

REAPING LONG-TERM GAINS FROM VIETNAM'S LAND REFORMS

Agriculture in Vietnam is in need of flexibility, efficiency, modernisation and innovation.

By Pham Chi Lan

The economic growth and development that has taken place in Vietnam over the last three decades has been quite remarkable and has helped lift the nation out of extreme poverty. The country's GDP has grown by 7.4 percent on average between 1990 and 2014, one of the highest in the region.¹ And these high rates of economic growth have been accompanied by greater growth stability (refer to Figure 1).

Much of Vietnam's development can be accredited to Doi Moi, the economic reforms that were started in 1986 with

the goal of creating a socialist-oriented market economy. The population has benefited from gains in labour productivity as the economy has gradually shifted from being centrally planned towards a market-oriented economy that focused on trade and economic freedom. Foreign trade, market-based exchange rates, new trading rights and the implementation of tariffs and taxation are just a few of the economic reforms that have liberalised the economy and helped the development of Vietnam.

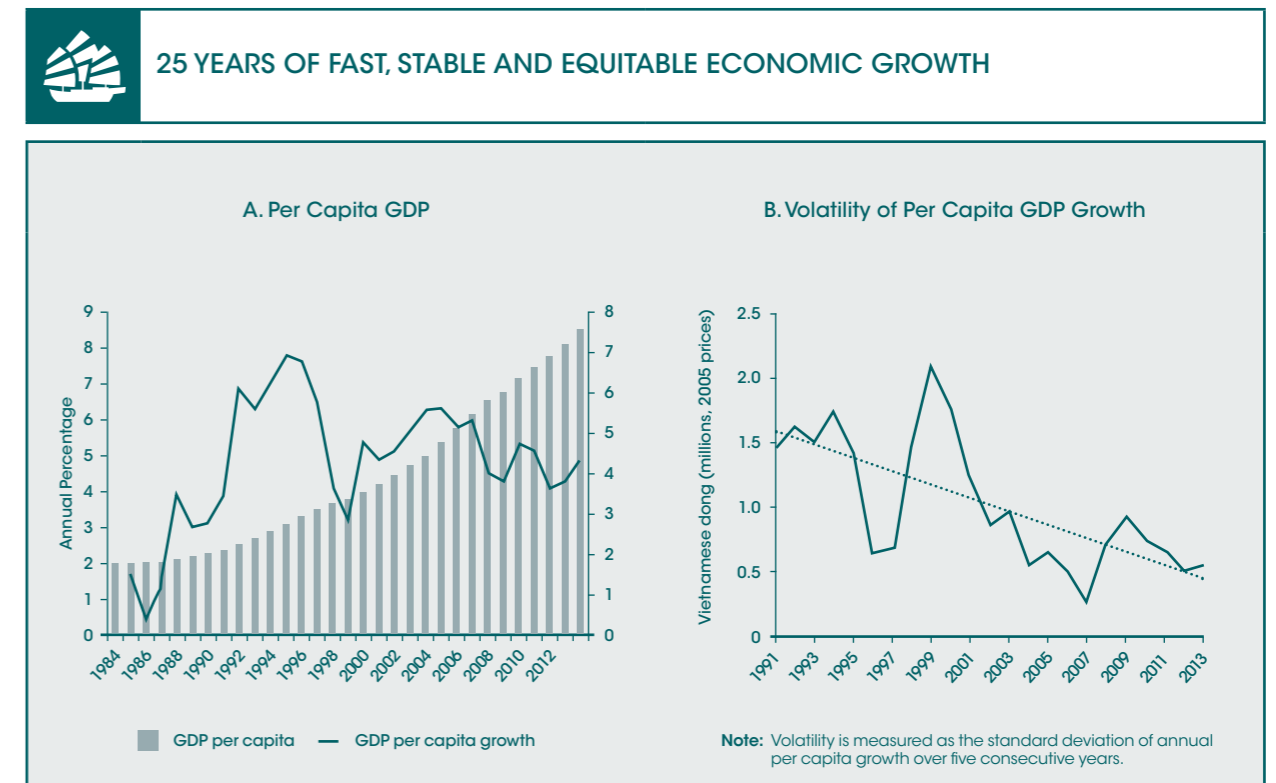


FIGURE 1

Source: The World Bank (2016)

