, face the prospect of stagnant incomes and reduced incentives.

—into higher value products as market preferences change—

—and export opportunities expand

Forestry will also expand—

—as forest management shifts to a community base—

Forest policy is being progressively modified to achieve national goals directed at meeting forest product needs in a sustainable manner, protecting the environment and increasing social and economic benefits through participatory means. This requires improving the welfare of those communities adjacent to the protected areas by ensuring the communities have access to essential social-economic infrastructure and services, security of land tenure and providing alternative food generating and revenue earning opportunities. Provided forest protection and regeneration strategies are applied in a cost effective and participative manner, Viet Nam will have a significant forest product and associated timber manufacturing industry by 2020.

—but coastal fishery is at risk in the absence of common property agreements—

—while aquaculture carries both risks and benefits—

The on-shore fishery is over-exploited and the potential of the offshore resource is uncertain. Aquaculture is profitable in both lowland and upland areas and fits comfortably within most farming systems. However, risks from disease and market failure are high and the development of coastal aquaculture has carried a high environment cost. Habitat protection, the strengthening of fisheries law, the restructuring and strengthening of key supporting agencies and the establishment of a Fisheries Commission charged with the equitable and profitable allocation of fisheries are prerequisites for a sustainable fisheries industry

—unless environment policy is strengthened

Viet Nam is richly endowed with unique and sensitive ecosystems including upland and coastal forests, brackish and freshwater wetlands, and diverse riverine and marine ecosystems that contribute to the country's economic and social wellbeing, GDP, export earnings, and employment. Natural resources are particularly important to rural people, since their livelihoods and the social structure is closely tied to these resources. Economic growth and a sound environment can be compatible and even reinforcing goals, if appropriate policies are followed.

Rural industry

Industrial development is mostly an urban phenomenon—

Industrial development in Viet Nam is essentially a phenomenon of the three growth poles and is likely to remain focused in those areas and their rural periphery over most of the next decade. In 1999, industrial production in Viet Nam, including construction, accounted for an estimated 34 per cent of GDP, of which almost 80 per cent emanated

from urban areas and almost 70 per cent from the three "growth pole" regions. Output from foreign invested firms is even more concentrated with 79 per cent emanating from the southern growth pole. State-owned enterprise formed 46 per cent of the value of industrial production, with a further 32 per cent coming from foreign invested enterprise and the balance of 22 per cent from privately owned enterprises. Within the domestic private enterprise sector, 61.6 per cent of production came from household enterprises with only 10.6 per cent from private companies. The rural industrial sector, however, produced only 17 per cent of the value of industrial production and about 18 per cent of private industrial output.

—particularly with State-owned, foreign-invested and domestic enterprise—

Total industrial GDP outside major cities is difficult to determine. However, it is estimated to have grown by about 11.8 per cent a year from 1991 to 1993, 14 per cent a year from 1993 to 1995 and 9 per cent between 1995 and 1997. Though unreliable, these figures suggest respectable overall rates of increase, which, if continued and widely shared, would allow many rural Vietnamese to avoid urban migrations while rapidly improving their lives. Of the total rural labour force of around 30 million, 8 million have off-farm employment and some 2.2 million rural households (18 percent) are engaged in industrial craft, construction, commercial, service, or other non-agricultural activities.

—however, there has been significant growth in the rural non-farm economy—

—although its exact nature and sustainability are difficult to determine

The private business environment in Viet Nam has improved since mid-1999. The establishment of the Private Sector Forum, a SME promotion programme and the passage of the Enterprise Law are a few of the many positive signals that Government has sent to investors in recent months. Government now conditionally allows private firms to contribute their land use rights as equity in joint ventures and has agreed to the Miyazawa Initiative, a far reaching action programme for private sector development. Additional IFI structural adjustment funding is also expected to broaden such initiatives sometime in 2000. A framework for fiscal and trade reform is under discussion and government has committed to international trade agreements in the medium term.

Government has committed to substantive enterprise and trade reform—

While all are steps in the right direction, they are, as yet, insufficient to restore business confidence. Investment as a share of GDP in 1999 fell to 19 percent, down from 29 per

—however, this has failed to stimulate either domestic or foreign investor confidence

cent in 1997 a small fraction of the investment ratio that has historically driven growth in Asia. Indications are that this decline has continued in 2000. Foreign Direct Investment has continued its decline since the 1995 peak, falling to an estimated USD600 million in 1999 and only USD 173 million in the first quarter of 2000. Until such time as the private business community has confidence in government's commitment to reform and a comprehensive, unambiguous and time-bound agenda for change before it, economic growth is likely to remain below potential.

Industrialized agro-processing will not be a panacea for rural employment—

There are unrealistic expectations of the role agricultural product processing might play in the development of rural industry. In fact, agricultural industry will represent a small and diminishing proportion of rural industry by 2020 though it might be an important component of the transition to an export-led rural industry base. At present, there is neither the savings, management expertise nor the infrastructure required for broad-based rural industrialization and it would be financially unrealistic to plan for nationwide improvements in these critical factors of industrialization in the near future. In the medium term, resources should be channelled to where they will have the greatest impact. In the case of rural industrialization, this is likely to be the periphery of the existing growth poles.

—though it may provide transitional relief as the rural sector accumulates the savings and skills necessary to drive rural industrialization

Strong agricultural growth and diversification is needed to drive household enterprise development—

In more remote regions economies, continued strong agricultural growth and diversification is required to drive household enterprise development. This process will be greatly improved when farmers and household enterprises get reasonable access to medium term credit, the rhetoric of macroeconomic reform becomes reality and rural investors regain confidence in the economy. In the longer-term (2010-2020) the progressive development of rural infrastructure and the restructuring of education should provide the environment for the expansion of rural industry into more isolated rural provinces and towns with the search by industry for cheaper sources of land and labour the catalyst for this process.

—supported by reasonable access to credit, infrastructure development and better education

Rural development

Bold decisions are required—

Viet Nam again stands at the crossroads of economic reform, its future largely dependent on the capacity of its leaders to make some bold economic choices. The government has moved toward establishing the basis for a rural credit program, a rural land market and, through the

recently promulgated Enterprise Law and the Miyazawa Initiative, a more competitive marketplace. However, none of these initiatives is complete. Government is also approaching agreement with the international community on phased programs to deepen the financial sector, reform the trade system and accelerate SOE privatization. However, these changes alone, and will not restore investor confidence. The pace of reform remains slow, considerable uncertainty surrounds the effectiveness and timing of implementing decrees supporting recent policy reforms, and there are profitable alternative investments in Asia. A three-year reform programme is under discussion and should form the basis for a return to moderate economic growth. Whether or not these reforms impact on the rural sector remains to be seen. For accelerated rural growth and employment, government must additionally:

—to restore investor confidence—

—and accelerate rural growth and employment, including—

—rural financial service restructuring—

- *strengthen rural financial services:* building capacity within VBARD, expanding its impact area and completing the establishment of the PCF as a rural credit institution;

—further land reform—

- *strengthen the Land Law* with respect to the implementation of the rights to land transfer, exchange, lease, inheritance, and mortgage;

—including community-based resource management systems—

- *improve minority people land rights* as the cultural and spiritual relationship of minority tribes to traditional lands deeply influences their economic choices and capacity to prosper. The recognition of traditional land use rights of minority people, is integral to their wellbeing and inclusion in the market economy;

—accelerated SOE equitisation and competitiveness—

- *accelerate SOE reform* as a critical component of market liberalisation. This is particularly so in the rural sector where the economic space between the farm and the market is dominated, either directly or indirectly, by the SOE sector.;

—institutional reform and downsizing—

- *restructure institutions* that support the rural sector: MARD, in consultation and collaboration with a freely associating rural community and other economic actors in the rural sector, must redefine its purpose, objectives and approach to rural development, embracing the principles of participation, transparency, accountability and rule of law;

—investment in agricultural research—

- *a reformed agricultural research system* that focuses on topics prioritised in discussion with industry, giving weight to quality aspects of production and adequately funded and staffed with trained researchers;

—and extension—

- *a technology transfer system* that encourages vertical links between farmers, input suppliers and processors, especially for cash crops, and strengthens horizontal farmer-to-farmer linkages.

—better technology—

- *specific processing technology* programs for export industries.

—and stakeholder participation

- *participative processes* must be mainstreamed, recognizing that this process will involve power sharing and reorientation at the government level and the empowerment of rural communities..

Rising household enterprise employment—

—stimulated by sustained agricultural growth—

The solution of poverty problems in rural Viet Nam will require a significant employment growth in rural non-agricultural household enterprises (e.g. house construction, furniture manufacture, machine shops and services) that are stimulated by rising farm incomes. In the plan period to 2010, Viet Nam must focus on an agriculturally-led development strategy for its rural areas if it is to reduce poverty and vulnerability, improve equity and lift economic growth. In most rural areas, rising income associated with increased agricultural productivity will create a consumption linkage effect, lifting demand for non-agricultural production in the local economy, especially for labour-intensive industrial goods and services. Rising non-agricultural rural earnings will create additional demand for agricultural products, further reinforcing this process. The rural economy will also enjoy additional, though weaker, second-round backward and forward linkages with the urban economy. The more equitable the agricultural income growth, the broader will be the consumption demand for local labour intensive goods.

—is the key to reduced rural poverty through to 2010

As these household enterprises acquire technology capital and skills—

Over time, there should be a move away from a rural development strategy that relies on agricultural growth and an abundance of unskilled, low-wage labour, toward a technology, capital and skill-based strategy that drives economic growth at a faster pace. Of particular importance, is how enterprises that start as low skilled, largely family businesses, expand into the medium-size enterprises of say 20 or more employees that become outward looking and begin to transform the rural market towns into broad-based industrial centres.

—they will grow to form SMEs clustered near rural market towns

Rural strategies

Government's goal of rural modernization and industrialization—

Government's long-term goal centres around the improved welfare of the people and the modernization and industrialization of the country, through a development strategy that builds on four main principles:

—built on the principles of stability, equity, participation and sustained growth—

- sustainable economic *growth* as the force for reducing poverty and fostering industrialization;
- *stability*, political, social and economic
- *equity*, based on a reasonable living standard and equal opportunity for all citizens
- *participation*, with people and communities determining their own futures with government facilitation.

—will be realized when there is —

In pursuit of this goal and principles in the rural sector, Government must focus on a few key development strategies. These include:

—sufficient and appropriate public investment in rural areas—

- **the efficient and adequate allocation of public investment** by sector and region, using decentralised and participative decision making processes wherever possible. Action supporting this objective must recognize the rural sector's contribution to economic growth, the imperative of increased rural employment and the economic and social constraints imposed by existing weak rural infrastructure;

—accompanied by further trade, banking, enterprise and land reform—

- **an unambiguous, time-bound economic reform programme** embracing the main factors of production - trade, banking, enterprise and land - and supporting rural institutions, with transitional social costs adequately funded through quick disbursing loans. Action supporting this objective must recognize that government is but one actor in rural development and must work in equal partnership with the economy and the community for successful development;

—and supported by investment in agricultural research and technology dissemination—

- **the comprehensive restructuring of the agricultural knowledge system** with a view to the cost-effective and timely development of technologies that efficiently generate high quality products acceptable to international markets. Action supporting this objective must recognize the potential role of the private sector in agricultural research management and information dissemination and the role of the rural community in setting and partially financing the research agenda;

—within the framework of a more civil society

- **the pursuit of a civil society and the rule of law**. Action supporting this objective must recognize the creative nature of the rural smallholder, the equal status of women, the necessity of implementing the "Grassroots Democracy Law" and that of building capacity at administrative and community level in support of participative development;

2020 vision

The rapid pace of change in Viet Nam shift projections beyond 2010 into the realm of fantasy—

—however it will require a decade for the means required to support broad-based rural industrialization to form—

—by which time, rising domestic demand and international competitiveness will see agriculture's share of GDP fall sharply

Projections beyond a decade in the fields of agriculture and rural development move into the realms of fantasy. Who in Viet Nam in 1980 might have predicted its present status? While agriculturally led growth is projected to be the driving force of rural development in areas outside the influence of the three growth poles in the coming decade, cumulative investment in rural infrastructure, education and information will, by 2010, have precipitated a situation conducive to rapid rural industrialization. This process will be accelerated by the push for large-scale urban based industry to spread its production centres in the search for cheaper factors of production and by growing private sector social responsibility and philanthropic activity. Agriculture, while continuing to grow strongly, driven by rising domestic demand and the increasing competitiveness of its products on world markets, will, nonetheless, play a diminishing role both in the national GDP and in rural industry.

Between 2010-2020 industrial growth will create the turning point in this agriculturally led economy—

—which, if Government has invested wisely to support rural industry—

—will occur without massive urban

In the period 2010-2020, industrial growth, combined with lower population growth will see a turning point in the agriculturally-dependent population, with an increasing number of families leaving the land, particularly in more remote and agriculturally marginal locations, to join the industrial workforce. This process of rural-urban drift should avoid the urban concentrations seen in many other emerging economies, as the government would have exploited Viet Nam's long coastline, numerous ports and expanding regional road links to ensure the market-led emergence of a dispersed rural industrial base.

1. Rural Development - Trends and Opportunities

A unique situation

Box 1.1 A state managed economy

According to the VCP:

"Development of a multi-sectoral commodity economy with state management in a socialist direction is the strategic Line of the Party and State. Economic units from all sectors are equal before the Law, within which the state economy plays a guiding role and with the cooperative economy will gradually become the foundation of the national economy".

Any attempt to project future rural development strategy and outcomes in Viet Nam must be based on a realiztic assessment of the historical and on-going relationship between, the State, the economy and the people. The Viet Nam government has been unequivocal in its stance that the State should play the leading role in economic development, though what this philosophy constitutes has evolved over time. In early post-war Viet Nam, this involved full-scale socialisation, taking the country "from small production to large-scale socialist production within about 20 years"[1]. External shocks, limited capacity to manage a planned economy, rising provincial independence, broader representation on the Viet Nam Communist Party (VCP) Central Committee and a spontaneous process of reform from below, subsequently led to the progressive relaxing of controls on private production, culminating in the process of *doi moi*, that has guided economic development since the mid 1980's. While *doi moi* is unprecedented in its empowerment of ordinary Vietnamese people to permanently improve their wellbeing, its impact remains limited by the conditionality of State economic leadership. This is closely related to State sector interests in an SOE development strategy which can be caricaturised[2] as, "a farming-family based rural economy, where new socio-economic organizations are primarily to be encouraged in the form of cooperatives, and linked to world markets through State Owned Enterprises (SOEs), combined with substantial inward FDI creating joint ventures (JVs) between foreign companies and SOEs"[3].

There remains considerable uncertainty within Government as to how far the market reform process should proceed. Any step toward market liberalisation involves high

[1] VCP 1997 Fourth National Congress Documents (P59) cited by James Riedel and William S. Turley in The Politics and Economics of Transition to an Open Market Economy in Viet Nam, OECD Development Centre Technical Paper No. 152, 1999.
[2] Refer to Text Box 1, an extract from VCP Order N0. 68 on the implementation of the Cooperative Law.
[3] Viet Nam - Culture and Economy: Dyed-in-the-Wool Tigers? Adam Fforde, Draft Paper for ANU Viet Nam Update 1998.

levels of risk for its proponents - to ideological goals, personal positions and the maintenance of the regime. While donor influence has grown with the size of the ODA budget, particularly in key areas such as infrastructure development, and government awareness of economic choices and outcomes has been substantially enhanced, steps toward economic rationalisation continue to be primarily driven by the scale of the risk to State authority of inaction, rather than a commitment to market-led reform. Government's "extensive systems of controls over economic actors that reach to the level of very small details….. giving government officials at all levels tremendous power, particularly over private enterprises that function outside the state system[4]" is indicative of this uncertainty and has frequently allowed entrepreneurs holding positions in the state apparatus to negotiate, with varying success, new or dual positions in the 1990s market economy - another factor that drives the status quo.

Viet Nam, however, carries some essential differences from other neo-autocracies, particularly those in Easter Europe and Russia, but also with most in Asia. While its large reservoir of unused or underused resources, particularly labour in the rural sector, is common to other emerging Asian economies, it is substantially different from those in the European theatre. Viet Nam is, however, more unique in its broad family and community-based social security system, its shorter history of socialism, its greater political authority at the local level, its rather pragmatic approach to change driven by an iterative learning process, and its much lower level of inefficient industry to dismantle. These differences have eased the role of reformers at critical junctures in recent Vietnamese economic history. Specific conditions that must be considered in any assessment of future development strategies in Viet Nam include[5]:

- *Decentralization of authority* in Viet Nam has aided and abetted the move toward a market economy. As resource management has shifted down from central planners to line ministries and provincial authorities, economic benefits have trickled downwards and outwards providing lower level officials a stake in the market economy and the incentive for expanding local autonomy in economic affairs;

- *Spontaneous development* has often led to *de facto* policy decisions. Initial reforms were, in part, a response to a sufficiency of economic crisis, but also to spontaneous development from below, to which policy makers found it expedient to respond. The influence of the International Financial Institutions (IFIs) has grown in the 1990's due in part to their dominance over investment in infrastructure;

- *Social consensus* has supported reform. Reforms have been made easier in Viet Nam by a broadly favourable social consensus, which has lowered resistance to change and impelled it forward;

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[4] SME in Viet Nam: On the Road to Prosperity, Leila Webster, Private Sector Discussion Paper No. 10, Mekong Project Development Facility.

[5] For further discussion on these issues read Fforde (1998) and Riedel et al (1999).

- *Vision* has not usually been the driving agent of change in Viet Nam. Learning, accompanied by an accumulation of knowledge throughout the government and society has accounted for more than the vision of any individual in defining where the country should go and how it should get there;

- *Financial sector reform* enjoys limited support at any level. The unwillingness of authorities to undertake a comprehensive reform of the financial sector, at least so far, is a natural result of their continuing desire for a market economy with socialist orientation. In this instance, there is little central-peripheral tension, as local governments frequently hold stocks in joint-stock banks that would be adversely affected by financial sector liberalisation and the direction of the banking sector is a mainstay for the survival of SOEs that underpin the socialist orientation;

- *Gradualism*, which appears to be a prime feature of Vietnamese reform, is the result of compromise, made necessary by the continuing rift over the pace and scope of liberalisation, the lack of an impending crisis, the power of satisfied interests and the lack of power of any emerging group with other interests;

- *Populism* is frequently used as an alternative to policy reform.` The present leadership, in part, addresses key economic issues by showing sensitivity to popular grievances and by emphasising good governance, however, such steps are unlikely to provide a substitute for effective economic management;

- *Investment priorities* have not met expectations. Despite *doi moi* and continuing state controls, the pattern of investment in Viet Nam during the 1990s has - contrary also to donor expectations - tended to avoid politically key domains: the rural areas; light manufactures; and small-scale private and semi-private non-agricultural enterprise.

A new development paradigm is needed

Beyond the next Plan period (2001-2006), Viet Nam is committed to an extensive array of trade and fiscal reforms under its confirmed commitments to AFTA and ASEAN and likely commitments arising from new bilateral trade agreements and WTO accession. In the shorter term, Viet Nam may be fortunate enough to ride a wave of economic recovery in Asia, allowing it to again defer hard policy choices and proceed along its historic path of gradualism and populism within the framework of a socialist-led economy. *It could, however, without reform, also face a severe economic downturn, wherein economic and policy uncertainty continues to erode domestic and foreign direct investment, falling commodity prices reduce income and lead to a foreign exchange blow-out, reduced tax revenue curtails important public investments, particularly in rural areas, unemployment rises sharply and social unrest ensues.*

Given Viet Nam's longer term international commitments to an open market, and the risk associated with the uncertainty of shorter-term outcomes, it would seem an appropriate juncture for Viet Nam to re-evaluate its development path and devise a

new paradigm that allows it to proceed toward an uncertain future with greater assurance of prosperity, equity and improved social welfare.

In 1995 Vo Van Kiet[6], in an insightful memo to members of the Politburo, described socialism as "a composite of prosperity, justice, equality, national resilience and development, harmonised with social welfare and environmental protection, under party leadership, with all economic sectors having roles to play in achieving these objectives". Other elements of the memo advocated that Viet Nam, mindful of its differences, chart its own development course, but be prepared to adopted what was useful in other systems; promoted the role of internationalisation and globalization in Viet Nam's future development; proposed a role for state enterprises that was supportive rather than dominant; promoted good governance and railed against corruption; and proposed clear separation of State and Party functions and a law governed state.

In the light of the 21st Century and following the experience of the last 5 years, these recommendations are as relevant now as they were in 1995 and provide the basis for a new paradigm that could support the continuing evolution of the market economy in Viet Nam within a socialist framework. In essence, the new paradigm would involve a partnership between the State and the private sector at both community and commercial levels and across industry, services and the natural resource sectors. Essential elements of the new paradigm would include:

- the establishment of an "open economic playing field" with State regulation, supported by continuing improvement of the Enterprise Law, wherein an efficient, competitive SOE sector would act as a fair competitor, catalyst and occasional risk-taker in the development of a dynamic, export oriented small and medium enterprise sector,;
- the adoption of best practice capitalist-country policies in areas of budgetary control and financial systems management and a time-bound programme for the implementation of existing trade commitments;
- partnership between the State and private sector enterprises and institutions in the development of new economic activities, services and markets, supported by free associations in the private sector;
- the development of civil society, particularly through the implementation of the "grassroots democracy law" supported by the training of government bureaucrats and rural leaders in participative development;
- a law governed state, wherein reoriented and downsized state agencies and institutions eschew commercial activity, take full responsibility for the implementation of the law and provide the regulatory framework for a socialist economy and support services, in partnership with the private sector wherever possible.

[6] Vo Van Kiet: cited in Nhan Dan, 9 May 1996.

Rural development - An embodying process

Fforde[7] notes that "at a high level of abstraction, rural development can be seen as an embodying processes linked to three separate but interrelated spheres. Each operates relatively autonomously, but cannot exist in isolation. These are the classic three elements of "governance":

- *The state* - government, laws, policy, administration, statecraft
- *The market* - commerce, finance, economy ...
- *The population* - communities, values, emotions, gender, kinship

In general, there is a misunderstanding of rural development in Viet Nam, where it is frequently perceived as the object of state policy and activities. Instead, rural development is a subject, constituted by the three aforementioned spheres, with government just one of the subjects that constitute rural development.

The current understanding of Rural Development has led to the elaboration of strategies and programs expressed mainly in terms of state actions. Their effectiveness, however, is challenged by the insufficient acknowledgement of the role of the market and the people in their implementation. "In reality, it is through the subjective nature of the other spheres that the state realizes its role within rural development. So long as this is not realized, true progress is limited. This means that the roles played by economic logic and by 'the population', will have to be taken seriously, understood better, and reflected in appropriate institutions." (Fforde 1998).

The Party and State need to come to a better understanding of the *creative nature* of Vietnamese farming families and communities, which possess great capacity to act together when it is in their interests to do so. Instead, many government officials see the imposition of policy as being in the best interest of the people, particularly if they are from poorer or minority communities. In reality, local capacity and leadership is there if it can be effectively harnessed and empowered. The Party and State also need to have greater respect for popular democracy amongst the rural population in matters to do with rural organization. This particularly refers to the rapid and effective implementation of the grassroots democracy law, but also to the freedom to associate, particularly outside of the new Cooperative Law. In this context, the Party should have little direct role (once the guiding principles of association are established) and the State would only operate through the legal framework regulating cooperative/association relations in the countryside. In reality, within the State structures, there are forces at work acting against farmers' interests; these needed to be identified and explicit policies developed to counteract them[8].

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[7] Economic development and organization in Viet Nam's countryside: rural institutions, the new-style cooperatives and implications for the re-structuring of the Ministry of Agriculture and Rural Development (MARD): Adam Fforde, Report for VIE/96/008/A/01/99.

[8] An example of such a policy choice that led to a significant improvement in farmer wellbeing was the dissolution in 1997 of the SOE rice export monopoly, which had clearly operated outside of farmer's best interests.

