

A COUNTRY REPORT THE IMPACT OF AFTA ON VIETNAM ECONOMY AND SMALL SCALE PRODUCERS



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THE IMPACT OF AFTA ON VIETNAM ECONOMY AND SMALL SCALE PRODUCERS

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ABBREVIATIONS

ASEAN	Association of South East Asian Nation
AFTA	Asian Free Trade Areas
CEPT	Common Effective Preferential Tariff Scheme
CAEV	Centre of Agricultural Extension Volunteers
GDP	Gross Domestic product
GEI	General Exclusion List
IL	Inclusion List
MFN	Most Favoured Nation
MoT	Ministry of Trade
MARD	Ministry of Agriculture and Rural Development
FDI	Foreign Direct Investment
SL	Sensitive list
TEL	Temporary Exclusion List
VAT	Value-added Tax
VFU	Vietnam Farmer Union
VWU	Vietnam Women Union
WTO	World Trade Organisation

Executive Summary

The ASEAN Free Trade Area (AFTA) in Vietnam

Asian Free Trade Area (AFTA) has been existing for 10 years. It has been contributing a lot for trading activities and cooperation among ASEAN countries and international market. It encourages an open market at both regional and global scale. In recent years, developments of world trade, infrastructure upgrade with a focus on transportation, and booming information technology have facilitated trade liberalization process and economic transition.

Vietnam is a developing country with around 70% of farmers living on agricultural production sector. Vietnam has been carrying out many programs with the efforts to renew and improve its economy. Vietnam has gained initial significant achievements, especially in poverty alleviation and rural development. Vietnam officially joined ASEAN on 28 July 1995. Vietnam has put a lot of efforts in attempting to establish a free trade area of ASEAN (AFTA). It is also the first regional economic cooperation Vietnam took part since renovation “Doi moi” time.

Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA): 10 years implementation time frame starting on January 1, 2000; phasing in products the Temporary Exclusion List (TEL) in Five equal installments beginning on January 1, 2003 and completing on January 1, 2007 and ending at the tariff rates of 0%-5% by January 1, 2010; phasing in agriculture products which are temporarily excluded on January 1, 2004 and completing on January 1, 2010 at 0%-5%; phasing in sensitive agriculture products beginning from January 1, 2008 but not later than January 1, 2010 and ending on January 1, 2017 at rate 0%-5%; maximizing the number of its tariff lines with tariffs between 0-5% by 2007 and expand the number of tariff lines in the 0% category by 2010; and submitting the various products lists for the CEPT scheme to ASEAN by June 30, 1999.

ASEAN framework Agreement on Services: according unconditionally from the date of accession to the Agreement to services and service suppliers of any other ASEAN Member State treatment no less favorable than that it accords to like services and service suppliers of any other country, exceptions to the above could be given up to the year 2005 provided the measures favoring certain countries have been in existence before the accession.

Framework Agreement on the ASEAN Investment Area: having up to five years after its accession to the Agreement to maintain existing measures that are inconsistent with the Agreement with regard to opening up of industries and according to nation treatment to ASEAN investors. Phasing out all items on the TEL by no later than 2010 for ASEAN investors.

Vietnam and the AFTA

During the time of realization and integration process of AFTA in Vietnam, AFTA has brought both positive and negative impacts on Vietnam’s economy. With the specific characteristics of agricultural country like Vietnam, small agricultural producers inevitably will be affected by both direct and indirect impacts. It is therefore very necessary to study on the impacts of AFTA on these small agricultural producers.

Therefore, we conducted the research to assess the impacts of AFTA on small agricultural producers in Vietnam. Because of limited budget and time, we studied 250 small agricultural producers' households in 4 main economic regions of Vietnam. They are small rice, corn, and coffee and cashew nut producers in Red River Delta, Mekong River Delta, North East South, and Central Highland.

The objectives of the research are to assess the impacts (both positive and negative effects) of AFTA on small agricultural producers, in particular on small rice, corn, coffee and cashew producers in Vietnam. Then provide recommendations to address and mitigate its negative impact and enhance its positive impact, especially on rice and priority – based commodities such as coffee and corn, livestock, vegetables and to promote fair trade in Vietnam as well as in the region.

Challenges Faced by Vietnam

• *Problems of Small-scale Farmers*

a) Problem by crops:

The implementation of AFTA commitments has led to market expansion and trade liberalisation, which will boost intra-ASEAN flows of capital, labour and technology. This will help Vietnam and other member states to speed up the transformation of their production structure. Vietnam is trying to make use of its cheap labour resources and apply appropriate technologies in agricultural production. Vietnam's main strategies are to expand production in sectors with a heavy labour and natural resources content, such as textiles, garments, handicraft and processing of agricultural products. However, Vietnam faces difficulties at the early stage of international economic integration, especially its small-scale farmers. The main problems the farmers face are:

- **High production expenses:** 16 per cent of small producers said one of their difficulties now is the increase in production cost, especially high expenses on hybrid seeds, chemical fertilizers, and pesticides. In some households, income from crops is not enough to cover expenses.
- **Limited government support:** This is a major problem cited by coffee producers. Changes in coffee prices over the past few years have resulted in unstable income for small coffee producers. The government's coffee-related trade policies are geared towards further liberalisation but Vietnamese coffee has to compete with coffee from Brazil, Colombia, Indonesia and Guatemala. While coffee production is mainly in developing countries, coffee consumption is mainly in developed countries such as the United States, Japan and EU nations. The Central Highlands is the main coffee area in Vietnam but most coffee producers there are very poor and have limited knowledge. They need technical and financial support as well as market information. Some 22.9 per cent of coffee producers interviewed during the survey said that one of their difficulties is limited support from government. They need an appropriate plan and strategy for production and marketing, including selection of high quality varieties, good processing techniques, competitive prices and assessment of demand and taste.
- **Limited sources of production capital:** Farmers, especially the poorer ones, need capital for production. Though they can access loans from state banks and cooperatives, the sources of funds are still limited. Generally, 54 per cent of small producers said one of their main problems is limited capital. The loan application

procedure is still complicated. The problem of limited sources of capital is serious for every crop: 49.5 per cent of rice producers, 39.6 per cent of coffee producers, 60.9 per cent of cashew producers, and 70.5 per cent of corn producers face similar difficulties.

- **Other problems:** Some of the important concerns of small producers include low prices (6.2 per cent of rice producers, 6.5 per cent of cashew producers and 6.3 per cent of coffee producers have been facing with this problem), debts and inaccessible post harvest activities.

b. The Credit Market and Indebtedness among Small-scale farmers

The survey revealed that 58.3 per cent of these small agricultural producers borrow from relatives, friends, banks and other financial institutions. With liberalisation and accession to AFTA, more advanced techniques and technology are brought to Vietnam. This pushes up production costs and demand for capital.

c. State Policies and Programmes for Agriculture and Small-scale Farmers

On state support for small agricultural producers, 83.8 per cent of the farmers said they get support from the government (see Table 14), including special credit programme (14.8 per cent), training (21 per cent) and marketing (19.8 per cent). However, small farmers expect more support from the government, especially for marketing, credit programmes and agricultural extension services. The forms of government support expected by farmers are marketing (19.9 per cent of responses), agricultural extension services (15.3 per cent), subsidised trainings (10.8 per cent), subsidised credit (13.1 per cent) and implementation and strengthening of land reform and rural development (6.9 per cent).

d. Awareness of Respondents on AFTA

Generally, 54 per cent of the small farmers said they know or have heard about AFTA. These farmers are mostly in the Mekong River Delta and Red River Delta where the residents generally have attained certain education and have more access to information from the mass media. They learnt about AFTA from different sources: radio (32.4 per cent), television (47.5 per cent), newspapers (9.4 per cent), from fellow farmers (5.7 per cent) and government (2.5 per cent). Radio and television are two of the most effective media through which small farmers learnt of AFTA. There are still many farmers (46 per cent) who do not know anything about AFTA and its impact on them. These people are mainly in the Central Highlands. They are very poor and are from low educational background. It is very important to increase farmers' awareness of AFTA and WTO and their impact on them. Many farmers (33.8 per cent) have seen the word AFTA but 28.3 per cent have no idea how they could benefit from AFTA. Only 18.7 per cent of the farmers believe AFTA will create more market for their products.

e. Gender Issues in Agriculture and Trade

The survey and FGD on gender and trade in research areas revealed that the men often perform the tasks of harvesting, applying fertilizer and spraying pesticide while women do the weeding and clearing the straw. The men also perform the heavy tasks such as carrying and weighing the products while the women are responsible for collecting money. Men often play a very important role in making household decisions. However, women also contribute in these decisions. Conditioned by traditional and customs, women do most of the housework like cooking, washing and taking care of the children. In terms of land access, both women and men have land rights. Women can have their names in red books or land use certificates just as men. Some families have many plots of land. Husbands, wives and children can become landowners with their names in red books of land use certificates.

Recommendations

- Given its strengths, opportunities and weaknesses, both government and farmers should consider the following to improve the living standard of small agricultural producers in Vietnam.
- Because of limited land sources, farmers should concentrate on quality crops and animals which give high yields in a sustainable way. Organic methods as well as safe products should be prioritised in strategic rural agricultural development. Moreover, supportive policies for raising product quality and seeking new markets and business partners should be implemented.
- Investment policies should be reformed so that products and sectors with a high comparative advantage are prioritised, increasing investment in potential and export-promoted products. Vietnam should encourage production of goods for exports and consumer goods for domestic consumption, in order to decrease imports of necessities. It is important that reforms are deepened and strengthened continuously. Liberalisation and the “open door” policies should be further implemented so as to boost the competitiveness of Vietnam’s products and economy.
- Focus needs to be on the modernisation and industrialisation of agriculture. The government should support farmers more in post-harvest processing as well as in marketing agricultural products. High priority should be given to transfer advanced technologies for the production and processing of agricultural products to add more value.
- Strengthen management and implement effectively the “target programme of government” on safe water and environment to improve sanitation condition for the people, especially those living in rural and isolated areas.
- Government promulgates more efficiently a wide range of policies. A tighter and more effective collaboration between state organisations and private corporations should be established to provide the latter with better information on technology, products, markets and international standards.
- Strengthen credit and saving programmes to meet demand for production capital from farmers, based on mobilisation of internal resources, support of international projects and special loan programmes of government.
- Provide more training for farmers, especially on advanced agriculture production techniques, sustainable agricultural development, saving and credit, marketing and household economic management, and gender equality and equity.
- Develop off-farm activities such as handicraft and small trading to diversify income sources for farmers and create employment for rural people in the off-seasonal period.
- Strengthen farmers’ knowledge of AFTA so that they can develop appropriate strategic plans for production as well as to market and sell their products. This can be done through short training sessions or the mass media.

Chapter 1

INTRODUCTION

1.1. Rationale for the Study / Statement of problem

AFTA was officially agreed upon in 1992 under a favourable regional and global environment. Vietnam, still an agricultural country, had to identify clearly and balance possible advantages and difficulties it might have to cope with during the realisation of AFTA. However, researchers from institutions such as the Hanoi Agricultural University, Ministry of Agriculture and Rural Development (MARD), Ministry of Finance and the Ministry of Commerce (Vo Thi Thanh Loc, 2001; Dao Chau Thu 2003, Nguyen Sinh Cuc, 2004) viewed that it would be advantageous for Vietnam to be part of AFTA. This is because of the active *Doi moi* policy, market-based economy orientation, and strong government support for diversification and intensification of external economic relations.

Although it was a crisis period for socialist countries from 1990-1991, Vietnam quickly responded to the situation and continued its efforts to develop its economy and alleviate poverty. The GDP of Vietnam increased continuously from 1990 to 1995 and was relatively high compared to other countries in the region (a growth rate of 9 per cent in 1995 compared to an average growth rate of 5.2 to 8.9 per cent for ASEAN). From 1985 to 1995, the rate of Vietnamese exports was also higher than that of other ASEAN members (32 per cent per year compared to 29 per cent for others). The Vietnamese government has been providing a supportive administrative environment to meet AFTA commitments. In 1996, Vietnam placed 857 items on the Inclusion List (IL) of CEPT. Among the more than 3,000 items in the IL, 52 per cent of these have tariffs of 0-5 per cent, meeting the standards of the CEPT Agreement. This percentage is high compared to other ASEAN members at the beginning state of the implementation of AFTA: 9 per cent for Indonesia, 27 per cent for Thailand and 32 per cent for the Philippines. In addition, Vietnam has considerably eliminated quota restrictions on exports and imports. Therefore, Vietnam is seen as relatively highly open market in the region. Together with new open policies, Vietnam has established an AFTA Unit at the Ministry of Finance. It is a very important organisation as it facilitates Vietnam on the way of joining AFTA and developing trading relations with ASEAN members and other countries in the world.

In terms of performance, Vietnam regularly submitted annual lists for tariff reductions to the ASEAN Secretariat and promulgated Inclusion List that would be applied. The 1995 Inclusion List which would be applied in 1996, comprised 857 items. In July 1997, Vietnam submitted its Inclusion List, Temporary Exclusion List (TEL), General Exception List (GEL) and Sensitive List (SL). The IL included 1,478 items, of which 621 were new items. The number of items for tariff reduction under CEPT in the IL had increased continuously from 1,615 items in 1998 to 3,590 items in 1999 and 4,230 items in 2000. On June 6, 2001, the government issued Decree 28/2001/ND-CP promulgating CEPT of Vietnam to be applicable to goods imported from ASEAN countries for 2001. The 2001 CEPT List covers about 5,500 taxable items and related tax rates ranging from zero to 20 per cent. This decree was effective retroactively from Jan 1, 2001.

According to experts and government officers (Nguyen Sinh Cuc, 2004; Le Dang Doanh, 2004; Dang Kim Son, 2004, and Duc Phat 2004), 2003 is a critical year for AFTA integration

as Vietnam has to bring most temporarily excluded goods into the Inclusion List, and immediately remove quota restrictions on imports from ASEAN. By 2006, Vietnam is supposed to cut its import tariffs on 10,150 items identified in its 2003-2006 CEPT/AFTA Tariff List to fewer than 5 per cent, with 60 per cent to be subject to a tax rate of zero per cent. Moreover, during the realisation of AFTA over the last few years, Vietnam has instituted macroeconomic reforms in the hope of earning benefits from trade liberalisation and integration. Vietnam is aware of both the negative and positive impacts of AFTA on its economy. In order to enhance positive impact and minimise negative effects, Vietnam has concentrated on the establishment of a proper institutional environment to protect property rights of enterprises, speed up the “equitation” of state-owned enterprises to enhance activity efficiency, and strengthen the private sector – an important player in the market economy.

Learning from the experiences of other developing countries, Vietnam has undertaken tax reforms via reducing taxes on production and raising taxes on consumption and income. New forms of taxes like value-added tax (VAT) and corporate income tax have also been initiated. It has gained initial significant achievements in trade liberation and international cooperation as well as increase of revenues, especially from the exports of agricultural and fishery products, garments and shoe products.

After 10 years, has AFTA been good for Vietnam’s economy in general and its small producers in particular? Has it significantly stimulated Vietnam’s trade with ASEAN and other countries outside the region? Has it contributed to the improvement of its investment environment and enhance the competitiveness of its industrial, agricultural and service sector? Has it brought prosperity to Vietnam? Has it brought more positive impacts or negative impacts, especially to the small Vietnamese producers? It is questionable.

Therefore, this research focused on the impacts of AFTA on small agricultural producers in Vietnam. Because of limited budget and time, we studied 250 small agricultural producers’ households in four main economic regions of Vietnam. They are small rice, corn, and coffee and cashew nut producers in Red River Delta, Mekong River Delta, North East South, and Central Highland.



1.2. Objectives

The objectives of the research are to assess the impacts (both positive and negative effects) of AFTA on small agricultural producers, in particular on small rice, corn, coffee and cashew producers in Vietnam. It also aims to provide recommendations to address and mitigate its negative impact and enhance its positive impact, especially on rice and priority commodities such as coffee and corn, livestock and vegetables, and to promote fair trade in Vietnam as well as in the region.

1.3. Limitations of the Study

Although the project was carried out in four different economic regions and covered four main crops, it still had some limitations:

- The research covered only small producers in selected commodities. It concentrated only on farmer households having three hectares and below. Farmers with bigger farms were not included. Because of limited budget, the research covered only 250 farm households. These samples may not be large enough to capture the situation fully.
- The gathering of information from some minorities in central highland is limited sometimes due to language barrier.
- The various sources of secondary data (the same indicators, but different values) created difficulties in the selection of good data about macro performance.
- Vietnam joined AFTA only in 1995 and applied CEPT in 1996 with certain items in Inclusion List. Therefore, AFTA is still a new concept for farmers in Vietnam, especially in remote and isolated areas. It is still early to assess fully the impact of AFTA on small agricultural producers as well as Vietnam's economy. Therefore, this is an exploratory study on the impact of AFTA on small agricultural producers in Vietnam.



