

The Agrarian Question in Vietnam

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Introduction and Background¹

With respect to the development and the future of Vietnam, the sheer size of its rural population – which represents up to 80 percent of the total population - invariably comes as the most daunting challenge to address. The productive employment of the rural constituency represents an immediate and obvious priority since that group needs to be able to cater to itself. But if economic growth is to become sustainable, agricultural development cannot be the main driver since it reaches its plateau at 4–5 percent of annual growth by the most optimistic standards. For this reason, countries that have broken the cycle of poverty have all succeeded in shrinking the size of the working rural population relatively to the overall work force in the country. Therefore, in the short term, other institutional mechanisms need to be provided to enable many in the existing ranks of the rural workforce to trade their existing skills and other personal attributes to evolve and switch into a different and more rewarding occupational activity.

In addressing these issues, I will first assess the current situation of the agrarian sector in Vietnam. I will use data that was collected and published in a series of studies conducted by the International Food Policy Research Institute (IFPRI). These studies cover the Vietnamese agricultural policies from 1995 to 1997 and have been favorably received by the responsible offices of the Government of Vietnam², which collaborated in this research project. Reliable data is hard to come by in the case of communist Vietnam. Reliable data that has received an official “seal” of approval is even more valuable as is the case of the statistics provided in the IFPRI studies. One can say that, as a starting point, there is at least congruence as far as raw data is concerned.

The authors of the IFPRI research project made significant policy recommendations in view of improving the rural economy in Vietnam. To their credit, it is worth mentioning that they did push the envelope as far as they could since their research project has portrayed as “a conspiracy ... to influence liberalization and that IFPRI was the instrument”³ by some Vietnamese Government officials.

¹ The information and statistical data of the agrarian sector used in this paper come from a number of studies conducted in Vietnam by the International Food Policy Research Institute (IFPRI). The authors of the research project had the support of the Government of Vietnam, and the opportunity to work with the thousands of stakeholders in the agrarian sector. They include policy makers in the Vietnamese Government down to the farmers who produce the crops. The IFPRI studies provide a rich and invaluable source of information and help to cast a comprehensive assessment of the state of the agrarian sector in Vietnam.

² IFPRI, January 1999, James G. Ryan, page 56

³ IFPRI, January 1999, James G. Ryan, page 20

For the preceding reasons, some of the IFPRI observations and policy recommendations will be summarized and repeated for completeness in the framework of my paper. Specifically, the production of specific commodities - such as sugar, fertilizer, and rice - will be scrutinized on their own merits. But I will also take into consideration central parameters to carry the argument much further. As an example, the notable record of rice production is balanced against the disparity of wealth, which continues to increase at the expense of the rural population. The causes of this widening gap in wealth will be discussed. Subsequently, I will propose changes and alternatives to address the challenges posed by the agrarian sector.

I will first focus on the sugar and fertilizer sectors, the export of rice, which are monopolized by State Owned Enterprises (SOEs). I will then expand on the production of rice, which is essentially the work of private farmers. The rice, sugar, and fertilizer sectors together represent about 80 percent of cultivated land, about 95 percent of national agricultural output, and provide employment for the majority of the rural population⁴. Therefore the analysis of these sectors can form the basis of some general conclusions of the state of the rural economy in Vietnam.

The sugar sector⁵

The development of the sugar sector is intended to provide a showcase for rural industrialization. A large factory surrounded by large sugar plantations typically represents the organization of production. This model of production is designed for optimal conditions of efficiency and low cost of production. The sugar policy has been instituted to promote rural industrialization of regions that have lower agricultural potential than the two deltas: the North Mountains and Midlands, North Central Coast, South Central Coast, and Central Highlands. Because it is a national policy of rural development for regions of lesser agricultural potential, much resources have been used to promote sugarcane growing and processing, including financial subsidies, protection from cheaper imports, conversion of land to sugar cane production, fertilizer, etc.

However, the efficiency of production of sugarcane in Vietnam is low by any standards. It is 48 tons/ha in Vietnam, as compared to 60 tons/ha in Thailand, and 75 tons/ha in Philippines and India. Goletti suggested that even with yield improvements of up to 50 percent, the North Mountains and Midlands would still find profitable to buy cheaper foreign sugar. Low efficiency also characterizes the conversion of sugarcane to sugar. In Vietnam, it takes 16 tons of sugarcane to obtain one ton of sugar, when the average conversion rate in other countries is a ratio of 10 to 1. In 1997, the wholesale price of sugar is about 25 percent higher than the import price. The causes of inefficiency in production will be discussed later once the same pattern will be described in the other sectors such as fertilizer, and rice.