The role of private business in the rural sector is seriously constrained at present, for reasons based upon the view of the Party as to the correct path of development of production relations 'in a socialist direction'. This is evidenced by the very low level of investment, both domestic and FDI, in both farm and non-farm enterprise in rural areas. This situation might be of less concern if the existing SOEs acted in a competitive manner[9], however, many SOEs do not act differently from other businesses operating in a market economy. Most importantly, without active measures being taken, they exploit monopoly if they can, against the interests of others, including farming families.

Fair and open competition in the economic area surrounding the family farm is essential to the emergence of vibrant agricultural and rural industrial economies. This will require substantial additional investment and institutional and policy reform including:

- trade reform leading to improved private enterprise access to domestic and imported inputs, the de-bureaucratisation of exportation, exchange rate management which does not persistently disadvantage exporters and the incentive of competing imports;
- financial sector reform that deepens the financial sector, allows market allocation of credit, promotes savings and extends services in rural areas;
- land reform that improves land use rights for private rural enterprise, simplifies land use change and establishes an agricultural land real estate market;
- business reform that creates an even playing field and space for private enterprise entry into the non-farm rural economy, employs SOEs to take risk in selected areas in support of private sector development, regulates monopoly and supports the emergence of farmers' organizations to secure countervailing market power;
- institutional reform, particularly restructuring MARD such that it facilitates and enhances farm family ability to explore and exploit opportunities open to them, builds and implements the requisite regulatory framework for agricultural development, researches technology and the agricultural economy and builds institutionalised feedback loops between farmers' independent organizations and policy makers and implementers;
- decentralization of rural planning and implementation to Provincial and District level, subject to national guidelines, with retention of direct national responsibility only where extra-provincial issues arise or national legal consistency demands e.g. major water infrastructure, research and land issues;
- infrastructure investment, improving transport, energy and communication services (and reducing associated costs) in rural areas, especially the more difficult mountain areas. Much also remains to be done to improve and extend irrigation and flood control systems so that farm incomes rise and wet season living is healthier and safer;

[9] Elements of competitive pressure between SOEs have been increasingly observed in the rice, cashew and fertilizer sub-sectors.

- empowerment of rural people through the use of participative methods for design, construction and operation of social service and provincial infrastructure programs, including specific measures to ensure the active participation of women at all stages
- education reform, introducing fundamental changes in educational structure and philosophy, linking education to market demand, particularly through vocational and marketing education at the local level and replacing ideas of authority and teacher-pupil relations, with ideas based upon notions of the autonomous self-development of the pupil.
- finally there is a set of "cross-cutting" constraints that require redress. These include transparency and governance issues, gender inequity and degradation of the environment. Rural people find it difficult to help themselves, because they are dependent upon Government permission for almost all actions outside the household plot.

Poverty reduction a continuing challenge

The rapid growth of the economy as a whole at about 8 % pa in the 1990's has benefited all people in Viet Nam, however, the country is still one of the world's poorest. Per capita income is about USD300 and up to one third[10] of the population still classified as poor. In a world context, however, Viet Nam's fight against poverty is showing progress. While poverty remains high, Viet Nam has made considerable progress in poverty reduction. In the Human Development Index (HDI), Viet Nam's present rank is 121 of 174 countries, indicating a medium human development. The Gender-related Development Index (GDI) rank for Viet Nam is 91 of 130 countries, meaning that Viet Nam has succeeded in building basic human capacities of both women and men, without too substantial gender disparities.

Agriculture now contributes about 27 % of GDP but occupies about 70 % of the workforce. Poverty, therefore, is still mainly a rural problem that is exacerbated by geographical remoteness and accentuated by seasonality, periodic family health crises and natural disasters. With the growth of agricultural output at around 4-5% pa and industrial output at 14% pa and limited rural-urban migration, the disparity between rural and urban incomes is growing. Within the rural sector there are also marked regional differences in productivity and poverty. Formal sector non-farm rural employment has failed to grow rapidly and the safety net formerly provided by the collective system – a system that stymied productivity and income growth – has disappeared, increasing the vulnerability of the rural poor

A future scenario

The Vietnamese Communist Party, at the VIIIth Congress, stated the goals of industrialization and modernization. These were re-affirmed at the 2000 9th Central Committee

[10] Poverty has many dimensions and estimates of its incidence consequently vary. In Viet Nam the MOLISA estimates the level of hungry at 2% of population and the total poor at 15.7%. The World Bank places the level of "food poor" at 15.0% and the poor at 37.4% while UNDP estimates the "human poor" at 28.7%.

Plenum. By 2020, or so, it is more or less certain that Viet Nam will have shifted from being a predominantly rural society to one where its economy is no longer based upon agriculture. Viet Nam will become more urban, possessing a labour force far more specialized than now, and it will become far richer[11].

In this process, rural industry will also expand significantly, driven initially through growth in agriculture, which, in turn, will further promote household level enterprise. As the present urban bias of Government's industrial and public investment policies eases and the overall private sector investment environment improves, private rural small and medium enterprise will also expand, initially in the arena of value-adding agricultural product processing, but moving quite quickly to export-oriented light industrial production. This growth will not be universal, in fact, over the next decade it is likely to be highly specific to areas with adequate road access and influenced by the three growth poles, and in a few other provincial towns. In particular, rural industry is likely to grow rapidly in the Ha Noi-Hai Phong-Ninh Binh triangle with satellite activity in Thanh Hoa and a short distance along the rail routes to the north and northwest of Ha Noi; the Quang Nam, Quang Ngai, Binh Dinh area with satellite activity along Highway 9 and close to Pleiku (wood, coffee, rubber, starch); across the Northeast South region where it is already establishing; and sporadically between HCMC and Can Tho, with the latter also likely to develop as a significant agro-industrial centre for the MRD.

Between 2010 and 2020, rural industrialization is likely to become more widespread as the manufacturing industry pursues low cost labour that is no longer available in urban and coastal areas and which, over a generation, has been up-skilled in rural areas through improved vocational training opportunities and a history of sub-contracting-out business from urban centres.

In agriculture, growth in farm incomes will come through diversification towards higher value crops, livestock and aquaculture production, improved marketing and input supply financing and through the use of improved technology. The composition of domestic demand is shifting away from staple foods toward livestock products, cooking oil, fruits and nuts, vegetables, and processed foods that require less preparation time. These changes are already evident and likely to be rapid given the expected future pace of economic growth in Viet Nam. International demand is also changing as a result of growing world income and the reduction of trade barriers. This creates opportunities for Viet Nam to produce high-value export commodities such as seafood products, coffee, some spices, cut flowers and forestry products. By contrast, rice farmers, who presently underpin the agricultural sector, face the prospect of stagnant incomes and reduced incentives. This is partly the result of lower real rice prices created by their very success in increasing productivity, but also the result of a struc-

[11] The situation of China demonstrates this point. The agricultural population in China has declined from about 80% in the early 1980s to 52% in 1995 and has continued to fall. At the same time, agriculture processing formed only 2% of the total activity of the TVE system in 1995, down from 22% in 1980.

tural transformation of the economy, which will reduce per capita demand for staple crops. "The challenge posed by these shifts in demand is to develop a diversified agricultural system that is responsive to changing market conditions. That requires overcoming the rigidities related to technology development and application and an irrigation system designed to grow rice. But rural income diversification will not only be a matter of changing cropping patterns based on short-term demand projections. Effective diversification involves the entire rural sector and relies on the development of marketing, transportation, and export facilities. That will involve key investments in infrastructure and institutional and policy changes that promote the private sector, particularly in rural areas"[12].

[12] Policy Simulation for Rural Development; Francesco Goletti and Karl Rich, UNDP Project VIE/96/008, 1998.

2. Agriculture - The Engine of Rural Development

Introduction

Viet Nam has achieved strong growth in agricultural production and trade over the past twenty years. This is commonly attributed to infrastructure investment in irrigation and perennial crops before 1988, *doi moi* policy changes which encouraged market-driven production and input use, allocation of individual land use rights, sound macroeconomic policies and improved credit access for farmers.

Whilst the upward trend in agricultural production of 4 to 5 per cent pa compares favourably to that of other Asian countries, it lags that of other sectors in Viet Nam and so, agriculture's share of total GDP has fallen from about 40 per cent in 1991 to 27 per cent in 1999. As about 70 per cent of all labour is employed in agriculture it is clear that returns to farm labour are less than half of those in other sectors. Moreover, there are large regional differences in farm incomes with returns to family labour in poor zones only about 20 to 30 per cent of those in richer zones.

The share of livestock production in total agricultural GDP has remained static at around 15 per cent despite expectations of stronger growth in domestic demand for livestock rather than crop products. In part this may be explained by rapid growth in exports of rice and coffee. In 1999 Viet Nam exported some 4.4 million tons of rice - about 16 per cent of total world trade - at prices which indicate improvements in quality. Coffee and rice together provided 17% per cent of total export earnings in 1998.

While recognizing these considerable achievements, five areas of concern may inhibit future growth and influence the distribution of benefits with adverse social consequences. These areas include:

- The lack of sustainability of some production systems, with likely environmental degradation and declining farm returns;
- land policy and implementation which fails to encourage efficient, sustainable farming;
- inefficient marketing systems, which do not convey consumer needs to farmers, add value or reward quality;
- a food security / trade policy which discriminates against farmers;
- un-focussed and under-resourced government and private support services for agriculture leading to use of inappropriate technology and limited credit access.

Agricultural sector trends

Trends that are consistent with the experience of other SE Asian economies are emerging within the Viet Nam agricultural sector. The demand for tubers is diminishing in the

face of increased rice availability, while the demand and production of livestock products and feeds (maize), fruits and vegetables is rising faster than that for cereal crops. While there has been little substitution yet of livestock products for rice, with consumption of both rising across most income groups, this trend will emerge in the near future, particularly in the urban economy. The production of cash and industrial crops can also be expected to continue to rise, particularly as the un-competitive nature of SOEs abates and investment in private rural industry expands. This process is raising rural incomes leading to rising savings which can be expected to contribute to the virtuous circle of high growth and high savings as observed in other SE Asian economies.

With growing marketable surpluses, not all of which can be absorbed by the expanding domestic market, Vietnamese agriculture is increasingly exposed to the vagaries of the international marketplace[13], for which it is presently ill equipped to cope. Market competitiveness and intelligence, road and port infrastructure, financial services and product quality and value-adding must all improve significantly if farmers are to benefit fully from incremental production. Failure to quickly address these issues will leave farmers increasingly exposed to large price swings without meaningful coping mechanisms. Incremental livestock production is more likely to be absorbed by the domestic market as incomes rise, however, the potential also exists to expand meat exports subject to investment in product quality, animal disease control and product processing.

As rising urban incomes increase demand for non-rice agricultural products and growing rural industry, financed largely through rural savings, expands demand for cash and industrial crops and absorbs rural labour, Vietnamese farms are expected to become larger and increasingly diversified. Land reform will be an essential component of this process, including the development of a land market, the use of land as collateral and the market-led amalgamation of small land parcels. Financial services must also strengthen to attract savings and ensure the efficient and equitable allocation of credit to a rapidly growing rural demand. The removal of interest rate caps, cessation of directed and subsidised credit and capacity building within rural credit organizations will be essential components of this change. Infrastructure development, particularly in support of rural industrialization, port infrastructure and inter-linking roads must also accompany this process. This will require the reduction of the urban bias within the public investment programme (PIP) with a probable shift to regional infrastructure planning and PIP resource allocation more representative of population distribution. Increased investment in education and health care is also needed to give the rural poor the opportunity to participate more fully in the economy**.**

Agricultural production, area and productivity

Crop production

Growth in production has been almost universal across annual and perennial food and industrial crops, with significant declines only occurring with root crops, notably cassa-

[13] In 1999, 15 per cent of rice, 42 per cent of tea, 85 per cent of rubber, 90 per cent of cashews and 99 per cent of pepper produced was exported. (Viet Nam News 9/12/99).

va and sweet potato and autumn rice, although even these have expanded in some agro-ecological zones. For many crops and regions, however, increased production has been driven as much or more by an expansion of planted area, as by improved productivity. Crops showing substantial annual improvements in productivity (tons / ha) between 1990-1998 include cotton (11.2%), maize (6.3%), green bean (5.4%), peanut (4.1%), spring rice (3.9%) and tobacco (3.4%), though here also, there is substantial variation between zones, including some negative trends. While growth in crop production is impressive, productivity remains below that of several other Asian countries, notably China. Insufficient investment in science, notably plant genetics, restrictions on seed imports, failure to enact plant variety rights legislation, continued production targeting and channelling of inputs and uncompetitive markets have all contributed to the failure to fully realize potential in this area. Text Table 2.1 below summarises trends for the major crops in Viet Nam in the 1990s, which, for selected crops, are examined in detail in sections rice, maize, leguminous crops, coffee, sugar below.

Rice

The rice sub-sector forms about 40 per cent of agricultural GDP and is the mainstay of smallholder food security. Average paddy yield increments from 3.2 tons / ha / yr in 1990 to 4.0 tons / ha / yr in 1998 (25%) are impressive, but disguise a large yield diversity within paddy production systems, both within and between agro-ecological zones, with some farmers achieving yields of up to 7-8 tons / ha / crop. The marginal profitability of such high yields requires further investigation, but nonetheless raises a number of interesting possibilities for the rice sub-sector. Key trends, opportunities and constraints in rice production include:

Noticeable trends (refer Table 7.1) include the increasing differentiation of average yields between the Red River Delta (RRD) and the Mekong River Delta (MRD)[14]; a tendency, particularly amongst the relatively larger land holders of the MRD, to substitute some rice with high value annual and perennial horticulture crops, combined with the continued expansion of rice-cropped area in the MRD, possibly involving environmentally sensitive areas; a growing role for aquaculture in the land resource constrained RRD; and the increasing adoption of integrated pest management strategies in rice production. While the annual rate of increase in rice productivity has declined in recent years, opportunities to further increase rice production are available, however, some are often highly specific and require further research. They include further genetic improvement and wider use of hybrid and scented varieties, varying planting dates through varietal selection so as to allow an additional rice crop or crop diversification; increased upland paddy area (where possible) to ensure food security; investment in improved water control, especially with poorly drained and flood prone areas, to increase cropping frequency and yield, and with moderate acid-sulphate soils; further improvement / mechanisation of rice production (including micronair pesticide application), mechanical harvesting, and post-harvest technology - cleaning, drying and grading

[14] Total productivity in the MDD has been almost static for 7 years, with modest gains in the productivity of the Spring crop offset by falls in productivity in Autumn and Winter crops.

(where losses estimated at 13-16% are high); and, improved market information including feedback from the market to the producer. Constraints and risks associated with rice production and marketing include the insufficient credit market, export quotas, continuing state management of fertiliser importation and domination of the processing/export sector of the market, over-exploitation of acid-sulphate soils and water-logged areas with consequent environmental deterioration and the mis-management of agro-chemical use.

Domestic rice supply and demand projections[15], given a high demand scenario, with income growth rising 4 per cent annually per capita, no change in urbanisation rates[16] and a higher than average population increases reveal no change in per capita demand between 1995 and 2005 and a fall in demand to 152 kg/person in 2020. In aggregate terms, this represents a 1.5 per cent per annum demand increase. The corresponding production model estimates per annum increases in rice production ranging from 1.2-1.9 percent. Together with the demand predictions, this suggests that the scope for expanding future rice exports is favourable.

Maize

In 1998, 650,000 ha of maize crop produced 1.6 million ton of grain. This represents a 50 per cent increase in planted area and a 140 per cent increase in maize grain production over 1990. The most rapid expansion (refer Table 7.2) has been in the upland regions (NE, NW, CH) and the NCC, with only the MRD showing declining production, both in area and yield. Further opportunities exist for maize to replace low-yielding rice in farming systems in most agro-ecological zones. Combined with the increasing interest in peanuts and, to a much less extent soybean, maize is a good rotation partner offering new approaches to weed control, pest and soil disease management. The expansion of the private sector feed milling industry and growing demand for livestock production will raise demand for feed maize.

Yields are generally very low and vary widely indicating substantial opportunity for improvement. In fact, the average yield of 2.5 ton/ha in 1998 is a fraction of potential. Productivity, however, is rising as hybrid seed with appropriate maturation times becomes available for a wider range of agro-ecological zones, along with precision planters and specific herbicides. The maize industry is, however, constrained by the lack of Plant Variety Rights legislation, which is limiting farmer access to recent hybrid seed releases. Weak research on management systems across agro-ecological zones and soil types and low world prices, which will severely challenge inefficient domestic producers in the medium term, also constrain growth.

Leguminous crops

Peanuts (Table 7.3) green bean (lentil) (Table 7.4) and soybean crops (Table 7.5), which have a growing market for human consumption, appear to offer interesting opportuni-

[15] Goletti, F.N. Minot, and P. Berry, 1997. Marketing Constraints on Rice Exports from Viet Nam, MSSD Discussion Paper No. 15, IFPRI.
[16] Higher urbanisation rates would further depress demand for rice on a per capita basis.

ties for a potentially wide base of small-scale producers in Viet Nam. Steady area and productivity growth (though yields remain low overall) has been realized in several agro-ecological zones, particularly the RRD (all legume crops), NW (peanut), NCC (peanut and lentil), SCC (all legume crops) and CH (lentils and soybean). A general decline in planted area is noticeable in the NES, although it remains as the largest producer of leguminous crop products. This is likely to be associated with the relatively high labour input into leguminous crop production and the relative availability of alternative employment opportunities in the NES. As well as providing reasonable returns in most years, leguminous crops also offer some advantages as a break crop to cereal based rotations such as maize. Producers also enjoy some competition between State and private sector buyers for their leguminous crop products. Future opportunities include peanuts and beans fitting comfortably into a number of rice and maize-based farming systems in Viet Nam, offering soil enrichment and pest and disease cycle breaks in farming systems; the suitability of leguminous crops for under-sowing industrial plantation crops during their establishment phase and a growing market demand for product. Major constraints include the generally low yields and insufficient research into varieties and management systems, an antiquated and inefficient oil extraction industry and an insufficient supply of disease free seed at competitive prices.

Coffee

Spurred by recent high international prices, coffee production (Table 7.6), mostly robusta, has been one of the fastest growing areas of smallholder diversification in the highlands of Viet Nam over the last decade. Coffee, which is mostly exported, is now the second highest agricultural export income earner, fetching USD505 million in the 98/99 season. Recent price contractions, while tempering growth, are unlikely to cause any reduction in coffee area due to the high establishment cost, the continuing relative profitability of the crop and the sound long-term prospects for the industry in Viet Nam. Between 1990-1998, the area sown to coffee has almost quadrupled while total bean production has grown by nearly 500 per cent. Seventy five per cent of the coffee area and production now occurs in the three provinces[17] of the Central Highlands agro-ecological zone. Around 64 per cent of all production occurs in Dac Lac province. According to Vinacafe, the amount of area devoted to arabica[18] varieties of coffee (which are favoured in export and speciality blends) is expected to rise from under 20,000 ha in 1996 to almost 60,000 ha by the year 2001. While about 100 companies are engaged in exports[19], only a small number of them (around 15) have consistent exports in the range of 2,000 to 20,000 tons per year and contribute for 60 per cent of total exports. This dispersion and lack of specialization might be one reason for low quality standards and also for what is perceived as "wild" competition in the sector.

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[17] Dac Lac, Gia Lai and Kon Tum.

[18] *Arabica* requires different agro-ecological conditions to *Robusta* and is thus a complimentary rather than competing crop.

[19] Nguyen The Binh: Coffee Development in Viet Nam. Background paper for UNDP project on "Strengthening Capacity for the Renewal of Rural Development in Viet Nam, Phase I", Sub-NIAPP, HCMC, October 1997.

Land requirements, high establishment costs - especially irrigation, limited access to credit and delayed returns, reduces the attractiveness of coffee to resource poor or food insecure farmers. At the same time, relatively wealthier farmers are in many instances exploiting underground water resources to grow coffee, to the detriment of the community as a whole and to the environment. A pricing policy for ground water use is required if the coffee industry, and that of other irrigated crops, is to be set on a sustainable base. Such a policy might also provide the means for compensating poor, non-coffee producing farmers - in cash or kind - for the exploitation of what is essentially a community resources.

Major opportunities in the coffee sub-sector include expanding *C. arabica* production, particularly in the North West, private investment in bean retting technology to raise quality (only 16 per cent of exports are Grade 1 beans[20]), the development and release of improved planting material, including hybridised strains (average yields have fallen in recent years), the development of inter-cropping systems, especially in food deficit areas, the improved efficiency of water use and farmer training in crop and tree management, preferably through the processing / marketing industry.

The industry also harbours considerable risks and constraints including environmental degradation through soil erosion and ground water exploitation, the insufficient knowledge and means of control of existing and potential disease threats, the insufficient resources to buffer producers against market price swings, the lack of private sector participation in coffee processing and marketing or re-investment of large SOE profits in factors of production or processing and the weak linkage between producers and end users. The growing participation of private traders, frequently operating in consort with monopoly SOEs, is, to date, working to the detriment of farm gate prices and the emergence of coherent links between the market and the producer.

Sugar

Sugarcane production (Table 7.7) has risen markedly over the last decade, particularly in south Viet Nam, though the small growth in planted area in the north has been partially compensated by larger increases in yield when compared to the south. Only the RRD shows a significant negative trend in sugar cane area and production. Overall, yields are low by world standards, particularly in the north. This is, in part, due to the high domestic price for sugar - presently about 160% of import parity price.

Sugar is one of the most striking examples of the malfunctioning of capital markets resulting from state intervention. Shortfalls in sugar production in 1995 and 1996 resulted in the importation of 150-170,000 tons of sugar in each year. Spot price “fevers” at this time, caused by problems in managing the import-domestic production balance, further raised expectations of strongly rising demand. This led to a state financed investment

[20] However, Grade 3 beans have been reduced from 80 per cent to 5 per cent of exports between 1995-1999.

"boom" in sugar milling which included up to twelve joint ventures with Chinese partners and the rehabilitation of a considerable number (up to 23) of domestic mills, mostly financed through short-term loans. A significant number of these mills are isolated from markets and in low yielding environments. Given the low world price for refined sugar, low price elasticity of demand for sugar, the high cost structure of domestic processing, the competition from smuggled imports from neighbouring countries and low-cost artisanal grower/processors, continuing low level of mill utilisation and further state (subsidy) intervention is indicated.

Box 2.1 Can Viet Nam export sugar at a profit?

Viet Nam has licenced 1.5 million tons of sugar production, an amount coming on line by 2000. Current ex factory prices of about VND 6000/kg. or $460 per ton is about double the export price and about USD50 above the import price of refined sugar. It is likely that consumption, now about 650,000 tons, will be less than milling capacity in 2000. Is there a way for Viet Nam to pay its farmers enough to grow sugar cane, process it, and still be able to make a profit on the potential exports? It depends on cane and milling costs. Sugar cane is now selling for about VND180,000 a ton, and, in Viet Nam, it takes about twelve tons of cane to make one ton of sugar. This works out to a cane cost of USD150 for one ton of sugar. Variable milling costs are about USD30 per ton. It costs about USD10,000 for one ton a day of processing capacity, or about 160 tons for the season. If interest and amortization are 12%, this is an annual cost of USD1200/160 or USD7.50 per ton of cane or USD90 per ton of sugar. The total of these costs is nearly USD300 per ton, well above an export price of USD230, and even above the import cost of imported sugar. (Sugar imports are controlled or banned, though the import barriers under AFTA are supposed to be lowered eventually.)

It may be possible to increase cane production per hectare and also the sugar content of the cane by using better cane varieties and culture. If the sugar content could be raised to a feasible 12% and yields from 60 to 80 tons per hectare, the economics change. If farmers earn the same amount per hectare as now, the cost of cane drops to USD80 per ton of sugar. Variable costs are the same, but the fixed costs are now only USD60 per ton of sugar. This allows total costs to fall to USD170, a feasible export price. This favorable outcome is possible in some, but not all, sugar growing areas. Thus, the real ability to export will depend on how widely the better quality of sugar cane can be grown, and if the sugar mills are in the same places as are favorable for the improved sugar cane.

It is likely that farmers and consumers will be required to bear the risk and cost of a strategy that has led to over capacity in the sub-sector. Government response has included a ban on imports, intervention by the Price Stabilisation Fund, cheap credit to mills to buy crude sugar from artisanal producers or to produce sugar for stock and attempts to fix high prices for major industrial sugar users. In some locations with reasonable cost structures and transport access, such as Thanh Hoa, organizational solutions including producer associations, price negotiations and mill equitisation with local farmers will lead to risk sharing and some buffering from the market.

