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**VIETNAMESE AGRICULTURE IN A CENTRALLY PLANNED ECONOMY AND  
IN THE TRANSITION TO A MARKET ECONOMY**

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# WORKING PAPERS

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CHAPTER IV: AGRICULTURAL REFORM AND GROWTH; 1979-1987	40
4.1 The first steps of reform; 1979-1980	
4.2 The first wave of reform; 1981-1987	42
4.2.1 Contract System no.100, 1981	
4.2.2 Agricultural production under Contract System no.100	44
4.3 Macroeconomic impact on agricultural development; 1981-1987	47
4.4 General assessment of the first wave of reform; 1981-1987	56
CHAPTER V: VIETNAMESE AGRICULTURE IN THE SECOND WAVE OF REFORM; RESOLUTION NO.10, 1988	58
5.1 Background to the reform of 1988	58
5.2 The "Resolution 10 contract" or "Household contract"	60
5.3 The impact of the "Resolution 10 contract"	61
5.3.1 Expected benefits of the "Resolution 10 contract"	
5.3.2 Consequences of the new contract system	64
CHAPTER VI : CONCLUSIONS AND POLICY IMPLICATIONS	69
6.1 Conclusions	69
6.2 Policy implications	74
BIBLIOGRAPHY	77

## LIST OF TABLES

	Page
Table 2.1 Foreign Aid as Percentage of Government Revenue; 1955-1980	19
Table 2.2 Economic Growth during the First-Five Year Plan	20
Table 2.3 Grain Production in the North of Vietnam; 1954-1980	21
Table 2.4 Production Costs and the Value of the Workday; 1961-1965	27
Table 3.1 The Relationship between sizes of Cooperatives and Production of Rice in the Red River in 1979	34
Table 3.2 Changes in Agricultural Production and Price Index; 1964-69	37
Table 3.3 Paddy Rice per Capita per Month in the North; 1976-1980	38
Table 4.1 Agricultural Development in Vietnam; 1981-1985	45
Table 4.2 State Capital Invested in Agriculture; 1981-1985	46
Table 4.3 The Development of main Non-cereal Production; 1976-1991	47
Table 4.4 Production, Area, Yield of Food Crops and Food per Capita; 1976-1993	48
Table 4.5 The Growth of Industrial Production; 1976-1989	49
Table 4.6 Export Value of Agricultural Products; 1985-1993	50
Table 4.7 State Price before and after the 1981 Adjustment	51
Table 5.1 Additional Capacity used in Agriculture; 1981-1990	62



## ABBREVIATIONS

CC	Central Committee
CC VWP	Central Committee of the Vietnam Workers' Party
CMEA	Council for Mutual Economic Assistance
Co-op	Co-operative
CPV	Communist Party of Vietnam
CT/TW	Central Committee's Directive
DRV	Democratic Republic of Vietnam
FFYP	First-Five Year Plan
GDP	Gross Domestic Product
GOS	General Statistical Office
NEP	New Economic Policy
SRV	Socialist Republic of Vietnam
TYP	Three-Year Plan
VWP	The Vietnam Workers' Party
WB	World Bank





## CHAPTER ONE

### INTRODUCTION

#### 1.1 Introduction

The history of Vietnamese nation in general, the economy and agriculture in particular is very complicated. Its complicatedness has redoubled since 1954<sup>1</sup>, when Vietnam was liberated from the French colonialism. In 1954, according to the Geneva Treaty, Vietnam was divided into two parts: the North (the Democratic Republic of Vietnam ---the DRV) and the South. The latter was under the control of the USA until 1975, when it was liberated.

The DRV, from 1954 to 1957, reconstructed its war-torn economy. This period is also referred to as the period of 'National Democratic Revolution', which preceded the "Socialist Revolution" in the subsequent period beginning in the late 1950s, in which an equal land redistribution (1954)<sup>2</sup> took place and; in which the 'Mutual aid team' based on a voluntary basis was introduced to Vietnamese agriculture (1955).

The history of Vietnamese agriculture and peasantry from 1955 onwards is the most complicated part of Vietnam's economic history. It is because of the continuous changes in agricultural and macroeconomic policies and the sensitiveness of agriculture in response to these changes.

This paper focusses on the performance of Vietnamese agriculture during the period 1955-1988, in which the DRV model<sup>3</sup> attempting a centrally planned economy was introduced (1955) and implemented (1958-1979), in which the crisis (1979) and failure (1986-1987) of the DRV model in agriculture occurred, in which the piecemeal reforms (1981 and 1988) as solution therefore took place and in which the process of transition from a centrally planned economy to a market oriented one or from a collective to a household based agriculture has started (from 1988 onwards)<sup>4</sup>. A further focus of the paper is on the role of

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<sup>1</sup>see appendix 1 for crucial dates and periods.

<sup>2</sup>In many documents on Vietnamese history, this event was marked in 1954. The land reform itself, however, took place between 1953 and 1955. It was carried out firstly in the early liberated areas (1953) and then spread to the rest and completed in 1955.

<sup>3</sup>see chapter II for discussion about the DRV model.

<sup>4</sup>see chapter V for the transition process in agriculture.

the peasantry, the main productive force of agriculture, in the performance of agricultural production during the period considered.

Existing studies on Vietnamese agricultural performance are often fragmented and limited either by time periods or subject areas. This paper intend to provide a broad understanding about the history and performance of Vietnamese agriculture in its transitions during the last decades, the gap existing between the theory and practice in a centrally planned economy and the considerable contribution of the 1980s' agricultural reforms to the success of the 1989 radical economic reform and stabilisation programme.

The paper consists of an introduction, four chapters and a conclusion setting out policy implications.

Chapter II will first review the economic situation of Vietnam (DRV) before the introduction of the DRV model; second, the chapter discusses briefly the model itself, which Vietnam applied for three decades and; third, the chapter describes the application of the DRV model in agriculture ---the collectivisation--- and the main results obtained by the low-level cooperative during the period 1958-1965.

Chapter III begins with the conversion of the low-level cooperative into the high-level one, its performance during the periods: 1965-1975 in the North, in which some specific attention is paid to the effect of the US air war (1964-1972), and 1976-1980 in the country as a whole. Reasons leading to the crisis of the model will be examined in the last section of the chapter.

The fourth chapter will be devoted to the first phase of the agricultural reform process<sup>5</sup> between 1979 and 1987 which is divided into two sub-phases: 1979-1980 as a preparatory step for reform and 1981-1987 as the 'first wave of reform'<sup>6</sup>. The cause-effect relationship of the reforms, the impact of the interactions among macroeconomic policies and agricultural policy on agricultural production are also examined in this chapter.

Chapter V considers the second phase---second wave of reform, which takes place from 1988 onwards, or the transformation process from a collective agriculture into a household one. The main impacts of economic reforms during this period form the basis for a further reform process.

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<sup>5</sup>For analytical purpose, the process of reform is considered in two main phases: one is from 1979 to 1987 and the other is from 1988 onwards which are distinguished by the policy applied.

<sup>6</sup>The 'first and second wave' of reform is used in Vietnamese literature and by Dapice (1994).

Chapter VI summarises the main findings of previous chapters which lead to the paper's conclusion and advance some suggested policy implications for the future of rural development.

## 1.2 Objective and limitation of the paper

The objective of the paper is to explore some of the problems leading to the stagnation, decline of agricultural production and crisis of collectivisation in the late 1970s and its failure in the second half of the 1980s; to show the impact of the 1980s' agricultural reforms and macroeconomic policies in the 1980s on agricultural production and the economic superiority of a household based agriculture over the former collective one.

The paper is addressing by three main questions:

- (1) Why and how did Vietnam collectivise its agriculture? What were the purposes and results of this collectivisation process?
- (2) What caused the Vietnamese Party and Government to come to the reform-decisions for the 1981 and 1988 reforms and; How can their results be evaluated in economic and social aspects?
- (3) What should the Government do to stimulate a further agricultural and rural development and facilitate agriculture to contribute more to national development?

The hypothesis of the paper is that, agriculture can perform best and bring the highest results to the country's economy only when the economic interests of the peasantry are guaranteed and; when the state-provides appropriate agricultural and macroeconomic policies to facilitate agricultural development. A further statement is that, *ceteris paribus*, household agriculture is more suitable than collective one since it directly deals with economic interests of the peasantry, which permits producers to make their own production decision and use their experiences in organisation of the production process while collective agriculture doesn't.

The main conclusion of the paper is that, while the early stage of land reform, collectivisation was positive in many respects, high-level co-operatives were less successful than has been hoped. Moreover, once the war ended and the country was reunified, collective agriculture (particularly its extension to the former South) became dysfunctional. While the reforms of 1981 and 1988 did not reverse economic decline, they laid the basis for the post 1988 stabilisation programme which proved highly successful. It is to be

expected that the peasant household sector will contribute more to the economic and social development if more incentives are provided and a favourable environment is created.

In solving the above, the paper is based on primary, secondary and tertiary data sources, the practice of socialist planning and agricultural performance in Vietnam, a series of national and international publications concerning Vietnamese economy as well as own life and work experiences of the writer in areas such as: agriculture, government procurement, planning and price policy and internal commerce.

One limitation of the study lies in the inaccuracy of data which is the result of a weak statistical system and a lack of basic economic research in initial years. Until 1965 there existed no manpower estimates by provinces [Charriere (1966) and White (1985)] and things did not improve in the following decade due to the serious US air war. Even recently, data reported by the General Statistical Office for the same items are inconsistent in different Statistical Yearbooks. Since largely different sources of data are used in the paper, the reliability of data must be open to some questions.