And yet, the state support is continuing unabated. Most of the production increase is due to an increase in newly planted areas and sugar cane plantations growing at 10.7 percent

⁴ IFPRI, May 1998, Francesco Goletti, page 2

⁵ IFPRI, May 1998, Francesco Goletti, page 12

per year. There are plans to fund 52 sugar refining factories with better technologies, of which 1/3 were under construction in 1997. Goletti argues that the current sugar policy imposes a cost to the country. Trade liberalization would make sugar available at cheaper prices (22 percent) implying savings of US \$92 millions per year. It is also argued that liberalization would not destroy domestic production of sugarcane but it would call for a reallocation of production in regions that have a better comparative advantage. It is noted that the benefits of the sugar policy are only advantageous to a minority of sugar industry participants.

The fertilizer sector⁶

With domestic production meeting only 13 percent of the total requirements in fertilizer, the import of such products became critical. From the national standpoint, Vietnamese officials argue that the need for some level of self-sufficiency is required to provide stability against the vagaries of the international market. Two concurrent measures are therefore instituted to meet the objectives of that policy: (1) increase the national production of fertilizers, (2) establish a system of import quotas to strictly control the quantities of imported fertilizers.

The impact of these measures is as follows. On average, over the period of 1990 –96, urea prices in Vietnam were 41 percent higher than East Europe prices, 72 percent higher than Indonesia prices, and 17 percent higher than West Europe prices. Since domestic production has been insignificant in meeting the total demand of fertilizers, it has been decided recently to move ahead with the construction of a power-fertilizer complex at Phu My in the Ba Ria – Vung Tau area with a capacity of 680 MW and 800,00 tons of urea. Natural gas will be used for both electricity and fertilizer production. This will allow Vietnam to produce up to 40 percent of total urea requirements and reduce the need for imports.

The cost analysis that has been conducted put the projected cost of urea at \$200/ton, whereas based on world price it is indicated that at \$160/ton the project would not yield a benefit. Even more powerful than the sugar lobby, the Phu My lobby includes local authorities and construction companies that look upon these mega-projects as an opportunity for rent seeking and inflated profits.

With respect to import quotas, nineteen provinces and cities and 8 centrally-run enterprises were allocated the quota of 1.5 millions tons of urea in 1997. Goletti computed that the quota system imposed an additional \$25/ton cost to the farmers. With a total import of 1.5 million tons, this results in a total cost of \$37.5 million to the country. The quota system has no mechanism for selecting efficient importers. Recorded cases show that many organizations had applied for quota licenses because of the subsidized credit. Fertilizer import activities were undertaken because of the access to credit, which, in turn, were used to finance other activities. Quotas have been sold to

⁶ IFPRI, May 1998, Francesco Goletti, page 15

third parties: “informal interviews reveal that the value of selling these quotas was \$3-4 per ton.⁷”

The case of rice – which will be discussed next - differs from the two previous because here the agents of production are private framers and the role played by SOEs in the internal rice marketing system is minimal. However, SOEs dominate in the area of long-distance trade, and exports, where they have monopoly rights.

The rice trade⁸

Private traders purchase almost the totality of the marketed surplus (96 percent) from farmers. In the Mekong Delta, private traders are also the main suppliers of rice to SOE that in turn are responsible for the south-north rice trade and for rice exports. According to the Government of Vietnam, the restrictions imposed on the trade of rice for export purposes are intended to ensure food security for the poor. Thus, for export purposes, quotas are imposed. With respect to inter-regional trade of rice, the restrictions are as rigid and administrative procedures are as complex as those required for the export of rice. Officially, the control policy is intended to stem the flow of rice smuggling to China. Movements of rice within the north and within the south are less regulated but they are still subjected to roadblocks, tolls and other rent-seeking activities from local authorities. Furthermore, SOEs have monopoly rights on the export and south-north trade of rice.

The rice market performs poorly in that policy environment. Restrictions on the south-to-north flow of rice are very costly. It is estimated that only 42 percent of the price gap are explained by cost of transportation and marketing⁹. The remaining 58 percent are equivalent to a tax in the amount of \$100 million per year. The private sector is not allowed to participate in the export of rice even though their unit marketing cost is about one fourth to one sixteenth of those of SOEs¹⁰.