Key opportunities in the industry include farmer equitisation of cost-effective mills, the continued genetic improvement of planting material and improved farmer access to superior cultivars. As the domestic market moves into over supply, however, sugar cane production over time is likely to contract to areas/mills having a comparative agro-ecological and scale advantage.

Livestock production

The Vietnamese livestock herd at end-1999[21] included 2.95 million buffalo, 4.06 million cattle, 18.88 million pigs and 166 million fowl. Their distribution in percentage terms by agro-ecological zone is shown in .

Text Table 2.2 Livestock distribution in Viet Nam (1998)

Zone	*Buffalo (%)*	*Cattle (%)*	*Pigs (%)*	*Poultry (%)*	*Livestock Biomass (%)*
RRD	6.1	8.1	22.3	22.0	14.7
NE	44.9	15.3	21.8	20.7	26.4
NW	12.1	3.8	4.5	3.0	6.2
NCC	22.7	21.8	15.3	12.8	18.5
SCC	4.3	23.2	8.8	7.2	10.7
CH	1.7	11.4	4.2	1.7	5.0
NES	5.1	12.2	8.7	10.3	8.7
MRD	3.1	4.1	14.3	22.4	9.8

Text Table 2.2 shows several distinct and logical patterns in the distribution of livestock in Viet Nam. Buffalo are concentrated in the northern mountains, providing a traction source for the RRD. Cattle are concentrated in the uplands of the central region, where natural forage supply is abetted by an equitable climate and relatively low human population density. Pig production is focused in the two deltas and adjoining midlands where "quality" feed supply, mostly based on the rice industry, is better and key urban markets are located. Fowls are also concentrated in the deltas in consideration of feed supply and market access, but also in consideration of the instability of the MRD for larger livestock due to flooding. The highest physical concentration of livestock is in the RRD and the northern mountains, while dependency on livestock for income is greatest in the upland areas, where persistent poverty prevails.

Livestock productivity - Levels and trends

Livestock productivity in Viet Nam is generally low and quite variable. Text Table 2.3 shows live weight off-take per head across the agro-ecological zones for the four main species[22]. While the data requires further examination[23], it is disturbing to see such low

[21] Provisional GSO estimates at January 2000.

[22] In the absence of data on the number of breeding females or off-take numbers, the total off-take weight has been divided by the total herd number, to estimate productivity. The main purpose of this estimate is to demonstrate regional differences, but the effect of livestock imports into urban abattoirs may be a distorting factor.

[23] It is surprising, for instance, to find that the liveweight off-take per head for buffalo is higher than for Viet Nam's fertile Yellow Cattle in some locations.

productivity for ruminant species, particularly given the breeding and feed technology available in country. Feed supply is clearly a major constraint for monogastric stock away from the grain-surplus deltas, while lower temperature and the weak fodder base may impose constraints on northern, upland buffalo production. The reason for differences in cattle production are less obvious, however, higher productivity in the MRD and NES may be linked to the abundance of rice straw and better access to agro-industrial by-products, while that in the CH may be associated with the comparative abundance of natural forage. The relatively high cattle productivity in the northeast requires further study, particularly given the large livestock population and relatively degraded environment in that zone.

Text Table 2.3 Annual liveweight off-take per head (1998)

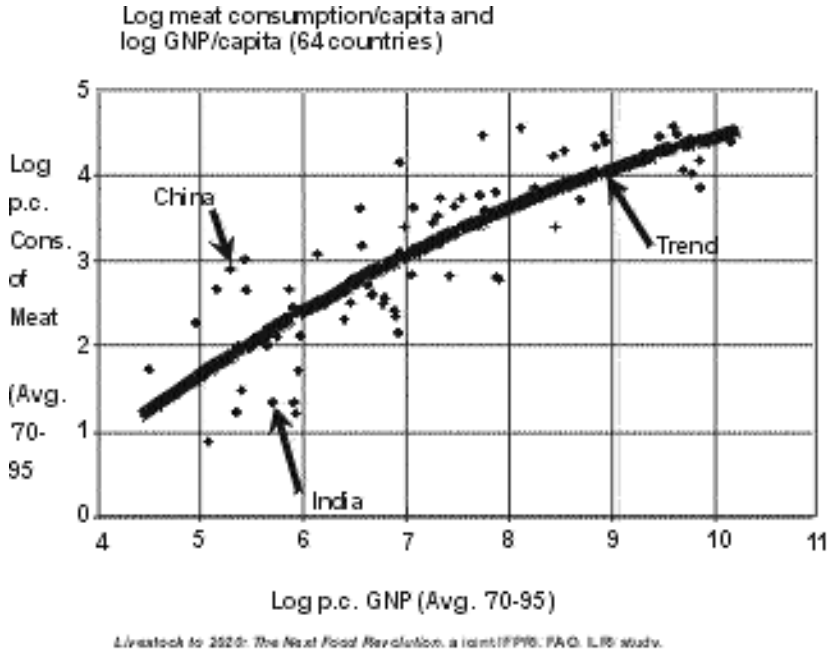
Zone	*Buffalo*	*Cattle*	*Swine*	*Fowl*	
				Meat	*Eggs*
	Kg/head	*Kg/head*	*Kg/head*	*Kg/head*	*No.head*
RRD	21.9	20.8	80.9	1.6	22.7
NE	8.8	11.2	50.2	1.2	9.9
NW	9.5	29.4	29.6	0.8	14.4
NCC	10.2	12.4	53.1	1.1	20.3
SCC	13.5	21.5	56.6	0.9	20.5
CH	18.3	25.6	45.3	1.6	19.2
NES	80.8	36.5	86.2	2.1	17.5
MRD	42.0	32.3	104.0	1.7	25.5

Medium-term trends in livestock number, production and productivity are summarised in Text Table 2.4 and detailed in Table 7.8 to Table 7.10. While overall growth in production is impressive, much of this stems from the rapidly rising livestock population. Growth in productivity, while acceptable for buffalo, is weak for cattle, pigs and fowl given the low initial production base and the potential for increased productivity through better nutrition and cross breeding. The inadequacy of the livestock feed base, particularly the national deficit in the livestock protein supply, is a major factor limiting livestock productivity, abetted by the rather high disease risk and a relatively inefficient, mostly publicly owned, input supply and service sector.

Text Table 2.4 Livestock productivity trends (1995-1998)

Year	*Buffalo*	*Cattle*	*Swine*	*Fowl*
Annual Change in Livestock Numbers	-0.1	3.6	4%	6.1
Annual Change in Liveweight Off-take	5.2	6.9	6%	5.9
Estimated Annual Change in Productivity	5.4aa	3.8	2%	-0.3

Box 2.2. The relationship between meat consumption and income



Livestock to 2020: The Next Food Revolution, a joint IFPRI, FAO, ILRI study.

The livestock sector will grow approximately in line with GDP growth (see Box 2.2[24]). While white meats will remain predominant, consumer diversification from pork into beef is likely as government promotes ruminant production to stave off the rising foreign exchange cost of high density protein and energy feedstuff imports, despite expanded corn and oilseed production. Significant trends that can be anticipated include the rapid expansion of the intensive poultry sector, more often as a component of a vertically integrated feed milling industry than at smallholder level; and growth in the rural smallholder dairy industry as improved infrastructure facilitates encourage industry development in prime areas away from urban markets. A broad move from local to lean pig production, initially around urban centres, but spreading to rural areas is also likely, as are growing informal livestock exports to Laos and onward to Thailand.

Key opportunities for improved livestock production and productivity will arise from the increased integration of leguminous fodder production into home garden and farming systems, leading to improved soil stability and fertility - with resultant increased agricultural productivity, increased livestock productivity and reduced time spent in fodder and fuel wood gathering, mostly by women; more opportunistic fattening of ruminant and non-ruminant stock - for festival and urban markets - so long as present margins for "finished" animals prevail and supplies of relatively low-cost feedstuffs continue; growth in small, specialized slaughterhouses and smallgoods manufacturing to supply higher priced urban and tourist markets; and the privatization of veterinary clinical services, already a de-facto event in a number of provinces, where government staff provide an essentially private service.

[24] The data in Text Box 3 has been drawn from IFPRI's Food, Agriculture and the Environment Discussion Paper 28: Livestock to 2020 - The Next Food Revolution.

Critical risks and constraints to the achievement of full potential in the livestock sub-sector include the prevalence of disease, which reduces export opportunity, threatens domestic market demand and is a major investment risk to poor livestock producers; the insufficient dry season protein and water supply, which challenges productivity amongst all village reared stock; and the high requirement for women's labour in livestock rearing, especially in the dry season.

Policy implications stemming from this initial analysis include (i) the need for determination of public and private sector roles in livestock technology and health service delivery; (ii) policies that recognize the key role of women in livestock production including the need for women-friendly technology and services delivery; (iii) the role of small and / or innovative livestock activities (rabbits, ducks, snakes, etc) in hunger eradication and poverty alleviation; (iv) policies that support the integration of livestock and crop production across all species, sectors and zones; and (v) policies that maintain livestock input and output prices at near-world-market levels.

Forestry

Box 2.3 State forest enterprises[25]

There are 403 SFEs in Viet Nam, of which, 349 or 87% are administered by provincial DARD, 28 are administered by raw material supply companies, 16 by Watershed and Protected Area Management Boards and the balance by State forest product companies (8) and District People's Committees (2). A total of 6.8 million ha. Of land is allocated to SFEs, of which 29% is protection forest, 44% is production forest, 22% is barren land and 5% is agricultural land. SFE activities include wood harvest from natural and plantation forest (263 SFEs/63%); saw milling (83 SFEs/21%); forest plantations totalling 487,000 ha. (401 SFEs/99.5%) and the protection of 770,000 ha of forest under Decree 327 (288 SFEs/71%). Total employment amongst SFEs is 28,800 staff or an average of 71 per SFE. In 1998, the SFEs had an average turnover of VND 1,729 million (USD 133,000) and were marginally profitable with an average VND 217 million revenue surplus after paying VND 448 million in taxes.

In 1943 around 43 per cent of Viet Nam's total land area was forested. By 1989 this had declined to 10 to 12 per cent of which less than 1 per cent was in a pristine state. Forest, classified under the Forest Law[26] as production, protection or special use forest, is variously estimated to cover between 8.6-9.3 million ha of Viet Nam, or between 45-49% of the 19 million ha. classified as forestry land. Forest density is greatest in the Central Highlands, where it forms 39% of the land area and least in the northern provinces where only 5-6% of land is forested. Production forest is presently allocated by the State to organizations or individuals for appropriate, planned management. Protection forests primarily serve soil and water conservation functions while special use classification recognizes scientific, cultural or scenic value. Forest management is the responsi-

[25] Evaluation of State Forest Enterprises. MARD / ADB TA 2852-VIE Forestry Sector Project, June 1999.
[26] Forest Resources Protection and Development Act, 19th August 1991.

bility of Watershed and Protected Area Management Boards, however, until the recent Decision No. 18 (see below) their composition was poorly defined and they are not yet active in many areas.

Forest policy is being progressively modified to achieve national goals directed at meeting national forest product needs in a sustainable manner, protecting the environment and increasing social and economic benefits through participatory means. Since the landmark Forest Law in 1991 which flowed from the Tropical Forestry Action Programme (1991), a number of important policy decisions have been made. These include, *inter alia,* Decision 327 of 15/9/92 outlining the use of bare land, denuded hills, forests, alluvial flats and water bodies; Decision 02 of 15/1/94 on forest land allocation and Decree 556 of 15/9/95 supplementing Decision 327; Decision 661 of 29/07/98 on the planting of 5 million hectares of new forest; and Decision 18, 1999 on the renovation of the State Forest Enterprises (SFE). Early in 1997, the Prime Minister issued a decree banning all natural forest logging and instructing the Ministry of Agriculture and Rural Development (MARD) to prepare a plan to 'close' all natural forests. The plan succeeded only in reducing the annual harvested volume, rather than eliminating it altogether.

The loss of biodiversity in Viet Nam's forest habitats is a complex process, resulting from a range of inter related factors including both acute poverty and the drive for economic growth. The principal causes of forest depletion in Viet Nam are identified as:

- *Expansion of agriculture into forest areas*: Viet Nam's growing rural population with limited income opportunities, related widespread rural poverty and migration of the landless because of inappropriate agricultural policies relating to land tenure and land use have led to encroachment on forest land, intensified shifting cultivation and unsustainable exploitation of forest resources
- C*ommercial logging*: Excessive and destructive logging in an attempt to promote the timber trade, support industry and generate foreign exchange was once prevalent in Viet Nam. The ban on export logs has reduced logging activities
- *Fuel wood consumption*: The high income, wood deficient, urban areas are the only areas where fuel wood is not the household's fuel of choice. The removal of fuel wood and the cutting of branches for leaf fodder by communities living adjacent to forest areas, continue to be a major cause of forest degradation.
- *Shifting cultivation*: As the demand for land increases the rotation cycle decreases. This over cultivation hinders the re-generation of the natural forest ecosystem.

Forest exploitation is governed by a set of regulations that date from the mid-1980's and, though lacking flexibility, are considered to be technically sound. New regulations on the management of production, protection and special use forest are presently in various stages of preparation. Management practices are based on selective cutting dependant on forest types and slope and the existence of a management plan (*prescription No. 02/QD/KT*), but pay insufficient attention to social considerations. Their weakness is not so much in their design, as in their un-enforceability, due frequently to insufficient bud-

get and technical constraints associated with forest enrichment and the understanding of forest dynamics. To date, only State Forest Enterprises (SFEs) have the right to cut and sell indigenous timber. The post-1986 allocation of forest land to farmers and forest workers has increased planted area significantly and Decree 327 has devolved decision making for forestry and led to an increase in privately managed plantation. The sustainability of these plantations is questionable, however, due to low owner equity and overly optimistic planning, while their impact on very poor farmers and minority people has been limited.

Box 2.4 People's forestry[27]

"So far (end-1998) the outcome of people's forestry has been disappointing. Less than 5%[a/] of the total forestland has been allocated to households and less than 2% of the households in the uplands have received forestland. Of the land allocated, only 20% to 30% is developed by the farmer according to agreed land use plans.

a/ This figure is estimated at 10% in 2000

In order to stem the problems associated with encroachment into protected areas, the reasons for dependence on forest access, namely poverty and food insecurity, must be addressed. This requires improving the welfare of those communities adjacent to the protected areas by ensuring the communities have access to essential social-economic infrastructure and services, security of land tenure and providing alternative food generating and revenue earning opportunities. It is also necessary to stabilise the population by reducing the high rate of spontaneous inward migration and to incorporate traditional land use rights in the future allocation forestry use rights. For most minority people, community management of forestry land is more culturally acceptable than individual household management and provides a means of restoring dignity and relative wealth to disadvantaged groups.

In order to improve the productivity and sustainability of the natural resource, it will be necessary to consolidate the various forest protection units into a single agency, close small sawmills and strictly licence the remainder, increase transparency and law enforcement in the log and timber trade and strengthen the wood product market information system. To improve the productivity of plantation forest it will be necessary to invest more in tree establishment on a per hectare basis, raise silvicultural standards, consolidate planted areas in to larger blocks and establish a national forest plantation database.

The role of SFEs must also be reviewed. Sixty per cent can potentially operate as independently funded forest product businesses and many in this classification could be rapidly equitised. A further 23%, whose lands and forests perform critical environmental functions should be transformed / integrated into forest protection agencies. The remained should be dissolved, either immediately or as there natural forest reserves expire.

[27] Sustainable livelihoods in upland Viet Nam: land allocation and beyond; E Morrison and O. Dubois, International Institute of Environment and Development, 1998.

Fisheries

The on-shore fishery is over-exploited and the potential of the off-shore resource is uncertain. Aquaculture is profitable in both lowland and upland areas and fits comfortably within most farming systems, however, risks from disease and market failure are high and the development of coastal aquaculture has carried a high environment cost. The future development of Viet Nam's fisheries requires further assessment of the resource base, the development of effective monitoring systems, increased awareness and management of the associated environmental risk, the strengthening of fish husbandry practices and the establishment of internationally accepted quality control procedures and technology across the industry.

The future expansion of the fisheries are dependent on the soundness of the environment and habitat in coastal areas which are the nursery and feeding grounds of most of Viet Nam's aquatic resources[28]. Although the tropical fishery in Viet Nam's coastal waters is fast growing and relatively resistant to fishing effort, prolonged over exploitation of the on-shore resource has significantly depleted available stock, jeopardising the economic future of the coastal fishing fleet. Unless a *common property* approach is taken to the management of the fishery, participative resource use planning strategies are adopted, a cohesive legal framework is established and supporting agencies are enabled to manage and monitor their implementation, it is unlikely that the present over exploitation will abate. The dispersed nature and lack of investment in marketing infrastructure, the weak processing base and high post-harvest losses exacerbate this situation.

Specific action required to progress the sustainable harvest of the fishery resource might include habitat protection including breeding and protection sanctuaries, a moratorium on the size of the fishing fleet until such time as the stock of key species can be assessed; the strengthening of fisheries law (in progress); the establishment of a Fisheries Commission charged with the equitable and profitable allocation of fisheries quota; the establishment of an even economic playing field in the sub-sector; the restructuring and strengthening of key supporting agencies; the adequate funding of research and monitoring activities; and development of an adequate vocational and management-level training base.

Aquaculture (Table 7.11), in particular shrimp farming, is supplying more than 50% of the annual aquatic export (estimated at USD 950 million in 1999 and projected to expand 150% by 2010) and has shown remarkable growth of up to 10 per cent per annum, particularly along the central coast. This expansion, however, while clearly profitable despite recent disease outbreaks, is leading to the indiscriminate cutting of mangrove forest and over exploitation of wetlands. The reopening of the EU market to approved Vietnamese firms, combined with the EU registration of the National Fisheries Inspection and Quality Assurance Centre (NAFIQACEN) as a certifying agent is likely

[28] See the "Master Plan Project for Fisheries Development to the Year 2010" prepared by the Institute for Fisheries Economics and Planning (1997), for a detailed assessment of the fisheries resource and the means for its management.

to further expand production demand. Already, 18 companies have been certified as Hazard Analysis Critical Control Point (HAACP) compliant and a further 20 companies are under evaluation. With such demand growth, improved and diversified aquaculture opportunities are required. These might include the expansion of marine habitat and fresh water[29] aquaculture, in combination with the rationalisation of shrimp aquaculture, and substantive investment in technology development in partnership with private sector interests. In this process, it would be most unwise for Government to select and promote "*winners*" which is the role of the market.

Market demand

Within Viet Nam

Additional work is required to prepare detailed forecasts of future food consumption in Viet Nam and to reach consensus on the key assumptions. The estimates below (Text Table 2.5) are based on the 1996 IFPRI rice study and a WB working paper by Schlund. Experience in other countries in the region suggest that as per capita income grows in Viet Nam, consumption of meat, milk and feed grains and fruit and vegetables will rise rapidly whereas rice consumption is more likely to increase in line with population growth. Wheat is already a major import and again, experience indicates that consumption will grow at rates higher than those for the basic rice staple.

Vegetable oil and sugar consumption is also likely to grow strongly as incomes rise. In the period 1990-1997 sugar consumption in Viet Nam, Indonesia, Thailand and the Philippines increased by about 40 per cent. World per capita sugar consumption is about 19 kg per person but regional consumption ranges from less than 7 kg per person in China to more than 50 kg in Malaysia. The estimates of Text Table 2.5 suggest that rice consumption will increase by about 20 per cent in the decade 1995 - 2005 whereas meat and milk consumption will double in the same period. After allowing for additional rice bran availability, consumption of maize and other feed grains is likely to rise three to four times to meet the higher meat and milk demand. As much of the increase in meat consumption will be poultry and pork, there is limited opportunity to substitute improved forage systems for feed grain.

The extent to which these changes in diet pattern occur will be influenced by the actual rate of income growth and the relative prices of each commodity group. It is clear, however, that the basic message of Text Table 2.5 - low growth in rice consumption and high growth in meat, milk and feed grain consumption - will be experienced. Government policy can influence whether increased demand is met mainly from imports or local production. As the same trends are occurring in other countries of the region, policies that encourage livestock and feed grain production will also enhance export opportunities. The IFPRI Domestic Resource Cost (DRC) estimates show Viet Nam's competitive

[29] UNDP is funding (USD1.5 million) a project for "Aquaculture development for the Northern Uplands".

strength in rice, but similar livestock DRC estimates have not been made. Long-term commodity price projections are notoriously unreliable but those which exist suggest that, in constant dollar terms, world meat prices are likely to rise, milk prices remain near current levels and that food and feed grain prices may decline by 5 to 10 per cent through to 2005.

Text Table 2.5 Indicative domestic consumption estimates for Viet Nam ('000 ton)

Food Item	***Likely Consumption***		
	1995	2000	2005
White Rice	12700	13970	15240**
Maize	1150	2378	4184***
Sugar	450	~700	~1000
Soybean	150		****
Peanut	200		****
Palm Oil	100		****
Pig meat***	640	900	1250
Beef***	60	70	110
Chicken***	150	230	338

* World Bank Commodity projections in constant prices.

** Follows IFPRI base scenario.

*** Follows Schlund WB working paper scenario 2 but with some lower starting points - GDP per capita growth of 5% pa, popn. +2% pa, IED 1.0 for meat.

**** Insufficient data available.

Regional and global demand

The scenario outlined for Viet Nam is already in place for most countries of the region and is expected to continue for the next decade at lower growth rates. For example, the recent USDA Global Baseline projections suggest that world demand for poultry meat will continue to grow at about 4 per cent pa whereas world rice consumption is likely to expand at about 1 per cent pa. Consumption growth rates in developing countries generally and in China and South East Asia in particular, are likely to exceed those of the rest of the world. Policy decisions in China and production decisions in the United States will largely determine the pattern of trade flows and prices for food and feed grains and livestock products in the region. It is likely that the United States will continue to supply about 60 per cent of feed grains and 40 per cent of soybeans traded internationally and that Asia will be a major feed grain importer with imports increasing at almost 10 per cent per annum.

Careful policy analysis will be needed to discern the implications of these trends for Viet Nam. Whilst it is certain that efficient rice growers in the MRD and elsewhere will continue to meet local needs and earn export income, it is less clear how an efficient market

system will be developed to link urban consumers of high value products to farmers. It is unlikely that the international community will accept physical control of import and export quantities in the medium term.

Global demand and prices

USDA baseline forecasts to 2005 are predicated on renewed economic growth in Asia and improved income growth in Latin America, the Middle East, Central Europe and the Former Soviet Union. As indicated above, a major outcome of income growth will be strong increases in meat consumption and feed grain and protein meal demand. Vegetable oil and wheat demand will also grow strongly but at lower rates than meat and feed demand. Experience suggests that consumption of rice and other food grains (except wheat) will grow more slowly, probably in line with population growth.

China is a very large and dynamic consumer of food in which policy decisions can influence outcomes independently of markets. Decisions taken in China have the potential to influence the direction of trade and price of individual commodities. This introduces an additional element of uncertainty to long-term forecasting for the region. In the recent past, per capita consumption of food grains in China has been stable whilst per capita consumption of meats, feed grains and vegetable oils has grown rapidly. It is likely that this trend will be maintained in the next decade.

Grains

USDA baseline projections suggest that global feed grain demand will rise at about 2 per cent pa to 2005 but that demand in developing countries will rise at 4 per cent pa in response to increased meat demand. Imports will supply a large part of the developing country feed grain and meal need and may grow at 10 per cent pa in South East Asia. Long-term price projections are notoriously unreliable and have wide confidence intervals but World Bank and ABARE forecasts suggest that in 2002 - 2005 feed grain prices are likely to be slightly lower than those of 1995 in real terms. This implies that world production will rise at a faster rate than increased demand. All forecasters suggest that rice prices will be lower in real terms early in the 21st century than they were in the 1990s, largely because of poor demand.

Demand for **meal** from **oilseeds** will grow faster than that for **oil** and so it is likely that real prices of soybeans and peanuts will be maintained closer to current levels than those for palm oil. Viet Nam's present policy of importing palm oil and exporting peanuts and soybeans will be even more attractive in the future than now, but increased domestic demand for meal will require local processing of most oilseed production.