### 1.3 Approach to the paper

The paper is descriptive and historical rather than analytical in a strict sense. Based on a survey of available literature and data, the paper discusses briefly the economic situation during the economic reconstruction period (1954-1957), right after the liberation from the French colonialism (1954) as a background for the economic model applied by the DRV for three decades: 1958<sup>7</sup>-1988. Problems of economic structure, export, import, aid, saving, investment, price, exchange rate, foreign exchange earnings, inflation and macroeconomic policies and management are mentioned to show their links to agriculture. The impact of agriculture on the macro level of the economy and the response of agriculture to its changes is examined since agriculture is an inseparable and important component of the economy as a whole and performed under the interaction of all economic categories, policies and sectors. In the paper, emphasis will be mainly on the application of the DRV model in agriculture---the collectivisation--- and its modifications during

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<sup>7</sup>Imported in 1955, the model was really put into practice in 1958.

several sub-periods: 1958/1960-1965, 1965-1975, 1976-1980 and 1988 onwards<sup>8</sup>. Two transition processes are covered: from household agriculture to collective agriculture and vice versa. In each process, the main economic relationship, the decisive factor of fluctuation in agricultural production, which is the conflict between peasants' and the state's objectives, will be examined and shortly analyzed. From 1988 onwards, the major changes have been in macroeconomic policies which also contributed to the increase in agriculture production but this will not be dealt with in this paper.

Since Vietnamese society has relied on a poor and backward agriculture, the growth of output is mainly dependent on the degree of exploitation of two primary factors of agricultural production: land and labour.

Although Vietnamese agriculture has well diversified among food production, industrial crops, animal husbandry and fishery, more emphasis is placed on food production which contributes the largest part (50%) to the total agricultural gross domestic product (GDP)<sup>9</sup> and has played a decisive role in the agricultural and economic development as a whole.

Until 1988, neither price played a role in the DRV model and nor did tax (or land rent) in Vietnamese agriculture (consisting of 7-10% of total grain output since the 1960s). However, the details of the tax problem are beyond the scope of this paper.

Furthermore, some model comparisons made in the second chapter are to lead to the theoretical rationale for collectivisation in the early period of the DRV model. In the late 1970s, agriculture in most of the centrally planned economies fell into crisis and each country has pursued its own way of reform corresponding to its concrete conditions. Vietnam is not an exception. Therefore, the paper is exclusively concentrates on the reform process in Vietnam with its achievements and failures. Vietnam's reforms have actually rooted from its internal demands and been carried out to respond to its very specific conditions.

As Vietnamese agriculture is in the process of transition from a centrally planned to a market one, ideas of market economic theories are applied to examine the benefits and consequences arising from the reforms.

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<sup>8</sup>see appendix 1 for sub-periods. The sub-periods are divided mainly according to the state economic plans and/or main specific economic policies of each sub-period.

<sup>9</sup>while each of the other two sectors contributes equally 25% to the agricultural GDP [Timmer, 1993].

#### 1.4 Background and summary of issues

Vietnam is a densely populated, poor and primarily backward agricultural society with a population of 70 million and per capita income of about \$200. The total agricultural cultivated surface is around 7 million hectares which gives a land area per capita of only 0.1 ha. Agriculture is the largest sector in the economy. Together with forestry, it made up 56% of national income in 1990 while in 1986 this figure was 47%. Valued at international market prices, physical production shown in national income accounts contributed to more than 60% of GDP. About one-third of the total export earning in the last ten years came from agriculture. Nearly 75% of the labour force are in farming and forestry. Roughly 80% of the population lives in rural areas. Further, agro-processing is the single largest component of the industrial sector. Moreover, on average, the Vietnamese household spends nearly two-thirds of its income on food, especially on rice which provides about 60% of the daily caloric intake [Vietnam (1991); Timmer (1993) and Dapice (1994)]. These figures suggest that, not only at present but also in the future, the food and agricultural sector remains the key to both economic growth and improved welfare. Therefore, studying agricultural performance and development in the context of economic policy package as well as prevailing agricultural policies, their impacts on agricultural and rural development makes sense for a further economic and rural policy improvement.

Historically, northern Vietnamese agriculture developed within the framework of collective commune which was based on the communal land and was to provide members with services and mutual help when members were in difficulty. For many centuries, the communal economy had been a low level subsistence agricultural one. It had especially suffered from the persistent threat of starvation during the colonial time (1858-1945)<sup>10</sup>.

The victory of the August Revolution in 1945 led to the foundation of the Democratic Republic of Vietnam (DRV) which allowed Vietnam to carry out

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<sup>10</sup>The communal collective weakened during the colonial time. In 1945, the communal land accounted for above 65% and decreased to 56% of the total cultivated area during the period 1949-1953 [Vickerman, 1986: Table 2.1:61]. By 1945, communal collective was in its last stage. Land was increasingly concentrated in hands of French colonialists (10%) and Vietnamese landlords (2% of the rural population occupied above 22% of total land). Peasants had to work on communal land and pay high rent and tax (in kind) to the French and/or feudalists. Their lives were miserable. The worst result was more than two million deaths in the famine of 1945.

two main land reforms in the North in 1949-1953 and 1953-1955. The result was an equal land distribution and only small-scale ownership remained. These redistributions of land had given autonomous right over land and production decision-making to private peasant households which helped increase production considerably during the subsequent years until 1959 and transform a subsistence agriculture into a commodity one.

Peace returned to the North of Vietnam after the French withdrawal in 1954. After three years of economic recovery (1954-1957), Vietnam launched upon the DRV programme---model--- in 1958 based on a communist economic model aimed at stimulating high growth rate.

In agriculture, it meant the collectivisation of production based on the collective management, ownership of land and the main means of production. The Stalinist and the Maoist models of collectivisation were modified to fit Vietnamese conditions. This process ended rather successfully in 1960 with the appearance of low-level cooperatives (co-ops). It did not carry the coercive character of the Stalinist co-op model and, was not followed by famine as in the Soviet and Chinese cases although it did lead to a sharp decrease in rice output (by 20% between 1959 and 1960). Collectivisation opened a period in which the rural economy suffered from the neglect and often from over-exploitation on behalf of centralised plans for industrialisation. This development strategy squeezed agriculture to foster growth in industry at the inevitable cost of rural incomes. Like the Soviet co-op model, tribute collection was emphasised, and as the Maoist model, more attention was paid to the role of rural cadres and a full utilisation of all available resources in the rural areas; on the positive side, with the help of socialist aid, the model resulted in a social guarantee of a basic minimum of food, clothing, education and employment for virtually all rural population which was very meaningful under the war conditions.

The shift of the low level cooperative to the high level one in the mid-1960s up to 1985<sup>11</sup> created more and more contradictions between peasants' and state's interests in which the former were increasingly ignored while the latter were emphasized. The income share of peasants decreased while that of state and co-op increased. This took away the economic incentive of peasants and discouraged them to work for the co-op.

In 1975, the South was liberated and Vietnam was reunified in 1976. The

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<sup>11</sup>Vietnam announced that for the country as a whole, the collectivisation was completed by 1985---at least on paper.

government forced the South to apply the DRV co-op model regardless of strong resistance by southern peasants who were used to produce for the market with a diversified production and make their own decisions. During the process of collectivisation a lot of damage was done, and the spread of co-ops was only nominal in the South. In collectivising agricultural production in the North, Vietnam took one step backward while in implementing collectivisation in the South, Vietnam took two steps backward [Pham Nhu Cuong, et. al, 1991]<sup>12</sup> since where collectivisation occurred, private ownership over land and means of production of peasants was eliminated and a diversified commodity agriculture was returned to a subsistence one.

Collectivisation alienated the land, means of production and crops from the peasants. Collective ownership created irresponsibility in the peasantry; egalitarianism in distribution of income rescinded individual initiative and enthusiasm in production. Depressed income shares of peasants in the total output further discouraged peasants to work for co-op in both parts of the country. Other impediments to agricultural growth were the unfavourable price, trade and investment policies and the lack of incentive goods. As a result, agricultural production stagnated and declined during the period 1976-1980. Serious food shortage caused the government to raise food imports. Moreover, the end of all kinds of aid from Western donors, the difficulties arising from the US economic embargo and the American war's aftermath exacerbated the situation. In the late 1970s, Vietnam found itself in a sharp economic crisis and this simultaneously reflected a crisis of the DRV model.

In the late 1970s, the DRV model in agriculture shared the five main problems of collectivist agriculture identified by Ellman (1979):

First, the absence of some of the economies of scale postulated by Marxism-Leninism. Secondly, the need to design an effective system of labour incentives. Thirdly, the use of collective farms by the state primarily as instruments of taxation and control of the rural population. Fourthly, the extreme inequalities and lack of social control over decision taken, to which it can lead. Fifthly, the use of administrative methods where economic methods are more efficient [Ellman, 1980:92].

The VIth Party Plenum in 1979 opened a period of renewal of economic thinking, policies and management which led to the 1981 partial reforms in areas such as: agriculture with the "Contract System no.100", industry with the "Three Plan System", trade with a loose market control and export

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<sup>12</sup>in respect of social-economic formation.



promotion, and price adjustment. Since there was no fundamental change in the institution and relatively little incentive was given to producers, the positive effects of the reforms were only temporary. Moreover, the lack of coherence, complexity and consistence of policies stopped the reform from going further. Agricultural production and the economy as a whole went up and down as a result of the shift of policies during the reform period.

In late 1985, the price, wage and monetary reform with its serious policy errors, flaws in implementing and conception, and their aftermath---of which high inflation was the worst--- contributed greatly to the worsening the people's living conditions, to the stagnation and decline of agricultural production and the economy as a whole.

