

Current status of the Vietnamese rural economy and measures for its vitalization and improving farmers' income

*Le Van To**

Post-Harvest Technology Centre (PHTC), 45 Dinh Tien Hoang Street, 1st District, Ho Chi Minh City, Vietnam

Abstract

Thanks to the renovation of policies in Vietnam, the rural economy has recently attained many positive achievements. From a country that had to import cereal food regularly, Vietnam has increasingly become one of the world's leading agricultural exporters of crops such as rice, coffee and cashew nuts. However, Vietnam is facing major challenges, such as falling world prices for agricultural products. The annual growth rate of Vietnamese agriculture has fallen from 6.88% in 1992 to 2.75% at the end of 2001, and the contribution of agriculture and fisheries to the gross domestic product (GDP) has dropped (33.94% in 1992 compared to 23.30% in 2001). Most of the Vietnamese population comprises rural households, 16% of which are living in poverty, according to 2001 statistics. The Vietnamese Government is determined and striving to improve the farmers' living standard, with the aim of decreasing the number of poor families by 50% by 2010.

THIS paper discusses the rural economy of Vietnam in terms of policies and measures, achievements and challenges, including linking of farmers to new markets, improving farmers' income and vitalizing the rural economy in Vietnam.

Current status of the agro-economy in Vietnam

THANKS to the renovation of policies and the development of sciences and technology applied to production, Vietnam has developed quickly, especially in agriculture. The growth rate of the gross domestic product (GDP) reached a high level, approximately 8–9%, from 1992 to 1997 (Table 1). However, from 1998, an economic downturn took effect in neighbouring countries and Vietnam suffered some of the consequences. Despite such difficulties, the Vietnamese economic growth rate has increased remarkably from 5.76% (1998) to 6.84% (2001).

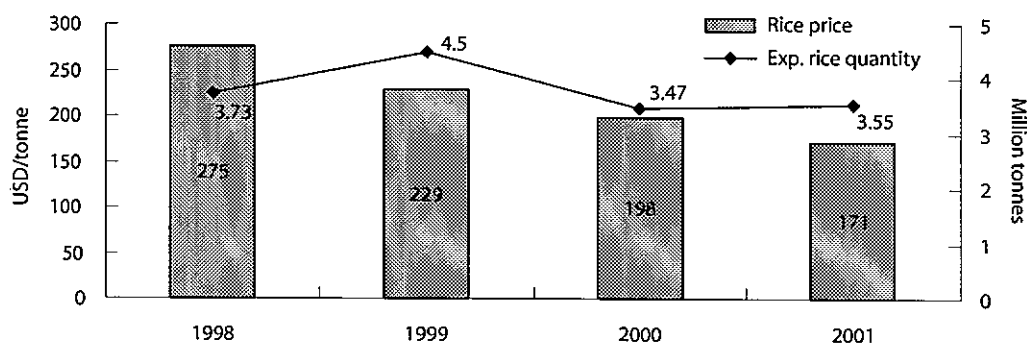
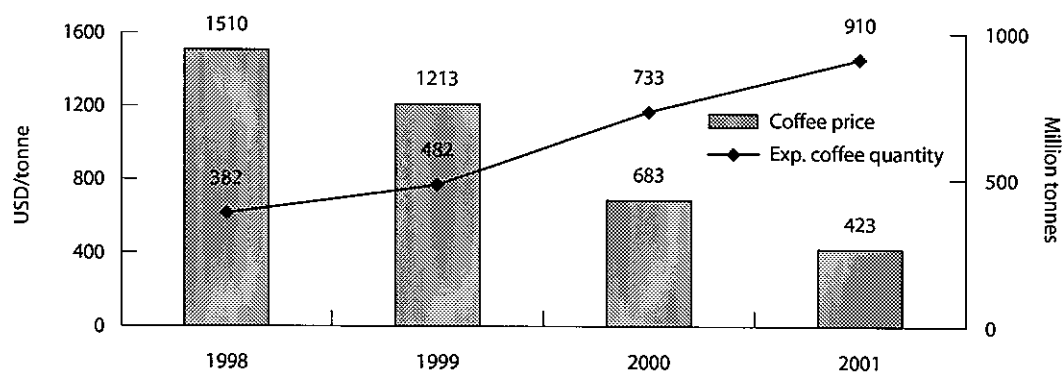
The economic structure has gradually shifted from an agricultural economy to a more industrial economy, including construction, services and industry. This has led to a fall in the contribution of agriculture-related sectors to the GDP (33.94% in 1992 down to 23.30% in 2001) (Table 1). Despite this 10% reduction, Vietnam is still considered to be an agricultural country, with a rather low living standard, especially for farmers, who account for over 70% of the total population. Agriculture still plays an important role in the development of the Vietnamese national economy, not only in ensuring adequate domestic food supply, but also in supplying produce for export. Through exports, agriculture makes a significant contribution of foreign currency to the national budget, as well as creating more jobs for agricultural households.