Other items

Sugar. For sugar the situation is similar to rice, with a decline of 10 per cent in real price forecast. The world sugar market is particularly prone to non-market decision making with trade often occurring at prices below the cost for efficient producers.

Meat. For meat the World Bank is optimistic about future beef prices but the Australian and IFPRI forecasters are more pessimistic. The fact that large real price increases are not forecast for pig and poultry meat suggests that supply response, based on increased feed production, is expected to meet the new demand. In summary, the expected large increase in consumption of livestock products and feeds is unlikely to yield a price bonanza for producers because matching supply growth is also likely.

For Viet Nam to respond efficiently to these changes in food demand internally and regionally, it will be essential that livestock products and feedstuffs and genetic material can flow with minimal restriction between provinces and into or out of Viet Nam and that new entrants to livestock production or processing have reasonable access to resources and licences.

Text Table 2.6 Forecast change in real price (per cent)

Item	*ABARE 1995 - 2002*	*World Bank 1995 - 2005*	*IFPRI 1995-2010*
White Rice	-22	-5	+6
Maize	-25	-10	-1
Sugar	-12	-10	NA
Soybean	-15	+6	-7
Peanut		-15	NA
Palm Oil		-40	NA
Milk	~0	-	-7
Pig meat	-3		-8
Beef	0	+30	-9
Chicken	-12		-10

Sources: ABARE, Proceedings of National Agricultural Outlook Conf., Canberra, 1997.
World Bank, Commodity Markets and the Developing Countries, February 1997.
IFPRI Food, Agriculture and Environment Discussion Paper No. 28, 1999 (baseline scenario).

Rural development and the environment[30]

Viet Nam is richly endowed with unique and sensitive ecosystems including upland and coastal forests, brackish and freshwater wetlands, and diverse riverine and marine ecosystems that contribute to the country's economic and social wellbeing, GDP, export earnings, and employment. Natural resources are particularly important to rural people, since their livelihoods and the social structure is closely tied to these resources.

[30] Roland Van Asch (unpublished personal communication).

Sustainable rural development requires that all programs, projects and strategies give attention to the environmental consequences of proposed actions. For major water infrastructure and forestland policies, structured approaches to environmental assessment should be developed and applied. This will require additional research and training of staff and it is not cost-free. Agricultural technology changes can also have marked influences on the natural environment, biodiversity and soil and water quality. For example, changed forage production systems and the expansion of irrigated coffee should not be immune to environmental assessment.

Effective water management is an important issue for Viet Nam. Rapidly expanding urban and industrial demand will place tremendous pressure on water resources, which will in turn introduce conflicts with agricultural uses. An effective water resources policy and improved water management is crucial. The experience of Indonesia and Thailand suggests that inadequate attention to water management issues can results in water shortages, severe water pollution in major urban areas, groundwater overdrafts, and other water-related problems that can undermine economic growth and adversely affect the quality of life.

Irrigation, drainage and flood protection infrastructure considerably influence agricultural productivity, and are critical in many locales. A total of 3 million ha are served by irrigation, although only 2 million ha are actually irrigated (mostly rice) because water is sometimes scarce, the facilities have not been completed or the design was deficient, and systems have deteriorated. If Viet Nam wishes to meet the demands of the expanding population and export targets for rice, annual paddy production will need to double over the next 30 years[31]. This will require either an increase in yields or the area irrigated, or more likely a combination of both. There is scope to further increase yields on existing land by further improvements in rice varieties, irrigation and use of inputs. Yields of up to 8 mt/ha have been achieved in China through these methods in recent years - compared to present yields of 4.1 mt/ha in Viet Nam. However, in the medium term there are limits to the extent of intensification that is possible on existing irrigated areas as land and water constraints are already experienced in some catchment basins. Substantial investment in irrigation rehabilitation, expansion and maintenance will be needed in areas where water resources for agriculture can be assured.

In the 19 million ha of land classified as “forest land” in 1998, only about 8.7 million ha were natural forest cover; while “barren land” (largely degraded former forests) accounted for about 13.4 million ha or nearly twice the area of land under cultivation. A key factor in the evolution of ‘barren land” is sedentary shifting cultivation, often linked to forest fires. Once the forest is cleared, over-cultivation of soils that are susceptible to deterioration can result in severe erosion. The only solution in the worst affected areas is to reduce population pressure by finding alternative income sources.

[31] This assumes a slightly positive income elasticity of demand for rice, which takes into account a food deficit as a result of the relatively high levels of malnutrition in Viet Nam today and low existing income levels. Typically, higher income countries in the region have a negative income elasticity of demand.

Because of their fishery breeding and nurturing functions, the loss of wetland forests (mangrove and back mangrove) is in many ways more serious than that of the upland forests or watersheds. Present wetland forests represent about 30 per cent (approximately 1.2 million ha) of the cover existing in the 1940s. Although large areas of mangrove were replanted in the Mekong Delta following reunification, much was subsequently destroyed by expansion of largely unsustainable shrimp aquaculture in acid sulphate soil. Under typical conditions of improper diking and poor management that characterise these farms, acidification has led to pond abandonment. A similar trend applies to the back mangrove or Melaleuca forests that are typically richer in biodiversity and forest by-products than the coastal mangroves.

Environmental impacts from expansion of agricultural land are not considered to be particularly wide ranging or critical as those mentioned above. However, agricultural holdings and coastal communities, particularly in the Central Coastal regions, have become more vulnerable to beach erosion and storm damage as a result of breakdown of coastal protection dikes, the loss of mangroves and, to a lesser extent, coral reefs. The Mekong and Red River delta and estuary systems are increasingly threatened by urban / industrial waste discharge. Other coastal areas, particularly in the central regions, face losses from destructive exploitation techniques and corals.

The following principles are suggested as basis for dealing with environmental issues:

- there is a general failure of all sectors of society to take into consideration, as a matter of course, the impacts of their actions on the environment. An important remedial step is an attempt to build environmental concerns and awareness into choices and decision making, both collectively and individually. This can be done if: i) the polluter is made to pay, ii) realistic standards on what constitutes pollution are established; iii) environment mitigating actions that are cost effective are promoted to existing firms or producers; iv) mechanisms are established to monitor and enforce serious transgressions of realistic pollution standards; and v) political will and strong institutions exist (or can be created) to permit administration of the system.
- well planned and directed programmes or projects are necessary to ensure that the increasing destruction of the environment is contained through the process of better design and screening for environmental impacts; and priorities are determined.

Economic growth and a sound environment can be compatible, and even reinforcing goals if appropriate policies are followed. In a number of instances, appropriate (higher) pricing (e.g. by removing subsidies) can reduce environmental over-exploitation. This applies both to natural resources like forest, soil and water (which are usually undervalued), and to the provision of environment related support services (waste-management, potable water supply) which are often priced substantially below actual costs.

Lessons learnt and policy implications

Viet Nam has three highly favourable features for rapid agricultural growth, namely its large area of highly productive agricultural resources that respond unusually well to

opportunities for technological (yield) increase and diversification; an unusually well educated rural labour force, that in many areas is densely populated, both major pluses for high intensity agriculture; and a relatively egalitarian rural social structure that lends itself to cohesive rural organization.

It has several major disadvantages compared to other countries in the region, even when at a comparable level of income, namely very poor rural roads, an under resourced agricultural knowledge system, relatively uncompetitive markets and weak political support for private initiative.

Successful agricultural development in Viet Nam must focus on four key objectives. They are to:

- *maintain agricultural growth.* Because agriculture is so large and has such strong multiplier effects on rural non-agricultural growth, each percentage point lost from agricultural growth represents a percentage point in over-all growth. Viet Nam has the capacity to meet its increased food demand both domestically and in some export markets. However, it will be necessary to revise some policies and practices if this is to happen promptly and without disruption. In particular it will be necessary to promote the development of a competitive marketing / processing system including both private and State enterprise participants and to remove entry / exit barriers. It will also be necessary to make infrastructure investments, provide innovative credit arrangements and give technological support to both farmers and marketers. Regulation of external trade should be minimised and based on fiscal rather than quantitative restrictions.
- *diversify production.* Given sufficient incentive, Vietnamese farmers have a demonstrated capacity to diversify production. Future opportunity will primarily lie with higher value crops, livestock and aquaculture for both domestic and export markets. Regional comparative advantage is the key to effective agricultural diversification. Broad, pan-territorial policies are likely to distort incentives at the regional level. Better research and dissemination, improved gene bases, efficient commodity and credit markets, value-adding processing and entrepreneurship are other necessary ingredients of successful diversification.
- *reduce poverty and vulnerability* About one third of Viet Nam's population remain poor and 15% still fall below the food poverty line. As some 90 per cent of all the poor in Viet Nam are in rural areas and many families no longer classified as poor remain vulnerable to poverty, improved agricultural productivity is essential for poverty reduction, either through its direct income effects or through multiplier effects in the industrial and service economies;
- *realize broad and equitable participation in growth,* both with respect to individuals and regions. Allocative mechanisms are mainly top-down and frequently blind to the needs of minority groups, particularly women, and isolated communities.

3. Building Rural Enterprise

Rural enterprise in Viet Nam

Box 3.1 Occupational communes and villages

The approximately 800 occupational communes and villages (OCVs) are a feature of rural enterprise in Viet Nam. With 30-80 per cent of households engaged in a common industry in any such centre and about 320,000 households so engaged, they employ an estimated 500,000 rural people. The OCVs offer the potential for new business start-up on a reasonable scale and allow for the simple introduction of quality control and efficiency-improving technology. Government has targeted 1,000 new OCVs by 2010, however, it is likely that they will have to adopt a more export oriented production base for this target to be realized.

Of the total rural labour force of around 30 million, 8 million have off-farm employment. Some 2.2 million (18 per cent) rural households are engaged in industrial craft, construction, commercial, service, or other non-agricultural activities. The business sector in rural areas now consists of 4,500 SOEs, 24,000 corporate private enterprises, and 2.2 million household enterprises (McKenzie 1998). On average, household enterprises are estimated to employ 3.3 persons including the owner, with most enterprises involved in activities such as handicrafts, agro-processing, tanning, paper production, brick making or production of other construction materials, non-ferrous metallurgy, and provision of services to agriculture. The second Viet Nam Living Standards Survey (1997/1998) (Text Table 3.1) provides an approximation of the structure of the rural non-farm household economy.

Text Table 3.1 Distribution of non-farm enterprises, 1997-98 (% of enterprises)

Sector/Activity	***National***	***Rural***	***Urban***
Service Sector			
Retail Sales	36.6	33.3	43.2
Transport and Communication	5.8	4.4	8.8
Personal Services	5.0	3.7	7.7
Hotels and Restaurants	4.4	2.3	8.6
Wholesaling/agency	3.2	3.4	2.3
Sub-total	55.0	47.1	70.6
Manufacturing and Industry			
Food processing	9.5	12.1	4.4
Textiles and Garments	6.9	6.4	8.0
Wood Products	6.7	8.6	2.7
Construction	2.0	2.3	1.3
Mining	1.2	1.7	0.1
Sub-total	26.3	31.1	16.5
Agriculture Related			
Aquaculture and Livestock	9.2	12.2	0.1
Forestry	2.0	8.8	3.3
Other Enterprises	7.6	0.7	9.6
Sub-total	18.8	21.7	13.0
TOTAL	100	100	100

Source: VLSS 1997/98[32].

[32] Cited in "SMEs in Viet Nam: On the Road to Prosperity", Leila Webster 1999.

Industrial distribution growth and employment

The agricultural sector has only limited capacity for employment generation in the long run. As the rural labour force continues to grow rapidly, the rural-urban income gap will only be reduced significantly by the creation of substantial off-farm employment opportunities. Enterprise policy has biased industrial development in Viet Nam toward the urban sector and toward protected, capital intensive import substituting industries that do not fully exploit Viet Nam's elastic, low-cost labour market. It is both desirable and possible for Viet Nam to develop a strong, labour intensive rural enterprise sector, although the factories and shops do not necessarily have to be located in villages. Indeed, it is likely that they will cluster near transportation routes and in smaller population centres within easy reach of cities.

In 1998, industrial production in Viet Nam, including construction, accounted for an estimated 34 per cent of the total GDP. Seventy five to eighty per cent of the that industrial production emanated from urban areas, with almost 70 per cent of industrial GDP and just over half of all non-oil industrial output concentrated in the three "growth pole" regions, including Ha Noi-Hai Phong, several provinces around and including Ho Chi Minh City (HCMC) and, to a much lesser extent, the Da Nang/Quang Nai/Quang Nam area. Output from foreign invested firms is even more concentrated with 79 per cent emanating from the southern growth pole. These growth poles include all the major cities and account for a fifth of the national population. They also absorb about four-fifths of the foreign direct investment (FDI). Partly on account of this, their industrial growth rate, until recently, has averaged about 15 per cent per annum, rising to up to 20 per cent a year in the HCMC growth pole, almost double that in the rest of the country. Per capita incomes in these growth pole regions are one and one-half to three times higher than elsewhere, and are pulling even further ahead with their faster growth rates. Absolute annual per capita increments to income are about six times higher in the growth pole areas than in other regions.

In 1998, State-owned enterprise formed 46.2 per cent of the value of industrial production, with a further 31.8 per cent coming from foreign invested enterprise and the balance of 22 per cent from privately owned enterprises. Within the domestic private enterprise sector, 61.6 per cent of production came from household enterprises with only 10.6 per cent from private companies. The rural industrial sector, however, produced only 17 per cent of the value of industrial output and about 18 per cent of private industrial output.

Box 3.2 Household enterprise framework

Under Decree 66/HBDT, 2 March 1992, household enterprises that are not companies are regulated by the District People's Committee. Entry/exit costs and taxes for household enterprises are low, however, they are only allowed to operate in their district and have no legal status, limiting borrowing, contracting and exporting activities and sale with land assets (if rural). Even under the new Enterprise Law, incorporation costs are likely to remain prohibitively high for household enterprises.

Value added by type of industry is detailed in Text Table 3.2 While the value added per employee is highest in the state sector, State industry employs twice the capital per employee compared to domestic incorporated enterprises and seven times that of mixed-type households. While state-owned enterprises are generally running at a loss, particularly those in rural areas, a recent MARD survey[33] shows non-state agro-processing enterprises to be running, on average, at a profit of 5.1 per cent before tax, with a return on equity of 27 percent. Domestic non-state incorporated enterprises in industry and construction are, on average, showing a pre-tax profit of 1.2 per cent and a 4.3 per cent return on equity.

Text Table 3.2 Labour and capital productivity by sector

Industrial Sector	***Value Added per Employee (VND million)***	***Gross Output To Capital Ratio***
State-owned Enterprise	10.4	1
Private Corporate	7.4	2-3
Non-farm Household	6.6	5-6
Mixed-type Household	4.6	5-6

Source: MARD Non - farm Enterprise Survey, 1998.

Text Table 3.3 Regional growth rates, 1991 to 1996

	Non farm GDP	***All Industry***	***Domestic Industry***
Region	***1991 - 1994***	***1994 - 1995***	***1995 - 1996***
Northern Mountains	9.1	27.6	11.6
Red River Delta[1/]	9.7	19.3	12.6
North Central Coast	8.2	3.2	10.7
South Central Coast	8.5	17.6	13.4
Central Highlands	4.8*	11.7	15.3
Northeast of South[2/]	12.5	23.4	17.8
Mekong River Delta	8.7	9.3	13.1
Total	9.1	16.3	12.7

1/ Excludes Ha Noi.

2/ Excludes HCMC and Ba Ria-Vung Tau.

*The rate of industrial growth in the Central Highlands from 1991-1994 was 27% a year, according to the Government Statistical Office, *1996 Statistical Yearbook.*

[33] Ministry of Agriculture and Rural Development (MARD) (1998), Non-Farm Enterprise Survey, Department of Agro-Forestry Products Processing and Rural Industry, Ha Noi.

Total real industrial GDP outside major cities, including foreign invested enterprises, is difficult to determine with available databases, however, it is estimated (Text Table 3.3)) to have grown at between 9-16 per cent per annum between 1991-1997. These are very respectable overall rates of increase, and, until 1998, were fairly consistent over time. If these rates are correct[34] and could continue and be widely shared, they would allow many Vietnamese to avoid long-distance migrations while rapidly improving their lives and poverty would fall rapidly. In 1998, employment in industry and construction amounted to about 4.6 million[35] (13 per cent of total employment). Of these, about 55 per cent are estimated to be in rural areas, however, there are large regional differences, with the share of employment in industry and construction ranging from 24 per cent in the North Southeast down to 4-5 per cent in the North West. Within this sector, women are typically employed in foodstuff processing, embroidery, tailoring, the production of products from natural fibre and trading. Men tend to be employed in machine related operations, carpentry, mechanical manufacturing and transportation. Woman's salaries are typically around VND 15,000/day while that of men typically ranges from VND 15,000 -30,000 per day.

Text Table 3.3 highlights an important aspect of rural industrialization, namely the generally higher industrial growth rates in areas adjoining urban growth poles. This was a feature of the development of the TVE system in China and can be expected to be a key determinate of the rate of rural industrialization in Viet Nam. In China, TVE employment formed 60% of total rural employment in areas around Beijing, Shanghai and Tianjin, with 7 of the next 12 provinces with a high share of TVE employment being located on the coast. In contrast, the 11 provinces having the lowest share of TVE employment (with the exception of Hainan) are located in China's interior.

Unfortunately, economic contraction and loss of investor confidence has seen industrial growth rates drop sharply since 1997. In 1998, industrial GDP growth was 7.0 percent, falling to an estimated 5.7 per cent in 1999[36]. In line with this trend, urban unemployment, which was 6.9% in 1998 has risen to an estimated 7.4 per cent in 1999. Of the major cities, Ha Noi has the highest urban unemployment rate, estimated at 10.3 per cent in 1999. Underemployment is estimated to total 28 per cent in rural areas and 17 per cent in urban areas. In agriculture, underemployment ranges between 28-35 per cent for most regions, being lower only in the Northern Uplands and the North Southeast. While government continues to reform the economy, this has clearly not compensated for the deteriorating economic situation. With up to 1 million new labour market entrants per year, mostly in rural areas, policies and programs are required to grow rural non-farm employment opportunities by at least 5 per cent per year[37].

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[34] These statistics should be taken with a degree skepticism as the level of growth they describe is not immediately evident in rural Viet Nam. It is possible that the figures include elements of the service sector, which clearly has risen significantly in the 1990s.

[35] GSO Statistical database 1998.

[36] Viet Nam, Preparing for Take-off?, The World Bank, December 1999

[37] Between 1984 and 1995, employment in the Chinese TVE system grew at 6.8% per annum. In Viet Nam in 2000, 5% growth in rural enterprise employment would create about 450,000 new jobs.

Enterprise reform: steps in the right direction

In 1999, the growing dialogue between government, the private business sector and international donors and financial institutions should lead to an improvement in the private business environment in Viet Nam. The establishment of the Private Sector Forum, the decision[38] to establish a study group on small and medium enterprise development policies and the positive attitude to private enterprise expressed by the Prime Minister in his opening speech to the National Assembly in November 1999 are a few of the many positive signs of a more conducive private business environment in Viet Nam. Government now conditionally allows private firms to contribute their land use rights (LURs) as equity in joint ventures, has simplified business registration and legal framework under a new Enterprise Law and agreed to the Miyazawa Initiative, a quite far reaching action programme for private sector development. Additional IFI structural adjustment funding may broaden such initiatives in 2000, although negotiations on the associated reform agenda seem to have stagnated in recent months. A framework for fiscal and trade reform is also under discussion and government has committed to international trade agreements in the medium term.

While all are steps in the right direction, they are, as yet, insufficient to restore business confidence. Investment as a share of GDP fell to 19 per cent in 1999, down from 29 per cent in 1997 and a small fraction of the investment ratio that has historically driven growth in Asia. Foreign Direct Investment (FDI) continued its decline since the 1995 peak, falling to an estimated USD 600 million in 1999 and only USD 172 million[39] in the first quarter of 2000. While nominal interest rates have fallen and domestic savings are higher, real interest rates have actually risen and domestic credit growth has shrunk to around 14 per cent for 1999 and is reported at 4 per cent[40] in the first quarter of 2000. The only positive note with investment in 1999 was the rise in public investment in the rural sector, though this was primarily on irrigation, which shows much lower returns to industrial growth and employment when compared to much needed rural road development (refer Box 4.3). The sharp fall in government revenue, down to an estimated 17.8% of GDP in 1999, however, threatens further expansion in public investment. Fortunately, residual potential in the economy has allowed Viet Nam to respond to a surge in regional and world demand, leading to a projected 14% year-on-year growth in exports in 1999. Import constraints, however, mostly of machinery and consumer goods, which have effectively constrained any balance of payments problem, now threaten further export growth and economic recovery.

Until such time as the private business community has confidence in government's commitment to reform and a comprehensive, unambiguous and time-bound agenda for change before it, economic growth is likely to remain below potential.

A new development paradigm, that reduces the perceived threat of the private economy at State level, gives the private sector a road map for reform and growth and allows

[38] Decision No. 133/1999/QD-TTg.
[39] MPI figure reported in the Saigon Times Weekly, April 22, 2000.
[40] Viet Nam Investment Review, 24th April 2000.

participation by the community is needed. That paradigm involves partnership, between the state, the private economy and the community they serve. In the rural sector, this is likely to translate into devolvement of development planning and public investment; free association for social or economic benefit; increased producer equity in the industries they supply; an even economic "playing field"; transparent partnership between private and public business entities; capacity building for business development and government facilitation and promotion of the factors driving export-led growth.

Future rural enterprise growth and employment

If the current income and growth differentials persist and widen, it would be surprising if there were not an increasing tendency for labour to move into the growth pole areas. This is already happening, as some news reports suggest that a million people have already moved into just HCMC and Ha Noi. If there were to be a very large and rapid movement of people into richer areas, there are likely to be several undesirable effects. At the very least, there will be a need for large amounts of expensive infrastructure such as roads, water, sewerage, and buildings. Compared to investment in light industry, these investments generate less continuing employment, less output, and fewer exports. Successful "dragon" economies often managed to keep urban population growth at moderate levels, and thus were able to defer these expensive investments and enjoy a longer period of higher growth. If these investments are needed but deferred for lack of funds or because of poor planning, the results are higher levels of pollution and disease, bad housing, crime, congestion, and various social disorders. These problems slow economic growth and have distinct immediate and longer-term social costs that are best avoided. The government of Viet Nam has also expressed concern about these issues.

There is little objective evidence as to the nature of constraints to rural industrial growth. Rural private businesses most commonly complain about a lack of access to medium term credit and administrative, licensing preferences for State enterprises, as factors inhibiting their growth. There is also a view that industrial growth is inhibited by a lack of vocational and higher level management and marketing skills. Transport, communication and power infrastructure are also commonly cited as constraints, especially in mountain or flooded locations.

Specific action to stimulate the economy and spur rural enterprise and employment growth have been extensively documented in recent months. Key recommendations include:

- The implementation of a "rule of law" as distinct from law as a tool of state economic management. This particularly pertains to local government who too frequently see their role as to regulate and tax private enterprise rather than support it;
- Increased investment in rural infrastructure, particularly roads and marketing infrastructure, supported by the devolvement of planning and investment responsibility at all levels;

- the promulgation of decrees supporting the enactment of the New Enterprise Law;
- currency devaluation to raise competitiveness with neighbouring countries, particularly China and Thailand;
- further reform of the Land Law, particularly as it pertains to legal distinctions based on type of ownership, change of land use, land transfer taxes, land as collateral, unified registration and the development of a formal land market;
- banking sector review and restructuring, improved prudential controls and increased access to credit, particularly medium-term and lease credit, allocated through market-led mechanisms;
- accelerated SOE reform, including increased transparency of process, the removal of ownership caps to allow majority purchase, unrestricted sale where appropriate and the progressive equitisation (including producer/supplier ownership) of General Corporations.
- reduced regulation, rent-seeking and formal and informal tariff barriers in the import and export arena;
- improved institutional support, including vocational and management training, freedom of association, improved access to information and government facilitation of export-led growth (as distinct from the present practice of choosing winners);
- recognition of the role and potential for women's participation in enterprise development and economic growth;
- mainstreaming of environmental issues in economic development and the implementation of an effective regulatory framework;
- expansion and funding (by both government and donors) of social safety nets, particularly in support of SOE reform.