The poor quality of rice exports has often been the main constraint to obtaining a competitive price. Beyond the criterion of broken percentage, other factors such as moisture content, length of the grain, fragrance, homogeneity, absence of foreign matter, etc., also get into consideration. The lack of adequate storage facilities renders the process of loading a single shipment of 10,000 tons or more into a complex coordination operation. The quantity required by such a shipment has to be coordinated from 20 or more warehouses that have to assemble rice from an even greater number of mills. Quality control in this context is very hard to manage.

The lack of competition in turn triggers other disadvantages. Poor infrastructure and huge shipping costs in Vietnam (twice as much as in Thailand) combined with the long delays in completing the sales process help to explain a higher discount of Vietnam rice in international markets, up to 13 – 15 percent lower than other competitors such as

⁷ IFPRI, May 1998, Francesco Goletti, page 17

⁸ IFPRI, April 1997, Francesco Goletti, page 5

⁹ IFPRI, April 1997, Francesco Goletti, page 36

¹⁰ IFPRI, May 1998, Francesco Goletti, page 12

Thailand. Credibility suffers mightily when the general business environment is prone to rent-seeking activities, disputes, breach of contracts, etc.

It is without saying that this inefficiency results in huge losses that have to be subsidized with state funds. Let me now discuss the causes of inefficiency and underproduction that have been uniformly observed in the three sectors of sugar, fertilizer, and the export of rice.

Causes of inefficiency and underproduction in the SOE sector

The fact that key commodities from Vietnam are paid on international markets at low prices can be explained by different crop qualities, a lack of standardization in processing, insufficient investment in equipment, etc. Promoting quality control, however, requires a distinct set of yardsticks and processes. In the case of rice, small farmers have no means to play in that league. Their meager means allow them only the choice of selling their crop at a local market or to SOEs. What governs the behavior of SOEs reflects a totally distinct phenomenon and is now the subject of my attention.

From the standpoint of a SOE manager, there is no competition, and success does not come in meeting the requirements of the market at the most advantageous terms. In communist Vietnam, the yardsticks of success are defined by the prevailing political consensus. In this context, survival comes from the support of one's own constituency, conformity to the prevailing consensus and compromises gained with the other factions in the leadership. What other leverages can the Vietnamese SOE manager use?

Profits that are achieved above the assigned targets are not an option because of many factors. Profits above assigned target are fully taxed and flow right into the Treasury's coffers. In fact, achieving profit above target can potentially become a liability for the SOE manager because profit above target will raise the performance yardstick with no associated personal rewards.

The cash flows that are generated from SOEs' economic activities are used to finance the activities of the state. Independent yardsticks of performance count very little in the allocation of state credits and investment decisions since political considerations have always had the upper hand. Consequently, decisions - that are made - are based on the "trading"¹¹ of influences and mutual advantages of the different factions in the political leadership. This phenomenon essentially defines the operating environment. The control rights over the use of the cash flows intrinsically define the power structure in communist Vietnam.

With state credits, the placements of key personnel of one's own political constituency can be accommodated. With larger state credits, a large power base becomes possible. State credits therefore define the livelihood of party officials. Consequently, justifying

¹¹ "Kapitalizm", Rose Brady, Yale University Press, 1999

larger projects becomes an end in itself¹². Justifying larger projects is warranted when conditions of production shortages are also present. These two conditions perversely suit about every SOE manager and party officials that are contending for state resources. Creating production shortages is effective for the purpose of gaining concessions in the bargaining process. Shortages in production also create a potent situation in which to extract other advantages or rents¹³ from those who have a need for one's services or products. As shown in the production of sugar, fertilizer, and the export of rice, conditions of shortages and inefficiency in production and in services are indeed pervasive.

This pattern is also commonly found in communist regimes. Shleifer and Vishny¹⁴ described the situation in the Former Soviet Union as follows: "managers and bureaucrats prefer to collect bribes, even despite all the waste associated with queuing and lobbying, they will try to create a shortage. The industry's objective is to maximize the value of bribes." *Clearly, a system of incentives that would enable efficiency in production and investments is not in place.* I will take up the discussion of such a deficiency later.