Chapter 2

AGRICULTURE, TRADE AND INVESTMENTS

2.1 Macro-economic Performance

a. Review and Analysis of GDP Performance

The passage of Decree “100-CT/TW” by the central committee of Vietnam’s Communist Party on implementing the mode of contracting final products to individuals or groups of labourers in agricultural production sectors in 1981 was a starting point of transformation. The Vietnamese government has been continuously promulgating new policies and providing better policy environment for attracting foreign investments and trading cooperation.

The seventh party congress endorsed the 1991-2000 strategy for socio-economic stabilisation and development. The ninth congress is to evaluate the implementation of that strategy for socio-economic development in the first decade of the 21st century – strategy for accelerated industrialisation and modernisation along socialist line, laying the foundation for the country to become an industrialised economy in 2020.

After nearly 10 years of transformation, Vietnam’s economy has undergone positive changes. In the early 1990s, however, the economy had not come out of the socio-economic crisis, which could be attributed to several factors. The socialist regime in the Soviet Union and Eastern Europe had broken down; the United States continued its blockade and embargo against Vietnam; the country was affected by regional financial economic crisis as well as its many areas were damaged by consecutive natural calamities. Despite difficulties and acute challenges, Vietnam has achieved significant socio-economic development. The living standard of the people has improved considerably. Production relations have experienced changes, better corresponding to the development level of the productive forces and promoting the formation of socialist-oriented market economy.

The state played a leading role in the economy. The collective economic sector has undergone changes and developed diverse new models. The economy was changed from collective to market oriented socialism types. For the first time in history, the household is seen as an independent economic unit. The household economies have exerted a very important effect on agriculture because they can decide themselves what and how to produce and where and when to sell their products.

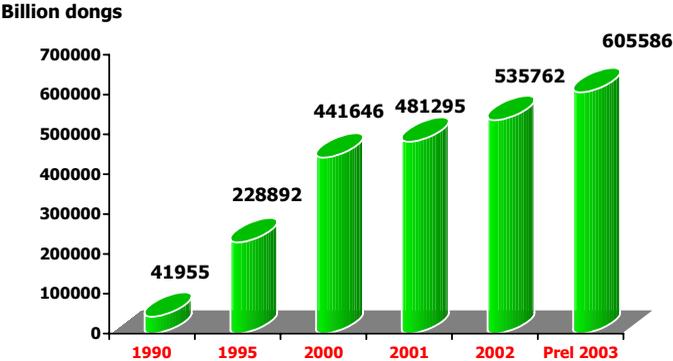
The private sector is now recognised with it making up more than 60 per cent of total agriculture production value. The farmers feel they are the real owners of their land and capital and this helps to increase productivity. The management and distribution mechanisms have seen many innovations, meeting the development needs.

Vietnam became the seventh member of ASEAN on July 28, 1995, and it agreed to adhere to various ASEAN agreements and commitments. In 1996, the first Inclusion List of 857 items for tariff reduction was promulgated and applied under CEPT. The following years, the number of items in IL has been continuously increasing. The trading relations with other ASEAN countries and international market have been much developed.

Thanks to the socio-economic and human resource development efforts, the gross domestic product (GDP) was positive from 1990 to 2003. The GDP of 2003 is more than 2.5 times higher than 1990's with constant 1994 prices. The GDP has been increasing over the years due to various factors. Among them are:

- Vietnam's new economic policies and management mechanisms – resolution on agricultural economic management renewal (1988), Land Law (1993) and amended Land Law (1997), Cooperative Law (1996);
- Agriculture production – GDP in agriculture, forestry and fishery sector is 68,350 billion dong (2002), an increase of 7.08 per cent over 2001;
- Industry production increased from 2000 to 2003, i.e. 96,913 billion dong (2000); 106,986 billion dong (2001); 117,125 billion dong (2002) and 129,247 billion dong (2003);
- Rural agricultural development programmes. They include 135 socio-economic development programmes in 2,235 disadvantaged communes (2001), national programme for hunger eradication and poverty reduction (2001) and forestation programmes covering five million hectares (1999);
- Foreign direct investment was US\$1,976 million in 1998), US\$1,625 million in 2000 and US\$721 million in 2002 and US\$933 million in 2003 (total legal capital); and
- The development of domestic industry, especially garment and shoe manufacturing and marine product processing for exports.

Figure 1: GDP Performance of Vietnam (GDP at current prices, 2003)



In terms of GDP share of major economic sectors, agriculture's contribution has been decreasing over the years (Table 1). The share of industry and construction has been increasing over the years except in 1990 when socialist countries faced an economic and political crisis.

Table 1: Share of Main Sectors in Vietnam's GDP, 1985-2003 (percentage)

Sectors	1985	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
Agriculture, Forestry and Fishing	40.17	38.74	27.18	27.76	25.77	25.78	25.43	24.30	23.24	23.03	21.83
Industry and Construction	27.35	22.67	28.76	29.73	32.08	32.49	34.49	36.61	38.13	38.49	39.95
Services	32.48	38.59	44.06	42.51	42.15	41.73	40.08	39.09	38.63	38.48	38.22
Total	100	100	100	100	100	100	100	100	100	100	100

Source: General Statistical Office, 2003

The GDP share of agriculture, fishery and forestry has been gradually decreasing from 1985 to 2003. The share of industry and construction has been continuously increasing during the same period. Although the share of services started to go down from 1999, the rate is stable in recent years. Though agriculture is still significant, the main contributors to Vietnam's GDP are industry and construction and services. This suits Vietnam's socio-economic development strategy, which aims to bring Vietnam out of under development; improve noticeable the people material, cultural and spiritual life, and lay the foundation for making the country basically modern-oriented industrialized country by 2020. To ensure that the human resources, scientific and technological capacities, infrastructures and economic, defence and security potentials be enhanced; the institution of a socialist – oriented market economy be basically established; and the status of the country on the international arena be heightened.¹



¹ Resolution No VI of the Central Committee of the Communist Party, Vietnam socio-economic development strategy to 2020 book.

b. Labour and Employment

Being an agricultural economy, this sector employs the bulk of Vietnam's labour force. Table 2 shows the number of workers by major economic sectors.

**Table 2: Labour and Employment
by major economic sector (million workers)**

Year	Agriculture	Industry	Services	Total
1980	15.30	3.26	3.08	21.64
1985	19.97	3.80	3.60	27.37
1995	23.53	3.76	5.74	33.03
2002	25.30	4.71	7.67	37.68

Source: General Statistical Office, 2003.

The agricultural sector still plays a very important role in creating employment (25.30 million workers) and is the main income source for about 50 million people. However, employment in the agriculture sector increased only by 7.5 per cent from 1995 to 2002, while employment in services increased by 14.07 per cent and in industry by 25.26 per cent. The percentage of female workers was a little higher than that of male workers in 1980 to 1990, 1995, 2000 and 2002.

The service sector also attracts a large number of workers (7.67 million) but there is a lack of skilled workers in the industrial and service sectors. Overall, employment in agriculture has continually increased over the last two decades because of the growth in rural population. However, it increased slowly from 1995 to 2002, because of falling prices of agricultural commodities and higher earnings in manufacturing or in services.

By joining AFTA, Vietnamese products in general and agricultural products in particular have been competing with products from other ASEAN countries as well as from the rest of the world. Is this a good move when many Vietnamese still lack skills and knowledge? How can Vietnam develop and sustain the agriculture sector so that small agricultural producers can benefit? How can it develop its competitiveness in the regional and international markets? Small producers need assistance in human resource training and production capital.

c. Poverty Situation

The Ministry of Labour and War Invalid of Vietnam determines the poverty threshold. According to Resolution No. 1143/2000/QĐ –LĐTBXH, dated Nov 1, 2000, households with an average income per capita per month of 80,000 VND in remote rural areas, 100,000 VND and below in normal rural areas (and with 150,000.00 VND for urban areas), are classified as poor. (US\$1 is equivalent to 15,500 VND). Poor communities are those with more than 25 per cent of poor households. In 2000, some 2,325 of the 8,158 communes in rural areas were poor, of which 1,715 communes had special difficulties.

In these poor communities and marginal areas, poor infrastructure, health and nutrition, and inadequate management capacities and illiteracy may be major, if not the most important, impediments to increased production and productivity. Malnutrition impairs overall economic growth since it affects productivity and ability to become engaged in productive activities. It also increases the risk of disease. Women and children may be the most affected by malnutrition because of unequal allocation of food within the household – often as a result of

cultural practices – and due to women’s heavy workload and responsibility in terms of productive and domestic tasks.

The share of poor households in urban and rural areas by residence and regions are shown in Table 3.

Table 3: Share of poor households in urban and rural areas by residence and regions (percentage)

Details	1993			1996			1999		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Total country	41.64	32.05	44.35	15.70	6.85	17.73	13.33	4.61	15.96
North west and North East	52.93	37.52	56.10	20.14	6.35	22.58	17.07	5.51	19.77
Red River Delta	36.08	28.96	38.87	9.17	5.50	10.09	7.55	3.94	8.65
North Central Coast	51.72	37.86	53.80	21.17	10.58	22.76	19.29	8.82	21.48
South Central coast	37.37	33.96	38.51	14.51	8.35	16.58	14.02	7.14	16.53
Central Highland	54.95	41.36	58.57	24.53	9.90	28.52	21.27	7.78	26.57
North East South	31.03	24.53	33.84	9.60	5.15	10.71	5.17	3.81	7.43
Mekong River Delta	36.82	29.04	38.20	13.41	7.90	14.39	10.22	5.42	11.74

Source: Statistical data of Vietnam socio-economy 1975 – 2000, General Statistical Office, 2000.

The statistics indicates that:

- Poor households are mostly in rural areas. According to the survey data of General Statistic in 1999, 15.96 per cent were poor households in rural areas while in urban areas, only 4.6 per cent were poor households.
- In 2000, the number of poor households was highest in the north mountainous regions (15.69 per cent), north central coast (17.26 per cent) and south central coast (14.02 per cent) and central highland (11.96 per cent) where minority groups are living. They have low educational attainment and less experience in agricultural production. Most of them live on agriculture but they are often affected by natural calamities such as storms, floods and drought, which worsen their situation.
- In 2000, there were 2,325 poor communes in the country. It shows that poverty has been one of the key challenges facing Vietnam on its way to development.
- The national poverty rate has been going down over the years: in 1993 (41.64 per cent), in 1996 (15.7 per cent) and in 1999 (13.13 per cent). These are good indicators.
- In 1999, the smallest gap between rural and urban areas is in the Red River Delta (3.94 per cent and 8.65 per cent) and North East South (3.81 per cent and 7.43 per cent).

If we compare the percentage of poor households before and after Vietnam joined AFTA, the rate was 15.7 per cent in 1996 (the first year Vietnam applied CEPT) and decreased to 13.33 per cent in 1999. It may be said that together with other socio-economic development efforts, AFTA may have contributed a small part in the general development of Vietnam.

2.2. Agriculture

2.2.1. Land and water resources

A high percentage of land is used for agricultural and forestry. The total land area is 32,929.7 hectares, of which 9,406 ha (28.5 per cent) are agricultural land; 12,051 ha (36.5 per cent) are forestry land covered by trees; 9,404.7 ha (28.5 per cent) are unused land and river, spring, and rocky mountain (Table 4). It shows that Vietnam has great potential to develop agricultural, forestry and fisher production, especially main crops such as rice, coffee, tea, corn, cotton, cashew and pepper, for exports.

Table 4: Land and Water Resources (land use in 2002)

Land	Total area (hectares)	Rented land (hectares)
TOTAL	32,929.7	24,519.9
1. Agricultural land	9,406	9,406.8
- Annual crop land	5,977.6	5,977.6
- Paddy land	4,061.7	4,061.7
- Burn over land	642.7	642.7
- Other annual crop land	1,273.2	1,273.2
- Miscellaneous garden	623.2	623.2
- Perennial crop land	2,231.1	2,231.1
- Weed land for animal raising	39.5	39.5
- Water surface land for fishing	553.4	553.4
2. Forestry land covered by trees	12,051.0	10,639.4
3. Specially used land	1,615.9	1,615.9
- Construction land	145.3	145.3
- Transportation land	466.6	466.6
- Irrigation land	572.5	572.5
4. Homestead land	451.3	451.3
5. Unused land and river, spring, rocky mountain	9,404.7	2,406.5

Source: General Statistical Office

In recent years, the Vietnamese government has passed legislation such as Land Law (1993) and Amended Land Law (1997 and 2003). According to the land law, “households or individuals who are allocated land shall be entitled to exchange, to transfer, to lease, to mortgage, to inherit land use rights”. Land Law 1993 states: “The government values the land prices to calculate tax of transferring land use right, collect tax when allocating land or leasing land, calculating the property value when allocating land, compensating losses on land when taking back land”.

These are good conditions for farmers to decide on crops to grow and what techniques and technology to apply. They can also decide on marketing and post-harvest processing strategies to get the maximum benefit from their land.

2.2.2. Agricultural population, employment and wages

In most rural areas, labour is abundant. In 2002, only 74.5 per cent of effective working hours of the rural labour force were used. In the over populated areas such as Red River Delta and Mekong River Delta the surplus labour force make up 35-40 per cent, especially in between cultivation seasons. The labour force has been growing steadily from 36.9 million in 1998 to

38.4 million in 2000. The unemployment rate in urban areas has decreased from 6.44 per cent in 2000 to 6.28 per cent in 2001, 6.01 per cent in 2002 and 5.78 per cent in 2003. The agricultural labour force has also increased by 1.7 per cent. It was 23.9 million in 1998 and 24.3 million in 2000.

Small farmers were landless farmers before 1945. They were given land during the Land Reform Revolution in 1953-1955 in northern Vietnam and from 1975 to 1977 in the south. The average size of land cultivated by a farm household is from 0.65 to 1.50 hectares. About 3 to 5 per cent of farm households are still landless. These farmers are mostly in the Mekong river delta and in the central highland.

Table 5: Population, number of households and labour in rural areas

Regions	Population (millions)	Number of households	Number of workers
Vietnam (whole country)	52.64	11.38	25.40
Red River Delta	10.70	2.65	5.04
Northeast M. Region	8.87	1.59	4.18
Northwest M. Region	1.96	0.35	0.91
North Central Coast	7.74	1.68	3.56
South Central Coast	4.30	0.89	2.05
Central Highlands	2.42	0.50	1.14
Northeast of MK Delta	5.11	1.05	2.53
Mekong River Delta	11.53	2.37	6.14

Source: Ministry of Labour and Invalid and Social Affairs (MOLISA), 2002.

During the centralised and collectivised period, the land was managed and used by the state and the communities (known as state farms and cooperatives). In 1986, the system was changed. Plots of land have been reallocated to farmers according to their capacity of using them for agricultural production. The changes have made agricultural, especially foodstuff, production to double within 10 years.

With little investments in infrastructure for agriculture, especially in those remote and undeveloped areas, there is low profit in agriculture. Calamities (floods, droughts, typhoons and cold weather in winter) led to harvest losses. For a long time, the mono-culture of rice kept farmers' incomes very low. The average per capita income per month is low both in urban and rural areas. The average income of the whole country in 1996 was 226,700 dong/capita/month, 295,000 dong/capita/month in 1999 and 356,100 dong/capita/month in 2002. In 2001-2002, the difference between the highest and lowest income quintile on monthly average income per capital is 8.1 times. It shows that there is a big income gap between urban and rural areas and this gap has been widening over the years.

2.2.3. Agricultural production, consumption and trade

The major products are rice, peanut core, cashew, seafood, manufactured goods and household goods. Vietnam's major agricultural exports are rice, coffee, rubber, cashew and tea. Vietnam imports cotton and wheat flour to meet domestic needs. Vietnam has applied CEPT since 1996. Under its agreement, ASEAN member states give each other preferential tariff rates of 0-5 per cent. This increases opportunities for Vietnamese products, especially agricultural products, to access both the Asian market and non-Asian markets.

According to many researches¹ and government reports, the average growth rate of Vietnam-ASEAN trade is at 20-25 per cent per year (GSO, MPI, NIAPP). In the region, Singapore is the biggest market for Vietnamese products. Vietnamese exports to Singapore were valued at US\$689.8 million in 1995, US\$885.9 million in 2000, US\$1,043.7 million in 2001, US\$961.1 million in 2002, and US\$1,024.5 million in 2003. Singapore also re-exports and, therefore, it is too soon to conclude that ASEAN is the dominant market for Vietnamese products. According to some forecast, the ASEAN market represents about 13 per cent of Vietnam's exports in 2000. In the last few years, Vietnam's trade deficits with ASEAN have remained high. In 1998, this deficit amounted to US\$1.34 billion, representing 60 per cent of Vietnam's total trade deficit and more than 50 per cent of total exports to ASEAN. Therefore, increasing exports to ASEAN and establishing a trade balance are some of the most critical issues for Vietnam in the coming years. In spite of many challenges ahead, Vietnam is pursuing two key policies to achieve a trade balance with ASEAN. These are deepening its export volume, especially of manufactured and semi-manufactured goods, and concentrating on commercialised goods instead of goods for re-export, in order to strengthen export efficiency and setting our requirements on exports to ASEAN in exchange for imports from ASEAN.