Lessons learnt from international and domestic experience

The Chinese township and village enterprise model

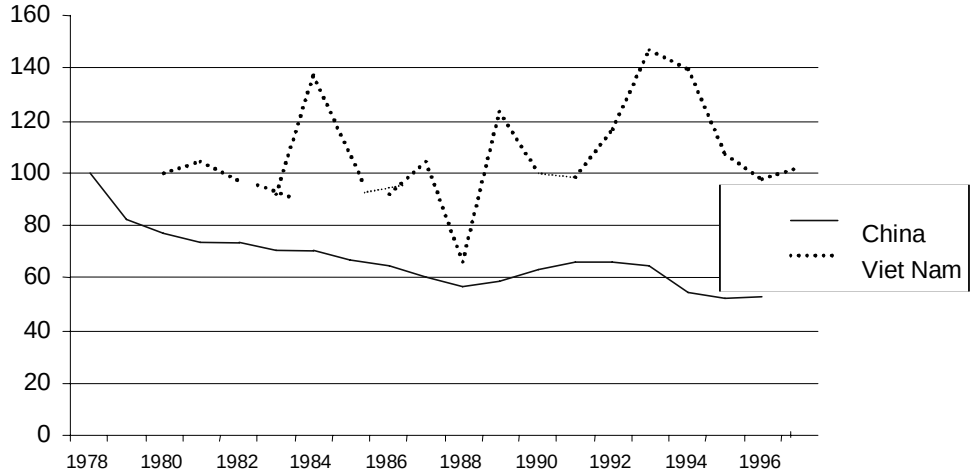
In drawing lessons from other country experiences, some caution must be expressed about their transferability. This is particularly so for the Chinese Township and Village Enterprise (TVE) experience which is frequently presented as a model for Viet Nam. In his comparative analysis of Chinese and Vietnamese rural enterprise development, O'Connor[41] (1998) focuses on the substantive differences between the two economies throughout the reform process. In particular he notes that:

- Vietnamese industry's employment share, even by 1995, had not reached Chinese industry's employment share on the eve of their reforms;

[41] Rural Industrial Development in Viet Nam and China: Study in Contrasts; David O'Connor, 1998. Paper Prepared for the 1998 International Conference on Communist and Post-Communist Societies, Melbourne, Australia, 7-10th July, 1998.

- national savings and investment rates differed quite markedly between China and Viet Nam on the eve of reforms. In China, already in 1978, investment accounted for 38 per cent of GDP, and as less than one per cent of that was financed by foreign savings, national savings exceeded 35 per cent of GDP. In Viet Nam, by contrast, the level of national savings in 1985 has been estimated at only 5.6 per cent of GDP and is now about 19 percent. While the low level of monetisation of savings in Viet Nam makes accurate measurement difficult, even if the actual figure were double that, it is evident that the two countries embarked on reforms with widely differing investment potentials;
- in China, the central government, saddled with a highly inefficient state-owned industrial sector, actively encouraged the growth of non-state enterprises. It was expected that a dynamic non-state sector would both provide healthy competition to state enterprises and facilitate the restructuring of the latter by absorbing redundant state workers. The collectively-owned TVEs were a key element of the strategy. Practically speaking, they possessed a ready pool of managerial and technical skills; politically speaking, their ownership could be reconciled with official ideology ("socialist market economy with Chinese characteristics"). In contrast to China, even under *doi moi,* the Vietnamese government has continued to adhere to a policy of state-led industrial development;
- in China, by 1984, the rural retail price of industrial goods had fallen by 30 per cent from its 1978 level relative to the purchase price of farm products. The improvement in Chinese agriculture's terms-of-trade resulted in a sizeable resource transfer from state industry to rural areas for rural industrial capital formation. This contributed to a rapid rise in rural savings. Between 1978 and 1985, the amount of rural household savings held in financial institutions increased ten-fold to reach USD 20 billion equivalent. In Viet Nam, movements in agriculture's terms of trade have been far more errat-

Figure 3.1 Agricultural terms of trade



ic than China's. The data for the 1980s also shows no trend improvement in agriculture's terms of trade. By 1996, the price of agricultural products relative to manufactures was virtually identical to the relative price at the beginning of reforms (Figure 3.1). Viet Nam's rice policy through to 1996 in large part explains this situation.

South Korean and Taiwan, China experience

The rural enterprise development experience Korea and Taiwan China, two other comparable countries, must also be carefully interpreted for its applicability to Viet Nam.

Korea[42]

Korea's industry is concentrated in urban areas and is dominated by diversified, vertically integrated conglomerates. Just over half of Korea's small and medium scale manufacturers are located in the six largest cities and, if Kyonggi province, within which Seoul is included, a whopping 78% of Korea's small industry can be classified as urban.

Several state efforts to create rural industry in Korea have produced few of the hoped for results.

- One such programme, begun in 1967, tried to combine readily available local labour and raw materials with loans to and tax incentives to create a rural handicrafts sector. Partly because handicrafts offer few linkages to other industries and are neither an intermediate input nor an essential consumer item, the programme added little significant labour to local industry.
- The Seamaul Factory programme was a more successful attempt to encourage local industrialization, this time through generous incentives to relocate

Taiwan, China[30, 43]

In contrast, the industry of Taiwan, China is smaller in scale, and its firms are far more numerous and more evenly disbursed between rural and urban locations. Less than one fifth of Taiwan's small and medium firms are located within the largest cities. If, however, the urban-linked counties of Taibei and Taizhong are included, about 55% of Taiwan's small industry can be considered as urban based.

Investment in rural infrastructure aside (see below), Taiwan, China promulgated few policies to promote rural industrialization. While land reform supported the expansion of industrial crops, other programs such as the use of the postal savings system and grain procurement policy withdrew agricultural surpluses from the countryside for long-term industrial and infrastructure investment, suggesting that Taiwan's authorities placed a low priority on rural development through local entrepreneurship. Small- industry policy in Taiwan, with targeted financial programs and technical assistance centres, onl- formed in the early 1970's and were not

[42] Regional Development and Decentralization Policy in South Korea; L.H. Schatzl; K Wessel, Yong-Woo Lee, Institute of South east Asian Studies, 1997.

[43] Towards the Rural Based Development of Commerce and Industry; Edited by Yujiro Hayami, Economic Development Institute of the World Bank.

or expand factories in small townships to process local raw materials. The unavailability of skilled labour, ancillary services and adequate physical infrastructure, however, hobbled many of the factories that moved from urban to rural areas. Profitable Seamaul factories remained so partly because of their proximity to urban markets and industry - almost 755 of the Seamaul factories are located close to urban centres. In fact, it is argued that much money was wasted on the Seamaul programme precisely because political concerns prompted a balanced distribution of funds by region rather than according to the economic potential of site-specific investments.

- Korea's rural development policy has limited its own effectiveness by continuing to seek and create individual successes directly and from scratch, rather than indirectly through broad based incentives that appeal to the self-interest of the whole stratum of potential entrepreneurs.

specifically rural-based. Patterns of policy enforcement, however, produced economic incentives:

- Lax enforcement of tax laws in Taiwan formed a tacit government support for small business
- A broad-based market in post-dated checks acted as a substitute for formal credit;
- in Taiwan, where the credit market penalises small firms, they are able to use the electoral dynamic locally to ease the constraints on investment and operating capital, either through preferential access to credit or through a loan guarantee. This is less so in Korea, where, until recently, the authority of the local political appointees derived from the centre rather than the locality;
- Korea prefers foreign lending to FDI, Taiwan, China, in contrast, has tried to attract FDI for economic and security reasons both for labour and technology intensive industries. Taiwan's policy leads to employee training and spin-off sub-contracting by former employees, though this remains a largely urban phenomenon.

Two hypotheses have been advanced to explain the spatially disbursed industry of Taiwan, China relative to Korea. The first argues that Taiwan's agricultural sector was healthier, more advanced and more diverse than Korea's and therefore produced more surpluses to invest in alternative undertakings. Taiwan, China processed sugar, fruit and vegetables in the countryside from an early date, thereby providing the impetus for rural commercial and support activities. Conversely, Korea was basically a rice monoculture economy until the state's attempts in the mid-1960's to diversify crops and stabilise commodity prices through the Agricultural and Fisheries Development Corporation. A tempering note to this argument is that Taiwan's food and agricultural exports fell from 67% to 20% of total exports between 1960 and 1970 and to under 10% in 1980. At the same time, agriculture's share of total GDP fell from 33% in 1960 to 18% in 1970 and 9% in 1980. Thus, while agricultural surpluses may have been an important source of investable funds for rural industry in the 1960's, the role of agricultural surpluses eventually waned thereafter.

The second and more important hypothesis is that the high quality and early installation of physical infrastructure made rural industrialization possible in Taiwan, China, but its absence in Korea afforded fewer opportunities for rural entrepreneurs to prosper. The density of paved highway and feeder roads in Taiwan, China was 76.4 km per thousand square kilometres in 1962 and 214.5 km per thousand square kilometres in 1972. By contrast, Korea in 1960 had 10 km per thousand square kilometres and only 6.4 km per thousand square kilometres if city roads were excluded. Viet Nam, in 1999 had a designated road network[44] of 72,150 kilometres or 217 km per thousand square kilometres, of which only 28% is paved, with less than 10% of district level roads paved. The case of rural electrification presents a similar contrast. By 1960, 70% of farm households in Taiwan, China received electricity, compared with a mere 13% of Korean households in 1964, mostly in Kyonggi province. In Taiwan, over capacity was built into the rural electricity system from the beginning in the expectation that rural industry would arise to exploit it. While the provision of rural infrastructure is a necessary but not sufficient condition for rural entrepreneurship, local, independent entrepreneurship will not bring about rural industrialization.

Indian experience

In India, non-farm employment is growing at a faster rate in towns with a population of between 20,000 to 50,000 than in the larger urban areas. This situation is underpinned by rapid agricultural growth supported by an extensive research system (see Box 4.1). In the Punjab State as an example, food grain output increased by 9.5% annually, during 1960-1970 and 5.15 per cent annually during 1970-1979. Punjab has small farms. During this period, non-farm employment rose significantly. The rural entrepreneurs emerged from among the farmers as well as from among the artisans. A large number of small enterprises emerged in products such as farm tools and equipment, (threshers, harrows and tillers), woollen garments, bicycles and bicycle parts, sewing machines, tractors and machine tools. Because of linkage among families and strong community bonds, relational contracting with urban-based enterprises evolved in sectors such as garments, farm equipment, bicycles, machine tools and tractors. These industries evolved in clusters in small towns; thus they have, in addition to *economies of relational contracting, economies of agglomeration* as well. Their products are exported to the urban areas and foreign countries."

Small and medium enterprise clusters

In recent years, the competitive potential of SMEs has been highlighted, in particular, clusters of SMEs provide a model for industrial development in which linkages and cooperation between SMEs provides economies of scale and scope. This model is of particular interest to developing countries where globalization and internationalisation are increase competitive pressures and reduce the protection the State can offer emergent

[44] Designated roads are those maintained by the Viet Nam Road Administration. Viet Nam has an additional 47,000 km of village roads, all of which are of un-graveled earth construction.

industries. International experience[45] indicates that SMEs can be particularly effective when they are clustered customer oriented, and competitive. While generally an urban phenomenon, the handicraft villages of Viet Nam provide a striking example of clustered SMEs. While the rural handicraft village demonstrates the advantage of clustering, it also highlights the constraints that SMEs experience in developing economies, particularly a lack of technological dynamism and the difficulty of monitoring and meeting changing customer demands and rising quality requirements.

The ability of local firms to meet changing market demands often depends on support available from local institutions, the underlying basis for inter-firm cooperation and on the strength of trade links to non-local markets. International experience suggests that a mix of supply and demand driven joint public / private sector initiatives can substantially improve clustered SME performance, including:

Supply driven:

- Supporting collaboration between SMEs where a basis for joint action exists and clear short and medium-term goals have been set;
- Business diagnostic services to establish SME needs and build contacts with sources of support;
- Building links to higher education institutes to create technical and design courses and to promote entrepreneurship;

Demand driven:

- supporting individual firms to attend national trade fairs and groups of firms to participate in international trade fairs;
- supporting groups of enterprises to bid for public procurement programs that enable those firms to grow and innovate;
- building linkages with larger firms and providing technical support for upgrading to meet firm requirements.

In general, an SME support approach which is guided by *customer orientation* and targets the *collective* is more likely to achieve *cumulative* improvements in competitiveness.

Conclusions

The growth of industrial employment in Viet Nam during the first half of the 1990s was a respectable 4.2 per cent per annum, only slightly less than China's industrial employment growth between 1985-1992. It is, however, less than one half of that achieved by Korea, Singapore and Taiwan in the 1970s and 1980s and has dipped alongside investment in 1996-1999, showing little sign of improving in the short-term. Domestic and inter-

[45] The Triple C Approach to Local Industry Policy. John Humphrey and Hurbet Schmitz, World Development, Vol. 24, No. 12, pp 1859-1877, 1996.

national investor confidence requires greater assurance than is presently being provided by government's reform process and may retire until such time as a new economic paradigm is developed, particularly with respect to the roles of the State and the market.

Industrial development in Viet Nam is essentially a phenomenon of the three growth poles and is likely to remain focused in those areas and their rural periphery over most of the next decade. Rural areas at present do not have the savings, management expertise, or rural infrastructure that were the ingredients of successful rural industrialization in neighbouring countries. It would be financially unrealistic to plan for broad based national improvements in these critical factors of industrialization. In the medium-term, resources should be channelled to where they will have the greatest impact. In the case of rural industrialization, this is likely to be the periphery of the existing growth poles.

At present there are unrealistic expectations of the role of agricultural product processing in the development of rural industry. There is no evidence in Viet Nam or elsewhere to support this hypothesis. In fact, agricultural industry represents a very small and diminishing proportion of rural industry in most economies, but will form an important part of the rural household enterprise sector in Viet Nam over the next decade.

In more remote economies, continued strong agricultural growth and diversification is required to drive household enterprise development. This process will be greatly improved when farmers and household enterprises get reasonable access to medium-term credit, the enterprise law reform takes effect and rural investors regain confidence in the economy. In the longer-term (2010-2020) the progressive development of rural infrastructure and the restructuring of education should provide the environment for the expansion of rural industry into more isolated rural provinces and towns. By that time, the search by industry for cheaper sources of land and labour should catalyse this process.

The priorities in a rural enterprise strategy then would seem to be clear and related - the removal of the bias against the development of labour-intensive, non-urban, export-oriented enterprises; the development of commercial banking services; state enterprise reform; and reduced public administration of private business. These priorities need to be supplemented by training and physical infrastructure investment in many locations, but initially within the orbit of the growth poles. Fiscal, trade, enterprise and land reform, which are pivotal to enterprise growth, irrespective of its location, are identified in section **Future rural enterprise growth and employment** above and discussed in Item 4 below.

4. The Factors of Production

Building rural infrastructure

Investment in rural infrastructure in Viet Nam is well below any equity that might be determined by population base or contribution to GDP. After a notable low of 7 per cent of the PIP being spent in rural areas in 1995, the commitment has risen to about 17 per cent in 1998/1999. This, however, is disproportionately (about 60 per cent) allocated to water control, which may not be the best option for impacting on poverty and rural employment (see Box 4.1 below). With food security issues now largely satisfied, the PIP must pay greater attention to supporting rural industrialization, particularly around significant rural cities. The efficient allocation of resources of public investment requires well-trained government staff and is likely to be more effective if the allocation process involves local communities. Neither of these requirements are currently satisfied.

Evidence from India (Box 4.1) and the relative experiences of Taiwan and South Korea (ref. Section **Lessons learnt from international and domestic experience**) with rural industrialization both point to the imperative of a sound rural road system if rural growth and industrialization is to be realized. While returns to investment in rural power were low in India, this was more a reflection of historic investment in that sector and the adequacy of the existing services. Taiwan, by comparison, enjoyed strong returns from investment in rural electrification.

The main elements of a rural infrastructure strategy are likely to include :

- An emphasis on rural roads, particularly a complete grid of all weather roads in the natural supply areas for the major urban centres and a focus on much simpler linkages in remote areas;
- A decision to design and implement as much rural infrastructure development as practicable at provincial and lower levels with beneficiary/user participation;
- Capacity development - training/equipment - to allow provinces to plan effectively without waste and to supervise construction;
- Preparation and monitoring of standards for new works and maintenance;
- Priorities established for major national water projects within an overall plan;
- A system to determine priorities for national funding contributions to provincial infrastructure plans
- Effective cost recovery systems and practical, funded management and maintenance programmes in place

Box 4.1 Ranking Indian government expenditures by impact

When Indian government expenditures are ranked according to their effectiveness, the results are striking.

1. *Government expenditure on roads* has by far the largest impact on rural poverty. If the government were to increase its investment in roads by Rs 100 billion, the incidence of rural poverty would be reduced by 0.87 per cent. For each Rs 1 million (USD23,000) increase in investment in roads, 165 poor people would be lifted above the poverty line. These impacts on poverty are nearly twice as large as those of the next best poverty reducer-government investment in agricultural R&D. Investment in roads also contributes importantly to productivity growth (calculated as total output minus inputs). An additional Rs 100 billion invested in roads would increase productivity growth by more than 3 per cent, second only to investments in agricultural R&D. Investment in roads not only reduces rural poverty through productivity growth, but also through increased nonagricultural employment opportunities and higher wages. Productivity growth accounts for 24 per cent of the total impact on poverty, nonagricultural employment accounts for 45 per cent, and increases in rural wages account for the remaining 31 per cent. Of the total productivity effect on poverty, 75 per cent arises from the direct impact of roads on incomes, while the remaining 25 per cent arises from lower agricultural prices (15 percent) and increased wages (10 percent).

2. *Government investment in research and extension* has the second largest impact on rural poverty, but the largest impact of any investment on productivity growth. Another Rs 100 billion of investment in R&D would increase productivity growth by 6.98 per cent and reduce the incidence of rural poverty by 0.48 per cent. Another Rs 1 million spent on R&D would raise 91 poor people above the poverty line. R&D has a smaller impact on poverty than roads because it only affects poverty through improved productivity, and India has not targeted R&D specifically to improve the lot of the poor. If future agricultural research and extension were more deliberately targeted to the poor, it might well have a greater impact on poverty.

3. Third ranked is government spending on education. An additional Rs 1 million spent on education would raise 32 poor people above the poverty line, mostly by increasing non-farm employment opportunities and wages. Education, at least as measured here by a simple literacy ratio, has only a modest impact on agricultural growth.

4. *Government expenditures on rural development* ranks fourth in impact on poverty. Another Rs 1 million spent would raise 28 poor people above the poverty line, an impact comparable to that of additional investment in education. But unlike other investments with similar or greater effects on poverty, rural development expenditures have no discernible impact on productivity growth in agriculture, and hence they do not provide a long-term solution to the poverty problem.

5. *Government expenditure on irrigation.* Another Rs 1 million of expenditure would raise 7 poor people above the poverty line. Public irrigation investments also have the third largest impact on productivity growth; an additional Rs 1 billion would add 0.56 per cent to the growth rate. Public irrigation plays a catalytic role in stimulating additional private investment in irrigation, but most of its impact on poverty is through the increased productivity it fosters.

6. The effects of *government expenditure on power* are relatively small and statistically insignificant from the standpoints of their effects on rural poverty and productivity growth. This may be because the government has already invested heavily in rural electrification, and the marginal returns from additional investments are now low. Today about 90 per cent of all rural villages are electrified. But public spending on power is still a relatively large part of the government's budget (50 per cent more than was spent on roads in 1993), and current expenditure has increased enormously since 1990. More than 90 per cent of the effects of investment in power are derived from non-farm employment, while the remainder come from productivity increases obtained through improved irrigation as the result of electrification of pumps.

According to this research, additional government expenditures on soil and water conservation and health have small effects on rural poverty, and the impact of health spending is statistically insignificant. They also have no discernible effects on agricultural productivity growth. Their benefits lie in the improvements they bring to the quality of life in rural areas.

Source: Linkages between Government Spending, Growth, and Poverty in Rural India, ISNAR Research Report 110, by Shenggen Fan, Peter Hazell, and Sukhadeo Thorat.

AGRICULTURE AND RURAL DEVELOP-

Strengthening rural finance and investment

In general, Viet Nam's credit market is highly distorted as a result of subsidised and directed credit programs, including the priority given to loans to SOEs and to various commodity programmes for the purchase of rice and other crops for export. Non-market interest rates for savings and loans seriously retard the development of the financial sector while directing credit to SOEs has the effect of discriminating in favour of capital-intensive activities, which is contrary to the labour-intensive development that Viet Nam needs.

The banking system has been weakened by its roles as a lifeline to State enterprises and as a policy tool to support administrative rather than market allocation of resources. A commercial Viet Nam Bank for Agriculture and Rural Development (VBARD) would be well placed to meet the needs of medium and larger farm households and rural industries. Strong, well supervised People's Credit Funds (PCF's) seem to be the best bet for delivery of micro-finance to other farm and small entrepreneurial households. The VBARD changes depend on overall reform of the finance sector and high level acceptance that the market is the best credit allocation mechanism.

A credit strategy for rural development is likely to have two main elements :

- Improvement of the overall strength of the banking sector and its regulation, in particular, recapitalisation of VBARD and providing it the skills and freedom to operate as a commercial bank - making loans or rejecting proposals on commercial merit and offering depositors commercial terms. Similar changes are needed for banks funding export business.
- Withdrawal from Government allocation of credit.
- Continued support to the growth of PCF's with member/manager training and supervision and ensuring that regulations continue to allow the PCF's to mobilise savings i.e. remove interest rate controls or apply them flexibly especially for longer term deposits.

Creating a rural land market

The 1988 Land Law (Resolution 10) created the condition under which farm households and private and public business enterprises gained security of tenure to land. The Land Law of 1993 granted "five rights" to those legally possessing land: the rights of transfer, exchange, lease, inheritance, and mortgage. Mapping of agricultural land in Viet Nam is almost complete, and rights to 86 per cent of the cropland have been allocated. Issuance of certificates of title for agricultural land is also well advanced, however, Only about 10 per cent of forestland (of which only 1 per cent is natural forest) has been allocated

Land markets provide a transparent mechanism for valuation of land. Several factors impede the full functioning of land markets in Viet Nam. These include: ceilings on

maximum landholdings, relatively short duration of rights with uncertain renewal, land-use restrictions, constraints on transfer and, until recently, high land transfer taxes. The Government defines the use to which land may be put. In particular, the Government imposes restrictions on the conversion of paddy land to other purposes. Long-term land transfers require the permission of local authorities; this comes with strict conditions, such as legal proof of either moving out of the area or inability to cultivate the particular piece of land. Tax rates are fixed on the basis of classification of the land according to location and cultivation conditions. Sales and exchanges of land are also taxed. In Viet Nam, where fragmentation of agricultural land is a significant problem, the taxes on sales and exchanges inhibit land amalgamation[46]. Any household or individual with rights to agricultural land for cropping or forestry land for the purposes of reforestation can utilise land-use rights as collateral in order to obtain credit from a state commercial bank or a credit organization. The value of the land as collateral, however, is limited to the amount of land rent already paid, as determined by the People's Committee of the province or city.

In *upland forest areas* significant questions of land use rights remain unresolved. State Forestry enterprises retain legal control over large areas of degraded land that is used for crop production by many poor families. Until classification of this land is reconsidered and the rights of the enterprises and current farm users are clarified in a new law, sustainable development will be retarded. Although some 61 per cent of forestland has been allocated, most of this (6.8 million ha) has been allocated to State Forest Enterprises who contract or lease land to households.

It is unclear to what extent the current land laws limit agricultural production or contribute to the degradation of the land and forest resource. While rural land markets are emerging in the south, in most provinces further attitude changes are required before practical land use markets can operate with less control and bureaucratic allocation. Similarly additional experience is needed before lenders can be confident of the practicability of exercising their rights to deal with land offered as collateral. The lack of transparency and progress in land allocation in forest areas may well be an important constraint to rural development in poorer districts of the North Mountains, North Central Coast and northern part of the Central Highlands.

