



REFORMING VIETNAM'S RURAL ECONOMY

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This year it is predicted that Vietnam's economy will slump to a level not seen since 1999. As a result of this and factional in-fighting over this issue, on the 22nd of October Vietnam's Prime Minister Nguyen Tan Dung apologized for the government's "weakness" in managing the economy. It is thus important for both the government and advisory institutes to identify some of the factors for this slump and explore current and possible reforms. This policy brief looks at crucial reforms in the land and agriculture sectors that could boost the health of the economy.

While poverty rates continue to fall in Vietnam, concerns about sustainable growth and employment are becoming more prominent. After a strong process of industrialization, Vietnam's economy is now stiffening as local enterprises find credit harder to attain and many export manufacturing contracts move to cheaper countries such as Bangladesh. Much of the problem is attributed to the estimated 10 to 15 percent of bad loans in the banking systems. Many of these loans reside with state owned enterprises (SOEs) that have had, what many claim, preferable treatment in attaining capital. Approximately 30 percent of these enterprises closed in 2012. This has been coupled with high interest rates and weak banking regulation as well as growing competition in the Asian markets for, among others, manufacturing and textiles. These myriad factors have rattled foreign investment and the stability of the predominantly export-oriented economy. The growing debt and bankruptcy of many SOEs across the economy, including those in agriculture—such as Vinacafe Buon Ma Thuot, a coffee producer owing an estimate 100 million USD in debt—will undoubtedly effect jobs and livelihoods. The rural economy is of particular importance given that over 70 percent of the population still live in rural areas. Rejuvenating the health of the rural economy is thus important both for the wider stability of the economy and to accommodate unemployed workers in a tougher economic climate. As such, lessons from South Korea's rural renaissance could be applicable.

The Problems

The *Doi Moi*, or Renovation, reforms in Vietnam of the late 1980s were fundamental to poverty alleviation and increased agricultural production. The *Doi Moi* reforms and the subsequent land laws of the 1990s and in the early 2000s, established farms as the basic economic unit in Vietnam. Initially these were for a 10–15 year period. They were then extended to 20 years for annual crops and aquaculture, with a two hectare plot limit, and 50 years for perennial crops, with a 10–30 ha limit. Further reforms saw land-use certificates (LUCs) awarded and farmers were given the right to gift land to their relatives. This is often complicated, however, for households who receive just one LUC for several plots of land. It remains complicated and costly to transfer land-use rights (LURs) and the difficulties therein lead to illegal and opportunistic behavior. Estimates put the number of plots of land today at 75 to 100 million—on average seven or eight plots per household. The integrity of the communist government necessitates equitable distribution. Yet the large number of plots makes for inefficient production.

These issues, which beg reform in order to improve and increase production, put pressure on the health of the agricultural sector. Yet reform of the agricultural sector has at times been forgotten in favor of industrial growth. As the economy has developed, Vietnam has experienced a common shift from agriculture to industry. The agricultural



sector, as a proportion of GDP, declined from 40 percent in 1990 to approximately 21 percent in 2010, and is expected to decline further over the next decade. Meanwhile, according to a 2012 World Bank Report, the industrial sector has almost doubled its share in total GDP to 41 percent in 2010 from 23 percent in 1990. Migration has thus, in recent decades, pushed from rural areas to urban areas where most factories and jobs are located.

Job creation has been a key argument for new agro-industry developments. From the 1970s to the 1990s the Vietnamese population grew by an average of 1.2 million people annually with the majority living in rural areas. This increasingly young population created a labor surplus that continues to put pressure on the rural economy. Rural to urban migration has also been exacerbated by poor management of agricultural lands, as indicated by the above inefficiencies in the awarding of LUCs. Poor land tenure delineation and documentation as well as poorly implemented production technology has stunted growth. The forestry sector has been neglected as land tenure and land classifications in the sector remains fraught with difficulty, particularly in upland and mountainous areas. LUCs have consequently, been much slower to be issued in the sector.