In previous decades, Vietnam was a rice importer. Now it has become one of the top agricultural exporting countries in the world. Major export items include white rice, Robusta coffee beans, cashew nuts etc. In recent years, the prices of these products have decreased (Figures 1–3). This fall has created many difficulties for Vietnamese farmers and, according to the 2001 statistics, 16% of households are living below the poverty line.

* Email address: <phtc@hcm.fpt.vn>.

Table 1. The growth rate and structure of Vietnam's gross domestic product (GDP), 1992–2001 (%)

Year	Growth rate				Structure			
	Average	Agriculture, aquaculture, forestry	Construction	Services	Agriculture, aquaculture, forestry	Construction	Services	Total
1992	8.70	6.88	12.79	7.58	33.94	27.26	38.80	100.00
1993	8.08	3.28	12.62	8.64	29.87	28.90	41.23	100.00
1994	8.83	3.37	13.39	9.56	27.43	28.87	43.70	100.00
1995	9.54	4.80	13.60	9.83	27.18	28.76	44.06	100.00
1996	9.34	4.40	14.46	8.80	27.76	29.73	42.51	100.00
1997	8.15	4.33	12.62	7.14	25.77	32.08	42.15	100.00
1998	5.76	3.53	8.33	5.08	25.78	32.49	41.73	100.00
1999	4.77	5.23	7.68	2.25	25.43	34.49	40.08	100.00
2000	6.75	4.04	10.07	5.57	24.30	36.61	39.09	100.00
2001	6.84	2.75	10.36	6.13	23.30	37.75	38.95	100.00

**Figure 1.** Vietnamese rice exports: quantity and price (5% broken), 1998–2001.**Figure 2.** Vietnamese coffee exports: quantity and price, 1998–2001.

Although the food production and export amounts have steadily increased, the growth rate of agriculture has decreased from 6.88% (1992) to 2.75% (2001) (Table 1).

Vietnam's 'hunger elimination and poverty reduction' program has been recognized as a successful model program. However, there is still a big gap between the rich and the poor, the urban and the rural population: 3.7 times at present, with the possibility of

increasing to 7 times in the next decade, if the Vietnamese Government does not undertake appropriate actions for supporting agriculture and rural development. A gradual shift of people from rural to urban areas has occurred, and the cities have become overcrowded. So, it is of vital importance for us to keep a balance in development. We cannot develop our economy without the impact of agriculture any more than we can live without fresh air.



Figure 3. Productivity and growth rate of grain production in Vietnam, 1996–2001.

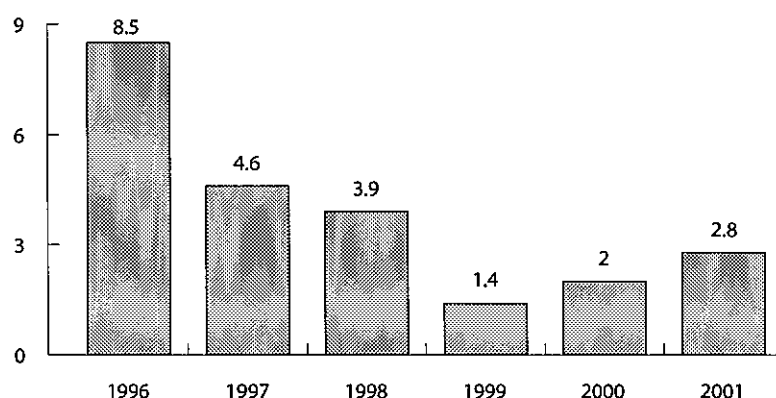


Figure 4. Foreign investment capital (USD billion) in Vietnam 1996–2001.