Table 6: Import and export of main agricultural products of Vietnam

Products	2000 (thousand tons)			2002 (thousand tons)			2003 (thousand tons)		
	Production	Export	Import	Production	Export	Import	Production	Export	Import
Rice	32,529.5	3,467.7	-	34,447.2	3,236.0	-	34,518.6	3,813.0	-
Coffee	802.5	733.9	-	699.5	722.0	-	771.2	749.0	-
Rubber	290.8	273.4	-	298.2	455.0	-	313.9	433.0	-
Shelled cashew nut	67.6	34.2	-		62.0	-	-	84.0	-
Tea	69.9	55.6	-	94.2	77.0	-	94.5	59.8	-
Cotton	18.8	-	90.4	40.0	73.1	98.0	35.2	-	91.0
Wheat flour	-		86.7			61.6			51

Source: Statistical Yearbook, GSO, 2003.

Most imported goods from ASEAN are motorcycle parts and fertilisers. Vietnam would request exporting countries to import Vietnamese goods, such as rice, peanut core, and cashew. Importantly, these two policies should be accompanied by a further enhancement in product quality so that Vietnamese products can be competitively traded in the ASEAN market and the imported goods do not impede domestic sectors.

According to CAS and other researchers in Vietnam, AFTA did not have a great direct impact on import-export relations of Vietnam. AFTA would not create any fundamental change in Vietnam's trade unless the structure of domestic production is improved. Since Vietnam joined AFTA in 1995, the import-export activity has been developing continuously. The movements in economy and society, especially in the past few years of *Doi moi*, have played important roles in pushing production and export potentials of Vietnam.

¹ The AFTA impact on Vietnam's economy; Centre for ASEAN Studies (CAS).

Currently Chinese products are easily available in Vietnam, though low in quality. They hold a strong position in the domestic market because their low prices are affordable to most consumers. Therefore, benefiting from AFTA's preferences, ASEAN goods will probably penetrate the Vietnamese market and put a strong pressure on imports from China, especially smuggled goods. Domestic products also have to compete with these imported ones. It provides a competitive environment in the Vietnamese market and may enhance and motivate domestic companies to improve the quality of their products, and set up reasonable prices that benefit both producers and consumers. When the purchasing power increases, consumers' choice will become wider.

Vietnam is one of the main rice exporters in the world. It exported 3.24 million tons in 2002 and intends to export 3.80 million tons in 2005. The exported rice is of high quality (IR26, IR7892 and OM80). Vietnam's potential markets are the Middle East, Asia, the United States, the European Union, Iraq, Cuba, the Philippines, Indonesia, Malaysia and Singapore.



Another important product is coffee. Vietnam is one of the main coffee exporters in the world. It is also one of the countries having the highest coffee yield. The ecological conditions in hilly and mountainous areas of Vietnam are suitable for growing coffee: Arabica in the North and Robusta in the South. Coffee is grown by farmers (60 per cent) and state farms (40 per cent). More than 90 per cent of the total production is exported. State companies account for 70-80 per cent of Vietnam's coffee exports. Processing of coffee industrially is still poor. Thus, Vietnam exports coffee mainly in the form of coffee beans. Vietnamese coffee is available in 42 countries. The volume of coffee exports in 2000 was 660,000 tons and 711,000 tons in 2002.

Corn is a main subsidiary crop in Vietnam. It is cultivated throughout the country but mostly in the mountainous and hilly areas of the north and central regions and in the north east of the Mekong Delta. Corn is mainly used to feed livestock and for the industry. A small volume is exported. It seems that corn production will be developed in the coming years to meet the demand of fodder for industrial processing. Land suitable for corn growing can still be found in hilly and deltaic areas. New varieties of high yielding corn are being introduced to farmers.



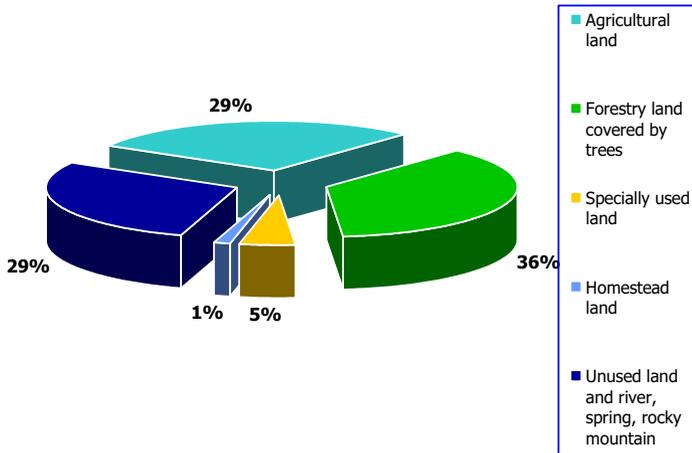
Overall, with the facilitation of AFTA, Vietnam-ASEAN trade relations have improved considerably. ASEAN member countries have increasingly become important business partners of Vietnam.

2.2.4. Farm ownership / non-ownership

According to Vietnam's Land Law, land is national asset. Farmers cannot own land permanently but they are given the rights to use the land for a fixed period: 20 years for annual crop and fishery activities and 50 years for forestry. The land use in Vietnam can be described as follows:

- About 90 per cent of agricultural land is given to farmers for long term use; about 10 per cent of agricultural land is for rent under contracts between local governments and individuals or organisations.
- Average annual crop land allocation for one household is less than 3 hectares. The Government would have particular regulation for each locality depending on its land condition. Average land per household in Vietnam is small. Over 98 per cent of farmers have less than 3 hectares.
- The landless situation is mostly in the Mekong river delta and in central highland. About 5 per cent of farmers become landless because they sell their land lease under verbal agreements without permission from the government.
- In other areas in the country such as the Red River Delta, North East, North West or Central Coast, the farmers have land for cultivation. At times some farmers temporarily transfer their land lease to others.

Figure 2: Land use situation in Vietnam in 2002



Source: Source: Statistical Yearbook, GSO, 2003.

Figure 2 indicates that Vietnam has problem planning land use. Agriculture land make up 29 per cent of the total area of the country, which works out to per capital of only 1,000 m², among the lowest of the world. With the possibility of developing only another 32 per cent of land for agriculture, per capital will never be over 1,000 m² as Vietnam's population will increase by more than 1 per cent every year. The unused 29 per cent of the land consist of bare mountain, rocks and rivers which is not suitable for agriculture. Another problem is the tendency to convert agriculture to other use such as for residence and industries. Humid climate and tropical rains also cause a serious soil erosion problem, especially on slopping cultivation land.

2.2.5. Cropping, production expenses and productivity

In most regions, there are two rice seasons. In the Red Diver Delta, they have autumn and spring seasons. The Mekong River Delta has two to three paddy seasons per year – spring, autumn and winter – because of good natural conditions for rice cultivation,. The rice yield is relatively high in Vietnam. It is about 5,800 to 6000 kg/ha in Red River Delta. However, the production cost is also high. It is about 5,500,000 to 6,000,000 dong/ha (US\$400) in the Mekong River Delta and 7,000,000 dong/ha in the Red River Delta because farmers have to spend on as fertilizers, pesticides, irrigation and amortisation of production tools. Rice production has increased in the past 10 years due to these factors: application of new varieties, usage of more fertilizes and better irrigation and drainage equipments.

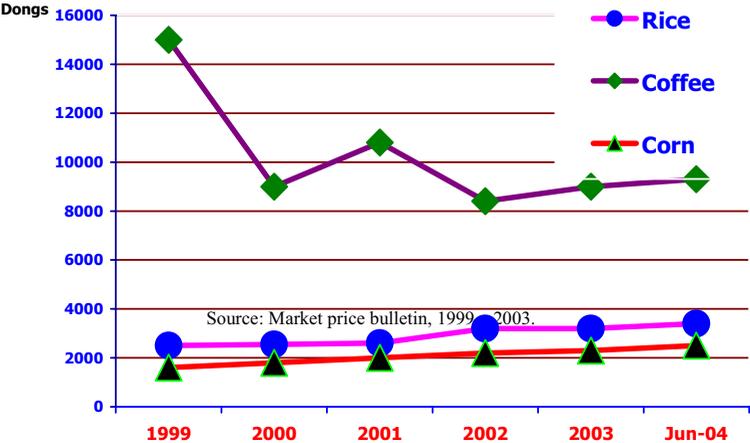
The production cost of corn is about 7,000,000 dong (US\$460)/ha. The yield of corn is about 4,500 kg/ha. The price of corn is between 1,200 dong/kg and 1,600 dong/kg. The income from corn cultivation is sometimes not enough to cover production costs. Some corn farmers can get small income, mostly from their labour input. The situation is similar in the production of other crops such as coffee and cashew. Can agricultural products from Vietnam compete with those from other countries? It is an important issue to consider when joining AFTA and WTO.

2.2.6. Crop/commodity prices and agricultural marketing systems

Generally, the marketing system of agricultural products in Vietnam is very complex. Private traders are the main buyers. They collect agricultural products at farm gate and local markets for big dealers, enterprises, and companies. Because of the complex marketing system, there are big gaps between farm gate and retail prices. Rice, coffee, pepper, cashew nuts and tea are the main export crops.

The prices of agricultural products fluctuate a lot and have been unstable in the last five years (Graph 3). For example, rice is the strategic product for export. Since 1997, there has been no restriction in the domestic marketing. Private traders dominate the local rice market, especially in the south. Rice retailers buy rice from farmers or from wholesalers and transport it to their establishments to serve their local clients. Over 80 per cent of private traders get their rice supply from farmers. Vietnam’s complex rice marketing system involves thousands of traders moving millions of tons every day from rice-surplus provinces to rice-deficient areas, from farmers to urban consumers and to exporters.

Figure 3: Market price of some agricultural products in Central Highland



The numerous channels differ from region to region. Because of the range by which domestic rice prices fluctuate at different harvesting seasons, private traders have, in a major way, absorbed part of the risks associated with price instability. Thus, the government is free to intervene in other ways where it can be most effective. Most farmers sell paddy at their rice fields or homes to private assemblers because they do not have transportation or storage facilities. The traders are user-friendly and are often considered as “friends” of the households. The traders are also prepared to sell everything for deferred payment until the next harvest. Payment methods are flexible: the buyers can pay in kind (e.g. paddy or peanuts) or in cash. There is one important condition: the buyers have to repay immediately after harvest, before the next credit can become available. The service costs, including interest rates for deferred payment, depend on competition among the traders and transportation conditions in the locality (Market price bulletins).

2.2.7. Capital for agriculture

In order to implement the strategy plan for socio-economic development and poverty alleviation, The Vietnamese government has invested a lot in agriculture and forestry. The investments, however, has been declining over the years. In 2000, the investments in agriculture and fishery was 13,107.6 billion dongs (11.84 per cent of total investment); in 2001, 10,348 billion (8.33 per cent); in 2002, 10,804.5 billion (7.52 per cent) and in 2003, 11,913.1 billion dong (7.51 per cent). The reason is that the government has to use its limited budget allocation for other economic sectors such as manufacturing, construction, health and social work, and military purposes. In the context of globalisation brought by AFTA and WTO, Vietnam's agriculture faces difficulties and challenges.

2.2.8. Major government agricultural policies and programmes

From 1981, the starting point of reforms, the Vietnam government has been carrying out many development programmes and promulgated new, open and good policies to improve the living standard of people, especially those belonging to minority groups, to eradicate poverty, to protect the environment and to maintain national. The main programmes and policies are summarised below.

Main programmes

- A total of 135 programmes (five-year plan “1996 – 2000”) for the socio-economic development of the northern mountainous provinces.
- National programme for hunger eradication and poverty reduction (HEPR) and employment (1998 – 2000).
- Project to eradicate and replace opium crops (2001 – 2005).
- Forestation programme covering five million hectares (1998 – 2010).
- National programme for rural water supply and sanitation (2001 – 2010).

Main policies

- Decree “100-CT/TW” of the Central Committee of the Vietnam Communist Party on “*Product contracts with labour*’ group and individual”, 1981
- Resolution No 10/NQ-TW dated Jan 1, 1988 of the politburo on renovation in agricultural economic management.
- Decree No 13-CP, dated March 2, 1993, on agricultural extension.
- Decree No 14/CP, dated March 2, 1993, on loan policy for agricultural-forestry-fishery households and rural economics.
- Land Law passed in 1993.
- Cooperative law passed in 1996.
- Amended land law 1997.
- Other agriculture and rural development policies.

These programmes and policies are key conditions for Vietnam to achieve significant socio-economic development since reforms were implemented. After 1986, substantial progress has been made with the shift towards a market-oriented economy. Vietnam had to import food in the early years of the 1980s, but it is now the second largest rice exporter in the world. It exports an average 4.5 million tons of rice every year. The 10-year plan aims to reduce the number of Vietnam's poor to 10 per cent by year 2010.

2.2.9. Income and poverty situation among small producers

The incidence of poverty is about 37 per cent in Vietnam. About 15 per cent of the people live under the poverty line and suffer from hunger. Of the poor, 80 per cent are farmers. Poverty data (1998), according to an internationally agreed poverty line, are available only at the sub-regional level. Poverty incidence in the Red River basin, the northern highlands, is at 59 per cent, which is considerably higher than the national average (37 per cent). The Red River Delta has considerably lower poverty incidence at 29 per cent. National poverty statistics show that differences can be considerable within the delta, particularly between urban centres (Hanoi and Hai Phong) and the rural areas, where the residents' livelihood is dependent on agriculture, especially rice cultivation.

The average income of small producers is very low. According to government statistics, the monthly average income from agriculture, forestry and fishery per capita for the period 2001 to 2002 was 119,400 dong (US\$7.7) in rural areas and 42,700 dong (US\$2.75) in urban areas. It is even lower in the south central coastal region (78,900 dong or US\$5.09) and in south east region (71,800 dong or US\$4.63). The introduction of the market mechanism worsened the situation of these rural people, who depend mainly on agricultural, fishery and forestry production and earned low incomes.

2.2.10. Major problems and concerns

a. Landlessness and decreasing land for agriculture

The landless situation exists mostly in the Mekong River Delta and in Central Highland. About 5 to 7 per cent of farmers become landless because they sell their land on verbal agreements without getting the permission from the government. Some provinces have a high percentage of landless farmers. For example in 2000, 9.85 per cent of farmers in Tra Vinh province were landless while in Dong Thap province it was 6.71 per cent. The main causes of landlessness are: some people never owned land before; lack of capital; mortgaged land due to health problems, accidents or to pay private loans; sold land to move into other activities; recently moved out of parents' land; wanted to work for other farmers; recently immigrated (free movement).

In other areas of the country such as the Red River Delta, North East, North West or Central Coast, farmers have land for production although some still sell their land to others (temporary transfer of land use's rights).

b. Increasing costs of production

With the adoption of modern technologies (e.g. the use of HYVs and hybrid seeds, fertilizer and pesticides) in Vietnam, the cost of production has increased significantly.

- The increase was attributed to rising costs of fertilizers and pesticides, high yielding and hybrid seeds and labour. In Vietnam, prices of fertilizers and pesticides increased by 100 to 150 per cent during AFTA's implementation. For example, the production cost of coffee in the Central Highland of Vietnam ranged from 3,000 to 4,000 dong/kg of coffee bean in the 1985-1990. The cost was 8,000 to 9,000 dong/kg from 1999 to 2000. However, the cost has been much lower in the past four to five years at about 3,000 to 4,000 dong/kg. Currently, the cost has been increasing and is likely to keep rising in the future.
- The total production of rice, corn and cashew per hectare also increased from 15 to 20 per cent.
- High production cost but low prices of crops have impoverished many farmers. With the high level of inputs in farms, transnational corporations are raking in billions in profits.

c. Low productivity

Agricultural production has been continuously increasing over the years with the application of new techniques and technology. It helped Vietnam to provide enough food for domestic consumption and the surplus was exported. This also contributed to improving the living standards of the people, especially small producers in rural, mountainous and vulnerable areas.

However, the yield of rice is high only in the main agricultural production regions (Red River Delta and Mekong River Delta) which large plains with fertile alluvium soil. The yield is still low in other areas, especially, in the North West, South East regions and the Central Highland.

Table 7: Rice yield in the different economic regions

	1995	2000	2001	2002	2003 (preliminary)
<i>The whole country</i>	<i>36.9</i>	<i>42.4</i>	<i>42.9</i>	<i>45.9</i>	<i>46.3</i>
Red River Delta	44.4	55.2	53.4	56.4	54.8
North East	28.6	40.0	40.3	42.2	43.6
North West	24.5	29.5	31.6	32.7	34.7
North Central coast	31.4	40.6	42.3	45.1	46.3
South Central coast	33.5	39.8	41.2	42.8	45.8
Central Highland	24.4	33.6	35.7	32.5	37.9
South East	28.3	31.9	33.3	34.7	36.3
Mekong River Delta	40.2	42.3	42.2	46.2	46.3

Source: Statistical Year Book, 2003.

