

## Chapter4. Structural Change in the Rural Sector Under Doi Moi

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# CHAPTER 4

## Structural Change in the Rural Sector Under Doi Moi

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One of the priorities in the Vietnam's economic reform or Doi Moi (renovation) program which started in 1986, was agricultural reform aimed at increase in agricultural production. As for agricultural reforms, the Doi Moi program achieved an expected success. Above all, it bore fruit, especially in the sphere of ownership and cultivation of land through an approval of private cultivation of farmland from 1988 and the extension of the period fixed for rights to make use of farmland. These measures were conducive to stimulating many peasants to respond positively in increasing production and productivity. As a result, food production expanded dramatically. In 1988, it recorded 19.6 million tons, the highest in history. Since then, the record was renewed year after year. During the year 1993-1994, it increased by 500 thousand tons. And the food production finally reached its highest level of 26 million tons in 1994. Meanwhile, in 1989, Vietnam became the third biggest exporter of rice in the world, after Thailand and the United States. Until now, Vietnam has exported more than 1 million tons of rice every year successively. In 1994, Vietnam's export volume of rice reached 2 million tons. As of 1992, export value of food



**A lady who sells rice in An Giang Province. Price of standard rice is 2500 dong per kilo, and high grade one is 6000 dong.**

products was as much as US\$1 billion which came to occupy one third of Vietnam's total export value only after crude oil in terms of foreign currency earnings.

### **1. Vietnamese Agriculture in Light and Shadow**

The increase in agricultural food production contributes greatly to the stability of prices in Vietnam. It also brings about an increase in foreign currency revenue through export of agricultural products and thereby eases constraints on the international balance of payments. Finally, it turned out to be one of the positive factors for Vietnam's economic reforms. However, there are variations among peasants who are engaged in agricultural production depending upon their surrounding conditions. On the other hand, however, we cannot overlook the fact that more than 70% out of approximately 10 million farming households are still subsistence peasants, who are engaged in agricultural production mostly for their families' own consumption, or who often suffer from even a shortage of food. The peasant bracket engaged in producing agricultural products to be commercialized and exported is confined to rice-growing peasants living in the provincial areas of the Mekong Delta in the Southern part of Vietnam and the Red River Delta in the Northern part of Vietnam. The rest of the peasants are still separated from the outside market and the fact is that they still cannot ride the waves of a shift to a market-oriented economy.

In addition, overwhelmingly unprepared and poor infrastructures in the rural area have come to be recognized as constraints on the development of agriculture as well, and emerge as a big barrier to prevent it. As mentioned above, we observe complicated phenomena with progress and stagnation intermingled at the same time in today's agriculture of Vietnam.

## **2. Striking Disparity between the South and the North of Vietnam, and Impressive Development of the Two Big Delta Districts**

Vietnam's agriculture presents big regional disparities, both naturally and geographically. As far as food production is concerned, there are two breadbaskets in Vietnam: the Mekong Delta in the South and the Red River Delta in the North. The Red River Delta raises two rice crops a year, a typical temperate zone monsoon-type of agriculture, while the Mekong Delta provides a lot of arable land where peasants can raise three crops a year, a typical tropical zone monsoon type. By contrast, the Central part of Vietnam is scarce in arable land, and furthermore, suffers from a lot of natural disasters. Therefore, the area is not suitable for rice production.

The food production output in Vietnam in 1993 was 25.5 million tons, of which the Red River Delta accounts for 5.39 million tons (or 21%), while the Mekong Delta accounts for 11.2 million tons (or 44%). With these two delta areas combined, the food production output accounts for two thirds of the total output of Vietnam. As is shown in the above, the Mekong Delta occupies a dominant position in the food production of the whole country. One of the important realities conditioned by historical circumstance is that peasants in the South have already experienced market economy except for a short spell of time since the liberation and unification of Vietnam in 1975 while peasants in the North have been engaged in agricultural production as members of the agricultural cooperatives for a comparatively long time under the socialist system. This difference is clearly reflected in attitudes among peasants in the two regions. The peasants in the South, for example, are more sensitive and respond to market trends positively by raising cash crop and introducing new species, which results in higher profitability. Comparatively speaking, they have not so deep psychological attachment to the land they cultivate. Buyings and sellings of farmland or rights to cultivate them are a matter of daily practice now.

## **3. Suffering Majority of Farming Households: Stagnation and Low Productivity**

Meanwhile, a great majority of peasants have joined a "voluntary economic units" or "basic economic units." However, most of them are under disadvantageous conditions for agricultural production. They suffer a number of shortages, including a shortage of farmland, agricultural machines and implements, finance for living and production, cultivation know-how and skills, and means of approach to the market. As a consequence, peasants still remain within the framework of subsistence economy featuring low productivity and low merchandising rates. For example, in the Thai Binh Province, I came across peasants who were pulling a plow in place of an ox or buffalo to prepare a rice paddy for planting.