Doi Moi

All reforms in Vietnam started with agriculture. At the start of Doi Moi, 90 percent of Vietnam's population lived in rural areas and depended on agriculture for a living. This segment has traditionally held a lot of importance for the economy. Prior to Doi Moi, the socialist government heavily controlled and regulated the agricultural sector as farmers used to work in cooperatives on pieces of government-owned land. Farmers did not have long-term job security and often had no incentive to work hard or perform well, as each member of the worker cooperative was paid the same daily wage that did not reflect their contribution to total output.

Despite being a primarily agrarian economy, agriculture was lagging behind in output and productivity, and had not created equitable wealth in the country. It was clear that the output and productivity that was required in agriculture could not be achieved under the central planning of the socialist government.

As early as the 1960s, Kim Ngoc, chief of party in Vinh Phuc province, initiated agrarian reforms in his province, which were the precursor to broader, nationwide agricultural reforms. From 1966, cooperative members in the province were allowed to work on their rice fields allotted to individual households and, after selling a fixed quantity to the government, these farmers could use the remainder for their own consumption or to sell in the market. Despite constraints such as the absence of a fully-functioning free market for commodities and farm-to-market infrastructure, the lives of the farmers in Vinh Phuc changed radically in just one year.

Other provinces like Hai Phong learnt from Vinh Phuc's experience and tried to apply these lessons in their own areas. Initially, the Party's leaders did not welcome the idea. But they slowly came to accept the benefits of the new system for the farmers, for the people and for the economy. The Sixth Congress Party accepted the ensuing reforms in agriculture in 1986. And with the introduction of Doi Moi, cooperatives were disbanded in practice and households were allowed to work on individual pieces of land.

Following decollectivisation, from 1993, land use rights were improved. The new Land Law enacted in 1993 gave households a 15-year lease and a limited opportunity to buy and sell land. This gave farmers some long-term security and an incentive to invest in their land. Official quotas on domestic trade of certain crops were lifted and steps were taken to introduce market-based pricing, which gave farmers freedom and opportunity that they did not have before.

As a result, productivity and output in agriculture soared to levels never attained before, which provided the much-

needed fillip to the whole economy and stimulated demand for other goods and services. From a net importer of food grain, Vietnam became an exporter of rice with the first one million tonnes of rice exported in 1989. Agriculture, forestry and fishery grew at a stable 3.7 percent from 1984 to 2014 and exports from these sectors jumped dramatically from US\$0.5 billion in 1986 to US\$30.9 billion in 2014.²

Reforms for the future

Despite the growth of urban centres and the natural focus towards industrialisation, agriculture is still the largest economic sector in Vietnam and continues to be an area of comparative advantage for the country. In 2014, 70 percent of the population was living in rural areas and 50 percent of the workforce was engaged in agriculture.³

Whilst the agrarian reforms played an important role in reviving the agricultural sector and bringing about economic growth, agriculture in Vietnam today is faced with a new set of challenges. Low-cost, labour-intensive agriculture has helped Vietnam progress in the past 30 years but with fierce international competition, a host of free trade agreements, fluctuating commodity prices, changing climate and weather patterns, rural-urban migration, and shifting domestic demand, the agricultural sector needs to adapt and evolve. Vietnam is at the cusp of change and another round of agrarian reforms is imminent and necessary.

Presently, agricultural value added per worker in Vietnam is growing at one of the slowest rates in the region and is signalling for a transition in the agricultural sector (refer to Figure 2). A mere 6 percent of total state investment went into agriculture between 2005 and 2010.⁴ This percentage is much lower than the contribution of agriculture to national GDP.