Table 7 shows that the rice yield in the Red River Delta was 54.8 tons/ha in 2003. The yield in the Mekong River Delta was 46.3 tons/ha while it was only 34.7 tons/ha in North West, 36.3 tons/ha in South East and 37.3 tons/ha in the Central Highland.

d. Traders' control over market

Private traders are the main buyers in Vietnam. They collect agricultural products at the farm gate and sell to the big dealers, enterprises and companies. Rice, coffee, pepper, cashew nuts and tea are main agricultural products for exports. Private traders play an important role in marketing these produce and often determine their prices. There is a big gap between farm gate and retail prices, especially in remote and mountainous areas where small producers lack market information and the transport infrastructure is still poor. Figure 4 shows the gaps in prices of agricultural products in 2003.

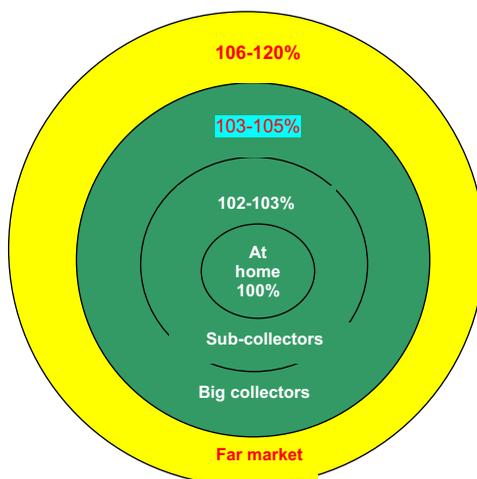


Figure 4: The gaps in prices of agricultural products

Source: Market price bulletin, 2003.

Figure 4 shows the gaps in prices of agricultural products in 2003.

e. Lack of capital for production and high cost of credit

Agricultural productivity has increased in recent years because of liberalisation and diversification. But poor communities in disadvantaged rural areas have benefited less because they lack access to adequate education, water and extension services, especially capital for production. Major causes of poverty identified by the villagers are lack of education, lack of land, risk-averse attitude due to the inability to cope with risks associated with a lack of water, monoculture, lack of credit to buy agricultural inputs, lack of labour, and barren soil. The small agricultural producers, especially the poor farmers have fewer chances to access loans from financial institutions because they own only small plots of land and lack collateral for credit. There are several credit programmes for the poor, such as the non-collateral small-scale credit through the VWU, VFU and people's organisations or from the Bank for the Poor programme. However, the poor do not have the capacity to make the best use of these programmes to get out of poverty. These loans are often small while production costs are higher because of expensive agricultural inputs. Moreover, the loan application procedure is still very complicated for poor farmers who do not have much education. Some farmers borrow from money lenders as the loan procedure is simple but they are charged high interest rates, about 2 to 5 per cent per month and even higher.

2.2.11. Gender issues in agriculture

Vietnamese women are found to be the most affected by poverty. Women play multiple roles in both productive and reproductive activities. The high level of male out-migration to mountains for carpentry and other seasonal labour, especially during winter, brings additional

work and responsibilities to women. Women do most of the agricultural work. Labour inputs for crop production are much higher for women compared to men. In addition, women take care of livestock, grow tea and fruit trees, and engage in VWU activities such as family health programmes. Poor water quality and the long hours of work in the paddy field are strongly linked to the high incidence of reproductive tract infection among women. The main highlights of gender issues involving small agricultural producers in Vietnam are:

- Women's representation in decision-making bodies such as commune and district people's committees is still limited. Upland women are generally more active in participating and articulating their opinions in meetings than their counterparts in the delta.
- Women constitute a significant portion of the workforce in Vietnam. While there had been improvement in women's labour force participation, male labour force participation rates are still higher.
- There is still unequal treatment of women in some areas, especially those minority groups. Women are not seen as equal to men.
- Women do not take part actively in social activities, especially in rural, mountainous areas.
- Women in areas near industrial zones or cities tend to work more in the manufacturing sector such as in shoe and garment factories.
- Female unemployment rates were higher than that of males.
- Women were the majority of workers in the occupation groups of clerical, sales and services.



Overall, the situation of agriculture and small producers in Vietnam can be characterised as follows:

- The Vietnamese government made efforts to carry out many development programmes and promulgated new, open and good socio-economic policies. They were meant to reduce the poverty rate, improve the living standard of the people, including minority groups, protect the environment, balance ecology and maintain national security.

- Vietnam has made great achievements in socio-economic development since *Doi moi*. It is illustrated in the GDP growth over the years. It is good indicator for Vietnam to plan development strategies in the coming years.
- About 90 per cent of agricultural land is given to farmers for long term use. About 10 per cent of agricultural land is for rent under contracts between local governments and individuals or organisations and associations. Most farmers have land for production (about 95 to 98 per cent) but they have less than three hectares. Less than 5 per cent of farmers became landless and these people are mostly in the Mekong River Delta and Central Highland and North East South.
- Vietnam's labour force has been steadily growing from 36.9 million in 1998 to 38.4 million in 2000. The unemployment rate in urban areas has decrease from 6.44 per cent in 2000 to 6.28 per cent in 2001, 6.01 per cent in 2002 and 5.78 per cent in 2003. Agricultural labour force has also increased by 1.7 per cent. It was 23.9 million in 1998 and 24.3 million in 2000. These people should be trained to equip them with the knowledge and skills to produce quality products for domestic consumption and exports.

However:

- The incidence of poverty in Vietnam is still high (about 35 per cent). About 15 per cent of the people live under the food poverty line and suffer from hunger. Of the poor, 80 per cent are farmers. Therefore, farmers should be provided assistance to improve their incomes as well as their living conditions. AFTA has both positive and negative impacts on these small agricultural producers. Their products have to compete with goods from other ASEAN countries. Very few small farmers understand AFTA fully. They lack market information, production technologies, and post-harvest processing and markets for their products.
- The women's representation in decision-making bodies as well as in public activities is still limited. Upland women are generally more active in articulating their opinions in meetings than their delta counterparts.
- By joining AFTA and WTO, Vietnam has benefited socio-economically but there were also negative impacts. It is not easy to solve these problems, especially those affecting small agricultural producers. Therefore, the government should have appropriate strategies and production and marketing plans to maximise the advantages of AFTA and minimise its negative impacts.

2.3. Trade and Investments

2.3.1. Strategic Direction of Trade and Investments

From the 1990s, Vietnam has introduced new economic and trade policies to expand trading activities and relations with ASEAN and the world market. The government aims to form a synchronised socialist-oriented market economy. Accordingly, the government tries to develop a multi-sector economy with many forms of ownership, renew policies and complete the financial monetary system, expand foreign economic relations and improve their performance. In addition, the government also focuses on education and training and science and technology. It promotes cultural and social development, acceleration of administrative reform and building of a clean and strong state apparatus. Overall, the specific goals,

strategies and programmes for Vietnam's socio-economic development till 2010 can be summarised as follows:

a. The strategic goals are to bring Vietnam out of un-development; improve the people's material, cultural and spiritual life. It also aims to lay the foundation to turn Vietnam into a modern, industrialised country by the year 2020. The other goals are to ensure that human resources, scientific, and technological capacities, infrastructure, and economic, defence and security potentials are enhanced; the institution of a socialist-oriented market economy be established; and Vietnam's status be strengthened internationally.

b. Specific goals:

- GDP figures of 2000 to be doubled by 2010. Domestic savings to account for over 30 per cent of GDP. Agriculture will form 16 to 17 per cent of GDP, industry 40 to 41 per cent and services 42 to 43 per cent. Agricultural labour to drop to about 50 per cent of labour force.
- Raise substantially Vietnam's human resource development index (HDI). The population growth rate is to be reduced to 1.1 per cent by 2010; urban unemployment rate to drop below 5 per cent and to increase utilised work time in rural areas to about 80 to 85 per cent. Trained labour ratio to be increased to about 40 per cent; child malnutrition to be reduced to about 20 per cent; and life expectancy to go up to 71 years.
- Endogenous scientific and technological capacities are to ensure applicability of modern technologies. They are to be of world standard.
- Infrastructure to meet demand of socio-economic development.
- Leading role of the state economic sector to be enhanced, governing key domains of the economy; state enterprises renewed and developed, ensuring production and business efficiency.

2.3.2. Review of AFTA Commitments

Vietnam signed the Accession Protocol on Dec 15, 1995 and implemented from Jan 1, 1996 its first package for the CEPT Scheme (enacted by Government Decree No. 91 on Dec 18, 1995).

Vietnam's AFTA commitments are:

- a. To extend, on a reciprocal basis, Most-Favoured Nation (MFN) and National Treatment to ASEAN member countries;
- b. To provide relevant information on the country's economic profile, particularly trade statistics requirements, when requested;
- c. To prepare a list for tariff reduction and begin tariff reduction from Jan 1, 1996, ending at 0-5 per cent of tariff rate on Jan 1, 2006;
- d. To phase in products which are temporarily excluded in five equal instalments beginning Jan 1, 1999 and ending on Jan 1, 2003, and to prepare a list of these products for their annual instalment;

- e. To phase in agricultural products which are temporarily excluded beginning Jan 1, 2000 in equal instalments and ending on Jan 1, 2006 at 0-5 per cent and to prepare a list of these products for their annual instalments.

Table 8: Vietnam's CEPT product list as commitment in 1996

Product List	Number of Tariff Lines	Percentage
Inclusion List (IL)	857	38.6
Temporary Exclusion (TEL)	1,189	53.6
Sensitive List (SL)	26	1.2
General Exception (GEL)	146	6.6
Total	2,218	100.0

Source: ASEAN Secretariat.

The process of Vietnam's CEPT commitment is summarised below:

- **1996:** The government issued Decree No 91/CP dated Dec 18, 1995 to place the first 857 taxable items on the Inclusion List under CEPT for 1996.
- **1997:** The government's Decree No 82/CP dated Dec 13, 1996 on promulgating the IL of 1997 of Vietnam with 1,478 taxable items (621 were newly added items for IL) applying CEPT.
- **1998:** The government's Decree No 15/1998/ND-CP dated March 13, 1998 on promulgating Inclusion List of 1,615 taxable items applying CEPT.
- **1999:** The government's Decree No 14/1999ND-CP dated March 14, 1999 on promulgating the Inclusion List of 3,590 taxable items of which 440 were transferred from Temporary Exclusion List (TEL) to IL for CEPT.
- **2000:** The government's Decree No 09/200/ND-CP in March 2000 added 60 tariff flows from TEL to CEPT. There were a total of 4,230 taxable items (goods) of which,
 - 3,590 were implemented CEPT from before 1999;
 - 640 were transferred from TEL to IL;
 - 2,960 tariff flows applied the tariff rate from 0 to 5 per cent (70 per cent of total tariff flows of CEPT in 2000).
- **2001:** The government issued Decree 28/2001/ND-CP on June 6, 2001, promulgating CEPT of Vietnam to be applicable to goods imported from ASEAN countries in the year. The 2001 CEPT list covers about 5,500 taxable items and related tax rates ranging from 0 to 20 per cent. This decree was effective retrospectively from Jan 1.

2.3.3. Pattern of external trade with ASEAN and Extra-ASEAN

Vietnam once suffered from blockade and embargo. However, it has since developed economic relations with many countries, especially in ASEAN. It has played an increasingly active role in international and regional economic organisations, and has embarked on proactive, gradual and efficient programme to integrate into the world economy. The growth rate of exports has nearly tripled that of GDP in value and Vietnam has attracted a fairly large amount of foreign capital.

Export

According to national statistics, the total value of exports has been increasing over the years. In 1995, it amounted to US\$5,448.9 million; in 2000, US\$14,482.7 million; in 2001, US\$15,029 million; in 2002, US\$16,706.1 million and in 2003, US\$20,176 million. The main commodities exported are agricultural and forestry products (US\$3,621.8 million in 2003), light industrial products and handicraft (US\$8,025.5 million in 2003), and heavy industrial products and minerals (US\$6,253.2 million in 2003).

Vietnam's trade deficits with ASEAN have remained quite high in the last few years. In 1998, this deficit amounted to US\$1.34 billion, representing 60 per cent of Vietnam's total trade deficit and more than 50 per cent of total exports to ASEAN. Therefore, accelerating exports to ASEAN and establishing a trade balance are seen as critical issues for Vietnam in the years to come. In spite of many challenges ahead, Vietnam has undertaken two key policies to achieve a trade balance with ASEAN. It endeavours to expand its export volume, especially of manufactured and semi-manufactured goods, and to concentrate on directly commercialised goods instead of on goods for re-export, in order to strengthen export efficiency. On the other hand, Vietnam effectively sets requirements on exports to ASEAN in exchange for imports from ASEAN.

Although ASEAN is a regional market, APEC, EU, OPEC countries are major importers of Vietnamese products. Among these importers, APEC is the biggest extra-ASEAN group, from which Vietnam gains the highest export value annually. In 1995 it was US\$3,998.2 million, US\$10,097.6 millions in 2000 and US\$11,778.3 million in 2002.

Vietnam still has limitations in export activities. The quality of agricultural products such as rice, coffee of Vietnam is lower than that of countries like Thailand and Brazil. Therefore, the prices of these products are often lower than those from other countries. Moreover, Vietnam's export structure is similar to that of other members, which are more developed and use higher forms of technology. Vietnam has not dominated any key sector or potential products; product competitiveness has been rather weak. Hence, Vietnam will certainly have numerous disadvantages when CEPT is fully applied and it becomes a member of WTO as well as when tariffs are removed and trade is fully liberalised. This may lead to bankruptcy of corporations. It is clear that equal trade and business opportunities do not imply real fairness, as the initial conditions of the ASEAN members differ considerably. Therefore, high quality agricultural products must be developed from now so that Vietnam could compete with other countries and expand its market. This is crucial for a sustainable export strategy.

Import

Vietnam imports machinery, equipment, fuel, raw materials and consumer goods (foodstuff, pharmaceutical and medicinal products). The total value of imports in 1990 was US\$8,155.4 million, US\$15,636.5 million in 2000, US\$16,218.6 million in 2001, US\$19,745.6 million in 2002 and US\$25,226.9 million in 2003. Table 9 shows Vietnam's trade with ASEAN countries.

Table 9: Vietnam's trade with ASEAN countries
(Period 2001 – 2002)

Countries	2001	2002	Balance of trade	Exports	Import	Balance of trade
	Exports	Import				
Cambodia	146	22.8	123.2	178.4	65.4	113
Indonesia	264.3	288.9	-24.6	332	362.6	-30.6
Laos	64.3	68	-3.7	64.7	62.6	2.1
Malaysia	337.2	464.4	-127.2	347.8	683.3	-335.5
Philippines	368.4	53.5	314.9	315.2	100.6	214.6
Singapore	1,043.70	2,478.30	-1434.6	961.1	2,533.50	-1572.4
Thailand	322.8	792.3	-469.5	227.3	955.2	-727.9
Total	2546.7	4168.2	-1621.5	5789.7	-7411.2	13201

Source: National Statistics Office, 2003.

The turnover in foreign trade has been increasing sharply over the years. In 1990, foreign trade was valued at US\$5,156.4 million. The turnover was US\$13,604.3 million in 1995, US\$30,119.5 million in 2000 and 45,402.9 million in 2003. After joining AFTA, Vietnam's trading relations with other ASEAN countries have strengthened considerably.

2.3.4. Pattern of investments, with ASEAN and extra-ASEAN

In order to develop the economy, Vietnam has been addressing several issues, such as introducing open policies and creating good environment for foreign investments. The administrative mechanism has been improved considerably. Moreover, Vietnam has political stability, a cheap labour source and commitment to provide an attractive environment for foreign investors. Therefore, there has been a rapid flow of foreign capital into Vietnam in recent years. Up to December 2002, Vietnam has attracted considerable foreign direct investment (FDI). According to government statistics, Vietnam had 5,441 FDI projects involving US\$45,776.8 million in foreign capital for the period 1988 to 2003. The total registered capital for the period 1988 to 1990 was US\$1,582.3 million, for 1991 to 1995 was US\$16,485.0 million, for 1996 to 2000 was US\$21,579.2 million and for 2001 to 2003 was US\$6,112.6 million. The FDI between 1988 and 2003 came mainly from Singapore (US\$7,399.1 million), British Virgin Island (US\$3,421.7 million), France (US\$2,415 million), Japan (US\$4,032.5 million) and South Korea (US\$4,113.0 million).

Foreign direct investments were mostly in real estate, transport, store and communications, hotels and restaurants, construction, manufacturing, agricultural and forestry. For example, the FDI in agricultural and fishery sector approved for the 1988-2003 period was US\$2,419.9 million, manufacturing was US\$19,516.2 million, transport, store and communications was US\$3,544.7 million and real estate and rental business activities was US\$4,636.8 million. By 1990, investment in tourism was higher than in industry and forestry-agriculture. However, in the past decade, foreign investors have been focusing on the industrial sector, thereby raising the share of foreign capital invested in industry in 1999 to 51.03 per cent (compared to 37.04 per cent in tourism and 11.93 per cent in forestry, agriculture and fishery). Several industries were set up with 100 per cent foreign capital. Examples of such industries are crude oil extraction and production, and vehicle manufacturing. The share of FDI is also increasing in other sectors such as steel, television manufacturing and detergent production. According to

several researchers (Le Dang Doanh, Dang Kim Son, MPI), the structure of FDI in Vietnam is in line with the new requirements to transform the economic structure. FDI from ASEAN has strongly improved, with Singapore and Malaysia being among the top 10 investors in Vietnam at the end of 1999. Not all is due to AFTA. However, AFTA also plays an important role in attracting more FDI from ASEAN countries, especially from Singapore.