As for farmland problems, and average arable land area per peasant household is 1 to 1.5 hectares in the Mekong Delta while 0.3 to 0.5 hectare in the Red River Delta. Furthermore, in case of the Red River Delta, the farmland is dispersed in several places and, as a result, causes each farmland to be narrower. All these adverse factors form still negative conditions for the development of commercial agriculture.

## **4. New Difficulties for Subsistence Farmers**

Vietnamese peasants' dependence on rice production is still very tenacious. They believe that if only they grow rice, they will never miss out on the food. For instance, rice accounted for 90% of the total agricultural output in 1993 while miscellaneous cereals only 10%. Despite a remarkable increase in rice production during these years, however, farming households are polarized between the extremes of affluence and stark poverty. For the great majority of rice-growing peasants, that is, except for a handful of affluent peasants, new problems have arisen as a result of a series of bumper crops during these years. The good harvest has brought with it reductions in rice prices and price rises of inputs to be supplied, including

electricity, agricultural chemicals, insecticides, and fertilizers. Having been sandwiched between low prices for products and high prices for inputs, peasants are facing new problems: decline in income level and vulnerability of the management base.

According to my field survey conducted on economy of rice-growing peasants in An Giang Province, the Mekong Delta district, it was found that peasants obtain profits of only 400 to 500 dong in case they sell unhulled rice at 1,000 dong per kilo in terms of the producers' farm price. If they have a poor harvest, they face a severe situation of whether they will be able to make both ends meet or not. Under the circumstances, most of the rice-growing peasants are obliged to supplement their family budgets with side businesses such as poultry farming, stock farming, rice polishing, motorcycle repairs, rice wine making, and candy and beverage stores. This is a harsh side of their lives. Voices calling for the introduction of measures to support prices for rice are growing stronger day by day among the peasants whose agricultural management base has deteriorated. Meanwhile, the Vietnamese government encourages peasants to diversify farm products to break away from the monoculture of growing rice and increase the income of farming households. Yet these measures have not created sufficient conditions to stimulate positive responses of peasants in deciding on the crops they plant.



**Irrigation by 'gau song' (bucket with a long handle) in northern parts of Hai Phong**

## **5. Poor Agricultural Infrastructures**

As is generally recognized, the extreme shortage of infrastructure, such as roads, bridges and irrigation facilities, causes a great barrier to the development of the Vietnamese agriculture. An interesting example can be found in case of distribution of investment between agriculture and industry. In An Giang Province, the primary rice-growing area in Vietnam, curtailed the provincial expenditure and instead appropriated funds, which it managed to raise by demolishing deficit-laden SOEs, for farm villages and agricultural investment and loans to the provincial agricultural bank. Through agricultural investment during the past four years, the province succeeded in achieving an agricultural output of 1.75 million tons in 1992, or equal to the yield of 10.48 tons per one hectare (average on two crops per year), and 450 thousand tons of rice for export (or equal to US\$100 million or 23% of the total output of rice destined for export). In this way the province made a rapid economic progress.

## **6. Qualitative Change in Agricultural Cooperatives and Search for New Forms of Cooperation**

On implementation of "the resolution No. 10 on reform of agricultural management" by the politburo of the Communist Party of Vietnam in 1988, private management or private cultivation in agriculture was authorized. And thereby the functions and roles of agricultural cooperatives went through big changes and they were curtailed to service businesses such as sales of agricultural inputs and management of water for irrigation. Meanwhile, in the Mekong Delta in the South as well as in the Red River Delta in the North, peasants have come to develop a variety of cooperation forms or cooperative groups. The newly established cooperative forms carry out on cooperative basis purchase of agricultural inputs, such as farming implements, fertilizers, and insecticides, and organize cooperative work such as cultivation, sowing, insecticide spraying, construction of small irrigation facilities, introduction and spread of new skills and know-how, and cooperative loans from the production fund.

## **7. Stalemated Redundant Labor Force and Anticipation for New Rural Development**

The employment problem in the rural areas is getting increasingly serious. Redundant labor force in farming villages at present stands at 6 million to 7 million. As of 1993, 26% to 30% of the total population in the rural areas were out of work. As long as there is a limit to the absorbing capacity of the labor force demanded by industrialization in the urban area, it is essential to create jobs in the rural areas. The Vietnamese government decided on "the national integrated rural development programme 1992-1995." Through this programme, the government tries to create jobs by promoting rural development centering on the processing of agricultural, aquatic products and seafood. Under the present circumstances, however, problems involved with the development of rural areas are very much complicated if we take into account the necessary capital, skills, and means of approach to the market. Even in An Giang Province, we observe some peasants, who gave up farming, transferred rights to cultivate farmland to others, moved to other jobs and are now working as day laborers, sales agents for agricultural inputs, and selling beverage in tented stores.