The production of rice

The Doi Moi (Renovation) policy abandoned the previous framework of collective farming by recognizing the household as an economic agent, and by instituting a number of liberalization measures that had allowed the Vietnamese economy to experience remarkable levels of growth in the years after the reform. During the 1990s production continued to grow, partly because of increasing land productivity and also because of the lack of alternative options for rural employment. To a large extent, farmers grew rice because they could ensure a minimum income and food security. As a result, Vietnam became the 2nd largest worldwide exporter in rice (4 millions of tons) after Thailand in 1998. Rice production grew 57 percent¹⁵ from 1985 to 1995. Rice production in Vietnam is characterized by labor-intensive practices confined to small farms supported by the wide use of fertilizer. Only 23 percent¹⁶ of the surface of Vietnam are agricultural land and over half of it is used for the production of rice. The two deltas, the Mekong River Delta in the South and the Red River Delta in the north, account for more than two-thirds of the national production of rice.

The Red River Delta is one of the most densely populated agricultural regions of the world, with more than 1,000 inhabitants per square kilometer. The farm size is quite small (0.25 hectare) and intensely cultivated (cropping intensity is 1.8). The production of the Red River Delta represents 18 percent of the national rice production. In the Mekong River Delta, the average farm size is larger (1.25 hectare) tended by a lower population density (401 inhabitants per square kilometer). The production of the Mekong

¹² It is important to note that meeting the demand of the market is a secondary consideration. More importantly, none of the actors in that process has to personally repay the credits that are obtained.

¹³ IFPRI January 1999, James G. Ryan, page 22: "MARD and MOF both were concerned about the power and economic rents being earned by the SOE from their rice export monopoly".

¹⁴ "The Grabbing Hand", A. Shleifer, R. Vishny, Harvard University Press, 1998.

¹⁵ IFPRI, 2000, Nicholas Minot, Francesco Goletti, page 7

¹⁶ IFPRI, 2000, Nicholas Minot, Francesco Goletti, page 9, Table 1

accounts for more than half of the national production of rice. The rest of Vietnam is divided into five regions, which are all rice-deficit regions. Labor use is 3 to 4 times higher in the Red River Delta because of the transplant of seedlings (versus broadcasting seed in the Mekong River Delta) and less mechanized threshing. Since 1990, fertilizer use has increased dramatically up to 200 kilograms per hectare.

Land rights

Resolution 5 approved by the Seventh Party Congress in 1993 instituted long-term land use rights to farming households, including the rights to exchange, transfer, lease, inherit, and mortgage in specific circumstances. The ownership of the land remains however the property of the state. Land redistribution from state farms and cooperatives to farmers has proceeded with speed. In short, land markets – in the form of transfer of land use rights – has taken hold in the South and in the North as well.

Goletti noted the following difficulties in that process. “Land titles are not easily obtained unless special relations with local authorities are established.” The imposition on the duration of land use rights to 25 years and a landholding ceiling to 3 hectares place severe limitations on the ability to industrialize agriculture and increase in efficiency. It is noted that in practice, especially in the South, such limits are often ignored. Cases of land holdings of hundreds (even up to thousands) hectares are known. Goletti: “such operations cannot be feasible unless special connections with the local authority can be secured”. The system is therefore not transparent and consequently outside capital investment will not likely be attractive.

The right of use

Ensuring social equity, and providing economic development represent the two basic measures of performance of government policies. The right of use of the land, as a rural policy in communist Vietnam, is no exception. Its basic premise is to ensure equal access to the land by the farmers so that they can provide for their livelihood and to achieve the national goal of the supply of targeted agricultural products.

In spite of these social policies, farmers in Vietnam remain the poorest elements of society and, in terms of GDP per capita, the gap between the rural sector and the urban sector is very high. According to Goletti¹⁷, the urban income per capita was 7.5 times higher than rural income per capita in 1995. If 80 percent of the population remains behind, it is hard to envision positive development for the entire population. Poverty is an anti-social condition, irrespective of the reasons that produce it. Therefore, the original intents of the government policies are in direct contradiction with the reality in the country. The question to ask then become:

- Does this egalitarian principle - in the form of right of use of the land - limit the farmers to conditions under which they cannot prosper? In other words, does the

¹⁷ IFPRI, May 1998, Francesco Goletti, page 3

right of use of the land promote or inhibit efficiency? The resolution of this issue is essential if the agricultural sector is to grow and develop on a sustainable basis.

These are central considerations because the right of use represents the cornerstone of the social policy of the communist system.