The VIth Party Congress (1986) recognised the gravity of the mistakes in the development strategy of the old model and launched upon a "Doi Moi" or "Renovation" programme. The aim of "Renovation" was to change the economy from an inward-looking and centrally planned to an outward-oriented market one, but under the macro regulation of the state. This was the result of a long but indecisive process of self-criticism of the Party and Government which was accompanied by spontaneous experiments from the bottom up and mistakes along the way. The role of each economic sector was redetermined. Instead of heavy industry, agriculture now gained priority. It was widely recognised that, the transition to a market economy and industrialisation carried out under mostly internationally isolated conditions could only rely on the basis of internal sources; ie, mainly on the accumulation of rural economy. It was said in the words of Boerje Liunggen that:

"The task is immense, especially as it is being implemented without international support" [ Preface to Fforde and Vylder work, 1988]

Vietnam found itself in the situation of the Soviet Union at the end of the war communism period in 1921. The application of the New Economic Policy (NEP) in the Soviet Union during the 1921-1925 period was repeated in Vietnam with a few modifications. The idea of a mixed economy and producers' incentive factors: prices and profits, leading to developing of forces of production agreed by Lenin and Bukharin by 1925 [Dijkstra, 1992] was now generally accepted; and so was Bucharin's idea about the role of agricultural taxation as the means of surplus collection, since there still existed a strong attempt of recentralising the economy and implementing an import substituting industrialisation strategy during 1985-1987 period in Vietnam. This reflected

a change in using management methods from an administrative to an economic one. It is worth recalling that: in Vietnam, during the 1960s and 1970s, the ideas of Preobazhensky in the early 1920s about the role of agriculture in original socialist accumulation was predominant and therefore, an "unequal exchange" policy between state goods and agricultural products was implemented in the economy.

The transition to a market economy in agriculture meant the transformation of a collective agriculture into a farm based household one. However, the delay in policy making and implementation of "Renovation" in agriculture plus the consequence of contradictions in macroeconomic policies caused strong reaction of peasants and thus, agricultural production to stagnate and decline sharply again in 1987. As a consequence, a serious food shortage and famine occurred in early 1988. This fact forced the government to carry out another agricultural reform in 1988 (Party Resolution 10).

Unlike the 1981 reform, the 1988 one gave greater incentives to farmers and guidelines to a major change in agricultural institution. With Resolution 10, peasant households became autonomous economic units in agricultural production. They regained the right on own decision-making and ownership of means of production. They also gained the right on long-term use of land although there is no private ownership. The compulsory food delivery was abolished; tax is the peasants' only obligation. The role of the co-op was reduced considerably in the northern and central regions. The co-op acted only as a production supporting institution instead of an overall controlling one. After 1988, the high level co-op virtually disappeared in the South. Fortunately, the short duration, the small scope and the nominal form of the cooperative had saved a sharp decline in southern agriculture.

Resolution 10 was accompanied by changes in other macroeconomic policies such as: the elimination of transport and trade barriers, price liberalisation, the official recognition of the private sector and its equality to other sectors of the mixed economy, which helped production recover and increase considerably in 1988 and 1989. A national rice market was created. Compared to 1987, in 1989, in spite of severe floods, rice production increased by 22.6% that helped Vietnam, after many years of dependency on food imports and food aid, not only guarantee its food security but also export 1.4 million tons of polished rice making Vietnam the third largest rice-exporter in the world. Price began to play the role of a resource allocator. Not only rice, output of industrial crops also increased which ensured a regular input

supply to agro-processing industry and an increase in its exports and thus a rise in income of peasants. As a result, a larger market for industrial output and a source of accumulation for agricultural and industrial investment have been created. By establishing food security, Vietnam could abolish the entire food rationing system and consequently the food price subsidization system practised since the late 1950s.

Nevertheless, the reforms since 1988 have not yet succeeded in every areas of rural economic, social and cultural life. Many problems have emerged and these need to be solved by introducing and implementing appropriate social and economic policies and laws.

No country can obtain a sustainable economic development and prosper by focusing only on agriculture although agriculture will still play a very important role. Industrialisation must be carried out and, in a mixed economy like Vietnam, accumulation for industry should be mobilised from household agriculture. To reach this goal requires that producers be stimulated; ie, more incentives should be given to peasants: more right over land to encourage long-term investment and freedom in buying inputs and services, selling output and choosing crops they want to cultivate in response to market prices. At the macro level, finance, credit and investment policies and other macroeconomic and social policies should facilitate the rural development.



**CHAPTER TWO**  
**THE DRV MODEL AND ITS OPERATION IN AGRICULTURE**  
**DURING THE PERIOD 1958-1965**

**2.1 Background to the DRV model**

In 1954, with the liberation from French colonialism, Vietnam was divided into North---the DRV--- and South. The North (DRV), under the leadership of the Vietnamese Communist Party (VCP)---the Vietnam Workers' Party (VWP) at that time--- began the course of economic construction and social development.

The economy of the DRV at the time of liberation was a poor, backward and stagnating agricultural one. Industrial production was negligible; in 1954, it accounted for only 1.5% of total production [Delattre (1961), in Vickerman, 1986]. Modern industry consisted of only seven enterprises. It represented some 10% during the latter part of the colonial period [Le Vinh (1962) in Vickerman, 1986], but much of this had been destroyed by the war and the French also dismantled machinery when they finally withdrew. The end of French trade caused serious shortages of consumer goods and prices rose until 1958. As a result, in 1955, imports of consumer goods made up 55% of all imports (Vo Nhan Tri, 1967) and during the reconstruction period (1954-1957), considerable attention was paid to light industry which then contributed 75% of industrial output and grew much faster than heavy industry.

That socialism could be successfully built in a backward agricultural country was the dominant idea in Vietnam at that time. This was reinforced by the practice of economic and social development in the Soviet Union and China where the Party found some similarities in the background and thus reasoned that Vietnam could learn from their experience. The transition to socialism in the North [and fight for the liberation of the South] was the country's strategy. A communist economic model which represented, to a significant degree, characteristics of both the Soviet and Chinese economic models was introduced and applied. Fforde referred to this as the *DRV model* [Fforde, 1988] in which emphasis was on central planning, state ownership in industry, state and collective ownership in agriculture and domestic commerce.

The main objective was to turn a half-feudal and half-colonial backward agricultural economy into a modern industrial and agricultural one by rapidly industrialising the country through giving priority to heavy industry. The extent of priority to industry has been the subject of an important debate

among Soviet economists in the 1920s in which they agreed that agriculture would have to finance industrial accumulation but disagreed upon the means of extracting the surplus from agriculture and the relative merits of taxation and the use of terms of trade in the absence of Stalin's forced cooperation.

Stalin's contribution was to reverse Lenin's New Economic Policy (NEP), recollectivise all industry and agriculture, the latter "financing" industrialisation by means of forced grain deliveries. The market was effectively abolished and the allocation of resources placed under central administration.

The same model was implemented in Vietnam for three decades (1958-1988)<sup>13</sup>. In the first two decades of socialist transformation (1958-1979), Vietnamese economic policies followed Preobazhensky's ideas that the essential need was to modernise industry since its growth potential was greater than that of agriculture. In an economy dominated by agriculture this inevitably meant that agriculture would have to finance state industrialisation and the means to extract surplus for accumulation was the use of internal terms of trade in favour of industry against agriculture; Preobazhensky referred to this as the "Law of Primitive Socialist Accumulation" [in Vickerman, 1986:3]. He saw it necessary that peasants should sacrifice their interests to industrialise in the short-terms and would be benefited in the long-terms from industrialisation, in form of modern input and consumer goods, as national income rose

Bucharin had another approach to growth. He believed that the industrialisation process should be part of a balanced development. Agricultural surplus should be transferred to industry, by using taxation, but not indefinitely. He argued that the maximal industrial growth would be obtained only on the basis of a rapid growing agriculture.

In Vietnam, during the process of socialist transformation, central planning and administrative direction of the economy were supposed to minimise the influence of private economic power. Pressures against the markets were to avoid the possibility of land-concentration and land-loss and thus prevent the emergence of capitalist agriculture. The administrative plan brought order to the growth of industry and the flows of resources throughout the economy.

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<sup>13</sup>It is difficult to clarify when Vietnam abandoned the DRV model. Although at the VIth Party Congress in 1986, a "Doi Moi" or "Renovation" programme was approved but the major changes in the economic policies and management only occurred in 1988 in agriculture and in 1989 in other sectors.

Agriculture was subordinated to industry and was to supply the industry with cheap food (wage goods) and industrial materials, facilitating capital accumulation by marketing agricultural surplus and/or exporting. Industry was to foster agricultural development, when it developed, by providing the peasantry with modern agricultural inputs and incentive goods.

The means to obtain this objective were the nationalisation of industrial enterprises, trade and the collectivisation of agriculture. This process occurred in the North from the late 1950s until the early 1960s. After the reunification of Vietnam in 1976, an attempt was made to extend this procedure to the South without great success.

## 2.2 The DRV model and its characteristics

The economic model of the DRV was built on the experiences of the Soviet Union and China. Vickerman described it as "*Stalinist with some Maoist and local adaption*" [Vickerman, 1986:2]. Like in the Soviet and Chinese models, the economy has been managed directly through central plans, state ownership and control of trade and finance.

Fforde and Paine claimed that the DRV development programme

"sought to use a large central bureaucracy to allocate resources directly into what were seen as the priority tasks of national construction. These were understood simply as rapid industrialisation, by which was meant the creation of large-scale modern industry" [Fforde and Paine, 1987:1].

It was Stalinist in the sense that it was primarily concerned with growth and, more specially, with centrally planned accumulation for industrial growth; ie, more centralised than Maoist model. The pursuing political goal of the model was to catch up and outstrip the capitalist industrialised countries from backward agricultural and isolated economies since socialist economy was understood as an industrialised one. The model was therefore highly inward-looking.

A further characteristic of the model was that agricultural collectivisation would be the means to collect attribute or surplus from agriculture for industrialisation purposes.

As Millar (1970) remarked:

"the characteristic nucleus of the model may be defined ... by the critical significance that is attributed to the extraction of a sizeable agriculture surplus of some sort in support of rapid industrialisation" [in Vickerman, 1986:2].

Rapid growth was the explicit goal of the model. A large expansion of state employment in social infrastructure of bureaucracy in the areas like education, health care, culture, etc. was to help fulfil it.

The political legitimacy of the model derived from its representation of interests of the two main new social classes: the collectivised peasantry and the growing industrial working class. Industrialisation was seen as a necessary instrument for enforcing and consolidating the leading role of the industrial working class in the society. Economically, industrial accumulation was facilitated by a large state-owned industrial sector. The peasantry, mainly based on agricultural cooperatives (co-ops), was to feed the urban population and supply industrial material inputs to state industry. During the industrialisation process, priority was given to heavy industry at the expense of light industry and agriculture.