There was a sharp decrease in foreign investment in Vietnam from 1996 to 1999 (Figure 4). Despite a recent slight increase in foreign investment, investment in the rural sector is still at a low level.

Measures for increasing farmers' income

Improving farmers' living conditions and rural development using logical policies

Reinforced and increased rights under land-use laws

According to Vietnamese law, the government manages the total land area of Vietnamese territory. This arrangement limits the efficiency of agricultural production and labor productivity. In recent years, the Vietnamese Government has done its best to strengthen and increase rights of land use with the following achievements:

- Land exploitation rights for rural households, and even private enterprises, have been increased to 20–

30 years. The Acknowledgement of Land Exploitation in 1988 and new Land-Use Law in 1993 were major attempts to promote Vietnamese agriculture over the last 10 years as well as improving farmers' income.

- Farmers have received their Attestation for Land-Use Right, not only in the flat land, but also in the mountainous areas. Thus, farmers invest more capital in cultivation and get more benefits for themselves and society. Many bare hills and wasteland have now become forests and orchards thanks to the decree for a longer duration of land-use rights. This also aids more rational exploitation of land resources.

Crop diversification

Formerly, the targets of farming area exploitation and production output were managed by local government, and the Vietnamese Government was very strict about changes in the rice cultivation area, in order to avoid food shortages and price fluctuations, and to benefit consumers. With increasing globalization, however, the rice price is much more dependent on the

world market, not just on the domestic market. On the positive side, farmers have the potential to make a greater profit according to price fluctuations on the world market—with positive trends in the price, rice farmers' income will increase.

Formerly, farmers focused on rice crops because of food security. Nowadays, they may cultivate other crops and grow livestock from which they can obtain greater profits. However, this new policy is a two-edged sword which has shown both advantages and disadvantages. It has led to increased environmental damage in some cases. For example, many mangrove forests have been damaged to make shrimp culture pools and by lack of awareness of farmers in protecting forests.

Future directions

Generally speaking, our economists should draw up well-prepared plans and appropriate orientations for the rural economy. The government should instruct farmers to focus on other high-value produce apart from rice cultivation in order to minimize the effects of price fluctuations of rice and coffee on the world market on their incomes.

Rural credit

Formerly, rural support services (credit facilities from banks/financing institutions) were granted mainly to state enterprises in the public sector, such as sugar mills, food manufacturers and exporters. These facilities were far from the reach of most farmers and other private-sector enterprises, especially in agricultural and seafood production.

Nowadays, farmers can use their own land-use certificate to borrow funds from the banks, especially

the Bank of Agriculture and Rural Development. The Government Preferential Housing Policy is the government's newest attempt to support the people of the Mekong Delta to overcome the consequences of flooding by 2005 and achieve socioeconomic stability and sustainable development by 2010. This program enables Mekong Delta residents to receive an interest-free loan to buy a housing foundation. This decision was part of the systematic efforts of the Vietnamese Government to undertake socioeconomic reforms. Over 4.5 million people, almost a quarter of the dense population of the Mekong Delta, can benefit from this policy.

Encouraging private enterprise in local economic development and creating more jobs

Formerly, Vietnam had concentrated on a centrally focused economy without enhancing the private sector. Now, the rural economy, together with the urban economy, has been growing more dynamically and positively owing to the government's new policies. There have been many shifts in the renovation of economic structure from a 'self-supplying' economy to an 'open-door' economy. It has contributed to the creation of more jobs for jobless people and the abundant labor force available in rural areas. Table 2 shows the regular growth of enterprises in the agricultural sector during the last 5 years.