The government has a different role to play now: It needs to allow market forces to guide the development of the agricultural sector while also regulating and ensuring smooth and sustainable growth and employment for the population. The manner in which the government addresses the current issues will determine the success of the sector—and of the economy—in the future. With the support of government policy, Vietnam's agriculture must move towards flexibility, efficiency, modernisation and innovation.

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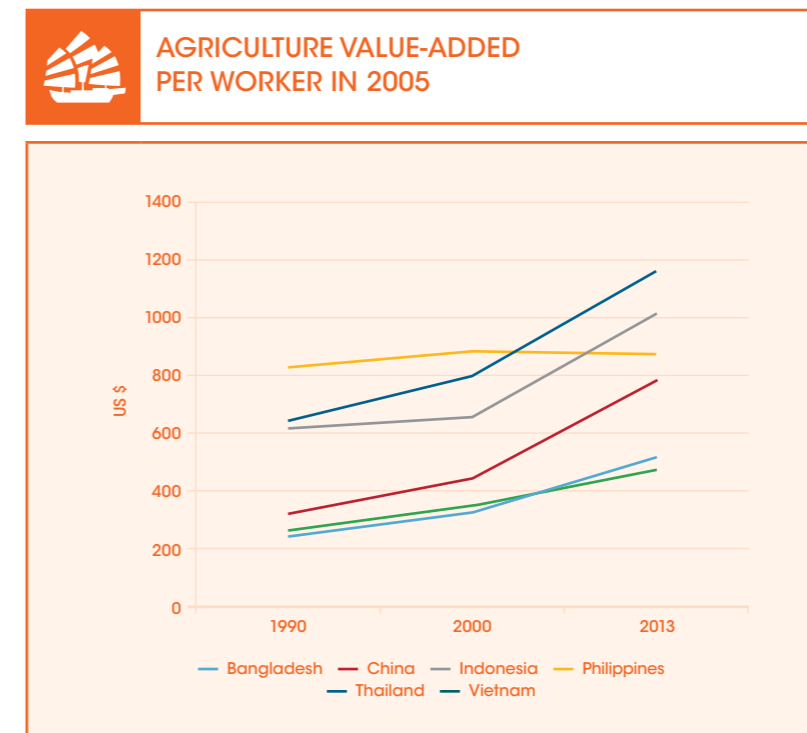


FIGURE 2

Source: *A Retrospective on Past 30 Years of Development in Vietnam (2015)*

LAND OWNERSHIP

Land continues to be under the sole ownership of the state. When I was a member of the Prime Minister's Research Commission, we made a proposal for a multi-ownership model for land in 2003 and then again in 2012 when Vietnam prepared to revise the Land Law and the Constitution. The move to complete private ownership was ambitious, so we suggested a system that included private ownership for land used by farmers and businesses, and community ownership of land for public uses such as churches, pagodas, schools and parks, etc., as well as state ownership for land used for infrastructure and the state sector. However, the proposal did not go through as the key top leaders preferred to reserve the right to land ownership for the state.

While farmers can now get land leases for up to 50 years, there is always a danger that the government can take back the land use rights at any time in the name of 'social economic development'. Left with very little recourse and a lot of uncertainty, this reinforces the farmers' lack of motivation to make investments and improvements on the land.

The absence of formal or free land markets makes it difficult to correctly value the price of land. Also, at any time, the government can take land from the farmers, pay them a paltry sum as compensation, consolidate the small plots into a single piece of land, and sell it to a new investor, industrialist or even a sought-after foreign direct investor. Overnight, the new owners of the large piece of land can sell the land at great multiples of the price paid to the farmers. Over the years, land ownership has come to be concentrated in the hands of a few rich persons. If we look at the rich list in Vietnam today, most have gained their wealth largely through real estate as compared to any other industry. In essence, they have become rich at the cost of the poor, because when farmers lose their land, current and future generations lose their means of survival.