Like the Chinese model, the DRV model differed from the Soviet model in two crucial aspects: many state-owned enterprises were locally-run, and a large informal economy existed parallel to state and collective sectors (Irvin, 1994). Furthermore, in the agriculture, as the Chinese and unlike the Soviet (Stalinist) version, collectivisation took place step by step through three stages: the mutual aid team, low-level co-op and high-level co-op<sup>14</sup>. As in Chinese agriculture, collectivisation would not go hand-in-hand with mechanisation but precede mechanisation and the degree of mechanisation was low. It was based on the argument that collectivisation would facilitate mechanisation. The very low land endowment per capita in both Vietnam and China [0.1 hectare; Selden (1993)] required the concentration of land take place before carrying out the latter and, since both countries are mainly engaged in wet rice production many activities are impossible to mechanise. As in China, Vietnam is very densely populated and most of the population lives in the countryside, one factor giving the Vietnamese co-op a Maoist character. Further, rural population in both countries had contributed much to the national revolution and, to a degree, party members (leaders) there became more experienced in the mobilisation of the masses. In the process of collectivisation of Vietnam and China in the late 1950s, more attention was paid to the role of rural cadres and the full utilisation of all available resources in the rural areas, especially the use of massive work for

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<sup>14</sup>Although Vietnam does not consider 'Mutual aid team' (1955-1957) as a result of collectivisation since cooperation programme was approved in 1958, which was a part of the socialist economic model.



irrigation projects and in creating rural public utilities. The coercive character of collectivisation was less in both the Maoist co-op and DRV co-op. That made possible the fact that, in both China and Vietnam, despite of a very low income per capita level, the model could guarantee a basic minimum of food, clothing, education and employment for the whole rural population.

Although the DRV model was a mixture of the Soviet and Chinese economic models, it differed from both in some aspects. In the early years of the DRV model, production in both industry and agriculture was not really centralised and neither was domestic commerce. In Vietnam, the collectivisation process went much more smoothly than that in the Soviet Union and China. This might be explained by the fact that the vast majority of Vietnamese peasants had been poor before the collectivisation [80-90% in 1958-1959; Chuong, et. al, (1991)] and benefited from the land reforms carried out by the government; thus they responded enthusiastically to the party's direction. More important, Vietnamese peasants had a tradition of working in communal collectives for many centuries until French time. Therefore, the socialist co-op was an adaptation of traditional collectives---the communes [Fforde and Vylder, 1988] which offered a solution to the problem of national economic development and welfares to members in rural collectives, such as helping families in difficulties, financing valuable services in rapid expanding medical and school systems. This also helped explain why the Vietnamese co-op was not as large as that in China and why Vietnam could shun famines following the collectivisation as in the Soviet and Chinese cases<sup>15</sup>. However, collectivisation in Vietnam did lead to a sharp decrease in rice output (from 6.44 million tons in 1959 to 5.36 million tons in 1960). Another important factor making the DRV model different from those above was that: the DRV model was set and practised under the war conditions for a long time (1964-1972).

In the 1970s, apart from the Soviet co-op model, cooperative agriculture in both China and Vietnam faced with serious problems: weak positive incentives, weakness in production organisation and management and "free rider" problems in collective agriculture which held back the production. In China, collective agriculture failed to substantially improve the livelihood of most of its members. As Selden points out:

Twenty five years of collectivisation produced no gain in food

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<sup>15</sup>Carr (1977) indicated that about 6% of the total Soviet population died during the famine and, Kane (1988) estimated the number of Chinese people died in the early 1960s famine was 20-30 millions.

consumption levels, virtually no gain in per capita rural income, and declines in cash income and income measured as a return to labour days [Selden, 1993:220].

The same tendency was observed in Vietnamese collective agriculture, and the situation was even worse due to the long US air war during the 1960s and its aftermath in the 1970s as well as the internal and external political and economic problems of the late 1970s. In Vietnam, both the economy and the model went into crisis in the late 1970s and to failure in the second half of 1980s. These led to demands for radical reforms which will be discussed in detail in the next chapters.

## **2.3 Macroeconomic issues under the DRV model**

### **2.3.1 Trade and price mechanisms under the DRV model**

The DRV model paid little attention to domestic commerce and international trade. At time of independence, over 90% of the population was peasants. Their income was mostly in kind. Cash income was negligible. The economy was highly inward-looking. Like industry and agriculture, commerce was controlled by the state and consumer cooperatives, and known as "socialist trade". The state determined prices for all kinds of goods, from industrial consumer goods to vegetables and products of supplementary family economy. There was absolutely no trade in industrial inputs nor in means of production which were allocated by the state according to the central quantity plan.

The turnover of socialist internal trade accounted for over 90% in 1960; 92.2% in 1965 and 93.3% in 1971, but decreased gradually in the 1970s as the family economy widened and the South trade was integrated. The figures fell from 80.1% in 1972 and 79.5% in 1973 to 40-45% in the period 1976-1984 [General Statistical Office (GSO) (1985) and Vickerman (1986)].

External trade was carried out in the framework of the former socialist system. Vietnam's exports during the period 1958-1988 were mainly agricultural and primary products and the foreign exchange earning from export was negligible. Imports of investment and consumer goods were financed by foreign aid and borrowing mainly from the Soviet Union and China.

In the DRV, the state managed price system was formed on the basis of domestically produced rice price which was then used as the yardstick for the determination of prices and barter exchange ratios. This system was completed in 1964 and applied to the North until 1975 and thereafter to unified Vietnam until 1981. The price system was characterised by: (1) a state determined and

centrally managed one aimed at stabilising prices; (2) a system of very low prices<sup>16</sup>; eg, the rice price was 0.4 Dong<sup>17</sup> equal to one twelfth of that on the free market in 1980, etc. (Tiem, 1991); and (3) a system isolated from the world market prices; eg, a fixed exchange rate system: the Dong remained fixed against the Ruble at 5.644 throughout the period 1958-1980.

Internal prices had only a nominal character and were used for internal accounting and planning purposes; a "cost-plus" system applied in price setting but price had no allocative function. The maintenance of large price distortions and irrational fixed exchange rates for a long time were main factors hindering the economic development, causing disturbances in the production, distribution and circulation of goods and services and creating great burden on government budget through heavy price subsidy.

### 2.3.2 Credit and public finance issues of the model

A striking feature of the model was the degree to which Vietnam's credit and public finance was underdeveloped. Credit was mainly given to the public sector according to the state plan at very low (or even negative) real interest rates. Only a small part of it was provided to the collective sector such as co-op agriculture and handicrafts at higher interest rates than those offered to the former. Credit was generally inefficiently used throughout the DRV-model period.

Low levels of income and domestic savings made the country depend heavily upon the Council for Mutual Economic Assistance (CMEA) external finance<sup>18</sup>. A larger part of financial investment requirements came from foreign assistance: 62% for the Three-Year Plan (TYP) (1958-1960), of which 89% was in grants, and 11% in loans and 34% for the Five-Year Plan (FFYP) (1961-1965) all in loans (N.T. Hung, 1977). During the period 1955-1960 foreign aid had constituted a large portion to government budget receipts [see Table 2.1] and during the period 1961-1964 foreign aid was about one half of

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<sup>16</sup>There exists a dual market (an unofficial sector co-existing with the state sector) with much higher prices, a reflection of the 'economics of shortage' (Kornai) characterising the state sector.

<sup>17</sup>Vietnamese currency

<sup>18</sup>This, incidentally, was also time of South Vietnam from 1955 to 1975 which was highly dependent on French and, later, US aid.

**Table 2.1. Foreign Aid as Percentage of Government revenue, 1955-1980**

Year	1955	1956	1957	1958	1960-64	1965-75	1976-80
Aid share in Government revenue (%)	40	41	38	26	20	63	35

Source: Vo Nhan Tri, 1966; Le Chau, 1967 and P.V. Tiem, 1991.

the size of internal accumulation [Lavalley' (1971) in White 1985:98]<sup>19</sup> The rest of government budget receipts came primarily from taxes including the agriculture (consisting of 10% of the total grain production) and latter mainly from trade via state enterprises: 76% in 1960 and around 70% in the subsequent period up to 1988. The public financial situation worsened since the early 1970s; government revenue collected from domestic and foreign sources continuedly decreased. In the late 1970s the implementation of the DRV model became more difficult and the model could no longer be financed except by borrowing from the Central Bank thus laying the basis for ensuing high inflation<sup>20</sup>.

### 2.3.3 Agriculture-industry relationship under the DRV model

After the economic reconstruction (1954-1957), Vietnam launched upon its socialist economic strategy. From 1958 onwards the country embarked on industrialisation centred around heavy industry. Both the TYP and the FFYP gave a clear priority to the development of heavy industry---67% of industrial investment to the former and 79% to the latter. Even in the wartime, when consumer goods shortage was very serious, heavy industry still received the major share of accumulation and industrial investment: 82% during the period 1965-1968 and 76% in the period 1969-1971 (N.T. Hung, 1977); 67% in 1976 and 81% in 1980-1982 [GSO, 1982].

In the early years of the DRV model, agricultural production grew fast

<sup>19</sup>In the early 1960s the DRV voluntarily imposed upon itself a strict rule limiting foreign aid from socialist countries to 20% of total investment as a stimulant to national efforts in order to avoid excessive dependence [Lavalley', 1971].

<sup>20</sup>Vietnam still received aid from Soviet Union until 1989 but very irregularly and much less than before.

(see Tables 2.2 and 2.3<sup>21</sup>). It did contribute to industrial development. The

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**Table 2.2 Economic Growth during the First-Five Year Plan**

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Average Annual Percentage Change, 1960-1965	
Total Population	3.0%
Total Social Product	9.1%
Total Industrial Output	13.6%
State Industry	19.2%
Artisanal and Light Industry	4%
Total Agricultural Output	4.2%
Staples Output	3.4%

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Source: Fforde and Vylder, 1988:28.