## **8. Problems of Transfer Rights of Farmland Cultivation**

The principle of state ownership of land remains steady. However, buying and selling of right to cultivate farmland without right of ownership are usually practiced in the Mekong Delta in the South. In this case, such practice is based on the policy to the effect that "those who are efficient at the profession can do it." There are remarkable regional differences in the trends of transfer rights to cultivate farmland. According to my recent field survey, for example, such trends did not prevail at all in the Red River Delta district in the Northern part of Vietnam - Hai Phong City, Thai Binh Province, and Hai Hung Province. In reality, however, there are various demands among people such as an extension of the period fixed for rights to cultivate farmland, transfer, leasing out, inheriting, and

approving rights concerned with the mortgage of these rights mentioned above. In addition, there is a tendency even to raise ceiling on the land area which one farming household can lease. These trends show the fact that almost nothing is different from the private ownership of land. Furthermore, peasants in the South, who are engaged in producing agricultural products as commercial merchandise, seek further extension of the period fixed for rights to cultivate farmland, and an upward rise of the ceiling fixed for the farmland area under their cultivation. Reflecting such a move, there is a possibility, in the near future, for the introduction of private ownership system of land possibly in the first place concerning reclaimed land which is expected to contribute to an expansion of total farmland for Vietnam.

## **9. Expansion of Disparity between the Poor and the Rich : Breakdown of Peasant Bracket**

The Vietnam Communist Party and government introduced the market mechanism and approved an idea to the effect that "to become rich, it starts from those who are qualified to become rich." As for the foreseeable poverty problems, it is explained that the social policy is expected to solve them. The great majority of peasants are distressed by poverty, and the realities they face are seriously harsh. With the accumulated debts, lack of knowledge and skill required for agricultural management and other related problems, peasants, who have to sell their land, have no other alternatives but to lower themselves to become cheap farm hands. In case of a farming household with many children, farmland for cultivation becomes smaller because of land distribution among family members. Thus, it becomes impossible to make a living with income available from agriculture.

By contrast, there are aggressive farming households who were able to ride the waves of a shift to a market-oriented economy, and utilized their resources to succeed in fresh-water fish farming, selling fry, and growing rare tropical fruits, and finally made a profit of 15 million dong (equal to US\$1,500) per year. The Vietnamese government faces new challenges in coping with the expansion of multi-layered economic disparities existing between the

Southern and Northern part of Vietnam, between rural and urban areas, among cities, and among farm villages.

## **10. Directions and Challenges for Development of Vietnamese Agriculture**

In the development strategy and industrialization of the Vietnamese economy as a whole, it is still important to maintain the strategy that agriculture remains as a source of capital accumulation. The strategy Vietnam has adopted is to secure foreign exchange revenue by exporting crude oil and agricultural products and to ride the waves the transitional period for industrialization. It can be said that this strategy corresponds favorably to the realities which Vietnam faces, and for the time being, has to some extent been successful. Looking ahead, the following measures should be taken in preparing conditions to promote the building of infrastructure, expansion of arable land by means of reclamation (horizontal development), improvement of productivity (vertical development), and thereby to make agricultural economy break away from the state of subsistence farming level, increase surplus agricultural products which can be merchandised, and promote the marketing of these products.

### **Setup of Agricultural Financial Institution**

The fact that peasants suffer from a shortage of capital is causing serious problems. Since the massive collapse of the agricultural credit cooperatives in 1990 - as many as 7,000 in number, the Agriculture Bank of Vietnam (one of the state specified banks) has taken the place of them, and exclusively deals with agricultural credits. But the bank can only meet 20% of the country's demand of the total agricultural credit. As seen in An Giang Province in the Mekong Delta district, the bank provides loans preferentially to middle class peasants who are engaged in producing agricultural products as merchandise. In addition, peasants feel that they are overburdened in interest payments. And many peasants refrain from leasing loans for fear that they could not refund such a short-term

loan in six months. Furthermore, there are often practices of corruption involved with loans. Under these circumstances, many peasants have no other alternatives but to depend on usurers in leasing loans. Thus, pluralization of the agricultural financial institutions and financial programs based on long-term and low-interest loans should be introduced for the benefit of progressive peasants.

### **Processing Industry and Market Development**

Vietnam is far behind in processing technology of agricultural products and in the improvement of species. At present, the delay comes to have a negative effect on expansion of market. To deal with such a situation, it is necessary to introduce measures to provide incentives to government and private investment in the processing industry of agricultural products.

Another constraint is the fact that purchasing policy by state-owned enterprises (SOEs) is decided during the harvesting season. In addition, peasants have to be faced with delayed payments. Undoubtedly, these facts are indications of inadequacy of comprehensive measures for protection and nurturing of agriculture.

### **Conversion of Agricultural Economic Organization and Industrial Structure**

I have referred to qualitative change in the agricultural cooperatives in the above. Yet, the establishment of the agricultural cooperatives had its own historical inevitable reason to some extent. Initially, it is derived from the necessity on the part of peasants for cooperation in production, sales and their daily lives. New kinds of mutual support among cooperative organizations will be challenges to be addressed to in the future including relations between the private sector and the cooperatives. In addition to the aquatic field which achieved a remarkable progress, other tasks such as diversification of farm villages' industrial structure including forestry should be accomplished, taking into account a prospect of employment problems in rural areas.