2.3.5. Overall analysis

There has been much improvement in trade and investment in Vietnam since 1988. Foreign trade turnover has been increasing over the years. In the initial period of reforms, Vietnam faced a lot of difficulties and challenges with the break up of the Soviet Union and Eastern European socialist countries in the early 1990s, the regional financial crisis and natural calamities and diseases. Foreign direct investments have been also increasing significantly from 1988 to 2003. Vietnam joined AFTA in 1995 and is making efforts to join WTO. Generally, the major reasons for Vietnam's achievements and successes in trade and investment are:

- Vietnam has formed a synchronised socialist-oriented market economy, establishing new economic and trade policies to boost trading activities and expand trade relations with ASEAN countries and the world market.
- Vietnam's efforts to accelerate development activities, alleviate poverty and provide human resource training and education helped to improve the people's living standards and to provide the necessary conditions to develop global trade relations as well as joining AFTA and WTO.
- Vietnam has export advantages such as in agricultural and forestry products (rice, coffee, cashew, pepper, wood for making papers), light industrial and handicraft products (made from bamboo or rattan and ceramic and porcelain products), and heavy industrial products and minerals. These products have brought great value for Vietnam and created employment, especially people in the rural areas. Since 1988, Vietnam has become the second biggest rice exporter in the world. Vietnamese agriculture is promising great values of export.
- Vietnam not only established trade relations with ASEAN but also with APEC, EU, and OPEC. These are either two-way or multi-lateral relations in production and import-export activities. Thus, the market for Vietnamese products grows bigger and bigger.
- Vietnam renewed administrative mechanism and created good environment for investments.
- Vietnam's stable political situation attracts direct foreign investments, especially in real estate, renting business, transport, store and communication, hotels and restaurants, construction, manufacturing, agricultural and forestry sectors. The cheap labour source and commitment to provide best conditions for foreign investors and business activities makes Vietnam competitive in relation to other countries in the region.
- Vietnam has been studying carefully the positive and negative impacts of AFTA and WTO on its economy. Therefore, it took appropriate steps such as formulating sound strategic production plans and marketing products to maximise the advantages of AFTA and minimise its negative impacts.
- AFTA is not a decisive factor for Vietnam's trade and investment development. AFTA has impoverished many small producers in Vietnam. They could not compete with

farmers in Thailand or other producers in Singapore. Though Vietnam is the world's second largest rice exporter, the main beneficiaries are the export-oriented enterprises and companies and not small producers. The farmers still sell their produce through middlemen. For example, the middlemen purchase 90 per cent of the farmers' coffee. There is a big gap between the farm gate and FOB prices. It is questionable whether small producers get maximum benefit from the exports.

However, the implementation of AFTA commitments has led to market expansion and trade liberalisation, which will substantially boost intra-ASEAN flows of capital, labour and technology. It helps Vietnam to speed up the transformation of its production structure and to focus on competitive crops and products as well as other economic advantages. Examples of Vietnam's advantages are its tropical agriculture and an abundant source of labour with various skills. With the free flow of high technologies and advanced-techniques, a developing country like Vietnam will have more opportunities to make use of its cheap labour resources. It can also apply appropriate technologies in production, avoid pitfalls in industrialisation and modernisation by learning from the experiences of the more developed countries, and narrow social-economic disparities and keep up economic development in line with others.

From the above analysis, Vietnam has made significant initial achievements in trade and investment by joining AFTA and WTO as well as from globalisation and international economic integration. However, Vietnam has been experiencing dramatic changes in its economic system. The 1997-98 Asian financial crisis created large shocks in the region. In less developed countries, macroeconomic policies are not flexible and not in accordance with international standards. Corruption and bureaucratic red tape are pervasive and bank and financial systems are underdeveloped. Economies like Vietnam are vulnerable to external changes. As for human resources, the technical and management staff in Vietnam have not been well prepared in terms of language and professional skills and working methods. An ASEAN member cannot effectively participate and benefit from the association unless it has efficient executives and entrepreneurs in all fields, who are proficient in languages and profession, are active and creative in these works



Chapter 3

METHODOLOGY

3.1 Methods of Data Collection

3.1.1. Literature survey

For general information, ideas and different viewpoints about the impact of AFTA on Vietnam in general and on small agricultural producers, the study relied on secondary data. The information was gathered from various sources including books, magazines, yearly statistical books, written legal text and document, national resolutions, decrees, the results of some related researches, development projects, business and plans of ministries and departments at all levels.

3.1.2. Administered interviews

The field study used the questionnaire prepared by the Southeast Asian Council for Food Security and Fair Trade. However, the questionnaire was translated into Vietnamese.

3.1.3. Case studies:

Two case studies for each crop were conducted in each research area.

- Red River: Two case studies in one village
- Mekong River Delta: Four case studies in two villages
- North East South: Four case studies in villages
- Central highland: Four case studies in four villages

3.1.4. Focus group discussions

Ten FGDs were conducted in five research areas: Dong Tien village, Song Trau village, Hoang Xa village, Can Dang village and M' Brui village. These were interviews with small groups of relatively homogeneous people with similar background and experience on rice, coffee, cashew and corn production. The participants in each focus group live in the same village. Participants were asked to reflect on the questions posed, give their own comments, to listen to what the other members in group had to say and to react to their observations. The main purpose is to elicit ideas, insights and experiences in a social context where people stimulate each other and consider their own views along with the views of others. Typically, these interviews were conducted several times with different groups so that the evaluator can identify trends in the perceptions and opinions expressed about their awareness of AFTA, impacts of AFTA, suggestion and recommendation for better production and trade. One of the main advantages of this technique is that participant interaction helps weed out false or extreme views, thus providing a quality control mechanism.

3.1.5. Key informant interviews

The five interviews were conducted with local leaders in five research areas. The aim of these interviews was to get information from the local government and authorities on the impact of AFTA on trade in manufactured goods and unprocessed agricultural products, on agriculture and domestic support, on investments and production structures and other issues related to AFTA and WTO. To ensure the reliability of data, the assessment process sought the participation of a sufficient number of leaders. Therefore, we interviewed five local leaders in each area.

3.1.6. Observation of facilities in research areas

Observation was also an important method used during the survey of research areas. By observation, we can get a description of the general situation of the target interviewees, their material and physical condition and programmes have been carried out. It involves careful identification and accurate description of relevant human interactions and processes. The observation process provides:

- A better understanding of the context of the research area;
- Awareness of important things the interviewees may not provide or are not willing to answer during the interview;
- More comprehensive view of the research areas and target groups by combining the perceptions of the researcher and that of others; and
- Personal knowledge and direct experience that help to understand and interpret the situation. Participation observation and direct observation methods were used in the research.

Participant observation involves the evaluation observer becoming a member of the community or group being studied. The researcher participates in community activities, observes how people behave and interact with each other and outside organisations. The evaluator tries to become accepted as a neighbour or participant rather than as an outsider. The purpose of such participation is not only to see what is happening but to feel what it is like to be a part of the group. The extent to which this is possible depends on the characteristics of programme participants, the type of questions being studied and the socio-political context of the setting. While, **direct observation** tends to be at the other end of the participation spectrum, it involves the systematic noting and recording of activities, behaviours and physical objects in the evaluation setting as an unobtrusive observer. It can often be a rapid and economical way of obtaining basic socio-economic information on households or communities. The main advantage of this method is that if participants are not aware that they are being observed, then they are less likely to change their behaviour and compromise the validity of the evaluation.

3.2. Sampling Design

To ensure the reliability of data, the research process sought the participation of a sufficient number of farmers and leaders. A total of 250 farmers were selected from the Mekong River Delta, Red River Delta, Central Highland and North East South through the systematic random sampling method.

Systematic random sampling is a method of selecting samples from a population – that is the total number of respondents – by identifying every case in the list of farmers. The steps of a systematic random sampling method are:

Step I: Prepare a list of criteria for sample selection: gender, farm scale, source of income, age, and years of experience.

Step II: Take the list of farmers in a research area (village, commune).

Step III: Move out of the list farmers, who do not fit the criteria for selection.

Step IV: Determine the number of cases in the population (N), such as the total number of respondents. Decide as well the desired sample size (n). For this research, the desired number of respondents is 50 for one place.

Step V: Compute for the sampling interval (K) with the following formula:

$$K = \frac{N - O}{n}$$

K: interval

N: Total numbers of cases in the population of research area.

O: Total cases who do not fit criteria for selection

n: desired sample size

For example, if the total number of farmers in the village is 2,000, and 1,000 do not fit with our criteria, our desired sample size (n) is 50, then the sampling interval (K) is equal to 20. [(2000 – 1000)/50].

Step VI: Determine the starting number – from 1 to K – randomly, that is through drawing of lots.

Step VII: Go back to the list of farmers. Begin with the randomly selected starting number. For instance if the starting number is 5, then start with the fifth name in the list. The fifth name shall be a respondent. Then select the other respondents by adding K to the fifth name. For example, if K is 20, then this means that the next respondent is the 25th name in the list. Again, add 20 to 25; hence, the third respondent is the 45th name in the list, and so on until the desired number of respondents is reached.

Note: In special case, in village 1, there are 20 farmers, who fit our criteria (as in questionnaire) but we need only 50 farmers so we will:

- Firstly: Select all respondents in the village as in the above-mentioned procedure.

- Secondly: Write the number of respondents from the selected list in pieces of paper, fold them and put them together in a box. Take 50 pieces randomly from the box, we will have 50 respondents for interviews.

3.2. Training of lead researchers and field interviewers

3.2.1. Training of lead researchers

From the initial preparations made by the SEACON Secretariat and regional research team, the various methodologies to be employed by the national research teams were finalised in consultation with SEACON partners. After which, trainings of lead researchers were given in Kuala Lumpur.

3.2.2. Trainings of field interviewers

In order to conduct the survey effectively, three short trainings for field interviewers were conducted in three branches offices of CAEV: Hanoi, Nha Trang and Ho Chi Minh city. A total of 15 CAEV staff members and collaborators were trained in participatory techniques, and communication and observation skills.



3.3. Data processing

The Microsoft Access is the main software used in primary data encoding and SPSS in processing. The research report is completed by using and analysing information from different sources: outputs of primary data processing, transcription of interviews and focus group discussion (FGDs), key informant interview, case studies and secondary data.

Chapter 4

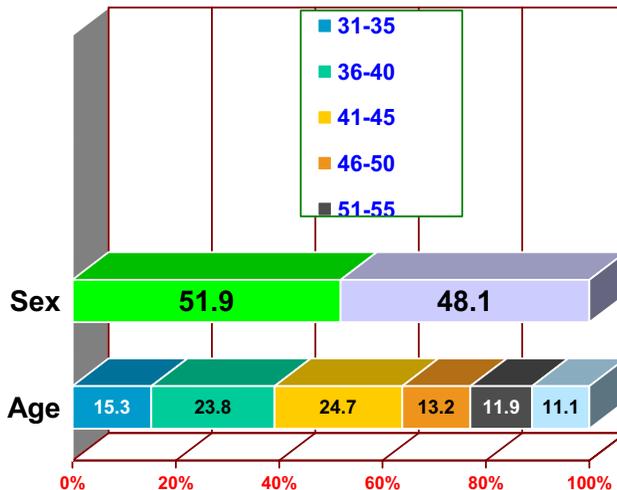
THE SOCIO-ECONOMIC SITUATION OF SMALL PRODUCERS IN THE ERA OF AFTA

4.1. The Research Results

4.1.1. Demographic Characteristics of Respondents and their Households

The research was done in five regions: Red River Delta, Mekong River Delta, North East South and Central Highland. The respondents of the survey are all small agricultural producers. Their situation is similar: They have limited land, low income and live mainly on agricultural production. The results of the study show that over 60 per cent of the respondents were 40 years of age and above. Only 15.3 per cent of the respondents were 31 to 35 years old. Therefore, most of them have certain knowledge and skills in agricultural production. Most respondents have over 10 years of experience in agricultural production.

In terms of sex, 51.9 per cent of respondents were men and 48.1 per cent were women. (According to the General Statistics Office of Vietnam, 49.14 per cent of the country's population in 2003 was male while 50.86 per cent female). The age and sex characteristics of the survey respondents are shown in Figure 5.



The survey showed that most respondents were literate; 32.3 per cent of them have completed primary educational and 61.3 per cent of them had secondary educational. The respondents and their spouses, who were able to attend school, had an average of six years of formal education. Therefore, they have attained basic education, which will be an advantage when using advanced-techniques and technologies in production. Currently, processing and marketing of products play decisive roles in selling to consumers. Besides increasing quality

of products, appropriate marketing strategies will help farmers to sell their products at a high price and boost their household income. Knowledge and skills become very important. Today, the farmers are not mere producers but need to also act as commodity traders. They not only work on the farms but they must also access market information and advanced-techniques and apply them in production and marketing. Farmers have now more opportunities to share experiences or co-operate with farmers in other countries.

However, the educational attainments are different among farmers' groups.

Table 10: Educational attainment of small agricultural producers

Educational Attainment	Number of Responses	Percentage
Primary	76	32.3%
Secondary	144	61.3%
Tertiary	12	5.1%
Vocational/Technical	1	0.4%
University	2	0.9%
Did not attend school	0	0%
Did not complete elementary school	0	0%
TOTAL	235	100

Source: Survey data 2003.

* **Rice producers:** Most rice producers have completed secondary school (68.7 per cent) and 23.7 per cent have primary school education. Only 6.1 per cent reached tertiary level and 2.1 per cent had university education. Thus, these farmers will be able to apply advanced-techniques and technologies in production. The rice producers have good educational background because most of them are Kinh people living in Mekong and Red river deltas. They produce enough food for consumption and have more opportunities to go to school.

* **Corn producers:** Their educational attainment is similar to rice producers; 31 per cent of corn producers have primary school education, 63 per cent have completed secondary school and 4.5 per cent tertiary education. However, no one has reached university level. Most corn producers are living in upland areas. They face difficulties such as inadequate infrastructure, poor economic condition and isolated lifestyle. Therefore, they have fewer opportunities to go to school compared to the people living in urban areas and the plains.

* **Coffee producers:** They have lower educational attainment compared to rice and corn producers. A total of 39.6 per cent of the coffee producers have completed primary school and 54.2 per cent secondary school. Most coffee producers live in the Central Highland and are from minority ethnic groups such as Ede, Rakley, Bana and Kinh. They do not have adequate knowledge and production skills. The government needs to pay more attention to these farmers, who have been producing specific products for exports such as coffee, cashew and tea because of advantages of the Central Highland. They brought great benefits for the country.

* **Cashew nut producers** also have low educational attainment; 43.5 per cent of them have primary education while 52.2 per cent have completed secondary level. Cashew can be cultivated in the dry areas of southern Vietnam. It is one of the main crops in Central Highlands, South Central coast and the North-East of Mekong Delta. The survey indicates that between 300,000 and 500,000 hectares in these areas are suitable for intensive cashew

cultivation. So far cashew nut cultivation has not been very profitable because of the use of low yielding varieties and the application of poor processing techniques. Therefore, the government needs to educate and train farmers in these areas in order to expand cultivated areas and increase income from cashew production.

In the context of globalisation and international economic integration, the farmers need to be equipped with the relevant knowledge and skills to react promptly to market changes and to access market information in order to devise strategic production plans.

As for house ownership, most (99.1 per cent) of the respondents in the five research areas in the four economic regions of Vietnam owned houses, while only 0.9 per cent use houses without payment. It is popular situation in Vietnam. Both husbands and wives jointly own the houses and have equal right to sell the houses. Farmers still live in poor condition. Their houses are mostly built from cheap materials available in their gardens or in the forest such as bamboo, palm leaves and wood. Some 49.4 per cent of the households live in temporary houses and the other 50.6 per cent have permanent houses. The temporary houses are mostly in the Central Highland where minority groups reside and in the Mekong River Delta which is prone to floods, drought and other natural calamities.

It was also found that farmers who have attained higher educational level and are in better economic condition tend to have fewer children. As for family size, the Kinh people have an average of two to three children while ethnic minority groups have an average of four to five children.

With regards to sanitation, generally, the respondents used four main types of toilets: open-pit, water flush, water sealed and composting toilets. However, the sanitation situation of small farmers is very poor. Almost half (45 per cent) of the households used open-pit toilets, while 12.3 per cent of them did not have toilet facilities. The problem is predominant among farmers in the Central Highland and Mekong River Delta.

These small agricultural producers also have problem getting adequate supply of drinking water. In all the research areas, the main sources of water for drinking and other household uses are from rain (37.9 per cent) and open wells (66.8 per cent). The other sources of water are ponds, rivers and lakes (10.9 per cent); piped water and artesian wells (7.5 per cent). Only one in 235 households has piped water. Therefore, farmers in these areas is urgent need of safe drinking water.