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food supply was abundance and state procurement prices were even higher than free market ones<sup>22</sup>. Apart from socialist aid, the agricultural tax and marketed surplus<sup>23</sup> were key determinants of industrial growth and helped keep the industrialisation process moving. It was stated that domestic and international trade of agricultural and industrial products<sup>24</sup> helped realise accumulation "which makes possible to import equipment, machines and raw materials for industry" (Lai, 1971). Furthermore, agriculture also provided industry with an abundant and cheap labour force.

In 1960, nearly 60% of government expenditure went to accumulation<sup>25</sup>.

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<sup>21</sup>To Table 2.3: During 1961-1965, the rise in grain output was due to new technology: irrigation, soil mechanisation, chemical fertilizer and new seeds while between 1965 and 1972 it relied on the increase of crop intensity from one to two or three crops per year.

<sup>22</sup>In 1954, the DRV government took the prevailing prices on free markets as the norm for stability and initial control of trade. The rise in agricultural output during 1955-1959 caused a fall in free market prices due to a small state sector and thus the demand for agricultural products.

<sup>23</sup>Spoor (1987) indicated that tax revenue coming from agriculture was 30.7% of total revenue (or 50.5% of domestic revenue) in 1955.

<sup>24</sup>Mainly of agricultural products, since only about 10% of GDP came from industry in the late 1950s.

<sup>25</sup>government expenditure in 1955 was about 17.6% of National income and that of 1964 was 43% [Spoor, 1987:340]. Data of 1960 was not given.

**Table 2.3(a) Grain\* Production in the North of Vietnam, 1954-1980**

Year	Grain production (mil.tons)	Population (mid-year) (millions)	Grain per capita (kg)	Grain yield (tons/ha)
1956	4.41	13.0	320	1.72
1957	4.89	14.6	335	1.92
1958	5.37	15.0	358	2.06
1959	6.44	15.5	415	2.43
1960	5.36	16.0	335	1.98
1961	6.66	16.6	401	2.24
1962	6.58	16.6	396	2.19
1963	6.67	17.7	379	2.22
1964	6.56	18.3	358	2.18
1965-68	6.73	19.8	340	2.28
1969-71	6.25	21.8	287	2.30
1972	7.07	22.4	316	2.57
1973	6.37	23.3	271	2.43
1975	5.30	24.6	215	1.86
1976	6.39	na		2.16
1979	6.17	na		1.91
1980	5.97	na		1.93

**Table 2.3 (b) Grain Production in the North of Vietnam by period**

	1955-59	1960-64	1965-71	1972-75	1976-80
Grain production (mil.tons)	5.28	6.37	6.52	6.25	6.18
Grain per capita (kg)	357	378	317	267	

Source: Mark Selden (1993:223).

\* consists of rice, maize, potatoes, etc. but is measured in rice equivalence; eg, 1kg of rice = 4kgs of potatoes.

Together with foreign aid, domestic savings was channelled into the state sector and used to develop modern state industry, which contributed considerably to the achievement of the economic plans' aim that "industry was

to grow much faster than agriculture and handicrafts, and heavy industry was to grow faster than light industry" [For the Three-Year Plan, 1958; and First-Five Year Plan in Vickerman, 1986] and showed impressive rates of growth in the period 1960-1965 (see Table 2.2).

As a consequence, the share of light industry fell from 73% in 1957-1959 to 59% in 1963-1965 and continued to fall during the war years when emphasis was put on light and local industry. The handicraft sector was a major supplier to the peasantry and its performance was not compensated for by a sufficiently rapid expansion of industrial consumer goods production. This practice led to an increased share in net marketing product of consumer good imports; the share rose from 13% in 1960 to 32% in 1974 to alleviate the constraint. The emphasis on heavy industry, especially industrial investment<sup>26</sup>, and the neglect of light industry and handicrafts were a constraint on agricultural development. As the state ---industry--- was not able to supply the peasantry with goods, peasants had little incentive to produce and thus the marketing of agricultural surplus shrank. This tendency became clear when the internal terms of trade moving sharply against agriculture in the 1964-1969 period [P.V. Tiem, 1991] and in the early 1980s [Beresford, 1985]. It was later admitted more explicitly by DRV leadership:

For the past twenty years, we have had a virtual absence of industrial machinery for agriculture, and also not enough light industry, so our cities didn't have much to sell to the countryside. As a result, the peasants were not keen to sell to the city folk (Nguyen Khac Vien, in Vickerman 1986:37).

In an allocation system based on administrative quantity plans, quality, costs and prices were not what managers and workers/labourers were concerned with. The consequence was that: industrial goods of both heavy and light industry were characterised by low quality and high costs. Large waste was unavoidable<sup>27</sup>. In the early 1970s, criticism of poor quality, irregular

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<sup>26</sup>The share of industrial investment in total investment often accounted for about 40-45% while that of agriculture was only roughly 20% and in 1960 this figure was only 10.7%. Meanwhile agriculture contributed one half of GDP and industry did only less than 20% [Spoor (1987), Statistical Office (1990, 1991) and Riedel (1993)].

<sup>27</sup>Each year, from the 1960s to the late 1980s, the material, tools, means of agricultural production and consumer good trade reported that there always had been a large amount of these goods was unsold because of bad quality and/or in many cases planners forgot to distribute such materials and goods. On the other hand, production units, regardless of the response of the consumption side, continued producing according to their given plan target and

supply and inappropriateness of goods available often appeared in many documents<sup>28</sup>.

Industry could not fulfil designed tasks and obtain the expected results. It could not play the supporting role to agriculture. Consequently, stagnation of the entire production took place. In spite of these, the model had been implemented in the North during the period 1958-1975. It was even forced to transplant to the South after the reunification (1976). Major changes occurred only after the "Renovation" had taken place in 1986.

## 2.4 Agriculture under the DRV model

### 2.4.1 Post-land reforms and the early years of collectivisation; 1958-1965

Before 1945, Vietnamese peasants used to work on communal land and in communal collectives which delivered only a low level subsistence agricultural economy. After the foundation of the DRV in 1945 and the liberation from the French in 1954, two main land reforms were carried out in (1949-1953) and (1953-1955). The former distributed 1.5 million hectares, mainly from communal land and that confiscated from foreign imperialists, to 2.4 million households and the latter distributed another 895,000 hectares confiscated from internal feudalists and landlords. The result was an equal land distribution and only small-scale ownership varying between 0.5 ha and 1 ha remained. These land redistributions had given autonomous right over land to peasants, liberated them from feudalism and thus changed the situation of rural areas. Peasants had land, made their own production decisions and produced enthusiastically. Agricultural production developed briskly at this stage until 1959. A subsistence agriculture was therefore transformed into a simple commodity one. Grain production and per capital output increased from 4.41 million tons and 320 kilograms in 1956 to 6.44 million tons and 415 kilograms in 1959 respectively [see Table 2.3].

Although mutual aid teams appeared on the voluntary basis just after the land reform in 1955 and widely spread during 1955-1957, which consisted of over 50% of the peasant families since June 1956 [Vickerman, 1986],

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add more and more to inventory. High cost of production and unexpected inventories pushing up the prices plus low quality made them unusable and became waste.

<sup>28</sup>In many years, between 30 and 60% of agricultural tools and machines are out of order due to the fact that they were of poor quality [Tho, 1982].



differentiation within the peasantry took place. Families lacking sufficient financial resources or experience in farming could yield only a low output level and had to transfer land. Rich peasants began to emerge. This fact together with the persistent alert warning to the Party and Government that: "The small production basing on private ownership begets capitalism daily and hourly" then became a burning issue. The fear of emerging a capitalist agriculture, the want to immediately industrialise the economy and build socialism from a poor and backward agriculture urged the party and government to push cooperation by rapidly collectivizing labour and the means of production. This was the result of the perception of socialist thought going back to Lenin in which the collective was the first premise of socialist agriculture. It was understood that, economically, collective farming was seen as the only means to proceed a backward agrarian society towards "large scale socialist production in agriculture" and politically, more important was that through collectivisation a large mass of peasants would be transformed into agricultural proletariat. Therefore, the collectivisation programme was approved at a major conference in December 1958. The leadership rationale for collectivisation was dominated by three arguments:

(1) that the cooperative were more productive than private agriculture; (2) that they would prevent differentiation, leading to capitalist agriculture; and (3) that they would secure central State control over agricultural production and surplus [Vickerman, 1986:157].

Upon joining the co-op, members contributed 95% of all their land to the cooperative and were allowed to keep the rest 5% as individual plot for family farming and to supplement their income [Resolution of the VI Plenum of the CC VWP, 1959]. This household plot continued to exist until 1988 and constituted the main part of the peasants' income.

The cooperation process took place rapidly and was basically completed with the appearance of the low-level co-op in just two years (1958-1960). Land and main means of production were commonly used. Although the majority of the peasants joined the collective voluntarily, in many cases, besides administrative encouragement, force and economic and non-economic discrimination<sup>29</sup> were also used to make upper-middle peasants cooperate; eg,

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<sup>29</sup> 'Joining the collective was a patriotic action' was propagated and understood in the countryside. Discrimination in treatment was used in every areas; eg, there was a priority rank in using irrigation system in which the private farms was the last; private peasants had to pay higher tax rate; or

tax rate for private peasants was as high as 50% of their grain output while co-op peasants had to pay 10% for tax and deliver another 10% of grain output to the state at low price. By December 1960 there were 414,000 co-ops containing 2.4 million peasant families, accounting for 85.5% of the total agricultural population and 76% of the cultivated area [Hanoi, 1991].

The cooperative became the only official economic unit in rural areas and its role was in principle to link peasants' interests with those of the state; ie, an important and complex intermediate role. On the one hand, government attempted to use the co-op in part as a means to procure agricultural commodities at low prices and collect tax. On the other hand, the co-op acted as representative for co-op peasants in the role of agricultural input and consumer goods supplier, a production organisator, resource allocator and technological supervisor.