Priority should be given to strengthening the law with respect to the implementation of the rights to land transfer, exchange, lease, inheritance, and mortgage, raising the limit to land ownership and extending the duration of the land use right, reducing the administrative control of land use, establishing the legislative and legal basis for a formal land market, extending the right to mortgage land to its full market value, removing taxes on land transfer for the purpose of land amalgamation and clarifying the role of the SFE. There is also an urgent need to establish a national land register. Records on the issuance of land use certificates presently exist at the provincial, district, and communal level. With farmers often unwilling to register land transactions, widespread evidence of high levels

[46] Taxes on rural land sale have recently been reduced from 10 per cent to 2 per cent.

of land transfer and the risks the integrity of records associated with a system that maintains records in three centres, the validity of the existing records is highly questionable.

Competitive markets and marketing

The transition to a market economy has progressed at very different rates in different locations and sub-sectors. Farmers frequently say that they need help to understand how best to market their products and traders and processors often report difficulty in funding purchases at harvest time. For most crop products, State enterprises retain influence in the market system with preferred access to credit, licences and a history of trading. In the case of rice, private assemblers and millers are often linked to provincial enterprise marketers who can access export markets. For coffee, State and private marketing firms work in parallel. Where good market margin data are available, as with Mekong delta rice (IFPRI 1997), the domestic system appears to be reasonably efficient. Nevertheless additional competition is desirable to improve market efficiency for other locations and products and quality price differentials need to be carried through to farmers, for export goods in particular.

For livestock products there is little State intervention in markets, however, there are insufficient data to draw conclusions about the efficiency of livestock markets. If meat exports are to grow again it will be necessary to improve health standards and this will require additional regulation.

In summary a weak financial system and continuing regulation in favour of State enterprises reduces competition and efficiency in many markets. This hinders the process of diversification, quality improvement and the rate of increase in rural productivity generally.

Strengthening rural institutions and services

Ministry of agriculture and rural development

The 1996 merger of the Ministries of Agriculture and Food Industries, Forestry and Water Resources into MARD has not captured the opportunity provided to define MARD's future functions and shape its form accordingly. MARD's activities thus remain, in large, fragmented and unfocused, with resultant policy, programme and cost inefficiencies

The restructuring of MARD is an imperative for the comprehensive development of Vietnamese agricultural in the market economy. Numerous programmes require consolidation to provide the critical mass of expertise needed to deepen analytical, policy and service activities. Most notable amongst these are the policy / planning / economic research groups and those institutions involved in resource information management. There are also important choices to be made between public and private sector roles in service delivery. These choices underline the importance of sound policy. Continued

protection and market dominance by state owned production, processing and marketing agencies and credit sources will stifle the development of the private service sector in Viet Nam.

Box 4.2 Who should supply market information?

MARD will establish of an "information centre on farm produce markets" as part of a VND 3 billion development programme"1/. Is the market information a government or private sector service?

Market information is needed at various frequencies and detail by different sectors of the rural economy. Daily information on vegetable prices is vital to the business of vegetable traders and peri-urban vegetable producers, whereas most rice producers require longer-term projections, mainly for annual crop planning.

The fresh vegetable trade is prepared to pay for accurate and timely market information, whereas price projections to small-scale rice producers forms a more public information service, though larger scale farmers are likely to pay for detailed industry analysis. Government services rarely access the required detail or collect and process market information in a sufficiently timely manner to meet short-term trade requirements. As such, this service is usually private in market economies.

MARD should consider establishing a market information system in partnership with the private sector or an industry association, with a view to capitalizing its shareholding once the service is effectively established. MARD can thus play a catalyst and facilitation role in establishing new services, then recoup its investment with a view to supporting other segments of rural development.

1/ Viet Nam News, Page 2, 9th December 1999

There are four important factors that will determine the success of reform within MARD. They include:

- *Stakeholder commitment to, and ownership of change.* Commitment to and ownership of the need for change is seldom achieved by working within a bureaucratic government ministry. Change will have to be driven by client needs and developed at the political level. These forces are not prominent in Viet Nam at present
- *Development of a vision of the future.* While change in Viet Nam is often achieved gradually through iterative learning processes, the elaboration of a vision of the future can be an important part of reform. Vision development will require thorough market research and analysis, both for agricultural production and for agricultural services, if service development is to be sustainable. It also requires an assessment of the internal and external environment for change.
- *Development of a policy framework that will enable the vision to be achieved.* Inadequate policy is often the major constraint to the development of agriculture and agricultural services in Viet Nam. The process of institutional reform is most effective when sound policies enable stakeholders to determine their own future. Without policy changes there can be little confidence that agriculture performance and profitability will change, nor will there be significant, sustainable development of agricultural services, be they in the public or private sector.
- *Determination of options and priorities for service development and delivery.* Agricultural services can be stratified into

- Primary Services: without which agriculture would not be sustainable. The concept of ***Existence***. Regulatory services that are required to maintain market access and protect consumers and the environment; and policy analysis and formation are examples;
- Secondary Services: that are complimentary to Primary Services. The concept of ***Fitness***. Quality assurance to gain access to higher priced markets; information collection and management; and capacity building are examples;
- Non-essential Services: that would be nice to have if resources were unlimited, but where choices can be made based on benefits. The concepts of ***Luxury***. Three separate institutes for agriculture, forestry and water resource management may be one example;
- Irrelevant Services: will not affect performance of agriculture. Use of resources to develop such services may detract from performance. The concept of ***Waste***, e.g. input and output subsidies; a public vaccine laboratory; and government input supply services come to mind.

The process of service prioritisation is critical and must be participative, involving broad representation of service users and both public and private suppliers. An industry wide workshop to set priorities would be an important learning, communication and ownership step. The need for essential services requires least debate and could be handled on a matrix basis of have, or don't have, effective or ineffective. This would quickly lead to a strategy and timetable for the development/improvement of essential services. As economies develop secondary services become more important and opportunities for non-essential services grow. The choice of which service to develop and to what level development should occur depends on client needs (internal and external), the determination of relative public and private benefit from service delivery, available public funding and opportunities for either private delivery or cost recovery to cover private benefit. In Viet Nam at present, the development of non-essential services is not really an option and there may be good grounds to withdraw resources from existing non-essential services. Irrelevant services have no place in a market economy. Sound policy analysis will readily demonstrate the associated costs and provide the rationale for their removal.

Knowledge for the new rural economy

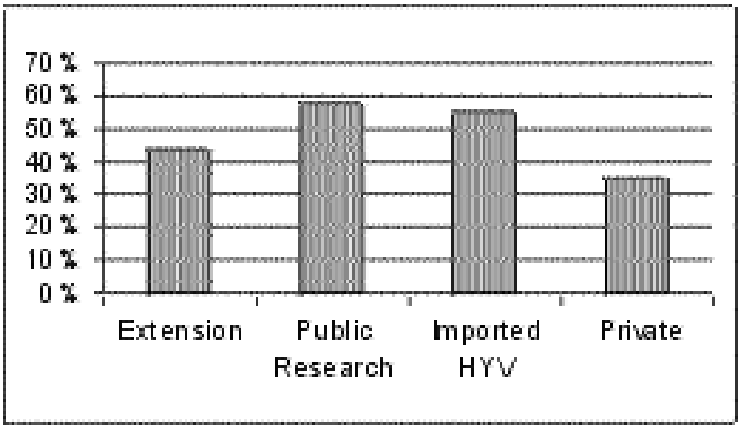
Agricultural research in Viet Nam, which includes 31 research centres, of which 17 are associated with SOEs, is severely constrained by institutional disarray, insufficient recurrent or capital funding and relatively low staff capacity and morale. Research funding in Viet Nam by year and programme is detailed in Table 7.12. In 1999, the average research funding per research worker is as low as USD 500 per year, 1/45th of that of India and 1/4th of Thailand's funding. This despite overwhelming international evidence of the high returns to investment in agricultural research and extension (see Figure 4.1[47] and Box 4.3[48]). The agricultural extension service budget, detailed in Text

[47] Agricultural Research and Productivity Growth in India, ISNAR Research Report 109, by Robert E. Evenson, Carl E. Pray, and Mark W. Rosegrant.

[48] Agricultural Research in China: Its Institutional Development and Impact,; Shenggen Fan and Philip Pardey, ISNAR August 1992.

Table 4.1 is similarly constrained with the additional burden of insufficient proven and appropriate technology to extend to farmers and a lack of essential management and financial skills. The primary areas of research activity in the next 5 years include, *inter alia*, varietal improvement, quality improvement particularly post harvest, product marketing, upland irrigation and land use planning[49].

Figure 4.1 Internal rate of return to agricultural research in India 1956-1987



HYV: High Yielding Varieties.

Box 4.3 Contributions to growth in Chinese agricultural output

For the China as a whole, agricultural output grew at an annual average rate of 4.9% over the 1965-89 period. This growth can be attributed to three sets of factors.

Conventional inputs. About 39% of the growth can be attributed to the use of conventional agricultural inputs, with manure and chemical *fertilisers* alone accounting for 21%. Increased *mechanisation* accounted for another 12% of the growth. The number of workers in agriculture grew by 1.6% per annum; however, their low productivity meant that only 3.4% of growth in output could be attributed to *labour.* The expansion of *irrigated areas*, due to an increase in irrigation infrastructure, accounted for about the same order of magnitude of production growth (3.3%) as labour.

Research. Twenty-per cent of the growth in China's agricultural output can be attributed to *research*. However, its impact was not uniform throughout the country.

Other. Additional factors accounted for 42% of the growth in agricultural output. Of these, the only one that could be identified was the series of i*nstitutional reforms* begun in the late 1970s. Their direct contribution to growth is estimated at 14% of the total for the period 1965-1989.

Various donor projects in Viet Nam tinker at the edges of the research-extension continuum to limited apparent avail, except perhaps in the irrigated rice sub-sector. An in-

[49] Dr. Nguyen Van Bo pers. com.

depth analysis of national research/extension policy and programmes is required and proposed in 2000 under a UNDP funded and FAO executed project.

Transferring technology and skills

Agricultural extension

Extension services, now established at all provincial Departments of Agriculture and Rural Development (DARD) and 80 per cent of districts, are equally constrained by inadequate resources and capacity. One unofficial estimate puts the ratio of extension staff to farmers at 1:50,000 households. Traditionally extension agents, of whom about 25% are women, have been encouraged to mobilise farmers towards centrally determined production targets. Even if staff want to reach farmers at commune and village level, they are hampered by the lack of resources (per diems, vehicles) which would enable them to travel. The extension service is particularly weak in addressing the information needs of women and disadvantaged groups, particularly isolated farmers and minority people. The service provides little accommodation for the time constraints of women or the language constraints of minority groups, the organizational structure of minority communities or the different information needs for both groups, relative to those of male Kinh farmers.

State expenditure on agricultural extension, which forms about 25 per cent of total extension funding, is detailed in Text Table 4.1. Separate analysis[50] indicates that expenditure per extension agent can vary by a factor of up to 15, dependent on the level of provincial funding, but that average annual government expenditure on agricultural extension is a mere VND 10,000 (USD 0.70) per farm household.

Text Table 4.1 MARD expenditure on agricultural extension (million VND)[51]

Year	State budget			
	State expenditure	Capital expenditure	Current expenditure	
			Operating cost	Administrative cost
1993	1,821	0	1,492	329
1994	13,575	0	12,951	624
1995	15,828	0	15,000	828
1996	24,079	0	23,192	887
1997	29,820	0	28,500	1,320
1998	27,143	0	26,253	890
1999	27,664	0	26,666	998

While many of the increments in agricultural productivity over the last decade have been achieved in the absence of agricultural extension, this is not so for all crops,

[50] ADB TA 3223-VIE Agricultural Policy Project (unpublished).
[51] Viet Nam Public Expenditure Review; The World Bank 2000 (unpublished).

locations and circumstances. The potential of government services (in this case the Plant Protection, not the Extension Service) to respond to good training and organization is demonstrated through the successful implementation of the FAO managed integrated pest management programme. The core issues to be addressed with the extension service include (i) the division of public and private sector responsibility and cost recovery options; (ii) the availability of appropriate technology for a range of agro-ecological conditions; (iii) staff capacity, particularly in the arenas of farm financial management and participative development (iv) the determination of appropriate staff function(s) - advisory, survey, regulatory, administrative, etc. (v) improved extension service access and relevance for women, the poor and minority people; (vi) the role of mass media vs direct extension; and (vii) the linkage between extension and agricultural science and opportunity for more direct linkages between science and the farmer through participative technology development programs. With the bulk of the existing extension resource both under employed and under skilled, these are critical issues that require address.

Preferred solutions should lead to significant restructuring, including:

- Setting goals and objectives for public extension that are within the limits of available funding, including provision for non-salary staff incentives[52], in-service training relevant to the goal and objectives and a performance and impact monitoring system;
- Targeting government extension to the 1,715 poorest communes with the goal of (i) achieving food self-sufficiency and (ii) the integration of cash crops and livestock into the farming systems, including the administration of commercial credit for such investments;
- The introduction of means-tested extension service fees as provided in the Law[53]. Only households classified as poor would be excluded from modest fees, initially to cover travel and per diem expenses, but, over a 10 year period, to progressively include the full technical service fee;
- Legislation for stakeholder participation in extension management including provincial and district level Extension Advisory Boards, predominated by local farmers and industry representatives;
- Building research-extension linkages and reliance through administrative and funding mechanisms, including contracting of scientists to train extension staff;
- More female extension agents;
- Greater reliance on mass media and

[52] Article 9 of Decree No. 13 CP of March 1993 states "Extension workers at local level are eligible to allowances besides salary from the extension fund".

[53] Article 8 of Decree N0. 13 CP of March 1993 states "the funding of the extension service will be from the following sources ……."Collection from farmers on the basis of the increased production thanks to extension activities".

- Government encouragement of support services provided by input suppliers and processors (e.g. sugar mills / rubber or cashew factories etc). International seed, feed and some fertiliser companies have been active in promoting new technology in recent years. This approach may be less applicable in remote areas.

Veterinary services

Most veterinary services are provided by government veterinary staff, within the framework of legislated definition of professional responsibilities. This situation undervalues the capacity of farmers to manage simple animal husbandry and health procedures. It also denies the reality that the veterinary services at district and lower levels, are, *de facto,* private sector services, charged for by veterinary staff whose government salary are a fraction of the cost of living. Liberalization of the clinical veterinary market would see veterinarians developing innovative programmes using employed technicians for the private delivery of animal health care, thereby reducing costs to both producer and government.. Even if some subsidies were required to entice private veterinarians to provide service in remote locations, government savings are likely to exceed USD 1 million per annum and the quality and frequency of animal health services is likely to rise.

Vocational training

The emerging market economy is creating new information and skill requirements, many of which are presently unavailable in the market. Skills in enterprise and cooperative business and financial management are a particularly pressing need, however, investment is also required in a broad range of technical skills if rural industry is to progress. New teaching methods including distance education and the use of mass media communications are likely to be required to meet this growing demand.

A strategy for rural institutions and services

Publicly funded agricultural institutions are not adequately servicing the needs of the rural sector. This stems from their weak institutional structure, inadequate financing and the lack of stakeholder participation in setting their agendas. In several cases, impartial assessment is likely to conclude that some now publicly funded services, notably clinical veterinary services, would be best transferred to the private sector. In other cases, attempts to provide broad-based services to farmers, such as agricultural extension, are so undermined by inadequate training and financing that the sector would be better served by a smaller, well-trained and well-targeted programme. For extension services, this might involve their concentration in the 1,715 poor and disadvantaged communes, rather than attempting an ineffectual national cover. The returns to well financed technology development are irrefutable. While GOV expenditure on agricultural research is small, its inadequacy is compounded by the sub-sector's institutional disarray and poor use of capital assets, particularly land. Within MARD, the absence of a clear vision and confusion over the role of the state in rural development (ref Section **Rural development - an embodying process**) is severely limiting that institutions role.

It would be pre-emptive to expound a detailed strategy at this juncture as the rural institutional framework requires a comprehensive review using processes that involve stakeholders. Such methodology is well established and can and should be implemented relatively quickly. Its outcome is likely involve the separation of public and private sector functions and lead to smaller, more focused and better financed rural services institutions. The implementation of such a change process will, however, only be successful if it is led with verve and vision and comprehensively financed by the donor community.

People's participation

Devolving responsibility and empowering the community

"The poor are usually without influence or respect. They are seldom consulted about programmes from which they are supposed to benefit...If the final consumer does not get a chance to communicate what is working and what is not, most programmes will miss their mark or be much less effective than they might become" (UNDP, 1996)

Many donors are currently promoting greater participation in their programmes and projects. This emphasis is based on worldwide experience that shows that development efforts that do not consult and involve the local beneficiaries are more likely to fail or to lack sustainability. Participation has been found to be an essential ingredient of project success as it helps create ownership of project objectives, activities and outcomes by the project recipients. Recipients move from being merely beneficiaries to being active agents in their own development.

Ensuring that Government planning and decision-making is responsive and appropriate in meeting the needs of rural communities will require the following:

- Undertaking an assessment of the current responsibilities and capacities of people's organizations (cooperatives, commune and district people's councils and committees, village chiefs), in providing development services and participating in local development planning. This assessment will need to look at how they are currently functioning in different parts of the country as well as their stated functions. This step is critical to understanding what has contributed to the success or failure of formal and informal rural organizations, what is the nature of their relationship to the state and to their membership and what will be required to strengthen their planning, management, communications, and technical abilities.
- Developing national policy and guidelines which designate responsibility and processes for consultation and communications in rural development planning. This would need to explicitly address issues such as consultation policies at different levels of the Government administration, guidelines for women's involvement in planning activities, and roles and responsibilities of ministries, mass organizations and community groups for planning and management inputs. Such a policy would also need to support the involvement of NGOs and the private sector in Government planning consultations.

- Developing the capacity of Government departments, people's committees and mass organizations to plan, communicate effectively and listen to community groups. This will necessitate training in planning, appropriate adult learning techniques and appropriate communication skills, including skills for working with women and with farmers with poor literacy skills. Extension staff and staff of mass organizations will also need to be able to act as facilitators, rather than as providers of information. This implies listening and analytical skills so as to analyse needs and issues experienced by farmers, knowledge of what information and technical resources are available locally and in the province, and formal interdepartmental structures which enable staff to tap technical support and provide planning information.

To achieve this will require:

- a change in the nature of the role of staff involved. This means:
  - The development of national policy, organizational policy, guidelines and job descriptions which outline responsibilities for planning, community consultation and community development;
  - Providing gender training for staff of government agencies and people's organizations. Gender sensitive planning tools and guidelines will also need to be developed;
  - Introducing communications and facilitation skills as core components within the training institutions of MARD, mass organizations and provincial training centres.

- Development of the ability of community groups and women leaders to participate in planning activities, to manage community programmes, and the marketing of agricultural products. Encouragement will also need to be given to establishing networks so that farmers, farmer groups, people's organizations and cooperatives can talk to each other and learn from each other. Specifically, consideration will need to be given to:
  - Resourcing management training for women as well as commune and community groups;
  - Encouraging the involvement of local and international NGOs in supporting institutional strengthening and networking of cooperatives, farmers' associations, and commune and village groups;
  - The development of formal consultation mechanisms and strategies which enable the private sector, donors and NGOs to contribute information and ideas for Government policy and programmes.

Farmer cooperatives and associations

The new Cooperative Law provides the basis for the establishment of membership-based and self-managed cooperatives, the formation of which has been given a high priority by both Government and UNDP in their fight against poverty. The new Cooperative Law also provides for contribution of capital and labour, equal voting

rights and the transfer of risks to members in line with capital contributions. While the Cooperative Law provides the framework for cooperative development in Viet Nam, cooperatives operate under a range of other civil laws, not all of which work in harmony with the new Cooperative Law.

The new Cooperative Law has created fewer restructured cooperatives than expected. Many have changed their name with registration under the new law, but not their modes of operation. There has also been relatively few new cooperatives formed under the law. Misunderstanding at provincial and lower levels of the purpose of the Cooperative Law, the transfer of debt from old to new cooperatives, difficulty in accessing credit and weak cooperative management all trouble the new cooperative movement.

Cooperatives have made significant contributions to agricultural and SME development in the Asian region, however, their success is imperative on their development as an independent, member-led organization, supported by an association of cooperatives led by popularly elected officials. Cooperative formation at present is a bureaucratic process that should be simplified. The need for further training of cooperative management and public administration is also indicated, as is the development of new laws to support the association of cooperatives. The clear differences that exist between northern and southern Viet Nam in the implementation of the new law indicates the need for further study of its application.

Lessons learnt and policy implications

Rural development in Viet Nam continues to be constrained by policies that lead to under investment in rural infrastructure and uncompetitive credit, land and market resource allocations. The adoption of best practice from capitalist systems in these areas should not threaten a process of market development in a socialist economic direction. Rural infrastructure, particularly rural roads are essential to agriculture and rural industrial development. Viet Nam should substantially increase its PIP allocation to the rural sector and, within that allocation, give preference to rural roading and upland micro irrigation schemes managed by local communities, which is likely to do more to reduce poverty and vulnerability than the current focus on lowland irrigated agriculture.

Viet Nam has moved toward establishing the basis for a rural credit programme, a rural land market and, through the recently promulgated Enterprise Law and the Miyazawa Initiative, a more competitive marketplace, however, none of these initiatives is complete. The Government is also close to agreement with the international community on phased programmes to deepen the financial sector, reform the trade system and accelerate SOE privatization, however, these changes alone, will not restore investor confidence. The pace of reform remains too slow, considerable uncertainty surrounds the effectiveness and timing of implementing decrees supporting recent policy reforms, there are profitable alternative investments in SE Asia. And capacity to manage this change process is limited.

Viet Nam again stands at the crossroads of economic reform, its future largely dependent on the capacity of its leaders to make some bold economic choices. A three-year reform programme is under discussion and should form the basis for a return to moderate economic growth. Whether or not these reforms impact on the rural sector remains to be seen. For accelerated rural growth and employment government must additionally:

- S*trengthen rural financial services:* building capacity within VBARD, expanding its impact area and completing the establishment of the PCF as a rural credit institution;
- S*trengthen the Land Law* with respect to the implementation of the rights to land transfer, exchange, lease, inheritance, and mortgage, raising the limit to land ownership and extend the duration of the land use right, reduce the administrative control of land use, establishing the legislative and legal basis for a formal land market, extend the right to mortgage land to its full market value, remove taxes on land transfer for the purpose of land amalgamation and further clarifying the role of the SFE;
- *Improve minority people's land rights:* the cultural and spiritual relationship of minority tribes to traditional lands deeply influences their economic choices and capacity to prosper. In many countries, the recognition of traditional land use rights of minority people, though a slow and complex process, is seen as integral to their wellbeing and inclusion in the market economy. In Viet Nam, wider recognition of traditional land use rights combined with processes of consultation and self-empowerment, could endow minority people with a capital and income base that underpinned their future wellbeing and restored their cultural heritage. Such a process need not be irreconcilable with the interests of existing users of traditional land, though rents paid for such land would be re-directed to traditional owners;
- *Accelerate SOE reform* as a critical component of market liberalization. This is particularly so in the rural sector where the economic space between the farm and the market is dominated, either directly or indirectly, by the SOE sector. Liberalization of this sector of the market challenges the basic principles of the Party's concept of a socialist led market economy. A new paradigm is needed wherein an equitised SOE sector, having substantial primary producer ownership, competes / collaborates with the private sector on an even economic "playing field" with both having access to better information and education opportunities;
- *Restructure institutions* that support the rural sector: MARD, in consultation and collaboration with a freely associating rural community and other economic actors in the rural sector, must redefine its purpose, objectives and approach to rural development, embracing the principles of participation, transparency, accountability and rule of law. As a partner in and facilitator of rural development, MARD should shed a number of non-essential roles, privatize others and focus resources on the key fields of sector regulation and analysis, market and product research, policy formulation, information dissemination and capacity building. Restructuring agricultural research, which commands 20-30 per cent of agricultural growth, provides one of the greatest challenges. A strategy to improve the development and application of technology may include these elements:

- A reformed crop research system that focuses on topics prioritised in discussion with industry, giving weight to quality aspects of production and adequately funded and staffed with trained researchers. The appropriateness of self-funding through commercial activity should be reassessed and international network links should be strengthened.
- A technology transfer system that encourages vertical links between farmers, input suppliers and processors, especially for cash crops, and strengthens farmer-to-farmer linkages.
- A livestock and feed research and extension system that gives attention to product quality and suitability for export markets, including animal health programmes. Again, links between traditional producers, fatteners and commercial feed suppliers, breeders and processors should be explored.
- Specific processing technology programmes for export industries.