The above situation is because of the people's low awareness, very poor economic condition and limited support from the government. It would be difficult for Vietnamese farmers to compete with their counterparts in other ASEAN countries when they do not even have the essentials for better living.

The situation is better with regards to electricity supply and the transport system; 100 per cent of the small producers get electricity from the national power network. The roads to the communes have also been improved, enabling the farmers in these regions to transport their produce to the market or other places with ease. However, the village road systems are still poor, especially in the Mekong River Delta which has many canals, ponds and lakes and where boats are the main means of transport.

4.1.2. Farm and Land Ownership Profile

Most respondents (98 per cent) are owner-cultivators. According to Vietnamese law, land is a national asset. The survey showed that about 90 per cent of agricultural land were allotted to farmers for long term use. All the rice, corn, coffee and cashew producers (100 per cent) are owner-cultivators and 82.6 per cent of couples (husband and wife) own house. This is a cultural characteristic of Vietnamese farmers where men and women have equal ownership rights. However, some are owner-cultivators, part-owners or setters at the same time.

Figure 6: Mode of land acquisition of small agricultural producers

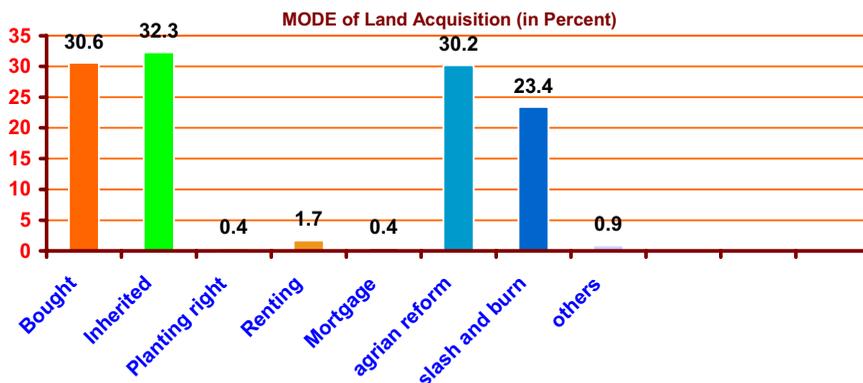


Figure 6 shows that:

- 32.3 per cent of farm owners owned land through inheritance and 30.2 per cent acquired land through agrarian reform;
- A significant proportion (30.6 per cent) of respondents said that they bought the land on their own;
- Agrarian reform also played a very important role in giving land to farmers; and
- 23.4 per cent of respondents have land through slash and burn.

Whatever, the mode of acquisition, all small producers are owner-cultivators. This is a good indicator. Different crops are grown in the regions because of varying conditions. Food production in the Central Highland and mountainous areas is very poor. With limited areas, not enough food is grown. They are dependent on high productivity in the plain areas. Unstable coffee prices create difficulties for small producers. Some run into debts. According to the Agricultural and Rural Development Ministry's statistics, 713,000 out of 1.21 million hectares of mountainous areas, including terraced fields in highland, are suitable to grow only one crop. Food scarcity is a major problem of minority groups in the Central Highland and other upland areas. Upland cultivation and planting of food crops are the main cause of forest destruction. Thus, the forest will not be destroyed as long as these people get enough food.

Land ownership pattern for the different crops is as follows.

Rice: In 2004, 94.8 per cent of rice land was owned by both husband and wife compared to 90.7 per cent in 1999. This shows equality in land ownership. Most farmers acquired land through agrarian reform (45 per cent), 25 per cent inherited land and 15 per cent bought land. One had land through slash and burn.

Corn: In 2004, 81.4 per cent of the corn cultivated land was owned by both husband and wife. It is higher compared to the 1999 figure (72 per cent). However, 9 per cent of the land is still owned only by husbands and 4.5 per cent by wives. A quarter of the farmers (25 per cent) inherited land while 56.3 per cent have claimed land through slashing and burning forest and bushes. It is difficult to prevent farmers from burning forest for crop cultivation.

Coffee: Both husband and wife owned 77.1 per cent of land in 2004. It was 75 per cent in 1999. Some 36.1 per cent of farmers bought the land, 39.3 per cent inherited and 11 per cent have land after from slashing and burning forest. Only 4.9 per cent have land through agrarian reform. Many small farmers (3 to 5 per cent) still sell land to raise money for family expenses or to pay debts. These are often poor farmers. Some of them become poorer and landless.

Cashew: In 2004, 65.2 per cent of land was owned by both husband and wife and it was 60.9 per cent in 1999. There is little change in land ownership over five years. Farmers get land only through three sources: 50 per cent bought the plots, 6.4 per cent inherited and 44.7 per cent obtained land by slashing and burning. The rate of buying land is rather high among cashew producers because they need to have large areas to cultivate the crop. Cashew is mainly grown in the Central highland, South Central Coast and the North-East of Mekong Delta Region where the cultivators belonging to minority groups or have immigrated from other provinces. Thus, buying and selling land becomes complicated.

According to the Ministry of Agriculture and Rural Development's report in 2000, the average farm size of 98.81 per cent of the farmers is less than three hectares, about 0.98 per cent has three to five hectares, 0.19 per cent five to 10 hectares and 0.02 per cent has more than 10 hectares. Our survey in 2004 also showed similar figures. The average farm size of respondents is 1.48 hectares. The average farm size of owner-cultivator (respondents) is highest in cashew cultivation (2.28 hectares) and lower for coffee (1.74 hectares). It is lowest in rice cultivation with 1.12 hectares. By tenure, the average farm size of owner-cultivator is 1.48 hectares, part-owner is 1.41 hectares, tenant is 1.6 hectares and settler is 1.64 hectares.

Table 11: Small producers' average farm size by crops

Farm size by primary crop	Rice		Corn		Coffee		Cashew	
	F	%	F	%	F	%	F	%
< 0.5 ha	50	52	12	27	9	19	0	0
0.5 - 1 ha	6	6	17	39	19	40	0	0
1 - 1.5 ha	7	7	7	16	11	23	7	15
1.5 - 2 ha	5	5	7	16	4	8	6	13
2 - 2.5 ha	9	9	1	2	2	4	12	26
2.5 - 3 ha	20	21	0	0	3	6	21	46

Source: Survey data, 2004.

It can be seen from Table 11 that most rice, coffee and corn producers have less than one hectare of farm land, while cashew farmers have more than two hectares. Moreover, there is difference between lowland and upland areas. About 52 per cent of cultivated land is still dependent on rain water. These areas are mainly in the Central Highlands and the North East. According to the survey, 23 per cent of the small farmers' land in upland areas is irrigated, 24 per cent in lowland areas is irrigated. It was also found that 19 per cent upland land is rain-fed while it is 34 per cent in the lowland.

Water is one of the factors that push up the production cost of coffee. Small coffee farmers borrow from financial institutions and money lenders to dig wells, lay pipes and buy electric pumps in order to get adequate water supply. These farmers cannot repay their loans when prices of their produce drop. Some are forced to sell their land to pay their debts. This usually happens in the Central Highland.

Farms sizes the various crops and regions

Rice: The average farm size of rice land is 1.12 hectares. Some 52 per cent of rice farmers have less than 0.5 hectare; 13 per cent between 0.5 and 1.5 hectares; 14 per cent from 1.5 to 2.5 hectares; and 21 per cent between 2.5 and 3 hectares.

Corn: The average corn farm size is a little larger than that of rice but is also small (1.17 hectares). Some 27.3 per cent of small farmers have less than 0.5 hectare; 38.6 per cent have from 0.5 to 0.9 hectare; 31.8 per cent have from 1 to 1.9 hectares; and only 2.3 per cent have more than two hectares. Corn is now considered a crucial crop in Vietnam. The three main corn production areas are North West, Central Highlands and North East South. The study was conducted in the North East South where the corn yield is still low at 3.27 tones/ha while the world average yield is 4.5 tons in 2003. Corn is now in the Inclusion List and its import tariff rate will go down to 5 per cent in 2006. Under the Vietnam-America trade agreement, the import tariff rate (MFN) for corn will be about 10-15 per cent in 2005. There is increasing demand for corn from the animal feed industry. In 2003, Vietnam was estimated to have imported 320,300 tons of corn while exporting only 1,300 tons. The production area is limited, the demand for corn is increasing and the import tariff is dropping. Vietnamese corn producers cannot compete with other farmers in the region and the world market.

Coffee: The average farm size per household is 1.74 hectares for owner cultivators, 1.41 hectares for part-owner cultivator and 1.64 hectares for settlers. Although the average farm size for coffee cultivation is higher than that for rice, it is still considered small, with over 90 per cent of coffee produced for export. Some coffee farmers intend to switch to corn production because the latter provides quick and stable income. The small farmers are worried over decreasing coffee prices and less government intervention and are trying to find solutions. There is a need for a general plan and strategy for production and export of coffee, especially when Vietnam fully applies CEPT of AFTA in 2006 and joins WTO in future. The volume of production, quality and price will then be key factors determining Vietnamese small farmers' competitiveness in the world market and whether they would get more benefits from their labour.

Cashew: The average size of cashew farm is high at 2.28 hectares per household. A high percentage of farmers (69 per cent) have more than two hectares each. Only 23 per cent of cashew farmers have 1 to 1.5 hectares and 8 per cent have 1.5 to 2 hectares. Cashew nut is an export product for Vietnam; 63,000 tons was exported in 2002 and the projected export volume in 2010 is estimated at 100,000 tons. However, cashew cultivated area (199,300

hectares in 2002) and production (73,100 tons) are limited. Cashew being a priority product, Vietnam needs to invest more and provide technical support for farmers to boost cashew yield and quality and lower production cost. The Central Highlands, South Central coast and the North-East of Mekong Delta regions are the main areas of cashew production. There is potential to develop between 300,000 and 500,000 hectares in these areas for intensive cashew cultivation.

On farm sizes, the survey found that the average farm size in the Central Highlands and Mekong River Delta is much larger than in the Red River Delta (0.3 to 0.6 hectare per household). The Central Highlands is a large coffee producing area. In the last three years, coffee prices have been dropping and hundreds of hectares of coffee area have been replanted with corn and other crops.

The landless situation is mainly in the Mekong River Delta and the Central Highlands. About 5 per cent of farmers become landless because they sell their land under without permission from the government. In other areas like the Red River Delta, North East, North West or Central Coast, farmers have land for production although some temporary transfer land use rights to others. "Land for farmer" is a strategy objective of the Vietnamese government. After north Vietnam attained independence in 1954, the government took over landlords land and distributed to farmers, with the slogan "Farmers have land". The government is now trying to take back land that has been sold and distribute to farmers, especially those from minority groups in the Central Highlands. These farmers do not have adequate knowledge, production skills and experience. They have sold their land for to buy essentials and became landless. Therefore, government needs to find solutions and prevent these land farmers from slashing and burning forest. Forests as well as the environment must be protected. Thus, there is a need to increase the awareness of farmers in environment protection and preservation.

4.1.3. Cropping, Production and Expenses

The main crops planted are rice, corn, coffee, tea, cotton, pepper, peanut, soybean, cashew, cassava. Among these, rice, coffee, tea and cashew are strategic export products. According to the 2003 national statistics, the total area under rice is 7.45 million hectares, corn 909,800 hectares and coffee 116,200 hectares. The main two rice producing regions are the Red River Delta and the Mekong River Delta. The major corn producing regions are the North East (206,000 hectares), the North West (129,000 hectares), the North Central coast (110,500 hectares), North East South (133,200 hectares) and the Central Highlands (181,900 hectares). The survey found that 52 per cent of rice farmers have less than 0.5 hectare of land. These farmers are mostly in the Red River Delta. About 21 per cent of the respondents have between 1.5 and 3 hectares. These farmers are mainly in the Mekong River Delta. About 72 per cent of cashew farmers have more than two hectares. They are mainly in the North East South region which was once badly affected bombings during the war. Most farmers in this region came from the northern provinces like Hai Duong, Hung Yen, Thai, Binh and Ha Nam Ninh to settle here after the war. The coffee producers have more land, 63 per cent of respondents have from 0.5 to 1.5 hectares. They are mostly from minority groups like Ede, Bana and Racle living in the Central Highlands and immigrants from other provinces like Quang Ngai, Thai Binh, Hai Duong, and Hung Yen.

The crop cycle varies in the economic regions because of different natural, economic and social conditions, as well as characteristics of animals and crops. For example, in the Red River Delta, farmers have two seasons of rice and a winter crop season per year, while in the Mekong River Delta, farmers can produce for two to three rice seasons per year. Some 58.7

per cent of farmers have two crop seasons per year. These crops are rice and corn. About 41.3 per cent have only one crop season per year. These crops are coffee and corn.

The adoption of new techniques and modern technologies in agricultural production has increased input cost in Vietnam. The cost of production has increased significantly because of use of high yield varieties, hybrid seeds, fertilizer and pesticides. Moreover, genetically modified products may enter Vietnam to compete with domestic products because of regional economic integration and global trade liberalization.

The survey found that most farmers use hybrid seeds (41.4 per cent). The percentage of traditional seed used is high (49.1 per cent). However, the traditional seeds are used mostly for coffee and cashew cultivation. Almost all rice and corn farmers use hybrid seeds. About 94 per cent of respondents do not save seeds for next planting season. They often buy hybrid rice and corn seeds from companies, state enterprises or cooperatives. The farmers gave several reasons for not saving seeds for the next planting season. They reasons can be summarised as:

- By using the hybrid seeds, farmers can have higher yield within a short-time though the quality of products may be lower;
- Farmers do not save seeds for the next planting because of cheap sources of seeds from government seed companies and enterprises (20.3 per cent);
- Coffee and cashew producers use seedlings only once (41.8 per cent);
- It is not easy to saving seeds (6.2 per cent) because of the climate conditions;
- Natural calamity or bad harvests (15.9 per cent).

Besides seeds, fertilizers and pesticides are also very important for production. Agricultural production in Vietnam is still chemical-based. The agricultural development and economic integration have pushed up fertilizers and pesticides prices by 100-150 per cent since AFTA's implementation. For example, the coffee production cost in the Central Highlands was 3,000 to 4,000 dong/kg in from 1985 to 1990. It was 8,000 to 9,000 dong/kg of coffee bean in 1999 and 2000. The cost was higher in the following years. The total production of rice, corn and cashew per hectare has also increased by 15 per cent to 20 per cent. High production cost but low crop prices have forced many farmers into poverty. With the high level of inputs used in farms, transnational corporations are raking in billions in profits.

The 2003 survey results show that the production expenses vary for different crops. The production cost for rice is from US\$210 to US\$230 per hectare, for corn it is between US\$370 and US\$400 per hectare, for coffee it is US\$550-US\$600 and for cashew it is US\$350-US\$400. Coffee production cost tend to increase when the coffee price is high (farmers invest more in production) and drops when coffee prices decline (less investment by farmers).

4.1.4. Farm Incomes

The survey showed that the average income of respondents is very low: 43.8 per cent of them have monthly income below US\$25; another 21.7 per cent have income from US\$26 to US\$50 and only 0.8 per cent earn more than US\$300 per month. Monthly household income is also very low: 26 per cent of households have incomes ranging from US\$26 to US\$50 and 29.8 per cent of households' incomes vary between US\$51 and US\$100. The primary crops – in particular rice, corn, coffee and cashew – play very important part in household income. These crops sustain Vietnamese farmers, especially in rural and mountainous areas like the

North West, Central coast, and North East South where agricultural products are mostly for local consumption and not for export. Some 51.9 per cent of households have seasonal net income of more than US\$500 from primary crops. It indicates that most households depend on income from primary crops. The survey also found that the major source of income is from agricultural production (75 per cent). Only 25 per cent of income source was from off-farm activities. The prices of agricultural products are very low and unstable. Generally, farm gate prices of most agricultural products have increased over five years. However, the price of coffee decreased, adversely affecting farmers in the Central Highlands. These farmers hope coffee price would go up. Otherwise, they would have to replant with other crops.

The monthly household incomes of small agricultural producers vary according to the type of crop cultivated:

Rice producers: The monthly income of 22.7 per cent of households is between US\$16 and US\$50 while for another 21 per cent the monthly income is from US\$51 to US\$100. Only 9.1 per cent of households had more than US\$250 in monthly income. The low monthly income, big family size, high production expenses, limited land and redundant labour have adversely affected the small rice producers. Their difficult situation has led to labour migrating from rural to urban areas.

Corn producers: The average monthly household income of corn producers is higher than rice producers with 11.4 per cent of households earning less than US\$25; another 31.8 per cent get US\$26 to US\$50 per month and 34.1 per cent earn US\$51-US\$100 per month. Corn is not only their main income source for these households but it is also their main foodstuff. MARD's survey in 2002 found that 25.8 per cent of households in the country consume corn as a food item. The average corn consumption per capita/year is 9.3 kg. The highest percentage of corn consumption is in the North East region with 28.8 per cent of households consuming the crop. The percentage of corn used by the livestock industry is also very high. For example, in the Red River Delta livestock consumed 73.5 per cent of the corn and in the North East region, 66.69 per cent. The change in consumption pattern will directly affect corn price.