FARM SIZE

Decollectivisation has also led to fragmentation of farmland that is, more often than not, unproductive. The small, individual plots of land made it difficult to justify investing in modern techniques as it substantially raises the average cost of cultivation. The current limit by the Land Law is set at 3 hectares per farmer. The average farm size in Vietnam is 2.4 hectares (as opposed to say, 540 hectares in the United States), making it inefficient to mechanise, invest in irrigation and other technologies, or even to develop farm-to-market infrastructure such as warehouses and transportation. As a result, agriculture remains backward and productivity remains low.

The inefficient and ambiguous land policies have meant that there has been just 1.8 percent growth in output per hectare between 1997 and 2012, one of the lowest in the region.⁵ This has

forced many farmers to move out of the rural areas in search of alternate means of livelihood. The land allocated to these migrating households is often left uncultivated. The inability to repurpose/consolidate unutilised pieces of land due to strict monitoring by the government results in a poor allocation of resources. Investment is lacking due to inefficient scale and thus, output and productivity is sub-optimal.

As Vietnam develops further, a large proportion of the rural population will move to urban areas, which makes it all the more important that the farmers who stay have access to larger plots of land with more long-term security and flexibility of use. This will serve to keep them on the farm as the increased scale would potentially offer them a decent, sustainable income. In addition, the nation's supply of primary exports can be stabilised rather than being allowed to fluctuate too low due to inefficient allocation processes.

LAND USE PATTERN

To date, Vietnam has relied heavily on rice production to feed its population. It is therefore understandable that government policies needed to focus on rice production, and investments, however meagre, were centred on this crop. Although rice was the staple diet and the crop was in high demand when the country was poorer, things have now changed. Currently Vietnam's rice production is more than adequate to feed its population, with almost a quarter being sold for exports.⁶

With economic growth, the population is wealthier now, and with the opening up of the economy, they are more exposed to international culture. Thus, the Vietnamese are reducing their rice consumption and moving towards a more diversified diet including vegetables and seafood. Hence rice

no longer provides food security for the population in Vietnam.

Furthermore, with irregular and unpredictable weather patterns and prospective climate changes, Vietnam may have to look for other crops that can grow in varied conditions and do not require large amounts of water and land. Rising temperatures and sea levels pose challenges to the agricultural sector and hence having a flexible land use policy and supporting a range of crops will be of utmost importance. During the monsoon season, when the water supply is stable, rice is the most appropriate crop to grow. However, at other times of the year, it is worth exploring the cultivation of other crops that command a higher value and require less water.

With water supplies declining in the Mekong Delta and other regions, and the heightening risk of climate change, Vietnamese farmers must look to other crops that will need less water and command a good price in international markets. Vietnam's expanding aquaculture, coffee, rubber and cashew industries have more economic potential than rice and hence farmers would be better off switching to these crops where possible. Multinationals like Cargill are now showing interest in Vietnam to source cocoa for companies such as Mondelez and Nestlé. Not only can Vietnam seize the opportunity to be a key supplier to these fast moving consumer goods companies, it can also benefit from the modern technology they will bring to farming and food processing.

In summary, with changing consumption patterns, the need to optimise water usage, likely climate change, and the opportunity to produce and export cash crops, it is time for farmers to look to other crops. To do this, they need the backing of the government. Vietnam continues to

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devote about 80 percent of total crop area to rice production whereas in China, a more developed nation with similar geography, only around 25 percent of crop area is used for rice production (refer to Figure 3). The Vietnamese government controls which crops can be grown on certain pieces of land with little heed to appropriateness or profitability.

Modernising and investing in agriculture

According to the United Nation's Food and Agriculture Organization, Vietnam is among the 20 countries in the world that has the potential to develop agriculture as one of the key sectors in the economy.⁷ Vietnam should leverage this advantage as competition from other developing countries in other industries becomes equally, if not more intense.