- *Participation:* participative processes espoused by government and Party leaders and legislated through, i*nter alia,* the "grassroots democracy law" must be mainstreamed, recognizing that this process will involve power sharing and reorientation at the government level and the empowerment of rural communities. Without a fundamental attitudinal shift, adequate resourcing and significant capacity building, government's apparent commitment to participative development will fail.

5. A Strategy for Rural Development

Introduction

The *doi moi* process, which has gathered momentum since 1990, has overseen the extensive and continuing reform of the Vietnamese rural economy. Agricultural production has grown at a steady 4-4.5% through most of the decade, rural enterprise growth has more often than not reached double digit levels and poverty has been reduced from more than 50% of the population to an estimated 37% in 1999. In response to the more liberal economic climate and a market-responsive trade, fiscal and legal framework, inflation has been curbed, imports and exports have flourished and foreign direct investment (FDI) has reached up to 13% of GDP in 1995, at which time GDP growth also peaked at 9.5%. A downturn in the rate of these impressive gains commenced in 1996, prior to the 1997 regional crisis, which further depressed all key growth indicators. In 1999, GDP growth is estimated at 4.0% and FDI disbursements stand at around USD 600 million or 2.2% of GDP. Domestic investment has also stalled, as has employment growth, however, agricultural production has largely held past growth rates, contributing strongly to the rising export market.

This new scenario, of low investment and subdued growth, is occurring despite ongoing, albeit too shallow, macro and micro-economic reforms. In essence, the domestic and international investment community has lost confidence in the market, assessing the risk of unfair competition, excessive bureaucracy, corruption and political uncertainty as too high in a region with ample alternative investment opportunities. This scenario is likely to continue until such time as government commits itself to a medium term, time-bound sequence of deeper trade, fiscal and enterprise reforms

An agriculturally-led development strategy

Rural employment

In the plan period from 2001-2006, and beyond to 2010, Viet Nam must focus on an agriculturally-led rural development strategy if it is to reduce poverty and vulnerability, improve equity and lift economic growth. While agriculturally led growth should be the primary strategy, it must be realized that comparative advantage varies between and within regions and will change as the economy evolves. Over time, it is expected there would be a move away from a strategy that relies on an abundance of unskilled, low-wage labour toward a technology, capital and skill-based strategy that drives economic growth at a progressively higher level of development. In some coastal towns and in rural areas close to the three growth poles, this latter strategy already applies.

In most rural areas, rising income associated with increased agricultural productivity will create a consumption linkage effect, lifting demand for non-agricultural production in the local economy, especially for labour-intensive industrial goods and services.

Rising non-agricultural rural earnings create additional demand for agricultural products, further reinforcing this process. The rural economy also enjoys additional, though weaker, second-round backward and forward linkages with the urban economy. The more equitable the agricultural income growth, the broader will be the consumption demand for local labour intensive goods (see Figure 5.1). Income concentration on the other hand, tends to create demand for more urban-produced or imported goods, however, it is a natural product of the market economy and is a necessary factor for the capital accumulation required to drive export or urban-oriented industrial production in rural areas.

Wealth accumulation at farm level also leads to investment in product diversification, particularly longer-rotation industrial crops, giving impetus to the development of agro-industrial processing industries, which provide an additional dimension to this rural industrial growth scenario, particularly if emerging agro-industry focuses, initially, on labour-intensive processing systems. Over time, the accumulation of capital, and technical, managerial and marketing skills, should accelerate the emergence of more capital intensive, skill-based export industries (Box 5.1).

Box 5.1 Modeling agriculture-led growth

In a simulation model, IFPRI showed that if food grain output grew at 4% annually over more than a decade in a country with an annual population growth rate of 2.2% and an initial under employment rate of 30% of the labour force, the share of non-farm employment would increase from its initial level to 55% and the unemployment rate would be reduced to 3% of the workforce over a period of 12 years. The backward and forward linkages of agriculture with other sectors would bring about this result.

Source: Simulating a Developing Economy with a Modernizing Agricultural Sector. Implications for Employment and Economic Growth. IFPRI Occasional paper 76, Washington DC 1974 John W. Mellor and M. Mudahar.

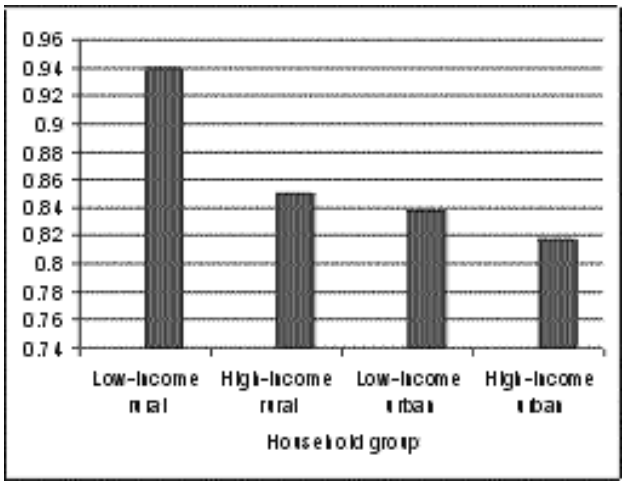
The solution of poverty problems in rural Viet Nam will require a large employment growth in rural non-agricultural enterprises (e.g. house construction, furniture manufacture, machine shops and services) that are stimulated by rising farm incomes. The credit, infrastructure, and other needs of such enterprises need to be examined with a view to making policy recommendations to accelerate employment growth from such sources. Of particular importance, is how enterprises that start as largely family businesses expand into the medium-size enterprises of say 20 or more employees that become outward looking and begin to transform the rural market towns into broad-based urban centres.

Within an agriculturally-led development strategy, income multipliers tend to be highest for low income households in rural areas (see Figure 5.1[54]) and for the agricultural and food processing sectors. The associated forward and backward consumption linkages to labour-intensive agricultural and non-agricultural industrial products also provides a comfortable fit, in the prevailing policy environment, in that the small rural industrial enterprises that support the development of those products tend to be the

[54] Based on a Social Accounting Matrix prepared with GSO data.

industrial area least affected by national macro and micro-economic distortions. The steady growth of this sector through the 1990's provides strong evidence of this conclusion, though better access to improved rural infrastructure and credit would clearly enhance its development.

Figure 5.1 GDP multipliers by household group



Source: Development strategy for the central zone; ADB TA 2959 - VIE, Lincoln international, August 1999.

Agricultural productivity

Viet Nam has achieved strong growth in agricultural production and trade over the past twenty years. This is commonly attributed to infrastructure investment in irrigation and perennial crops before 1988, *Doi Moi* policy changes which encouraged market-driven production and input use, allocation of individual land use rights, sound improved-economic policies and easier credit access for farmers.

Whilst the upward trend in agricultural production of 4 to 5 per cent pa compares favourably to that of other Asian countries, it lags that of other sectors in Viet Nam and so, agriculture's share of total GDP has fallen from about 40 per cent in 1991 to less than 27 per cent in 1998. As about 70 per cent of all labour is employed in agriculture it is clear that returns to farm labour are less than half of those in other sectors. Moreover, there are large regional differences in farm incomes with returns to family labour in poor zones only about 20 to 30 per cent of those in richer zones.

Agricultural growth over the 1990s is summarised in Text Table 5.1. In general, incremental production has originated almost as much from the expansion of cropped area or livestock population, as it has from increased productivity. Separate analysis (Tables 7.1-7.10) indicates that gains in productivity have remained static or have fallen across the decade, suggesting little improvement in the quality of the supporting technology. The leguminous crops (green bean, soybean and peanut), rubber and large animals are the exception to this trend, all showing increased productivity over time. The situation

with rice may also improve in the next few years as a string of new hybrids, including some genetically modified varieties, are introduced to the market.

Text Table 5.1 Changes in the structure of Vietnamese agriculture (1990-1998)

	Per cent change per annum		
Product	***Area (ha)***	***Yield (ton)***	***Productivity (ton/ha)***
Rice	2.0	4.3	2.5
Maize	4.8	8.9	6.0
Sweet Potato	-4.5	-4.9	-0.2
Cassava	2.1	1.2	-1.0
Soybean	0.1	3.7	3.9
Peanut	5.7	9.4	4.4
Sugar cane	7.4	8.0	1.8
Cotton	6.3	10.0	8.8
Coffee	9.7	11.5	4.4
Tea	4.3	5.0	1.1
Rubber	7.0	9.2	4.5
Cashew[2/]	6.0	9.1	3.6
Coconut	-3.6	-3.0	0.7
Fruit Trees	5.4	5.0	-1.4
	(No.)	***(ton)***	***(Kg./head)***
Buffalo	2.7	9.7	7.2
Cattle	3.8	4.0	0.3
Pigs	4.0	5.1	1.6
Poultry	8.3	4.5	0.7
Capture Fishery	NA	6.9	NA
Aquaculture	NA	14.2	NA

Source: GSO Statistical Yearbooks.
1/Annual per cent variation determined using regression analysis.
2/ 1995-1998.

Over the next decade, per capita demand for tubers for human consumption can be expected to fall, while demand rice will move approximately in line with population growth and that for livestock, vegetables fruit and wheat products will rise, roughly in line with economic growth. Vegetable oil and sugar consumption is also likely to grow strongly as incomes rise. Farmers will also diversify increasingly into industrial food and processing crops. These trends, with agro-ecological zonal variations, are already apparent in the changing structure of Viet Nam's agricultural and will become more evident in the period 2001-2010. For agro-industry, aquaculture, rice, starch (cassava), feed milling (maize), peanut, tea, spices (chilli, pepper, cinnamon), fruits (citrus, longan, rambutan, lichee and mango) and nuts (cashew) offer the greatest potential for small / medium scale, labour intensive processing. Livestock slaughter, except for a few urban-based export abattoirs / canneries, will essentially remain as a backyard industry

in the next 10 years. Sugarcane will concentrate in areas where production and processing scale and high yield make it internationally competitive.

Commitments to AFTA and to eventual WTO accession will expand Vietnamese agriculture exposure to international prices and trade, however, with almost 50% of the value of agricultural production exported, Viet Nam is already strongly exposed to world market forces. Tariffs for most agricultural products are high, but it is difficult to judge if they are imposed to inhibit trade or raise revenue. In many cases products not produced in any significant quantity locally (eg. temperate stone fruits) or where the price / quality of imported product greatly exceeds domestic supply remain heavily protected. In the livestock sub-sector, the reduction of tariffs will reduce the high cost of animal feeds rendering the domestic industry more competitive. While imported meats will make some inroads on the domestic market, the growing price competitiveness of domestic livestock production and the strong domestic preference for indigenous livestock and warm meat will limit import interventions. One of the main industries that will be exposed to rationalisation is sugar. Here, however, some reform is desirable and there is reasonable evidence that sufficient sugar cane farmers with access to improved technology and supplying efficient mills could be internationally competitive. Given this scenario, it would be desirable that Viet Nam begins lowering its tariff protection sooner rather than later and describes at the outset an unambiguous, phased tariff reduction programme to AFTA levels, preferably well within the proscribed time.

Rural industry

As has been the case in the early and mid 1990's in Viet Nam, the major source of rural industrial growth through to2010, is expected to come from the expansion of domestic demand driven by increasing rural income, rather than through import substitution or export growth. Beyond this virtuous circle of agricultural growth and its backwards and forward linkages to small rural industrial and service enterprises, agro-processing and rural handicraft enterprises offer the best medium-term export-led industrial growth potential in provinces with agriculturally dominant economies.

At present, Viet Nam's agro-processing sector tends to be small scale, have low capital investment and use simple technology, yet it grew at more than 10% p.a. from 1990-1997, forms almost 9% of GDP and 37% of exports and has a demonstrated capability to attract foreign capital. Opportunities for agro-industrial processing vary between regions, but appear particularly strong in the aquaculture, starch, feed milling, peanut, tea and fruit and nut industries. It must, however, be emphasised that agro-industrial growth will not, in itself, address the employment needs of Viet Nam's rapidly expanding rural labour force and that the sub-sector is, despite past performance, is seriously constrained. The sub-sector is also dogged by an inter-linked pattern of constraints preventing higher agri-business growth including poorly managed, debt-encumbered SOEs; weak research and extension capacity; poor market information and vocational training; weak credit supply, the absence of freely associating industry organizations; low product quality and limits imposed on the number and activities of exporters.

As constraints are reduced or removed, capital and management skills accumulated, markets and marketing better understood, technology developed and efficiency improved, Viet Nam will be in a position to emulate the export-led rural industrialization strategies of its Asian neighbours. The benefit of such a strategy will not stop with the improved well being for rural households. It will also reduce rural-urban drift and the associated need to commit scarce public investment resources to inefficient use for expanded urban infrastructure.

Rural services

Agricultural research is severely constrained by institutional disarray, insufficient recurrent or capital funding and relatively low staff capacity and morale. The agricultural extension service is similarly constrained with the additional burden of insufficient proven and appropriate technology to extend to farmers and a lack of essential farm and financial management skills. An in-depth analysis of national research / extension policy and programmes is required. This would involve (i) the determination and prioritisation of research needs in the emerging market economy; (ii) the assessment of existing human and capital resources; (iii) the evaluation of regional agricultural knowledge and trends; (iv) the development and gazetting of sub-sectoral research master plans based on broadly perceived national goals and objectives; (v) the subsequent restructuring of the institutional framework of research to ensure assessed needs can be met, quality is monitored and controlled and clients participate in research management; (vi) managed staff redundancy and (vii) the development of financing systems that allocate the limited financial resource efficiently and recognize public and private benefit and cost. This process would likely result in the substantial diminishment of the agricultural research industry in Viet Nam. While international advice could usefully support the process, the possibility of financing the considerable cost of such a restructuring programme through asset sales (notably land), rather than international loan, should be explored.

While the need for incremental research is vast and returns to effective research often high, resources will be limited in the medium-term and should be concentrated on subjects likely to substantially improve productivity. Commodity cesses could significantly improve the funding scenario. Key technology constraints include:

- **The genetic resource base** of seeds and breeding animals in most crop and livestock production systems in Viet Nam lacks diversity and quality. Lack of local breeding work and of legislation to protect breeder's rights constrains production improvement.
- **Crop fertilisation** particularly of rice requires extensive research Developing countries have generally seen the marginal productivity of fertiliser decline sharply as levels of use have approached levels in developed countries. At the same time, the marginal productivity of fertiliser has been rising sharply in developed countries. This phenomenon is due to the low level of development of institutional structures for supporting increasing fertiliser efficiency.

- **Protein in animal feed** rations is low, restricting the growth of young animals and reducing reproductive performance. The present trade regime raises the cost of imported protein while domestic research pays only limited attention to the oilseed industry and efforts to introduce leguminous forage based farming systems have enjoyed little official support.
- S**ustainable rain-fed farming systems** that are diverse and include leguminous tree crops and forages are available, but need to be tested and applied widely, especially in upland areas.

Extension services are equally constrained by inadequate resources and capacity, but have shown the potential to respond to good training and organization. Core issues to be addressed with the extension service include (i) the division of public and private sector responsibility and cost recovery options; (ii) the availability of appropriate technology for a range of agro-ecological conditions; (iii) staff capacity, particularly in the financial and management arena; (iv) staff morale and commitment to participative processes; (v) appropriate staff function(s) - advisory, survey, regulatory, administrative, etc. (vi) the role of mass media vs direct extension; and (vii) the opportunity for more direct linkages between science and the farmer through participative technology development programmes. With the bulk of the existing extension resource both under employed and under skilled, these are critical issues that require address. Preferred solutions should lead to significant restructuring, and consider the possible abandonment of the service as it currently exists.

Participation and equity

Participation is a process in which stakeholders, particularly the most disadvantaged, influence and share in determining development initiatives and in making decisions about the allocation of resources that affect them. It is not just concerned with economic development, but is also a process of human or personal development. In Viet Nam officials and the rural poor tend to see participation in terms of mobilisation - a one-way means of communication from the top-down - with the rural poor taking part in programmes which are decided upon and organized by higher officials. The focus is very much on the role of the Government, paying insufficient attention to the equally important roles of the private sector and civil society. While the concept of *mobilisation* best describes the current conceptualisation of *participation* by many Vietnamese administrators, there are an increasing number of programmes in Viet Nam that demonstrate the economic and social advantages of participation and associated community and individual empowerment. Government's promulgation of the "grassroots democracy Law" also reflects the growing realization at national level of the role of the community in improving the transparency and efficiency of resource allocation.

Recognizing the rural concentration of poverty and the growing rural-urban income spread, Government is increasing the rural share of public investment with a view to raising agricultural productivity and facilitating rural industrialization. At present, these resources are mostly centrally allocated and reflect preferences for irrigation and

Box 5.2 Seamaul undong approach

The South Korean Seamaul Undong village development approach has been mooted as a model for participative development in Viet Nam. Some caution should be noted concerning the adoption of this approach, which had a wider agenda than participation, retained strong elements of central planning, included collective farming and was relatively ineffective in its attempt to use subsidies to decentralize industry. More appropriate models may be emerging in Viet Nam including inter alia, the UNCDF/AusAID sponsored community infrastructure model in Quang Nam province, the IFAD sponsored participative village management models being tested in Tuyen Quang and Quang Binh and through several NGO sponsored programs.

major rather than minor infrastructure projects, leaving little scope for community participation in resource allocation. In general, the economic efficiency and effectiveness of these investments will improve and rural living standards will rise more rapidly when a system is established which has increased capacity to:

- Use financial, environmental and social analyses to prepare and apply effective national policies for economic and social development and efficiently allocate State resources by sector and major infrastructure programmes;
- Decentralise detailed planning and implementation of rural development work to provincial and lower levels and monitor performance;
- Empower rural people through the use of participative methods for design, construction and operation of social service and provincial infrastructure programmes, including specific measures to ensure the active participation of women at all stages;
- Target community development activities to the most needy and environmentally and financially sustainable projects;

Participation also has family and gender dimensions. In addition to being disadvantaged in areas of education, health, employment and a public voice, Vietnamese women experience considerable intra-household inequality in areas of labour allocations, decision making and property rights. Women's inequality carries both social and economic costs. Whether at community or household level, the issue of participation will be best addressed through training and improved information flows. Participation is a learnt skill and involves training at both the administrative and grassroots levels in leadership, effective communication, social organization equity. To be implemented effectively, participation also requires equal access to information, particularly in relation to government programmes and the law.

Beyond 2010

Projections beyond a decade in the fields of agriculture and rural development move into the realms of fantasy. Who in Viet Nam in 1980 might have predicted its present status? While agriculturally led growth is projected to be the driving force of rural development in areas outside the influence of the three growth poles in the coming

decade, it is expected that cumulative investment in rural infrastructure, education and information will, by 2010, have precipitated a situation conducive to rapid rural industrialization. This process will be accelerated by the push for large-scale urban based industry to spread its production centres in the search for cheaper factors of production and by growing private sector social responsibility and philanthropic activity. Agriculture, while continuing to grow strongly, driven by rising domestic demand and the increasing competitiveness of its products on world markets, will, nonetheless, play a diminishing role both in the national GDP and in rural industry.

In the period 2010-2020, it is probable that industrial growth, combined with lower population growth will see a turning point in the agriculturally-dependent population, with an increasing number of families leaving the land, particularly in more remote and agriculturally marginal locations, to join the industrial workforce. If it is lucky and has invested wisely in rural infrastructure, this process of rural-urban drift should avoid the urban concentrations seen in many other emerging economies as the government would have exploited Viet Nam's long coastline, numerous ports and expanding regional road links to ensure the market-led emergence of a dispersed rural industrial base.

6. Goals and Objectives

Government's long-term goal centres around the improved welfare of the people and the modernization and industrialization of the country, through a development strategy that builds on four main principles:

- *Sustainability:* economic growth as the force for reducing poverty and fostering industrialization;
- *Stability*: political, social and economic
- *Equity*: based on a reasonable living standard and equal opportunity for all citizens
- *Participation*: with people and communities determining their own futures with government facilitation.

In pursuit of this goal and principles in the rural sector, Government must focus on a few key development objectives. These are summarised in Appendix 1 and include:

- **An unambiguous, time-bound economic reform programme** embracing the main factors of production - trade, banking, enterprise and land - and supporting rural institutions, with transitional social costs adequately funded through quick disbursing loans. Action supporting this objective must recognize that rural development is a subject, constituted by three spheres of which government is but one, in equal partnership with the economy and, that the community and, that the economic space between the farm and the market cannot and should not be dominated by the State;
- **The efficient and equitable allocation of public investment** by sector and region, using decentralized and participative decision making processes wherever possible. Action supporting this objective must recognize the rural sector's contribution to economic growth, the imperative of increased rural employment and the economic and social constraints imposed by existing weak rural infrastructure;
- **The promotion of private industry** at household and small enterprise level in rural towns and district centres to achieve more regionally balanced growth and productive employment in primarily domestic resource-based, labour intensive manufacturing and supporting services;
- **The comprehensive restructuring of the agricultural knowledge system** with a view to the cost-effective and timely development of technologies that efficiently generate high quality products acceptable to international markets. Action supporting this objective must recognize the potential role of the private sector in agricultural research management and dissemination and the role of the rural community in setting and partially financing the research agenda;
- **The pursuit of a civil society and the rule of law**. Action supporting this objective must recognize the creative nature of the rural smallholder, the equal status of women, the necessity of implementing the "Grassroots Democracy Law" and that of

building capacity at administrative and community level in support of participative development;

Strategic framework for rural development

These objectives will be achieved through a **strategic framework** for rural development, which should **be best viewed as a system or process** to support and guide development in rural areas. Rural development is a dynamic and continuous process and it requires dynamic and continuous support or guidance. A document setting down a rural development strategy should be regarded as an essential part of, but not the whole of, a framework for development. The document is important as it provides guidance to decision-makers but development will not occur until practical, continuing, effective systems for planning and implementation are in place.

Rural living standards in Viet Nam will rise more rapidly when a system is established which shifts power from the centre to provincial and district levels and local participants; from wealthier provinces / districts to poorer; from men towards women; from State enterprises towards private or cooperative marketers and has increased capacity to:

- Prepare and apply effective national policies for economic and social development and efficiently allocate State resources by sector and major infrastructure programmes;
- Decentralise detailed planning and implementation of rural development work to provincial and lower levels and monitor performance;
- Empower rural people through the use of participative methods for design, construction and operation of social service and provincial infrastructure programmes, including specific measures to ensure the active participation of women at all stages;
- Target community development activities to the most needy and environmentally and financially sustainable projects;
- Use prices and other market signals to allocate resources for economic activity, to increase efficiency and competitiveness and fund commerce through a strong commercial banking system, with reduced State directed investment and subsidy.

At the national level

Rural economic growth will depend mainly on the maintenance of equitable, open macro-policies, which are largely the responsibility of the National Government, and on external events. At national level MPI, MARD and Ministry of Finance (MOF) should work together to **revise State investment allocations** on the basis of financial, environmental and social analyses. The outcome of such analyses is likely to favour:

Investment

1. Expanded funding of rural infrastructure development, particularly rural roads, with a higher proportion of investment passing to provinces for detailed planning

under agreed guidelines, including participative approaches, specifically inclusive of women;

2. Major infrastructure projects, mainly water, being subject to closer scrutiny and prioritisation on objective criteria;

3. More emphasis on higher standard rural roads designed and managed at provincial level;

4. A strongly capitalised VBARD system, acting as a commercial bank not subject to direction or subsidy, less direct State investment in enterprises;

5. More regionally specific investment and policy programmes targeting poverty and local comparative advantage. E.g. livestock in North Mountains and North Central Coast and tree crops in the northern Central Highlands and the contraction of the sugar industry towards the Mekong Delta;

Policies

6. Continued liberalisation of trade policies which a deepening of current trends to open domestic and export markets to competition;

7. Closure or divestment of unprofitable State enterprises serving agriculture at national level and specific actions that will promote competition and efficiency in each market, whilst providing transitional relief to staff of uncompetitive enterprises;

8. Unequivocal support for private investment in export-oriented manufacturing, particularly domestic resource-based, labour intensive manufacturing and supporting services in rural towns;

National Services

9. Increased research in a reformed system, delivering better production and processing technology;

10. More cost effective technology transfer systems, probably making greater use of mass media and linkages to processing enterprises / firms;

11. Higher priority for forest land allocation and promotion of sustainable, community-based land management systems in the uplands.