Coffee producers: The average household income of coffee producers is higher than that of rice and corn producers. Some 6.3 per cent of households have income less than US\$25; while 27.1 per cent get from US\$26 to US\$50 and 43.8 per cent earn US\$51-US\$100. Though their average net income is higher than that of rice and corn farmers, the small coffee producers are the poorest. This is because of the high cost of coffee production in terms of fertilizers, weeding and seedling and irrigation fees. The poor generally do not have enough capital to meet production cost. Moreover, the price of coffee is unstable and these farmers do not produce enough food for consumption. Therefore, the income from coffee cultivation is used for many purposes. Many small farmers have become poorer in recent years due to the impact of AFTA and other factors in the coffee market. Most farmers who become poorer lack production experience and techniques and market information or are affected by natural calamities. The survey found that these farmers are from minority groups like Ede and Bana.

Cashew producers: The average monthly household income of cashew producers is not high. It is similar to the household income of rice, corn and coffee producers. Some 10.9 per cent of the households earn less than US\$25; another 26.1 per cent get from US\$26 to US\$50 and 28.3 per cent earn US\$51 to US\$100. Cashew nut growing is not very profitable because these farmers use low yielding varieties and poor processing techniques. Further investment is needed to promote intensive cashew production in order to increase the income for small

farmers. Cashew is a very important and strategic product for the Central Highlands, South Central coast and North-East Mekong Delta regions, which has export potentials.

4.1.5. Prices and Markets

In 2003, the average price of paddy was about 1,800-2,000 dong/kg; cashew was 7,800-8,000 dong/kg, corn was 1,100dong/kg, and coffee 10,000-10,500dong/kg. The prices of rice, corn and cashew have increased in the past five years while the coffee price has decrease. The study found that the prices of agricultural products increase due to several factors, including high production cost, natural calamities, shortages in the market and development of animal husbandry. Most of the respondents (60.8 per cent) said the prices increased because of higher production cost; 22.8 per cent believed the prices went up after natural disasters such as droughts, floods, typhoons; and 9.7 per cent thought the price rose because of developments in animal husbandry. Table 12 lists the main reasons cited by small farmers for the increase in prices of agricultural products.

Table 12: Reasons for increase in prices of crops

Reasons cited by small producers	Number of Responses	Percentage
Price increased due to the shortage of the product in the market	6	2.5%
Prices increased after natural disasters such as droughts, floods, typhoons	54	22.8%
Prices increased due to hoarding by traders	5	2.1%
Cost of production has increased	144	60.8%
The government sets higher price	4	1.7%
Animal husbandry development	23	9.7%
Good quality products	1	0.4%
TOTAL	237	100

Source: Survey data.

There are two main reasons for prices to drop: abundance supply and price control set by private traders. Most coffee producers (81.7 per cent) said the price decreased because there were too many coffee growers, while 18.3 per cent said traders set low prices. Coffee prices do not only depend on domestic production and consumption but are also affected by coffee production in countries like Brazil and world consumption pattern. Since the small farmers have very limited knowledge of AFTA, WTO and global economic integration, they only see domestic causes and not international market demand and supply problems. Although Vietnam joined AFTA only in 1995, it affects the competitiveness of Vietnamese agricultural products.

With the development of bilateral and multilateral trading relations and liberalisation, the small agricultural producers have been suffering from unequal competition. For example, the coffee and rice producers in Vietnam have been affected. Vietnam is now actively determining its comparative economic advantages such as an abundant labour source with various skills. Under AFTA, the more developed ASEAN countries will focus on high-tech sectors and reduce their involvement in labour-intensive and low technology industries. These activities will then be transferred to developing ASEAN members, enabling these countries to

make use of their cheap labour resources, apply appropriate technologies, accelerate the industrialisation process, shorten social-economic disparities and keep up economic development in line with the others.

In the early period of developing a market-oriented mechanism in Vietnam since *Doi moi*, the marketing of agricultural products is very complex. Traders play important roles in markets. Since, they are the main collectors of products, they control prices. The survey found that 51 per cent of the products are sold through traders. The other major buyers are government buying centres and cooperatives (see Figure 7).

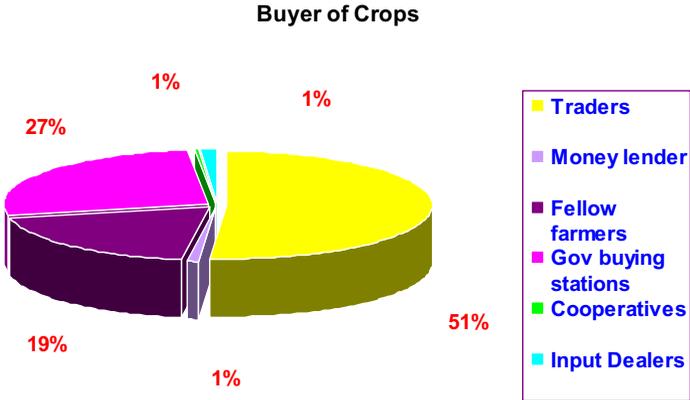


Figure 7: Major source of buyers of agricultural products

The farmers cited several reasons for their choice of buyers. Some 48.7 per cent of the respondents said they referred to sell their products to traders because they paid in cash. Another 38.7 per cent said they were offered a higher price while 5.3 per cent of the respondents said they were forced to sell. It shows there are very few sources of buyers in domestic market. The main buyers are still the traders, government centres and cooperatives and it is difficult for small farmers to set the prices for their products. They depend on traders and big collectors who have the money and transport facilities. The farmers are willing to sell at low prices to get immediate cash or for a slightly higher price because most of them do not have processing and storage facilities.

Some 27.2 per cent of the respondents said their products were exported, 25.1 per cent thought their products were not exported, while 47.7 per cent did not give any answer. Small farmers have limited access to market information so they do not know whether their products are exported. For example, over 90 per cent of coffee products are exported but not many coffee producers know of this fact. Vietnam faces challenges and difficulties on the way to global economic integration and trade liberalisation. The lack of market information will be one of the disadvantages for small farmers when selling their products. It may cause an oversupply or shortage in market. Supply sometimes does not meet demand. With rising production costs, the farmers will fall into debts if they do not have appropriate plans for production and marketing of their products.

4.1.6. Problems of Small-scale Farmers

a. Problem by crops:

The implementation of AFTA commitments has led to market expansion and trade liberalisation, which will boost intra-ASEAN flows of capital, labour and technology. This will help Vietnam and other member states to speed up the transformation of their production structure. Vietnam is trying to make use of its cheap labour resources and apply appropriate technologies in agricultural production. Vietnam's main strategies are to expand production in sectors with a heavy labour and natural resources content, such as textiles, garments, handicraft and processing of agricultural products. However, Vietnam faces difficulties at the early stage of international economic integration, especially its small-scale farmers. The main problems the farmers face are:

High production expenses: 16 per cent of small producers said one of their difficulties now is the increase in production cost, especially high expenses on hybrid seeds, chemical fertilizers, and pesticides. In some households, income from crops is not enough to cover expenses. The survey found that:

- 9.3 per cent of rice producers had problems because of high cost of input and 11.3 per cent of them said they had difficulties with high production expenses;
- 20.5 per cent of corn producers had difficulties over high cost of input and 18.2 per cent could not cope with high production expenses;
- 10.9 per cent of cashew producers faced difficulties because of high production expenses.

Limited government support: This is a major problem cited by coffee producers. Changes in coffee prices over the past few years have resulted in unstable income for small coffee producers. The government's coffee-related trade policies are geared towards further liberalisation but Vietnamese coffee has to compete with coffee from Brazil, Colombia, Indonesia and Guatemala. While coffee production is mainly in developing countries, coffee consumption is mainly in developed countries such as the United States, Japan and EU nations. The Central Highlands is the main coffee area in Vietnam but most coffee producers there are very poor and have limited knowledge. They need technical and financial support as well as market information. Some 22.9 per cent of coffee producers interviewed during the survey said that one of their difficulties is limited support from government. They need an appropriate plan and strategy for production and marketing, including selection of high quality varieties, good processing techniques, competitive prices and assessment of demand and taste.

Limited sources of production capital: Farmers, especially the poorer ones, need capital for production. Though they can access loans from state banks and cooperatives, the sources of funds are still limited. Generally, 54 per cent of small producers said one of their main problems is limited capital. The loan application procedure is still complicated. The problem of limited sources of capital is serious for every crop: 49.5 per cent of rice producers, 39.6 per cent of coffee producers, 60.9 per cent of cashew producers, and 70.5 per cent of corn producers face similar difficulties.

Corn producers are in urgent need of production capital as the animal husbandry has been growing rapidly. Corn is one of main input for the animal feed industry and production sometimes cannot meet domestic demand. Although Vietnam exports corn, it also imports the product from other countries to meet demand from the animal feed industry. For example, the Vietnam imported 197,400 tons of corn in 2000 and 320,300 tons in 2002. Corn exports were limited to 8,800 tons in 2000 and 1,800 tons in 2002. Vietnam did not export corn in 2001. Under AFTA, Vietnam will reduce the import tariff rate to 5 per cent from Jan 1, 2004. It may increase import of corn from ASEAN countries, especially Thailand. The gap between domestic and import prices of corn has been narrowing since 1999. From 1999 to 2000, the import price of corn was US\$14 to US\$17 per ton, much lower than the domestic price. However, for the 2001-2002 period, the import price was US\$8 higher than domestic price.

Domestic corn production has been directly affected by AFTA as well as trade liberalisation. Vietnamese small producers have to compete with other farmers in the region but they work under poor production conditions and lack advanced technologies and market information. There must be strong cooperation between the government and small farmers in crop production, processing and marketing in order to take advantage of AFTA.

Other problems: Some of the important concerns of small producers include low prices (6.2 per cent of rice producers, 6.5 per cent of cashew producers and 6.3 per cent of coffee producers have been facing with this problem), debts and inaccessible post harvest activities.

b. The Credit Market and Indebtedness among Small-scale farmers

The survey revealed that 58.3 per cent of these small agricultural producers borrow from relatives, friends, banks and other financial institutions. With liberalisation and accession to AFTA, more advanced techniques and technology are brought to Vietnam. This pushes up production costs and demand for capital.

Rice producers took fewer loans than coffee, corn and cashew farmers. The survey found that only 32 per cent of rice producers took loans compared to 88.6 per cent for corn producers, 68.8 per cent for coffee producers and 73.9 per cent for cashew producers. Cashew, corn and coffee farmers need more capital to buy fertilizers, pesticides and meet irrigation and primary processing expenses. Men tend to get more loans than women: 55.4 per cent of male-headed households and 44.6 per cent of female headed-households get loans for production and other purposes.

As for the reasons for borrowing, 85 per cent of farmers said that they took loans to meet production expenses, 23 per cent borrowed money to buy productive assets and 20 per cent borrowed to meet household expenses. As shown in Table 13, the main sources of capital banks (63.2 per cent), relatives (15 per cent), private money lenders (8 per cent) and micro credit (2 per cent). For particular crops, the main source of capital is banks: rice producers (63.2 per cent), corn producers (60 per cent), cashew producers (64 per cent) and coffee producers (66.7 per cent).

Table 13: Small producers source of capital

SOURCES OF CREDIT	F	Percentage of	
		Responses	cases
Relatives	30	16.5	21.9
Banks / financial institution	115	63.2	83.9
Friends	5	2.7	3.6
Traders / middlemen	2	1.1	1.5
Landowner	2	1.1	1.5
Fellow farmers	2	1.1	1.5
Input dealers	5	2.7	3.6
Private moneylenders	15	8.2	10.9
Micro credit/finance	6	3.3	4.4
Total responses	182	100	132

Source: Survey data, 2004.

Most small producers (91.2 per cent) said they could settle their loans within the agreed period from the sale of their harvest (35.2 per cent) and because of proper production plans (12.8 per cent). Only 8 per cent of them could not pay their loans because of a sudden decrease in yield (75 per cent) or other reasons (25 per cent).

Regarding loan terms, 69.3 per cent of farmers borrowed once a year and 30.7 per cent applied for loans two to three times a year. The percentage of borrowers who took loans once a year is highest for coffee producers with 87.9 per cent and lowest for corn producers with 51.3 per cent. Most of farmers said that they have more loans now compared to five years ago. The main reasons for borrowing are because of insufficient production capital (50 per cent) and increase in production cost (4.8 per cent), while 43 per cent did not provide an answer to the query.

c. State Policies and Programmes for Agriculture and Small-scale Farmers

On state support for small agricultural producers, 83.8 per cent of the farmers said they get support from the government (see Table 14), including special credit programme (14.8 per cent), training (21 per cent) and marketing (19.8 per cent).

However, small farmers expect more support from the government, especially for marketing, credit programmes and agricultural extension services. The forms of government support expected by farmers are marketing (19.9 per cent of responses), agricultural extension services (15.3 per cent), subsidised trainings (10.8 per cent), subsidised credit (13.1 per cent) and implementation and strengthening of land reform and rural development (6.9 per cent).

Table 14: Types of government supports for rice, corn, coffee and cashew producers

TYPE OF GOVERNMENT SUPPORTS RECEIVED	Frequency	Percentage of responses
Price support	26	3.8
Marketing support (e.g. marketing loans)	137	19.8
Special loan for farmers	102	14.8
Irrigation facilities	77	11.1
Appropriate laws and regulations	72	10.4
Trainings	147	21.3
Conduct more agricultural research	93	13.5
Land reform	31	4.5
Healthcare service	1	0.1
Provide varieties	3	0.4
Total responses	691	100

Source: Survey data, 2004.

Expectations by different crop producers

Rice producers: 87.6 per cent of small producers want more marketing support, 64.9 per cent need more appropriate agricultural extension support, 63 per cent need better roads from farms to market, 62.9 per cent need irrigation facilities, 66 per cent need subsidised credit, 29 per cent need subsidised training programmes, and 25 per cent need subsidised seeds. In order to help small rice farmers to increase their income and stabilise their lives in the context of globalisation, the government needs to provide more support for training programmes, loans, marketing and infrastructure.

Corn producers: 75 per cent of small producers need more marketing support, 80 per cent need more appropriate agricultural extension support, 54 per cent need better roads from farms to market, 62.9 per cent need irrigation facilities, 66 per cent need subsidised credit and 45 per cent need subsidised training programmes. Besides training, marketing and infrastructure, seeds are also very important. With the advanced technologies, more higher yielding varieties are available.

Coffee producers: Although small coffee producers need government support for seeds, credit and training programmes, they also seek guaranteed price by the government. Some 60 per cent of small producers need more marketing support, 29 per cent need better roads from farms to market, 41 per cent need irrigation facilities, 41 per cent need subsidised credit, 12 per cent need subsidised training programmes and 31 per cent want guaranteed price support.

Cashew producers: Like rice, corn and coffee producers, cashew farmers need support in marketing, credit, and agricultural extension services as well as technical training programmes. Their expectations are rather high, 95 per cent of small cashew producers want more marketing support, 84.8 per cent need more appropriate agricultural extension support, 19.6 per cent need irrigation facilities, 93 per cent need subsidised credit and 80.4 per cent need subsidised training programmes. Under CEPT, the tariff rate for shelled cashew nut in the Inclusion List was 15 per cent in 2003, 10 per cent in 2004 and will be reduced to 5 per cent in 2006. Providing more appropriate agricultural extension services including production and post harvest processing techniques, subsidised seeds and marketing support by the

government will help farmers to increase income and improve their living conditions. See Table 15 for details on the type of government support expected by Vietnamese farmers.

Table 15: Types of government support expected

TYPE OF GOVERNMENT SUPPORT EXPECTED / NEEDED	Frequency	per cent
Provide marketing support/ Assist farmers in direct marketing	191	19.9
Implement land reform and rural development programmes	66	6.9
Appropriate agricultural extension services	147	15.3
Provide subsidised seeds	40	4.2
Provide Subsidised fertilizers	31	3.2
Provide Subsidised pesticides	34	3.5
Provide Subsidised training	104	10.8
Provide post harvest facilities	32	3.3
Provide subsidised crop insurance	28	2.9
Provide subsidised credit	126	13.1
Build irrigation facilities	59	6.1
Build good/durable farm	48	5.0
Guaranteed price	53	5.5
Price support	3	0.3
Total responses	962	100

Source: Survey data, 2004.

From focus group discussions with small farmers and leaders and interviews with small farmers in different regions, we found out that the main reasons for limited state support are (a) farmers do not have influence on government decisions (31.8 per cent) and (b) limited government budget (61.4 per cent). This is the situation across crops. The top-down decisions sometimes make small farmers dependent. They lack opportunities to voice their expectations and recommendations for better policies. For vulnerable people, it becomes more important to involve them by ensuring their representation in government decision-making and policy formulation.

d. Awareness of Respondents on AFTA

Generally, 54 per cent of the small farmers said they know or have heard about AFTA. These farmers are mostly in the Mekong River Delta and Red River Delta where the residents generally have attained certain education and have more access to information from the mass media. They learnt about AFTA from different sources: radio (32.4 per cent), television (47.5 per cent), newspapers (9.4 per cent), from fellow farmers (5.7 per cent) and government (2.5 per cent). Radio and television are two of the most effective media through which small farmers learnt of AFTA.