In spite of a significant downturn in many economic sectors, the gross industrial production came in above USD 11.52 billion in the first 8 months of 2002, a year-on-year increase of 14%. The non-state sector led the charge and grew by 19.2%, followed by the foreign-investment sector at 13.1% and the state-owned sector at 11.7%.

Table 2. The increasing number of enterprises in agricultural subsectors.

Subsector	1996	1997	1998	1999	2000	Average growth rate (%)
Vegetables and fruits	100	111	130	157	163	16
Fish	100	113	156	123	128	7
Rice processing (noodle, rice wafer etc.)	100	115	120	125	128	7
Bean processing (bean, pea etc.)	100	103	111	111	119	5
Tea	100	124	189	146	167	17
Rubber	100	94	96	95	104	1
Wood (furniture etc.)	100	112	120	131	145	11
Carpet, cotton	80	86	106	123	120	12
Seeds	100	121	121	121	168	17
Engineering	93	111	127	138	160	18
Total	98	112	128	131	145	12

Source: TA 3223 Agricultural and Industrial Survey

However, according to the survey results in Table 3, Vietnam should concentrate on completing and amending those policies such as law, terms of tax management, and the regulations on collateral in borrowing capital from the banks, and facilitate the issuing of trade licenses. Such measures would help both business and social development.

Table 3. Serious or regular problems encountered by people running businesses in Vietnam.

Nature of the problem	No. of businesses	%
Business license	13	8
Taxation law	50	31
Tax management	30	18
Contract and sale regulations	1	0.5
Land regulations and law	3	2
Land pricing	3	2
Construction development regulations	3	2
Export–import taxes/tariffs	2	1
Labor law and labor safety regulations	1	0.5
Health and hygiene regulations	6	4
Environmental regulations	6	4
Collateral regulations in borrowing capital	37	23
Other	7	4
Total	162	100

Source: TA 3223 Agricultural and industrial Survey

Technical measures to increase farmers' income

Improving postharvest technology, links between subsectors, and use of by-products

Losses and deterioration of produce can result from deficiencies in the capture or harvest of agricultural products and in the subsequent handling and processing systems. Postharvest losses in Vietnam are still at a high level, and hence postharvest technology needs improving to minimize such losses and deterioration.

Improvements in small processing and storage units and supply chain management for agricultural products can have significant economic impact by reducing losses, expanding market access and improving profitability for farmers. Vietnam has been successful in producing a range of processed foods, such as noodles, crackers, cakes etc., from rice starch and root crop starch. Such products have been profitable for farmers.

In addition, farmers make use of agricultural by-products, such as straw, rice husks, mash etc., for livestock feed and cultivation of fungi. Mobile rice-mills assist farmers in processing agricultural by-products.

Generally speaking, postharvest technology in Vietnam, especially in processing and storage at the rural level, has not been updated to a great extent, and this is recognized as a weak point.

Promoting the potential of specialty agricultural products

Vietnam should promote the potential of its local specialty products. Such products may act as the main driving force in the modification of cultivation structure, and can assist in competing with other countries in agro-trade, creating more jobs, and improving living standards.

Dragon fruit is an example of such a local Vietnamese product whose value is being increasingly recognized on an international level. Thanks to the new cultivation structure, dragon trees are now grown on a wide scale in Binh Thuan province. The dragon tree (*Cereus undatus*) used to be considered only as an ornamental plant, but both its local value and export potential have increased dramatically as the high nutritional value of its fruit has been recognized (Table 4). Dragon fruit is now having a major impact on eliminating hunger and decreasing poverty in Binh Thuan and other provinces.

Apart from dragon fruit, more attention in Vietnam is now being paid to the mulberry known locally as 'noni' (*Morinda citrifolia*) due to its beneficial properties, which have been long recognized, since the plant was discovered in French Polynesia thousands of years ago. Recently, scientists have shown that this amazing plant can help support the immune system, and assist hormones in coordinating bodily functions. Owing to its effects, the French have selected and processed noni from Vietnam for the international market.