Like an industrial production unit, each agricultural co-op had to work out its production plan in line with the state economic plan. Production targets, credits and production inputs, the volume of delivered products, and even technical measures of farming were determined and provided to the cooperative by the state (Cuong, 1991). These figures were drawn up on the basis of past experience and future projections regarding expected food, raw material needs of non-agricultural sector and exports. In theory, the co-op plan was open to negotiation but in practice, considerable administrative and political pressures were often used to force peasants accept the given plan. White (1985) viewed co-ops to a significant extent as:

"a key instrument in the attempt to stimulate production through moral rather than just material incentives, a vehicle for low-cost crop deliveries" [White, 1985:102].

#### 2.4.2 Collective agriculture; 1960-1965

Peasants became co-op members; their land and main means of production were put under the control of the co-op. Co-operators were divided into work brigades, which performed all tasks related to production. They were obliged to work for the co-op twenty-four to twenty-six days per month and eight hours

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children of private family could hardly (or were not allowed to) enjoy political and social rights such as be able to become a member of the youth union and the party, be allowed to enter the third school or to take state exam to university, etc. It was later generally accepted and became obvious in the society.

a day. Drums and bells were used to warn them to start and stop working. All their productive activities were assigned by the co-op and put under its control. In the early years of collectivisation, a large mass of rural labour force was mobilised for labour accumulation projects such as irrigation and road systems<sup>30</sup> which helped introduce electric pumps as well as semi- and mechanised transport and harvesting means and thus increase the agricultural output considerably.

During the First-Five-Year Plan (1961-1965), workpoint regime was formed and applied to remunerate co-op members. Workpoints were calculated according to workdays performed and they founded the basis for income distribution. This was also called the "workday contract" system<sup>31</sup>. Beside workpoints, income distribution in the low-level co-op was based on a small rent accruing to land and means of production contributed by each member. In general, distribution was characterised by both equality and egalitarianism.

Egalitarianism implied in workpoint regime and thus remuneration of labour generated the shortcoming of the system in the late years of the plan. As workpoints were based on the duration of job and not the quality or even quantity of work performed; they did not stimulate members to work hard and start working on time but rather encouraged them to slack off, be sloppy or arrive late at their jobs [Long, 1993]. The results were the waste in labour and material; increase in production costs and decrease in the value of workday (see Table 2.4).

In spite of this, the operation of the co-op in the FFYP brought the best result to the collectivisation programme. Peasants in general had confidence in Party's direction and performed their work with enthusiasm. They did what the Government and Party asked them to do without counting the cost. In particular, beside the contribution to the war effort, their living conditions

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<sup>30</sup>Spoor(1987:347) referred to this as "labour investment" and gave the estimates of 90 million *Dong* for 1961 and 17.5 million *Dong* in 1963.

<sup>31</sup>A main labourer, regardless of male or female and at the beginning whatever work he or she did, received ten points for one workday -a standard workday. There was a degrading of the workpoint per workday for supplementary labourers -child-labourers or labourers under eighteen years according to the age, health and sometimes work-skill. At the end of the crop, workpoints were added and played a role of a basis for the income distribution.

**Table 2.4 Production Costs and the Value of the Workday,  
1961-1965**

Year	1961	1963	1964	1965	1965/61
Production costs in Dong per hectare of cultivated surface	85	128	123	140	164.7
Workdays per hectare	216	354	326	356	164.8
Share of production costs in gross income	25.5	29.9	30.1	32.8	128.6
Return for each Dong of capita input	4.07	3.24	3.79	3.55	87.2
Value in Dong of a workday	0.89	0.67	0.68	0.64	72.2

Source: Tong Cuc Thong Ke (General Statistical Office), 1990:32.

were better than before<sup>32</sup>; their children could go to nurseries, kindergarten and school for nearly free. Yield per hectare increased by 43.5%; rice per capita reached the highest level in thirty years (Tong Cuc, 1990)<sup>33</sup>.

<sup>32</sup>During the war time, the majority of consumer goods and agricultural inputs came from foreign aid rather than domestic production [N.K. Vien (1982) and Lavalley'e (1982)]. Food import from China financed by aid was to feed the urban population. This amounted for about one half million tons of rice per year, from 1969 to 1974 [Fforde (1982) and A. Siamwalla and S. Haykin (1974) in Beresford, 1985:31].

<sup>33</sup>From Table 1.3, output increased but population grew faster.

CHAPTER THREE  
AGRICULTURAL PRODUCTION UNDER THE HIGH-LEVEL COOPERATIVE AND  
THE CRISIS OF THE DRV MODEL IN THE LATE 1970S

3.1 High-level cooperative and its operation; 1965-1975

The process of converting low-level co-op into high-level one actually occurred right after the establishment of low-level co-op but weakly. In 1964<sup>34</sup>, the US expanded the war to the North and especially in 1965 with its "Rolling Thunder" campaign causing the government putting the whole economy on a war footing. With the slogan "All for the struggle against the US imperialist and the liberation of the South", the consolidation and centralisation of production through collectivisation was pushed in the rural areas. "High-level" cooperatives including the entire village population replaced "low-level" ones which previously comprised of peasant households in only one hamlet ---one-fourth to one-fifth of those of a village, and by 1970 some multi-village co-ops had appeared. By 1965, 90% of peasants families had joined cooperatives, of which 80% were in high level ones and these figures in 1975 were 97% and 88% respectively [Chu van Lam, 1993].

This conversion was considered necessary, to pursue "socialist large-scale production" and better utilise the existing agricultural machines and irrigation system on the one hand; and to channel human and material resources for the war effort on the other. Mark Selden saw this process as such:

"Not only did Vietnam experience US bombing as it turned to collectivisation, but it was forced to divert critical resources of labour and material from development to military priorities" [M. Selden, 1993:222].

Further, Kolko argued in his assessment of nations at war that these distortions contributed to "the success of nations in struggle" and he concretised the analysis of collective agriculture in wartime as follows:

The shift in the rural labour force to comprise 70% women, at a vast economic cost but militarily essential to free men for the army, is not alluded to; nor is the fact that the mobilisation of young men for the military within the context of family-based agriculture (which they advocate) would have been far more difficult, for only co-op farms provided the social security for families that both sons and parents thought essential [Kolko,

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<sup>34</sup>In many works about Vietnam, foreign economists and even a Vietnamese-American professor Ngo Vinh Long marked this event in 1965, but in fact, the serious air war began in 1964 or more exactly on 5 August 1964.

1988:476].

With the advanced collectivisation, paddy fields were enlarged and these facilitated further introduction of mechanic soil preparation and irrigation into the fields. New irrigation systems were put in place. Reservoirs, warehouses, seed nurseries, machine shops, tractor and machine stations, pump stations and drying yards were built to support the co-op production activities. In addition, social services were also improved and developed. More nurseries, kindergarten, schools and ambulants were built and provided free services to peasant families, especially to soldiers' wives and single mothers, so that peasants could devote more time to participate in production activities in order to meet their subsistence level<sup>35</sup>.

To bring these into operation a new division of labour was required. Specialisations within the cooperatives deepened. Different production brigades were formed for carrying out certain jobs such as soil preparation, irrigation, production of seedlings, making and applying of fertilizers, plant protection, etc. These specified units co-existed with basic production brigades which did all other tasks till harvesting.

Relying on this experience, co-ops then set up their own economic and technical yardsticks for each type of work. Co-ops farmed out certain jobs to special units and paid them workpoints according to the quantity and quality of the work performed. Tasks performed by the basic brigades were paid according to the system of "three contracts": a "product contract" between the cooperative and the brigade to deliver at the end of each harvest or each year; a "production-costs-contract" that provided the brigade fixed amounts of, for example, seeds, fertilizers and fuel to produce certain quantities of food and a "piece-work-contract" that fixed the number of work-days for each task based on past experience. These were also aimed at overcoming the shortcoming of the single workpoint system in the FFYP. For the first two contracts, brigades were allowed to enjoy 80% to 100% of the excess amount above their production quotas. On the other hand, in case they did not meet

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<sup>35</sup>During the air war (1964-1972) peasants could not perform their work in the day time. They had to start work in the very early morning and stop before sun rising, and work late in the afternoon until late in the evening, especially in the time there was moonlight, to avoid US bombardment -though, in many areas of the centre, peasants even could not find any time without bombing to go to work and had to leave their fields fallow. The service and school systems also followed this regime. That was one of the reasons leading to the inflation of workpoints, work carelessness and low productivity in the late 1960s and early 1970s.

the quotas they would have to make up 50% to 70% of the deficit. The basic production brigades, after making agreement on the "three-contract" with the co-op, subcontracted out portions of the work to groups of labourers or families and households.

This system was practised in most of the northern cooperatives until 1979. Under the war time (1964-1972), it helped keep production not going much down [see Table 2.3] although a lot of damage was done by the air war such as; the destruction of irrigation and road systems, agricultural machine and pump stations, chemical fertilizer enterprises and stores, farms and fields, etc. There existed no official data calculating these damages but one source indicating that the American bombing and shelling reduced the cultivated surface by some 162,000 hectares or about 5.6% [Data used in this section are taken from Long, 1993].

Much of what was achieved in this period was a result of the great patriotic sentiment of co-op peasants and their solidarity in the wartime. Many economists positively assessed the DRV model during this period and argued that it was appropriate under war conditions. Beresford, in contrast to Fforde, Paine and Vickerman who only highlighted the limits and economic failures of the model and ignored the wartime milieu, concluded that:

"in the 1960s collectives injected new life to Vietnamese agriculture, making possible investment in irrigation and increasing crop intensity under wartime conditions" [Beresford, 1985:10-11].

Similarly, Werner (1984) and Kolko (1988) had the same idea. Kolko criticised Fforde and Paine by contrasting the North's and South's economies to show

"how successful the DRV socialist war economy was" and concluded that; "Whatever its cost, the DRV system worked surprisingly well under astonishing strain" [Kolko, 1988:478].

Further, Selden viewed this even more widely:

...collective agriculture was one institutional factor that prevented the collapse of the Vietnamese rural economy and assured subsistence for women, children, and the elderly in time of war. On the other hand, wartime collective did not, and under US bombardment they could not, produce significant agrarian development [Selden, 1993:225].