Yet as demand for manufactured goods from Vietnamese factories staggers, and as many SOEs face bankruptcy, the sector as a whole requires restructuring. Those once pulled to the promise of higher wages in factories will likely be pushed back to rural areas or onto the streets of big cities, creating further problems and raising the potential for conflict. Rural reform therefore becomes an imperative in preventing an increase in poverty and the possibility of civil unrest.

Lionizing the Farmer: Saemaul Undong

South Korea faced a similar problem in the early 1970s. Between 1964 and 1970, growth in the non-agricultural sector ran as high as 14.5 percent, while growth in agriculture was a meager 2.8 percent, according to Bank of Korea figures. Similarly, in the same period, the farm population decreased by over one million farmers. From the 1964 base of 15.5 million, this figure would continue to decline and reached 12.8 million in 1976. The trend needed to be reversed. The implementation of Saemaul Undong, (SMU) or New Community Movement, offered this change and was implement-

ed in the early 1970s. It was successful in alleviating poverty in rural areas and, subsequently, narrowed the urban-rural divide.

The SMU reversed labor migration flows. The 1960s had seen a strong trend of migration from rural to urban areas. Rapid industrialization needed a labor force and the attraction for a young rural population was significant. There was a strong pull to urban, industrial environments, yet little incentive to move back to poor rural jobs. Notably, South Korea's strong centralized government meant that communities had to fall into line with the policy and land reform, regardless of the direct benefit to them. Through a government-run campaign the country was mobilized to champion rural development and lionize the role of the farmer in the state economy. As a result, South Korea avoided the great unrest witnessed by other Asian countries in the throes of development, and instead experienced land redistribution that was relatively conflict free.

Preventing Conflict through Reform

Vietnam can learn from South Korea's successful shift. Indeed, an acceleration of the country's rural development is necessary, and has been for some years. As Vietnam shifts from central planning to a market economy, this development needs to go hand in hand with strong agricultural reform.

The 2010–2020 *National Target Programme-New Rural Development* (NTP-NRD) and its relevant by-laws, currently being implemented albeit sluggishly, are intended to aid this development by promoting new rural criteria, community ownership, and a stronger, more supportive role for the state.² Currently, however, the program implementation is not moving fast enough. This is largely due to a tiny budget for the NTP-NRD of approximately US \$85 million suitable only for pilot programs in communes. Thus, balancing economic development and social pressures within rural areas and within rural populations continues to be difficult.

Revisions to the proposed land laws, which should come into effect next year, have been made and are a step in the right direction. The most significant of which is the proposed extension of LURs from 20 to 50 years for farmers. This reform has to be thoroughly carried through. Even then, LURs of 50 years are still too short a period for sustainable development. Longer LURs would provide incen-



tive for farmers and their families to develop their plots over time and improve land quality and production.

Despite this and as a result of sluggish reform, the chance of further conflict amongst rural populations on rural issues continues to grow. Contested land rights and different views on land-use planning continue to be the most prominent cause of conflict in land disputes in the developing world. Vietnam, despite often being seen as a strong and stable developing economy, is no different. Defining unclear land tenure is the simplest way to correct problems of land rights and resolve conflict. This also needs to be supported by relevant institutional frameworks, while avenues for arbitration, dispute and settlements are similarly important. A 2006 World Bank report stated that careful policy design in Vietnam is necessary to minimize risks in “surmounting conflicts”.

In Vietnam, which has one of the highest rural population densities in the world, effective and efficient rural management is an imperative for stability and growth. The government must address land tenure issues which would allow for the greater productivity and efficiency of the rural economy. Sufficient funding for such programs as the NTP-NRD needs to be made available. Rural development should be prioritized as a key issue for stability and growth. Lionizing the role of the farmer and championing

rural communities as pivotal to the health of the nation, i.e. changing attitudes, could go a long way in cushioning such change. In a period of economic slowdown in the country, effective rural reform will address many of the needs of the country’s large rural population while also providing for a strong and stable platform for the growth of the Vietnamese economy.

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