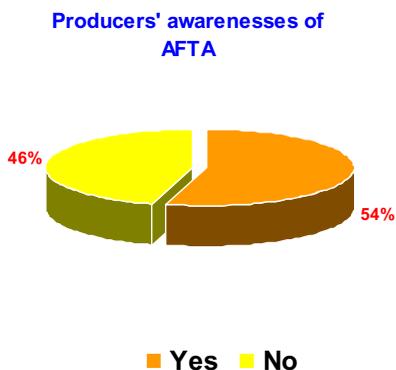


Figure 8

There are still many farmers (46 per cent) who do not know anything about AFTA and its impact on them. These people are mainly in the Central Highlands. They are very poor and are from low educational background. It is very important to increase farmers' awareness of AFTA and WTO and their affects on them.

Many farmers (33.8 per cent) have seen the word AFTA but 28.3 per cent have no idea how they could benefit from AFTA. Only 18.7 per cent of the farmers believe AFTA will create more market for their products.

Table 16: Small farmers knowledge of AFTA

Knowledge about AFTA	Frequency	Percentage
I just saw the word in the newspapers	74	33.8
I have no idea what benefits it will bring	62	28.3
It will create more market for our produce	41	18.7
It will reduce the subsidies we currently enjoy/ cheaper goods	3	1.4
Wider choice and cheaper goods	22	10.0
Free trade/ globalisation	7	3.2
Will bring investments into the country	10	4.6
Total response	219	100

Source: Survey data, 2004.

Table 16 shows that small farmers have limited knowledge of trade and AFTA. Vietnam is now implementing the tariff reduction programme for the 2001-2006 period and is in the process of joining WTO. However, when eliminating quantitative restrictions and non-tariff barriers at a later period, Vietnam has to undertake changes in harmony with its economic structure and policies. Vietnam has submitted its lists for tariff reductions to the ASEAN Secretariat annually. The first Inclusion List comprising 1,633 items was approved in December 1995. Most of the products in this list had relatively low tariffs; only a few showing nominal tariffs above 20 per cent. These have been impacting on Vietnam's economy as well as on small farmers, in particular rice, corn and coffee producers. Farmers need to have basic knowledge of AFTA so they can develop proper production and marketing plans on the way to integration. Currently, farmers have been badly affected by globalisation. The liberalisation/opening of domestic agricultural markets did not result in greater access to ASEAN markets and more sources of capital for small producers. The requirement for production is high while sources of capital are still limited. Living expenses have increased but the prices of agricultural products remain low. The small farmers sometimes either cannot sell products or sell them at very low prices. Moreover, consumers want more safe and organic food products. Thus, the small farmers will have to learn to apply sustainable agriculture to produce high quality products at competitive prices to meet demand in the domestic and international markets.

The opening and development of the domestic economy has led to some shifts. Rural labour has been moving from agriculture to the industrial sector and off-farm activities, even to foreign countries. This has created problems like population imbalance in different regions and sectors, unemployment, insecurity, and unhealthy sanitation conditions. The farmers may

be encouraged to live and work in their own farms and earn better income sources if they have some basic knowledge of AFTA. Moreover, the removal of all quantitative restrictions and non-tariff barriers will attract more competitive products into Vietnam, especially agricultural items. On the other hand, small farmers may have bigger market for their products. Small farmers may incur losses if they do not prepare themselves and put in place good production and marketing strategies.

f. Gender Issues in Agriculture and Trade

The survey and FGD on gender and trade in research areas revealed that the men often perform the tasks of harvesting, applying fertilizer and spraying pesticide while women do the weeding and clearing the straw. The men also perform the heavy tasks such as carrying and weighing the products while the women are responsible for collecting money. Men often play a very important role in making household decisions. However, women also contribute in these decisions. Conditioned by traditional and customs, women do most of the housework like cooking, washing and taking care of the children. However, the men are now beginning to help the women in housework. The local authorities generally inform all households when training or technical support programmes are conducted. Each family will select a member to attend the training programmes. There is no gender bias when selecting the candidates.

Men and women have equal access to credit services. The husband and wife decide jointly on who should apply for the loan. If they borrow from moneylenders, they get into verbal contracts based on trust. However, borrowers must sign their names in loan book and they get loans without collateral. The interest rate on such loans is higher than those provided by banks. If they borrow from banks and other financial institutions, their loan applications must be approved by the Commune People's Committee. If the repayments are overdue, borrowers will have to sell other assets to settle the bank loans. In some cases, farmers can get loans from people's organisations like unions or veterans' organisations if they are members.

In terms of land access, both women and men have land rights. Women can have their names in red books or land use certificates just as men. Some families have many plots of land. Husbands, wives and children can become landowners with their names in red books of land use certificates.

4.2. Major Research Findings

4.2.1. The strengths and opportunities of farmers in Vietnam

1. The literacy rate of farmers is relatively high. Most farmers (61.3 per cent) have completed primary education and 32.3 per cent have completed secondary school. This is good situation to transfer advanced techniques in agricultural production. Among various small producers, the rice farmers have attained a higher level of education compared to the coffee, corn and cashew cultivators. The cashew producers have the lowest educational background.
2. Some 58.7 per cent of rice, corn, coffee and cashew producers have plant more than one season per year. About 74.9 per cent of the respondents said the farm gate prices of products have increased compared to five years ago (1999).

3. There is balance in ownership of farms; 82.6 per cent of husbands and wives own houses. The percentage of land owned by both husband and wife is highest among rice producers (98.4 per cent) and lowest among cashew farmers (65.2 per cent).
4. Most farmers have land for production (98 per cent of farmers are owner-cultivators/land users).
5. Most small producers borrow for to meet production expenses (85 per cent of respondents) and most of them (91.2 per cent) said they could settle the loans. The main sources of loans are banks (63.2 per cent) and relatives (16.5 per cent).
6. Most respondents (83.8 per cent) said they get support from government, mainly in marketing (19.8 per cent of responses); trainings (21.3 per cent); and special production loan (14 per cent).
7. The government has formulated policies, law and development programmes for the rural areas in particular and for the whole country in general. They include Decree 100 –CT/TW (1981), Resolution No10/NQ-TW (1988), Land Law (1992), Cooperative Law (1996) and strategic plan for socio-economic development for period 2001 – 2010.
8. Since joining AFTA in 1995, Vietnam continuously increased taxable items in the Inclusion List of CEPT from 1996 to 2002.
9. Under the CEPT Agreement, ASEAN member states give each other preferential tariff rates of 0-5 per cent. This helps Vietnamese products to access the regional market, which have many advantages: a population of more than 500 million, good transport systems and relatively moderate requirements on product quality. Moreover, the reduction in import tariffs or duties lowers investment costs, thereby enhancing the competitiveness of Vietnamese products in the regional market.
10. The implementation of AFTA commitments will lead to market expansion and trade liberalisation which will boost intra-ASEAN flows of capital, labour and technology substantially. This will help Vietnam as well as other member states to speed up the transformation of the production structure. Vietnam is now actively seeking and determining its comparative economic advantages. Vietnam's advantages are tropical agriculture and an abundant source of labour with various skills. Under AFTA, the more developed ASEAN countries will benefit.

4.2.2. Weaknesses and threats

1. Farmers have low educational attainment (only 5 per cent of respondents have tertiary level and 0.4 have vocational/technical degree).
2. Most farmers have limited land. The average land size of owner cultivators is less than 1.5 hectares (rice: 1.12 hectares per household; coffee: 1.74 hectares; corn: 1.17 hectares and cashew: 2.28 hectares).
3. Farmers still live under poor sanitation condition: 66.8 per cent of respondents consume drinking water from open wells, 45.4 per cent use open toilets, 12.3 per cent do not have toilets, and 51 per cent live in temporary houses.
4. Some 23.4 per cent of the respondents have land from slashing and burning forests and bushes. About 44.7 per cent of cashew producers get land from flashing and burning activities.

5. Farmers live mostly on agriculture (75 per cent of income come from agricultural activities).
6. The average income of respondents is very low. The monthly income of 43.8 per cent of them is below US\$25. The monthly income of another 21.7 per cent is from US\$26 to US\$50.
7. Some 62.2 per cent of the households earn below US\$100 per month. The average monthly income is lowest for rice farmers; the average monthly household income for 22.7 per cent of them is below US\$25.
8. Most farmers (54 per cent) said they have major problems because of limited sources of capital (54 per cent); high production expenses (11 per cent); no source of capital (13 per cent) and high input cost (5 per cent).
9. Some 58.3 per cent of the respondents borrowed to meet production expenses and for other purposes and 8.8 per cent of them were not able to settle their loans.



4.3 Recommendations

Given its strengths, opportunities and weaknesses, both government and farmers should consider the following to improve the living standard of small agricultural producers in Vietnam.

4.3.1. General recommendations for all crops

1. Because of limited land sources, farmers should concentrate on quality crops and animals which give high yields in a sustainable way. Organic methods as well as safe products should be prioritised in strategic rural agricultural development. Moreover, supportive policies for raising product quality and seeking new markets and business partners should be implemented.
2. Investment policies should be reformed so that products and sectors with a high comparative advantage are prioritised, increasing investment in potential and export-promoted products. Vietnam should encourage production of goods for exports and consumer goods for domestic consumption, in order to decrease imports of necessities. It is important that reforms are deepened and strengthened continuously. Liberalisation and the “open door” policies should be further implemented so as to boost the competitiveness of Vietnam’s products and economy.
3. Focus needs to be on the modernisation and industrialisation of agriculture. The government should support farmers more in post-harvest processing as well as in marketing agricultural products. High priority should be given to transfer advanced technologies for the production and processing of agricultural products to add more value.

4. Strengthen management and implement effectively the “target programme of government” on safe water and environment to improve sanitation condition for the people, especially those living in rural and isolated areas.
5. Government promulgates more efficiently a wide range of policies. A tighter and more effective collaboration between state organisations and private corporations should be established to provide the latter with better information on technology, products, markets and international standards.
6. Strengthen credit and saving programmes to meet demand for production capital from farmers, based on mobilisation of internal resources, support of international projects and special loan programmes of government.
7. Provide more training for farmers, especially on advanced agriculture production techniques, sustainable agricultural development, saving and credit, marketing and household economic management, and gender equality and equity.
8. Develop off-farm activities such as handicraft and small trading to diversify income sources for farmers and create employment for rural people in the off-seasonal period.
9. Strengthen farmers’ knowledge of AFTA so that they can develop appropriate strategic plans for production as well as to market and sell their products. This can be done through short training sessions or the mass media.



4.3.2. Recommendations for particular crops

Recommendations for rice

1. Provide more technical support, especially sustainable production development, to produce high quality rice; promote organic production techniques to increase quality of rice which can fetch high price in the export market. Export values rather than volume should be given much consideration.
2. Land permanently planned for rice production should be promptly allocated to farmers, giving them long term licence for land use. Providing necessary support for farmers to produce in their own farms and to prevent land collectivisation and privatisation situation of large areas. This will minimise the landless problem in the Mekong River Delta and the Central Highlands.
3. Replant partly low yield rice areas with fruit trees or organic vegetables with high economic values

4. Strengthen farmers' knowledge of AFTA and WTO so that the small producers can develop appropriate strategies for production, processing and marketing of products.
5. Provide further credit service for rice producers to diversify crops and rear animals to increase household income.



6. Market information should be considered a decisive factor in commodity production. The rice producers should have up-to-date market information such as on price, demand, supply and taste in the domestic and international markets. This can be done through the mass media, leaflets or daily announcement by the local government.

Recommendations for corn

1. Improve credit service for corn producers, especially for the poor to diversify crops and rear animals to increase household income.
2. Increase corn area to meet the domestic market demand and reduce exports. However, importance must be given to keep production cost low, increase yield and use chemical-free methods. These can be achieved by using high quality and yielding varieties, advanced techniques and organic production methods. Winter corn cultivation could be increased in the Red River Delta by making use of wild areas and replanting in the low yielding coffee area in the Central Highlands.
3. Agricultural extension improvement needs to be considered to increase area, yield and income from corn production.
4. Strengthen farmers' knowledge of AFTA and WTO so that the small producers can develop appropriate strategies for production, processing and marketing of products.
5. There must be close cooperation between corn producers and animal feed processing factories. The two-way communication will bring benefits to the small producers and enterprises.
6. The plan to reduce import tariff should be considered carefully to protect domestic corn production and provide opportunities for the development of animal husbandry.
7. Price support for Research Institute of Corn and other seed production units.

Recommendations for coffee

1. Replant low quality coffee area with other crops like corn, black pepper and high value fruit trees. However, high quality coffee areas need technical and financial support to intensify production to export to existing and new markets. Strong cooperation between farmers, scientists, enterprises and government is important.
2. Timely market information is very important for farmers to decide what and how to produce. The information channel should be improved so that the coffee producers will know of the market price and appropriate technologies and techniques to apply. They can get the information through the mass media, short trainings or the local government.
3. Strengthen credit services for coffee producers, especially for poor farmers to diversify their crops and animals and limit the negative impact of AFTA.
4. Agricultural extension services must be improved to help farmers in the production, processing and marketing of products as well as to diversify production.
5. Encourage the establishment of interest groups like farmers' club and women's organisation to mobilise internal resources for production and to market products. The members of interest groups can help each other in accessing loans, exchanging experiences and market information and developing business plans.
6. Review land resources to take back illegal land and reallocate the plots to small farmers who do not have enough land for production or are landless.
7. National and international market supply and demand analysis should be undertaken for different crops. The capacity of export enterprises should be increased. It will not only orient products for export but will also promote domestic consumption to develop a strong local market. China should also be a special focus because it is a potential market for coffee.

Recommendations for cashew

1. Strengthen credit service for cashew producers, especially for the poor to diversify crops and animals in order to increase household income and improve their living condition.
2. Develop cashew nut processing factories at community level to create more employment for farmers, especially in the off-seasonal period.
3. Intensify investment in current cashew cultivating areas and open 300,000 to 500,000 hectares in the Central Highlands, South Central coast and North-East of Mekong Delta regions that are suitable for cashew cultivation.
4. Provide agricultural extension services in the form of technical trainings on cashew production and intercrop production such as application of high yield and quality varieties, advanced techniques and market planning and strategies to increase the income of small producers. It will also help to increase the competitiveness of products in the international market.

Chapter 5

CONCLUSION

It is difficult to determine how much AFTA has influenced the Vietnamese economy because Vietnam is still in the process of realising AFTA. However, it has been affecting Vietnam's economy as well as small agricultural producers. The impact of AFTA on Vietnam's economy is substantial.

The major problems faced by farmers are low average cultivated acreage per capita, lack of capital for production, low capacity to apply advanced techniques, poor infrastructure for agricultural production services, lack of market information and very poor knowledge of AFTA and WTO. As Vietnam completes its AFTA commitments in 2006, intra-ASEAN traded goods may flood the domestic market and hamper the development of domestic sectors. Though Vietnam has many advantages to export rice, coffee, cashew nut, tea, cotton and black pepper, these products are not competitive in the world market because of low quality and high production cost. Moreover, Vietnam is not strong enough in processing and marketing products. These weaknesses make agricultural products less attractive to consumers and they cannot capture a large share of the regional and world markets.

In spite of enormous challenges ahead, the integration process, in particular AFTA, has accelerated the industrialisation and modernisation process in Vietnam. The long-term benefits of integration are unquestionable. Thus, in order to maximise the positive impacts and minimise negative impacts, Vietnam has to prepare and development to overcome the challenges. These can be achieved by maintaining national food security, adopting intensive cultivation and post-harvest activities for major food crops, developing major industrial-perennial crops and making full use of the competitive advantages of humid tropical conditions for crops such as coffee, rubber tree, black pepper, cashew nut, tea and fruits. Vietnam also needs to mobilise every effort to raise livestock breeding through intensive feeding and environmental cleaning. More investment is needed to industrialise animal feed production by using annual subsidiary crops such as corn, sweet potato, legume and fish powder as main materials. Priority need to be given to transfer advanced technologies for the production and processing of agricultural products in order to add more value to commercial agriculture. Awareness of organic agriculture must be enhanced nationwide. The small farmers must be provided with necessary support in the form of processing techniques and technologies, marketing orientation and production capital.



Small farmers should be educated on AFTA, WTO and their impacts so that they can develop better production and business strategies. The implementation of a wide range of policies will be the key factors for socio-economic development. A stronger and more effective collaboration between state organisations and private corporations should be established to provide the latter with better information on technology, products, markets and international standards, especially in the agricultural sector. Investment policies should be reformed so that products and sectors with a high comparative advantage are prioritised. Investment in export products should be increased. Vietnam should encourage production of goods for exports and consumer goods for domestic consumption in order to reduce imports of necessities. Trade liberalisation in the agriculture sector will boost the competitiveness of Vietnam's products.



Vietnam has made initial achievements in its development and international economic integration. The farmers benefited from that process but they have also been affected by the negative impacts of AFTA. Joining AFTA and WTO is an unavoidable process. Their beneficial effects will depend on how Vietnam prepares good policies and formulates strategies for socio-economic development, especially for the improvement of the rural community in general and small agricultural producers in particular.



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