Nevertheless, the system also showed a crucial shortcoming which became serious after the war had ended. One was organisational. The "three contract" system only tied the brigades but not individual labourers directly to the end-products, so labourers felt no personal responsibility for these products.

Their main concern was the number of workpoints or workdays they could earn and not the quality of their work. The brigades strengthened the supervision but the effort was both inefficient and costly [N. Yem, 1990]. Production costs took an larger percentage of the total co-op income, rising from an average of 30% in the period 1961-1964 to 48% by 1975 (Tong Cuc, 1990).

The distribution among the members was another problem. In wartime, the lack of capital and technological inputs and weak management caused co-ops to produce mostly for their own consumption, not for the market. Cash income was very low. The remuneration for the labour was primarily in kind. This was the part ---residual---after paying production costs, taxes to the government and subtracting a certain amount for co-op use. As the valuation of the workpoints came later on and depended on the results of each co-op brigade as well as decisions about accumulation and remuneration. The value of workday thus fluctuated and co-op members never knew how much they would be paid in cash or in kind from one to the next year.

Next and more important was the incentive problem. Although payment in kind was paid based on the workpoints earned, the co-op still tended to guarantee families with labour shortages could earn enough workpoints and therefore their living. This egalitarianism and uncertainty made difficult for members to plan family budgets and encouraged them to devote more attention to their family economy and less to co-op production<sup>36</sup>. Co-op members were much concerned with performing tasks that paid in kind than with those paid in cash because of the high rice price on the free market (H. Ka 1977).

In addition, in the low-level co-op family members could still enjoy some return on their investment on land and means of production while in high level ones their income was based exclusively on labour.

Finally, the "free rider" problem also discouraged peasants to work much for the co-op and made them become indifferent. This problem arose and became popular among co-op cadres, from brigade to hamlet and village level, with the appearance of the high level co-op and worse as the US air war ended. Generally, since cadres were re-elected<sup>37</sup> in every two years, they did not devote much to co-op activities but rather took any opportunity relating their

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<sup>36</sup>Le Thu Y (1975) stated that the average number of days worked for the co-op by their members was only 200 per annum and that the average length of the working day was mere 5-6 hours.

<sup>37</sup>Election was only formally. Like in China, cadres were mainly nominated by local party organisation.



position to hoard co-op funds into their pockets [Hanoi, 1991]. They did that since there was no sanction against them.

These factors together with the effects of the US air war led to a sharp decrease in agricultural production in the North between 1966 and 1975<sup>38</sup>.

Nevertheless, two factors delayed a crisis in agriculture: one was state investment and the other was the introduction of high yield variety rice into the North in 1974 [Lam, 1993].

### 3.2 Vietnamese collective agriculture after 1975

#### 3.2.1 Collective agriculture in the North; 1976-1980

In 1975, the South was liberated. With little critical analysis of 20 years of socialist construction and 15 years of collectivisation in the North, in a comment about the economic situation of the DRV, Le Duan, the First Secretary of the VWP, said: "although it is called socialism, literally it is small-scale agricultural production". This was at time when 93.1% of all peasant families and 88.7% of the cultivated area in the DRV were in high-level cooperatives [Vickerman (1986); Table III].

That was the reason why co-op consolidation in the North was pushed further in order to achieve "large scale socialist production" and to create a model for the South. Now, within the co-op, jobs were further specialised imitating industrial procedures. Since specialised brigades consisted of able-bodied male members and were given specific tasks, thus many steps removed from the final products, they had little incentive to coordinate their activities or perform their job properly. Time delays, careless soil preparation and inadequate irrigation caused not only undermined efficiency, but also reduced the income of the "basic production brigades" which composed of women, children and old people.

Solving this problem, many areas had replaced the food distribution according workdays by a system of *"payment to labour in cash and distribution*

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<sup>38</sup>Statistical data reveal that, during the period 1966-1972, staples, soybean and sugar production decreased by 3.4% (182,000 metric tons), 18% and 15% respectively [N.V. Long, (1993) and see Table 1.3]. The recession of agricultural production might also be explained by data showed in the 1974 investigation that: 18% of electric generators were useless, 26.7 % other machines had broken down, the remaining machines were in operation only 6.2 hours a day and 91 days a year. The cattle herd declined by 10%. Rice output per capita declined from 304.9 kilograms (1961-1965) to 252.8 kilograms (1966-1975) [Lam, 1993: 163].

of food according to quotas". But after only one year applying this distribution regime, co-op members became more discouraged since many of them became worse off<sup>39</sup>. It was stated that: this new distribution regime further exacerbated the income inequality in the agriculture [GSO, 1990]. This further discouraged co-op members work on co-op land but encouraged them concentrate more on their own plots or on better paying outside jobs in the subsequent growing seasons. *Nhan Dan*, in June 1978 reported that, the average length of a collective working day was only 4-5 hours. Official data also showed that the 5% land brought to the co-op peasants above 60% of their total income while the co-op with 95% of all cultivated area and all main means of the production and right to use all labour sources could contribute to only 30% of their income [Hanoi, 1991:130].

Moreover, the monthly food quotas created difficulty for co-op members to plan their family budgets, especially for special occasions such as anniversaries, wedding or funerals<sup>40</sup> and at the same time facilitated co-op cadres to demand bribes.

Applying this distribution regime, additional costly facilities like drying yards and warehouses were required. Moreover, irresponsibility, inadequate and bad management as well as corruption caused further losses. Many villages reported losses of more than one hundred tons of rice per crop to mildew, fermentation and so on [Long, 1993].

An official survey of 307 typical co-ops in the Red River delta carried out in 1979 revealed that: the larger the co-op the less productive it was and the less income co-op members earned [see Table 3.1]. As a result, the monthly paddy rice supply decreased sharply in the late 1970s [see Table 3.3]. Another survey further showed that, the income share from co-op members in the North decreased from 34.7% in 1975 to 24.6% in 1980 [Tong Cuc, 1991].

Within the agriculture, the development of high-level co-op and "specialised brigades" created commandism, inefficiency, waste, corruption, and eventually dissatisfaction throughout the North in the late 1970s. This was showed by the reaction of a co-op member that:

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<sup>39</sup>One survey pointed out that in one co-op many families received 178 to 323 kgs of rice per crop less than they had during the 1970-1974 and in return they received only 71 to 129 *Dong* respectively. They would have got 712 and 1292 *Dong* respectively if they had been paid in rice and sold it on the market (N.V. Long, 1993: 171).

<sup>40</sup>which are very food consuming, since, traditionally, these families have to invite the whole relative members and/or the village to join them.

**Table 3.1 The Relationship between Sizes of Cooperatives and Production of Rice in the Red River Delta in 1979**

Size by hectares of cultivated surface	301-340	401-500	Above 500
Number of surveyed co-ops	141	90	76
Average production in kilograms per ha	3,256	2,944	2,731
Kilograms of state procurement per ha	838	769	656
Total income in Dong per ha	2,685	2,179	2,055
Marketed food crops in Dong per ha	565	511	466
Net surplus in Dong per ha	408	86	73

Source: Tong Cuc Thong Ke (General Statistical Office), 1990:35.

"You've no respect for democracy. You plan everything at your desks and force us to comply, although your plans are not practical. Take rice 424. It's short-stemmed, but you had it planted in low-lying fields, and we ourselves had to bear the losses" [Vietnam courier (1978), in Vickerman, 1986:269].

### 3.2.2 Real situation of the cooperative in the South; 1976-1980

After the reunification, the DRV model was transplanted to the South by the introduction of solidarity (or aid) production teams and cooperatives. By 1978, the cooperative movement expanded into all regions. In only two years, nearly 50% all southern peasants were members of cooperatives.

However, the rapid cooperation in the South provoked a strong reaction. It caused furmoil in agricultural production. Peasants protested against collectivisation. They saw the irrationality in the operation of the co-op in the North and stated that;

"Co-op model was inappropriate to the North in peace time, so it would be more inappropriate to the South" [Hanoi, 1991:127].

Regardless of this, collectivisation was further administratively forced by the authority. The above turned an existing diversified agricultural commodity economy of middle peasants back to a single rice production in many areas.

Peasants reacted by leaving land fallow; in the Mekong Delta, this area accounted for 200,000 hectares in the 1979 winter-spring crop. Many of them sold machines, dismantled or changed soil preparing machines and tractors to open transport means and left agriculture [Thu and Kim, 1992:24] and moved to "redistributive and unproductive" activities. The inappropriate incentives and problem of malmanagement<sup>41</sup> within the co-op caused labour productivity, income and team production to begin disintegrating. By the end of 1980 only one third of the production teams remained, and many of these existed in name only [Hanoi, 1991 and Lam, 1993:153]. Peasants kept working on an individual basis. Family farming was still dominant in the South in the second half of the 1970s. In addition, a huge amount of capital: both manpower and material resources coming from the North [Spoor, 1988] was invested on irrigation and improvement of land fertility which helped trade off the loss made by collectivisation and increase slightly agricultural production and per capita output. Food production in the South increased from 7.086 million tons in 1976 to 8.345 million tons in 1980 and that raised the food per capita from 303.2 kilograms to 326.2 kilograms in these corresponding years (Tong Cuc, 1992:31).

### 3.3 The crisis of the DRV model in agriculture in the late 1970s

From the previous sections one can recognise the main reason for the crisis of the model was the decision to push high-level co-ops when objective conditions did not permit it. One factor which caused these high-level co-ops to fail to operate was their very poor material and technical basis; in particular in the North, Norlund (1984) recognised that:

"The considerable investment effort of the 1960s was heavily damaged by the combined effects of American bombing in 1965-68 and 1972 and the Chinese invasion of North Vietnam in 1979" and "before 1975, Vietnamese state was almost wholly preoccupied with the war effort and could devote little attention to investment in infrastructure to support agricultural development" [Norlund, 1984; JCA].