The communist perspective on property rights

According to communist precepts, private holdings and the factors that help to enforce these institutions – financial profit is one such prominent example – are the primary causes of social inequality. Following the communist doctrine, financial profit represents the measure of the exploitation exercised by one class of the population - the owners - over the other - the deprived - for its own benefits. The case in hand was the Industrial Revolution, which created the “proletariat”. The two capitalist constructs - private property rights and financial profit - are therefore anathema to the communist regime. Therefore, wealth that is accumulated belongs to the State. Devoid of any individual imperatives, the pool of state-owned goods and services can fully be utilized to promote social equality by addressing the broader and higher needs of the population. To that end, land remains under the ownership of the state, and the farmer is only provided the right of use of the land for productive purposes. Intrinsically, private property rights are regarded as harmful to society. With highly restrictive private rights, it is maintained that profiting from state-owned goods for private purposes would not be feasible. The communist’s view regards rights as absolute, i.e., they exist or they don’t and there is no intermediate state as far as rights are concerned.

The preceding interpretation is due, I believe, to the fact that two distinct concepts – the nature of property rights and the question of abuse of property rights – are lumped together, and hence, the reason for much confusion. I will analyze these two concepts separately. I will first argue that property rights are the required foundation of the wealth creation process and the necessary attributes of social equity. I will argue further that in regard to the question of abuses of rights, the potential for such behavior is much higher in a monopolistic regime than in one that promotes competition.

Alternative perspectives on property rights

Let us clarify the nature of property rights first. According to Barzel¹⁸, rights do not need to be formal to exist. “Anyone who expects to benefit from an asset, be it a legal owner or a thief, is a partial owner”, i.e., there can be real, tangible, but “informal” rights. It can be seen that the extent to which an individual can enjoy the attributes of a good actually defines his rights over that good. In that respect, the personal prerogatives of Vietnamese government officials over the benefits that the state-owned goods can provide – in the form of favors, bribes, etc. - are examples of private property rights. *Therefore, rights include both formal and informal rights. Private property rights are in fact pervasive in Vietnam, but they are mainly the prerogatives of communist party officials.* The preceding definition of rights is much more than a matter of semantics; it faithfully

¹⁸ “Economic Analysis of Property Rights”, Yoram Barzel.

reflects the importance of the informal sector in Vietnam, which most likely outweighs the formal sector.

Property rights, efficiency, and wealth

Economic growth will occur if it is worthwhile to undertake socially productive activities. As potential for gains exceeds costs, efforts will be made to protect such arrangements. Societies are most likely to prosper when there are institutions that formally recognize and protect these arrangements. Cooperation would be enabled. When transaction costs are positive, each contract structure is associated with different allocation of resources, different distribution of wealth. When competition is enabled, contractual structures that give rise to positive profits survive, and other forms of production go under. From that standpoint, individuals will acquire, and relinquish ownership based on costs and profits. In other words, owners are those who are efficient in the use of resources. *Therefore, private ownership can be regarded as the most tangible measure of efficiency in the use of resources.* Because the benefits yielded by activities can be kept, the individual has the direct incentive to improve production. He/she has valid reasons to acquire knowledge and to further invest when the benefits of the investment can be appropriated. The creation of wealth is therefore given the best conditions to succeed.

In the monopolistic communist regime, the system of incentives yields perverse effects because the rewards of the task at hands are not necessarily related with the performance on the task. Those who want to become owner of the means of production make that choice for the purpose of retaining and enhancing their personal options. In that context, formal control rights of government officials over the allocation of state resources give rise to personal prerogatives – i.e., informal rights - that can be abused for personal profit. Systemic distortions are introduced with all the waste and inefficiency associated with the phenomenon. *Aligning the system of incentives with the task at hands has an importance that cannot be overemphasized.*

Property rights and social equity

Choosing an appropriate social arrangement would not be possible without knowing the associated costs, social and private. This is clearly intractable in a communist system since profit cannot formally be owned, and as a consequence, associated costs will also be disallowed. In general, government officials are not held accountable for the mismanagement of state resources. The failure to take into account the costs imposed on others constitutes one of the most harmful undercurrents of the communist system. This is unfortunate because profit and costs define the livelihood of each individual. In that sense, *cost and profit represent the real measures of social equity when they are the dual function of each other.*

In situations where competition is not allowed, a monopolistic regime will take over. The abuse of the “capitalist” class during the Industrial Revolution period arose because there was collusion between the political and the business leaderships. The power and means

of the State were put to use to exploit the “proletariat” to benefit the political and business interests.

Financial capital and private property rights¹⁹

Property rights can take the form of a title of ownership. A title makes assets fungible. When property rights are protected, almost anyone who owns some form of property (house, land, etc.) can go to a bank and raise a loan by using the personal property as collateral. If the capital that is raised is used for productive purposes, everybody wins. The bank gets paid in the form of an interest by taking a risk in providing the loan. The individual is able to leverage his entrepreneurship and raise his productivity to a new level. Wealth is thus created. If the venture fails, the individual having spent away the value of the collateral loses the personal property. In all cases, meeting the demand of the market and efficiency in production are the determining yardsticks. Society will gain.