12. Greater freedom to legally transfer agricultural land use rights and respond to markets by changing land use.

At the provincial and district level

One of the main development tasks of Governments at these levels is to enable rural people and their organizations to **prepare "bottom up" plans and activities** and to build seamless bridges between the national plans and those of local people. The main focus of

Government action at these levels should be on social services and infrastructure and the creation of a locally favourable environment for the growth of competitive businesses.

Institutions and Methods

1. Under the framework of the "Grassroots Democracy Law", devolve Government responsibility towards District and Commune level as training and capacity allow and revise and strengthen coordination methods in public administration;
2. Train staff in participatory techniques, economic, social and environmental analyses and use these techniques to work with local people to select projects and development activities;
3. Fund infrastructure and services with local taxes, plus an increased share of targeted national funds, available to implement "bottom up" plans provided national guidelines are met (on participation, gender, environment)
4. Monitor progress with rural people and feed monitoring conclusions into next design;

Infrastructure

5. Continue to equitise service companies for road and water construction and maintenance and increase cost recovery, except in poorest areas;
6. Use priorities established by participative methods to construct and maintain commune roads, irrigation, flood control and domestic water supplies;

Support Services

7. Provide technical and market information to farmers, processors and traders using a range of cost effective delivery systems. These may include public extension services (particularly in disadvantaged districts), mass media and private / commercial technical services - linked to, *inter alia,* rubber, cashew or coffee processors or seed, feed or other input suppliers;
8. Target primary & literacy education in poor districts via subsidies. Raise female participation through specific extra teacher bonus, textbook and other subsidy where female participation reaches targets. Expand teacher training for ethnic minority trainees and adapt curricula to better meet local needs. Increase vocational training for rural industry needs. At high levels emphasise marketing & management training.
9. In health, acknowledge the role of private curative services and further revise functions of Community Health Centres towards training / support for private services and preventive programmes. Improve coordination of vertical programmes in discussion with donors. Target all Government health services more accurately towards poorer districts and people. Make greater use of client participation in planning, implementing and monitoring health services;

10. Use cultural activities to enable, empower and inform local people and so stimulate the development process and maintenance of the physical and social fabric;
11. Deliver relief, especially after natural disasters, keeping in mind the need for long-term self-sustainability;

Market Competitiveness

12. Reform or equitise local SOE in a similar manner to that at national level and remove preferences or other measures which inhibit competition between enterprises and private firms at local level. Retain regulatory powers to prevent collusion and abuse of market power;
13. Provide local support for new cooperatives, including credit funds, and farmer associations, where joint action is likely to improve efficiency and the private sector is not providing fair and efficient service. Avoid unfair competition with small private suppliers and traders.

Amongst rural people

If rural development is to accelerate then rural people will have to play a more active role in the process than has typically occurred to date. This will require greater recognition of the their potential contribution (beyond labour) by Government and support to increase local skills and strengthen organizations. Additionally they will need yet more freedom to engage in economic activity in firms larger than the household.

Social and Cultural affairs

1. Increase rural leadership skills by training and practice to enable active participation in the development process;
2. Improve the effectiveness of mass organizations, cooperatives and informal groups by training, material support and recognition of their role;

Business and Commercial Activity

3. Create genuine opportunity for the growth of local private business by removing preference to enterprises, reducing licensing requirement and cost, increasing access to credit on commercial terms, encouraging alliances with larger firms and by supplying technical and market information;

Promoting enterprises, state and private

Efficient economic activity by people and firms is the basis of improved rural living in the long-term. Even the key social services depend ultimately on the transfer of funds from economic surpluses. Efficient, competitive business is difficult in the absence of clear market signals through prices.

1. Further reduce State direction and administrative allocation of resources for economic activity and allow markets and prices to drive commercial decisions - minimise price stabilisation activity. Fund economic expansion through a strong commercial banking and micro-credit system.
2. Regulate markets to minimise abuse of power and collusion and support wide dissemination of market information.
3. Expand marketing training at tertiary level and through short courses for executives and small firm entrepreneurs;

In addition to this redistribution of attention and resources some increase in the total level of expenditure on rural areas will be needed to narrow the growing wealth gap between urban and rural people.

7. Conclusion

The success that Viet Nam has enjoyed in terms of agricultural and urban industrial growth over the last decade, though remarkable, provide no scope for complacency in facing the challenges of the next decade, as the underlying factors of growth have deteriorated since early 1997. Reduced domestic savings and domestic and internationally financed investment, falling commodity prices and the lack of proactive macroeconomic and institutional reform all conspire against continued high growth. Government decision making, it appears, is driven more by the scale of the risk to State authority of inaction, than a commitment to market-led reform.

The steps government must take to re-invigorate the reform process have been clearly enunciated by the international development community and are perhaps best captured by a former Prime Minister's advice to the VCP, to have Viet Nam chart its own development course, but be prepared to adopt what is useful in other systems, promote the role of internationalisation and globalization in Viet Nam's future, find a role for state enterprises that is supportive rather than dominant, promote good governance, stop corruption and establish clear separation of State and Party functions.

In the next ten years, rural development will continue to be dependent on agricultural growth, as the basic conditions for broad-based rural industrialization do not yet exist in Viet Nam. Agro-industry development will help bridge this gap, however, rural employment will be more dependent on growth in domestic resource based household enterprise and the maturation of village-based handicraft industries in the medium-term.

Government will have to invest and reform wisely if it is to achieve its twin objectives of modernization and industrialization in the longer-term. This will necessarily involve greater government proactivism, Ministerial collaboration and devolution of responsibility than has previously been demonstrated in Viet Nam. The private sector must become a partner in the reform process, free to pursue opportunity on an even economic playing field, but able to access government support where justified. Government will also have to reduce its urban bias in public investment expenditure and ensure adequate resource flows to the agricultural knowledge system and to rural social services and infrastructure other than water.

Provided those reforms occur, Viet Nam can look forward to a more prosperous future, with the vision of an industrialized society realisable by 2020, however, there will be some serious medium-term rural employment constraints that neither continued strong agricultural growth or a nascent rural industrial sector can address. A substantial, labour-intensive rural public works programme may be the best strategy to address this challenging issue and thereby avoid the financial and human cost of excessive urban migration.

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Appendix

Framework for Rural Economic Development

Strategic Goal	*Verifiable Indicators (Performance Measures)*	*Risks (External Factors)*	*Risk Management (Objectives)*
To sustainably and equitably improve the well-being of the male and female rural population.	• employment in rural areas growing at not less than 6% per annum, mostly in the private sector;	• slow and erratic macro-economic reform and excessive bureaucracy constrain the efficient allocation of factors of production, reduce profits and erode business confidence; • limited business management skills and market information limits the emergence of rural entrepreneurs, particularly women; • insufficient public funding and inappropriate investment in rural infrastructure limits opportunity and raises costs for entrepreneurial activity in rural areas.	• set an unambiguous, time-bound medium-term macro-economic and institutional reform agenda with transitional social costs adequately funded through quick disbursing loans; • promote transition from household to small and medium enterprise and invest in vocational training and information technology in rural centers; • raise rural public investment allocations to a level that recognizes rural sector contribution to economic growth, the imperative of increased rural employment and the constraints imposed by existing weak rural infrastructure.
	• sustainable, 5% per annum improvement in agricultural productivity for key commodities; • convergence within the band-range of farm household income and between rural and urban incomes.	• under funding, institutional disarray, weak research prioritization and lack of protection of intellectual property rights constrains science and technology development and transfer. • agricultural growth is inequitable, reducing consumption-led growth in demand for local, labor-intensive manufactured goods;	• enable stakeholder prioritization of the research agenda, with the competitive allocation of a sufficient mix of public and private research funds to fewer, better resourced centers backed by international linkages and sound intellectual property rights legislation. • ensure equitable access for male and female agriculturists to the factors of production, including research outcomes.
	• comprehensive stakeholder participation in public resource allocations ;	• centrally planned and administered allocation processes prevail, irrespective of the political will, reducing efficiency and equity in the provision of rural infrastructure and social services.	• national commitment to the "Grassroots Democracy Law", monitoring of its implementation and development of an enabling environment through training in rural leadership and participative development for rural communities and provincial administrations respectively.

Framework for Rural Economic Development (Contd.)

PROJECT OBJECTIVES	***Indicators (Performance Measures)***	***Risks (External Factors)***	***Risk Management (Action Planning)***
An unambiguous, time-bound medium-term macro-economic and institutional reform agenda with transitional social costs adequately funded through quick disbursing loans;	• The equitization/privatization of SOEs is accelerated and expanded to include export-oriented General Corporations, with firm annual targets leading to completion by 2006;	• reduced government commitment to a reform agenda in an improving regional economic climate; • SOE management resistance to change; • perceived high social costs associated with the SOE equitization/privatization delays process; • conditionalities associated with AFTA and accession to the WTO expose an unreformed SOE sector to unassailable market pressure leading to trade tensions and the risk of financial collapse.	• donors provide the necessary expertise and financial resources to enable Government to commit to a time-bound SOE reform program, focusing initially on labor intensive, export oriented industries, with support at both the firm and sector levels; • better alignment of the interests of managers and the firm, particularly through real shareholders focused on profit; • strenuous efforts to prevent or remove unnecessary regulation; • the development of the private sector, particularly export-oriented rural SMEs, by facilitating private sector networking and association, providing skills, management and marketing training geared to local industry needs, investing in rural infrastructure and information technology, improving access to medium term-credit and technology, strengthening quality control processes and supporting export trade promotion; • piloting innovative new strategies on a medium scale in progressive provinces.
	• a time-bound agenda for trade reform is adopted including the progressive lifting of import restrictions, cessation of transitional tariffs, competitive allocation of export quotas and further liberalization of business trading rights.	• government delays trade reform seeking extensions to international trade commitments; • continued preferential distribution of export quota and use of transitional tariffs to support ailing SOEs; • increased government control of foreign exchange.	• unequivocal, time-bound public commitment to AFTA and WTO accession and accelerated negotiation of trade agreements with the USA and EU. • a clear shift in government policy away from support to capital intensive, import substitution industrialization to export oriented labor-intensive industrialization; • rigorous application of an acceptable legal framework in support of international trade; • continued liberalization of the state enterprise and banking sectors; • increased competitiveness of Vietnamese agriculture.

PROJECT OBJECTIVES	***Indicators (Performance Measures)***	***Risks (External Factors)***	***Risk Management (Action Planning)***
	• Government Ministries are downsized and responsibilities devolved, with a corresponding reduction in administrative process. Key institutions (Land Administration, Standards, etc) are established as independent national institutions.	• in the absence of a far-sighted VISION of future government in Viet Nam, public and private sector roles remain confused; • public sector management lacks the requisite skills in change management to efficiently pursue institutional reform; • insufficient financial rigor (or incentive) is applied to force the change process; • insufficient donor attention to institutional reform.	• clearly define public administration roles in a socialist-led market economy; • train public sector managers in change management; • shift Ministries to output-driven funding; • raise public sector salaries, reward performance and adequately fund short-term retrenchment and retraining costs; • shift the institutional reform discussion from Ministry to national level.
	• the banking sector is restructured and re-capitalized, prudential control is strengthened, management and staff are up-skilled and the market determines credit allocations	• ailing SOEs, unable to repay outstanding debt, attract further directed credit, creating fiscal instability; • banking sector reform are not strong or timely enough to rebuild confidence in the sector; • staff capacity does not grow to meet reform demands, reducing analysis and raising risk; • high delivery costs limit credit access for the smallholder farming sector.	• separate commercial and policy lending; • raise prudential control to international norms; • public commitment to a comprehensive, time-bound process of banking sector restructuring and policy reform, to be completed in a 2-3 year timeframe; • promote institutional twinning of state and private international banks on a competitive basis, with a view to eventual partial equitization; • promote commercial leasing companies, particularly for agro-industrial development, including possible absorption of start-up costs or co-financing of leasing operations; • further reform the land and mortgage laws, strengthening provisions for the use of land as collateral; • enable the People's Credit Fund network to better meet seasonal agricultural and rural SME micro-finance needs.
	• adequate funding is secured and systems established to support and retrain redundant state employees	• government is reluctant to borrow sufficient funds to finance transitional relief to staff of un-competitive enterprises or redundant public departments.	• the separation of transitional redundancy and retraining programs from the development of a more comprehensive social safety net and provision of sufficient, quick disbursing funding.

Framework for Rural Economic Development (Contd.)

PROJECT OBJECTIVES	***Indicators (Performance Measures)***	***Risks (External Factors)***	***Risk Management (Action Planning)***
Promote small and medium enterprise development and association into clusters and invest in vocational training and information technology in rural centers.	• SMEs registration increases, particularly in rural towns and district centers	• Entrepreneurs lack the management, technology and market knowledge to confidently establish SMEs;	• Support collaboration, including clustering, between SMEs where a basis for joint action exists; • business diagnostic services to establish SME needs and contacts with sources of support; • building links to regional and local higher education institutes to create technical and design courses and to promote entrepreneurship; • supporting initiatives that link SMEs to domestic and international markets.
	• Law on Associations is revised to match international norms;	• government concern that private sector empowerment will challenge political leadership;	• increased awareness amongst decision makers of the role of industry organizations in business development within ASEAN; • pilot development of broad-based associations in a few key export oriented industries.
	• Enterprise management and staff have access to management and vocational training, mostly through private institutions;	• over regulation and weak incentives limit the emergence of adequate and appropriate education services in rural areas	• the incorporation of vocational and management training into sectoral and regional development plans; • further liberalization of the private education sector including distance education programs; • promotion of twinning between national and international education institutions.
	• Competitive supply of internet and satellite-based information services in rural cities;	• state monopolization of information services continues, limiting information access and raising costs;	• Increased competitiveness in the delivery of telecommunications services.
	• Stakeholders play a larger role in the determination of research, educational and information services	• Poor understanding by public administrators of the role and mechanisms of participative development limits stakeholder involvement and service relevance;	• Training for public administrators in participative development.

Framework for Rural Economic Development (Contd.)

PROJECT OBJECTIVES	***Indicators (Performance Measures)***	***Risks (External Factors)***	***Risk Management (Action Planning)***
Raise budgetary allocations to a level that recognizes rural sector contribution to economic growth, the imperative of increased rural employment and the constraints imposed by existing weak rural infrastructure.	• a higher proportion of rural infrastructure investment passing to provinces for detailed planning under agreed guidelines, including participative approaches, specifically inclusive of women;	• weak provincial tax base limits local financing capacity. • public investment in rural infrastructure continues to be incommensurate with agricultural GDP and pressing rural unemployment; • government is unable or unwilling to devolve infrastructure planning to provinces and downwards to communities;	• pilot testing of devolved PIP allocation in a selection of well managed provinces; • donor support for the study and rationalization of Viet Nam's falling tax base. • International Financial Institution infrastructure funding focuses on rural areas and participative planning processes; • financial and economic analysis is increasingly applied to infrastructure investment options to demonstrate the cost of political choices;
	• Public investment focused on programs that produce broad-based rural growth	• Vested interests at national and provincial level channel investment toward narrow areas of opportunity or to capital intensive activities.	• Deeper economic analysis of investment choices; • Increased community participation in resource allocation.
	• major infrastructure projects, mainly water, being subject to closer scrutiny and prioritisation on objective criteria;	• national and provincial staff not provided with the extra skills and resources required to assess, plan and implement physical and social infrastructure at local level.	• continued donor funded training, including more on-the-job training using practical case studies, particularly at the provincial level; • more opportunities for formal education in economics and planning, particularly through distance education.
	• more emphasis on higher standard rural roads designed and managed at provincial level with continued investment in flood control, upland irrigation and water management within existing irrigation schemes.	• continued emphasis on new irrigation areas, mostly in lowland locations; • rural roads program pays insufficient attention to minor roads; • Insufficient community participation in investment prioritization favors the status quo.	• improved economic social and environmental assessment of investment options; • establish national guidelines for rural infrastructure development and train provincial staff in application; • implement the "Grassroots Democracy Law".
	• continue to equitise service companies for road and water construction and maintenance and increase cost recovery, except in poorest areas;	• equitization process slows with a return to relative economic prosperity; • lack of political commitment to cost-recovery processes; • resentment from already over-taxed rural community to cost-recovery and resource use charges.	• deeper analysis of the employment-creating potential of the private sector; • sufficient quick disbursing funding of the transitional costs of equitization; • increased stakeholder participation in local government through the "Grassroots Democracy Law" and awareness of "best practice" cost recovery strategies.

Framework for Rural Economic Development (Contd.)

PROJECT OBJECTIVES	***Indicators***	***Risks***	***Risk Management***
Stakeholder prioritization of the research agenda, with the competitive allocation of a sufficient mix of public and private research funds to fewer, better resourced centers backed by international linkages and sound intellectual property rights legislation.	• the number of research centers is significantly reduced and remaining centers corporatized;	• governments opts for a policy of attrition through under-funding of some centers and programs, delaying necessary reforms; • government concentrates research resources but leaves research prioritization in the scientific arena; • "Confucian" attitudes to science limit stakeholder participation.	• The development of a VISION for research management built on a textured understanding of "best practice" research management from developed and developing nations; • pilot testing of new participative research administration structure in a few leading research centers; • increased collaboration between national and international centers and scientists.
	• relevant industry associations participate in research center management and contribute to research funding;	• a weak law on association or lack of government commitment to independent and holistic industry associations; • constraints on industry levies to support research limit the effectiveness of industry participation; • inefficient use of research funding.	• promulgate new Law on Association and promote industry and sectoral associations; • use industry funding to support the recurrent cost of research, not salary or capital costs; • allocate funds through competitive processes.
	• internationally acceptable intellectual property rights legislation is passed and Government signs relevant international conventions;	• government unwilling or unable to promulgate or administer intellectual property rights legislation; • insufficient respect in the research community concerning intellectual property rights.	• Donor funding for the preparation of internationally acceptable property rights legislation and initial regulation; • The early funding of property rights regulation through self-financing mechanisms.
	• a needs-driven research agenda with resources allocated through competitive mechanisms;	• a failure to engage stakeholders in research prioritization, management and financing leads to less relevant research investments; • un-competitive resource allocations reduce returns to research investment and favor less competent centers and scientists;	• establish research master plans for key sectors; • separate private and public research benefit and concentrate government funding on the latter; • pilot competitive research resource allocations including a bias supporting inter-institutional collaboration
	• increased government funding for research to at least 1% of AGDP.	• government fails to appreciate the high returns to targeted and disciplined research;	• participative appraisal, monitoring and evaluation (PAME) of on-going research to demonstrate financial and social benefits; • effective transfer of international experience from sound research investment

Framework for Rural Economic Development (Contd.)

PROJECT OBJECTIVES	***Indicators (Performance Measures)***	***Risks (External Factors)***	***Risk Management (Action Planning)***
Equitable access for male and female agriculturists to the factors of production, including research outcomes.	• income gap between poor and wealthy rural households narrows by 30%;	• economic policies and administrative procedures lead to inequitable distribution of the factors of production relative to wealthy and poor households; • labor immobility prevents low income families moving to areas with higher growth potential; • minority communities, in particular, are increasingly disenfranchised from their land and basic social services.	• focus effort on removing barriers to poor men and women's access to the factors of production, rather than directing or subsidizing resources for their use; • develop policies for the management of rural-rural migration and, concurrently, for the protection of the rights of minority people and the environment. • Re-establish minority people's traditional land rights such that they can enjoy the associated income as a community, for use in the development of their basic social services and cultural activities.
	• income gap between rural and urban households narrows by 30%;	• government does not pursue an agriculturally-based rural development strategy; • public investment continues to favor urban areas;	• broaden policy maker's knowledge through the inspection of agriculturally-led rural development strategies in SE Asia; • pilot test agriculturally led growth strategies, particularly in provinces/regions where agricultural GDP as a percentage of total GDP is highest; • expanded donor support for the management and implementation of the 1715 most disadvantaged communes program; • subject to outcomes of further analytical work, allocate public investment in inverse proportion to wealth between and within provinces, targeting investments that best support poor men and women.
	• the gap between male and female welfare indicators is narrowed by 50%	• rural women continue to be economically constrained by administrative and social barriers to their access to social services, land, credit and knowledge; • women are over-worked and their work time is heavily fragmented;	• extensive trainer and in-service education in gender and development; • gender disagregation of future economic and social research; • gender-based assessment of new laws, decrees and regulations by competent gender professionals. • government investment in labor saving infrastructure and services; • family planning support.
		• women continue to be under-represented in political and social fora;	• policy of positive discrimination favoring women's participation in decision making bodies; • public meetings held at times that suit women's work schedules; • separate meetings for women when appropriate.

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PROJECT OBJECTIVES	***Indicators (Performance Measures)***	***Risks (External Factors)***	***Risk Management (Action Planning)***
National commitment to the "Grassroots Democracy Law", monitoring of its implementation and development of an enabling environment through training in rural leadership and participative development for rural communities and provincial administrations respectively.	• regulations governing the "Grassroots Democracy Law" are promulgated;	• participation is perceived as a process of listening and labor and capital mobilization, rather than one of personal development and self-motivation; • villagers tend to define their problems narrowly in terms of a lack of a government service, thus limiting the solutions that they see before them; • women are under-represented in public forums; • the poorest have the least human, financial and in-kind resources to contribute to participative activities or in taking risks or initiatives; • a lack of accountable mechanisms and transparency of processes, clear channels of representation and means of making complaints to ensure that the rights of each citizen are represented.	• Continuing strong support for participative development, backed by new regulations, at the national level; • Experience in Viet Nam with training public administrators in participative development has demonstrated that positive changes in attitude can be achieved through well structured courses; • Participation is a two-way process, rural leaders and communities also require training in leadership and participation; • Village communities, trained and structured for participative development, give an effective voice to the poor and disadvantaged, especially women; • The self-empowerment resulting from participative development challenges opaque bureaucracy.
	• enlargement and institutionalization of capacity for training in participative development;	• too few institutions are enabled and resourced to deliver a comprehensive training program in participative development; • trainers are mostly men and are not sensitive to gender issues;	• donors must invest in the training of trainers at specialized centers and the mainstreaming of participative development in tertiary education systems, using good local case studies; • the selection of participative development trainers should be gender neutral.
	comprehensive training programs in participative planning, equality and leadership prepared and widely accessible;	• insufficient depth and breadth of knowledge of participative development and rural leadership constrain the development of a comprehensive training program;	• donors must invest in the training of trainers at specialized centers. The MARD Colleges of Management offer one possible training resource center;

PROJECT OBJECTIVES	***Indicators (Performance Measures)***	***Risks (External Factors)***	***Risk Management (Action Planning)***
	• training programs for male and female provincial administrators and rural leaders widely implemented;	• people learn the process of participative development without changing attitude and behavior; • the gendered division of labor in Viet Nam and rural women's lower education levels limit their capacity to participate in training programs or resulting participative activities;	• responsibility for participative planning and rural leadership programs should be vested largely with the NGO community and community-based organizations; • the planning of participative development activities should be linked to gender disagregated socio-economic and time-use studies with programs linked to women's time availability.
	• male and female rural and industry leaders increasingly represented on a growing number of new public institution management boards and groups.	• The process of participative development is under-resourced and assigned unrealistic timeframes; • cultural attitudes, social expectations, stereotypes and roles placed on women prevail;	• change must take place slowly and systematically, giving sufficient time for communities and officials to fully grasp concepts; • women afforded equal opportunity to become trainers and community development workers and, in some instances, will meet separately from men.