First, an efficient land market will have to be introduced so that pieces of land can be priced according to market forces and local demand. With land markets working efficiently, land consolidation will be able to take place more easily, which will result in larger plots of land under common ownership. In conjunction with longer and more stable land leases, this should provide farmers with long-term security and hence they will be more likely to invest in their land.



POLICY FOCUS AND INVESTMENT IN RICE PRODUCTION: VIETNAM AND CHINA

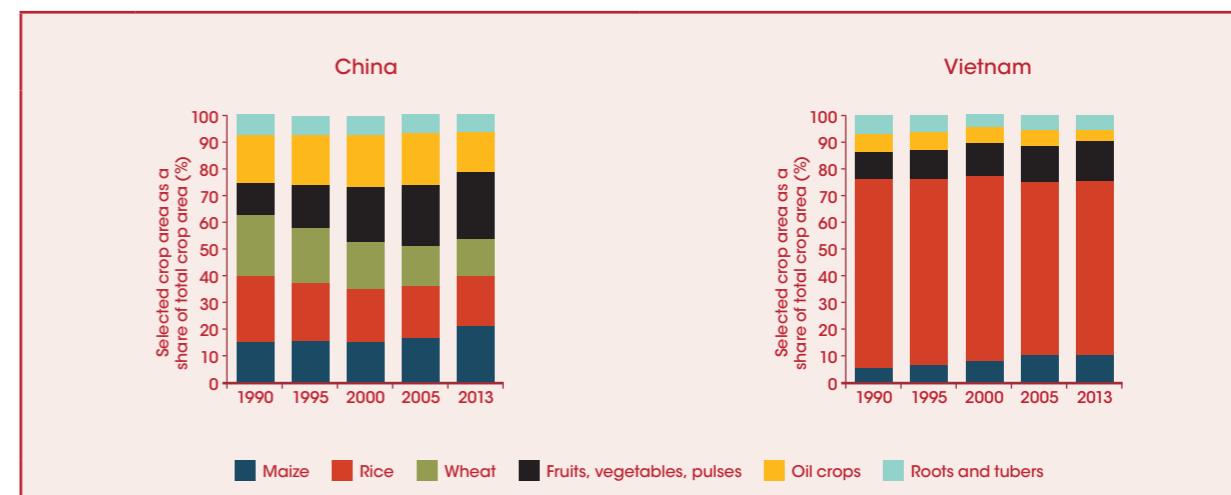


FIGURE 3

Source: The World Bank (2016)

Second, land ownership limits at 3 hectares per farmer need to be removed to improve productivity and ensure that limited agricultural land is not wasted. In this way, productive farmers will have access to more land and inefficient farmers can sell their land for a reasonable price and find other means of income.

Third, the government has a major role to play in facilitating the modernisation of the sector and can start by investing in research and development, infrastructure, and irrigation systems that would all help improve productivity. New production methods and research on profitable crops would help farmers survive in the face of growing competition and changing climate patterns.

Fourth, while direct investment has its place, the government also needs to promote private investment. Public-private partnerships would help bring the much-needed resources into agriculture and could provide much larger amounts of investment than the government alone.

Fifth, Vietnamese farmers often find their opportunities in global markets constrained due to the growing safety and quality standards of food, which are often not met in the Vietnamese market. Managing food quality standards through regulations and public policy would allow for more trade with foreign markets, something that hasn't been too successful in the past.

Finally, while the government is pushing to implement computerised systems to closely monitor agricultural investments and land transactions, much more will have to be done to adapt the agricultural sector in the 21st century.

Market reforms produced short-term gains in agriculture, but it is really the land reforms that will help Vietnam truly leverage its agricultural power. By combining improved infrastructure and better connectivity with urban areas, the rural areas of Vietnam could develop and prosper without the need for farmers to move to urban areas in search of employment. We need the involvement of the private

sector and new investors. We also need better technology and new science to be applied to agriculture—all towards welcoming a new era of Vietnamese development in the long-run.

Pham Chi Lan

was advisor to the Prime Ministers of Vietnam (1996-2006) and is currently an independent economic researcher

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