A reliable property system makes everything easier. Assets can be divided between multiple owners. A farmer dies and the title and the property rests with the wife and the children. They can decide to sell the farm, or retain equal shares in it. Or the more committed sibling can buy the other shares out. The possibilities are many. Values of land, houses, and other assets can widely be disseminated and transacted based on their legal records. Business relationships with strangers can be performed. *A reliable property system provides a multiplication effect since it enables people to undertake economic opportunities well beyond their own neighborhood.* The multiplication effect is most easily grasped in the case of intellectual knowledge. Once a patent recognizes an invention, it can yield as much value as the number of businesses that are willing to use it. Everybody gains in the process because it is advantageous for all concerned parties.

The State owns more assets than any individual. But the capital used by the state for production or investment purposes yields results that are diametrically opposed to the private sector because banks, inevitably, are forced to lend for political reasons rather than commercial reasons. Sound commercial practices cannot be enforced under such conditions.

Without a title of ownership, the individual cannot raise any loan since no bank will lend money without some form of collateral. Without property rights, all factors of production - capital, labor, and technical know-how - are reduced and limited to the nominal value and physical confines of the world in which the agent of production lives with none of the advantages that the world at large can take advantage of. The multiplication effect cannot be effected in such conditions.

All developed countries are countries that promote and protect private property rights. All poor countries have ill-defined property rights. Private property rights constitute the fundamental divide between rich countries and poor countries. In that regard, the evidence across the world is quite overwhelming. *Therefore it is no exaggeration to say*

¹⁹ “Poverty and Property Rights”, The Economist, March 31, 2001

that the institution of private property rights²⁰ constitutes the foundation of economic growth and social progress.

Conclusion

There is little potential for expansion of rice area and only minimal potential for further intensification in Vietnam. Rice output will increasingly rely on yield expansion. Yield growth in Vietnam has far exceeded the Asian average. Thus, yield growth can be expected to fall in the coming years²¹. With a rapidly growing population, one can say that agrarian Vietnam has reached its growth limits. The physical constraints are very real since, in ecological terms, natural resources are being abused beyond their capacity to maintain a balanced environment. Floods, which used to happen every four to five years in Vietnam, have now become a yearly event with unparalleled ferocity. And yet, deforestation is continuing unabated.

Economic liberalization as prescribed by many will increase productivity only when producers can keep the profits generated by their work. Property rights to producers have to be recognized and legalized and therefore this, ultimately, calls for the privatization of profits. This is the cure of under-production and shortages.

Prosperity will necessarily require the population at large to have a stake in society. The central building component of prosperity revolves around a satisfied owner. He/she would guard society against extreme actions. Private property rights have to be instituted in Vietnam with the proper institutional framework to render them effective. They are basic rights and represent the clearing of the ground for all subsequent reforms. They are needed most where they have been weakest, at the bottom and base of the social pyramid. The resolution of the farmers' problem will lay the foundation of a stable society.

Specifically, land and rural reforms have to take place. A "land to the tillers" program has to take place with all the formal protection and support that such a process requires. The conditions of success for the business of farming have to be gathered and made available. A transfer of ownership of the land to the farmer is a required step but it will not be sufficient. The existing role of the state as an agent of production has to be eliminated. In that process, the multiplicity of services provided by the state will have to be assumed by private agents, else there will be major disruptions. Specifically, a system of incentives has to be put in place to make the risks of doing business acceptable to the private banks, marketing and distribution partners, and other intermediaries in the new environment. In the same thrust, technical assistance programs will have to be put in

²⁰ It has been argued that China is one glaring example where economic growth has been remarkable without the institution of private property rights. This case does not constitute a contradiction to our argument, however. According to Prof. Krugman (Foreign Affairs, November 1994), if you invest in more machines and employ more workers, you would produce more. Growth in communist countries is primarily due to a massive mobilization of labor and capital resources. Growth will slow down when there are no more workers to employ, unless you have better technology and you are able to raise efficiency. Raising efficiency is what it is all about and there is no evidence that communist economies know how.

²¹ IFPRI, 2000, Nicholas Minot and Francesco Goletti, page xii

place to train farmers - who are experts in growing rice - in becoming business managers of their enterprises. Detailing this transitioning framework will be our next project.

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