In addition, neem (*Azadirachta* sp.) is being imported from Africa and grown in Vietnamese coastal areas. This tree is considered as a useful plant for a variety of purposes, including protecting soil from erosion and exhaustion

Modification of the structure of agro-production: diversification of products according to market demand

Combining rice-growing with the culture of aqua-products along the Mekong Delta has been much more profitable than growing three rice crops per year. Combining shrimp culture with growing mangrove forests along the coast can also produce high economic returns. Consequently, the ratio of aquaculture products in the total production of Vietnamese fisheries increased from 36% in 2000 to 42% in 2001 (see Table 5). In

northern Vietnam, it has proven profitable to convert some rice-growing areas to vegetables, orchards, or short-rotation industrial trees.

Table 4. Nutritional composition of dragon-fruit (per 100 g of edible portion).

Composition	Amount per 100 g of edible portion
Moisture	85.30%
Energy	67.70 kcal
Protein	1.10 g
Fat	0.57 g
Carbohydrate	11.20 g
Fiber	11.34 g
Calcium	10.20 mg
Phosphorus	27.50 mg
Magnesium	38.90 mg
Potassium	272.00 mg
Iron	3.37 mg
Sodium	8.90 mg
Zinc	0.35 mg
Sorbitol	32.70 mg
Glucose	5.90 mg
Fructose	3.20 mg
Ash	0.56 mg
Vitamin C	3.0 mg
Niacin	2.8 mg

To support such activities, farmers are educated and trained in a diverse range of agricultural techniques, including:

- afforestation
- farming fish in immersed cages beneath river-rafts
- breeding shrimp in water pools
- large-scale livestock breeding
- rice-growing combined with fish and duck breeding
- mangrove forest-growing combined with shrimp culture.

Table 5. Growth of aqua-products industries in Vietnam, 1980–2000.

Item	1980	1985	1990	1995	1998	1999	2000
Total production (× 1000 t)	559	808	979	1,344	1,668	1,827	2003
– Exploitation of sea-products	399	577	672	929	1,131	1,213	1,280
– Rearing and growing	160	231	307	415	537	612	723
Export turnover (USD million)	11	90	205	550	859	917	1,470
Aquaculture area (×1000 ha)	230	365	492	576	626	630	652
Processing installations (number)	12	–	102	168	204	230	265

Source: Yearly Report 2000, Ministry of Fisheries

Human resources and matching products to markets

THE income gap between rural and urban people in Vietnam is steadily increasing. In response to this trend, Vietnam has offered a solution: the development of resources and the matching of products to markets. To this end, many business centers have been set up where farmers can display and sell their products as well as learn technology step-by-step. In addition, the Post-Harvest Technology Institute and Post-Harvest Technology Centre, Ho Chi Minh City, are well equipped to provide training in many provinces about storage and processing of a diverse range of agricultural products.

Vietnam has implemented a form of mutual support agreement that supports technology development, material supply to cultivators, and buying of farmers' products. For example, the way that farmers buy common shares from sugar factories and supply raw materials to sugar factories is a good example of a responsible *selling agreement* in which farmers supply materials to multinational factories in their integration process. This creates a sound link between farmers and enterprises.

With the amendment of rural policies and economic–technological methods, Vietnam can help 300,000 families overcome poverty every year. From 1996–2000, secondary school education became compulsory for Vietnamese teenagers.

Conclusions

THANKS to the renovation of policies, agricultural production in Vietnam has developed well, and food security has been steady for the nearly 80 million people of the country. In spite of this, in an effort to join the world economy, Vietnam should focus on the following aspects of agriculture:

- formulate adequate policies to ensure the efficiency of production, improve living standards and limit deforestation—including mangrove forests while

developing aquaculture—and other environment destruction

- apply suitable technical measures to combine forestry, agriculture, fishery and animal breeding to reduce postharvest losses and improve farmers' income
- develop new products based on local bioresources, e.g. health foods, organic products, functional foods and other traditional foods.

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