In addition, nearly no further investment was made in collective agriculture after reunification; damaged and existing machines were not properly maintained. Agriculture could not access to new technology and modern inputs

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<sup>41</sup>as the North, at the beginning, collectivisation in the South faced a serious co-op cadre problem; many co-op cadres were illiterate when they assumed managers and moreover they were to manage a large sized farm.

which primarily came from imports financed by foreign savings. This source dried up after the reunification due to effects of the US trade embargo (1977), Vietnam's intervention in Cambodia (1978) and China's invasion of the North of Vietnam (1979) which caused all Western countries and China to stop their aid to Vietnam. Soil preparation and irrigation reverted to manual labour and economies of mechanisation were lost. Easy sources for increasing agricultural output were exhausted.

Next was the management. Even in the low-level co-op, many cadres were considered to be incompetent as they were at low educational level and lacked technical and managerial skills. Nevertheless, they continued to work as cadres as the high-level co-ops were introduced. They gave orders to production brigades, controlled over labour and income of co-op farmers and so on. Their power and thus their sabotage had multiplied.

Another was the organisational problem. Agricultural work has seasonal character and requires sequential tasks which make the industrial Taylor system unworkable in agriculture. Thus, labour division according to specialisations in the large scale co-op did not help increase output but had reverse effects on it.

At the macro level, economic policies also contributed considerably to the crisis of the DRV model in the agriculture. Financial and credit policies did not favour the development of agriculture. The procurement price policy even stagnated and retarded the agricultural production. Although peasants were prohibited from selling their products on the free market, the setting of low procurement price discouraged peasants to produce and sell products to the state in the 1964-1975 period [see Table 3.2]. This was already noted in one debate of agricultural problems published in 1964 in Hanoi that;

'Some people would give the DRV government this piece of advice: "You are buying agricultural products from the peasants at too low prices; you will drive them to sabotage production"' [in White, 1985:102].

Compared to 1956, the state procurement price for agricultural products in 1969 rose just by 17% whereas those on the free market increased by 82% during only a short period 1964-1969. During the period 1965-1980, the free market prices went up by 602% but those of state were adjusted by only 200%.

After the integration of the South, the state prices further disincentived the Vietnamese peasants as a whole to produce in the period 1975-1980, especially those in the South, who had traditionally produced for the market and themselves made their own production decisions. At the national

**Table 3.2 Changes in Agricultural Production and Price Index; 1964-1969 (in percent)**

Year	State procurement price	Agricultural Retail price		Agricultural gross output
		State price	Free market price	
1964	116.5	100	100	100
1965	115.1	98.6	100.4	104.4
1966	114.8	98.9	140.4	100.4
1967	115.5	98.1	192.0	102.9
1968	115.8	97.6	197.5	93.3
1969	117.3	97.4	182.0	95.9

Source: Phan Van Tiem, *Chang duong 10 nam cai cach gia 1981-1991* (Ten year price reform; 1981-1991); 1991:14.

level, the irrationality of state price of food and foodstuffs was exposed more clearly. Compared to 1976, the state price in 1980 rose by 38% while that of the free market climbed by 262% [P.V. Tiem, 1991:14,46 and 56]<sup>42</sup>. Obviously, this burden was placed on the shoulders of the northern co-op peasants since the state could not buy much from southern peasants.

By the late 1970s, the government faced a growing food crisis, which was essentially a procurement crisis or a consequence of repressed delivery prices, a result of the refusal to give economic incentives to peasants.

The system further developed anti-market economic policies and imposed forcibly the implementation of these in all regions of the country. Since great stress was placed on district and provincial self-provisioning in food supply; transport and trade barriers were set up everywhere in the hope that these would help the state gain the absolute control over the surplus of each district/province or be freed from assisting it. Doing that, the state divided the national economy into many self-sufficient and from one another isolated local economies. Resource and good, especially food shortage and abundance simultaneously existed. This led to allocative and productive inefficiency,

<sup>42</sup>Most of the data about prices, exchange rate, inflation rate and foreign aid are taken from the work "Chang duong 10 nam cai cach gia" of Prof. Phan Van Tiem, Minister, Chair of State Price Committee and Director of Institute of Price and Market Research.

waste and a further exacerbation of the inherent shortage economy.

In addition, natural calamities occurred in the late 1970s damaged seriously the agricultural production [P.V. Tiem, 1991 and Fforde and Vylder, 1988]. For the country as a whole, between 1976 and 1980, rice yields fell from 2.23 tons per ha to 2.08 tons per ha in spite of increasing budgetary investments in agriculture [Hanoi, 1992:22]<sup>43</sup>. Compared to 1976, the northern food production in 1980 decreased by 7.1% while population increased by more than 2% per year. As a result, food per capita went down to the lowest level since 1965 [see Tables 2.3 and 3.3]. People's living conditions worsened.

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**Table 3.3 Paddy Rice per Capita per Month in the North;  
1976-1980 (in kilograms)**

Year	1976	1977	1978	1979	1980
Rice per capita per month	15.4	12.0	11.6	11.9	10.4

Source: Statistical Publishing House, 1990:35-36.

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It became necessary for Vietnam to increase its food imports and these rose from 1.2 million tons in 1976 to 2 million tons in 1980<sup>44</sup>. The economic policy was not working and slowing not only the agricultural sector but the entire economy as well [David Dapice, 1994].

Analysing this situation Werner (1984) concluded that "peasants willingness to produce for the state weakened" with the end of the war in 1975. Beresford (1985) found other problem and pointed out that the system had "run out of steam" by the seventies as no economies of scale could appear under the condition of a low technology agriculture [Beresford, 1985:11-20] while Selden emphasised the significance of the incentives and organisational problems [Selden, 1993].

In short, the main reasons for the crisis of the model were:

(1) heavy industry bias: Most of investments were allocated to heavy industry. Little investment was left for the consumer good industry and thus only few incentive goods were provided to peasants. Consequently, peasants had

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<sup>43</sup>Selden's data were even lower, see Table 1.3, they were 2.16 tons per ha and 1.93 tons per ha in 1976 and 1980 respectively

<sup>44</sup>The data given by Vietnam's General Statistical Office was much lower. The grain import in these years was only 0.6 to 0.9 ton [GSO, 1991].

little incentive to produce when there had been no goods to buy [H. White, 1994]. Moreover, too little investment in agriculture kept output from rising;

(2) the lack of qualified co-op cadres and the rise of dishonest co-op managers;

(3) inefficient production organisation and management;

(4) the inappropriate incentive structure in production, distribution and exchange of goods and services with the peasantry by setting artificially low agricultural prices through regulation, subsidies to consumers and using an overvalued exchange rate which reduced the farmers' enthusiasm to produce and sell their product and at the same time encouraged imports;

(5) the diseconomies of scale; large sized farms under (2, 3 and 4) could not deliver high output; moreover, in Vietnam, labour is abundant to land, the main problem of agricultural development is to raise land productivity;

(6) the great damage in physical infrastructure caused by the war and its aftermath;

(7) the existence and development of family economy and free exchange of its products on the free market which offered individual farmers more income than the co-op did.

The crisis of the model in the late 1970s has given the Party and government a lesson about the economic and human management in a developing society. This has come into effect only after the VIth Party Plenum in 1979. The results were that; a series of partial reform policies in the areas of production, distribution and circulation were issued and implemented. In agricultural production, a major change in agricultural policy took place in September 1979 and gave birth to the system of "household contracts" known as "end-product" or "output contracts" which is dealt with in the next chapter.



**CHAPTER FOUR**  
**AGRICULTURAL REFORM AND GROWTH; 1979-1987**

**4.1. The first steps of reform; 1979-1980**

The economic crisis of Vietnam in the late 1970s forced economic policy makers change their traditional thinking and raise the first reform ideas in areas such as price policy, state procurement and retail prices for agricultural products, planning issues, financial and investment policies and problem of national economic efficiency. Two important issues discussed and approved at the VIth Plenum of the CPV CC were how to improve productive efficiency and how to gradually restrict central-administrative management while the state can control more agricultural surplus and at the same time foster production. Emphasis was put on the encouragement of agricultural and local small-scale industrial and consumer good production. The private economy and free market were recognised. A series of government decrees were passed to implement Resolution of the 6th Party Plenum of the Central Committee of the Communist Party of Vietnam (CPV CC)---Resolution Six.

Agriculture was considered to be the "Top priority front" or "Battle Front" in the reform campaign since the role of agriculture was further perceived by the party and leadership that: a healthy agricultural sector is the best way to foster rapid and equitable growth in the whole economy [Dapice, 1994].

During this period debates about economic policy were continuing between those supported previous conception of a centrally planned economic system and advocates of the new economic reforms. For some, economic reforms were only a tactical retreat from socialist planning and pricing principles and for others, they contributed a viable alternative approach to the transition between peasant petty commodity production and socialism which could be compared to the views espoused by Bucharin in Soviet debates in the 1920s over agricultural policy [Levin (1975 and LittleJohn (1979) in White, 1985].

One focus of the 1979 decrees was placed on the problem of income distribution within the cooperatives since the egalitarianism and inequality had considerably reduced the farmers' enthusiasm and discouraged farmers working for the co-op. Resolution Six ordered the distribution according to labour to replace that according to quotas. Decree no. 400/CP issued by the Council of Government guided the implementing and emphasized two points:

One, concerning wages paid in cash, was an instruction to pay co-

op members in full on the basis of work-day's "planned value" and used only the surplus or "profits" for bonuses.

The other, concerning distribution in kind, stipulated that once seeds had been set aside for taxes and sale to the state, one to two percent of the remainder could be used for the security fund, one percent for reserve fund, and ten percent for families with grain insufficiencies due to lack of labour, with priority given to war dead, disabled veterans, and "those who have contributed much to the revolution." The rest was to be "fully divided among the co-op members according to their labour" [Cong Bao and Nhan Dan November 5 and 8, 1979].

These proposals were worked out to help the co-op solve some of the problems created by distribution according to labour but they also raised other issues. Unforeseen weather conditions would lead to fluctuation of crop yields; government aid for poor regions was out of control of the co-op. These made difficult for cooperatives to plan the value of the workday. The co-op would not be able to pay their members in full or to build reserve funds if crops were lost. Another problem was the irrationally fixed ten percent of the crop set aside for subsidized sale to certain members. The portion of these "policy members/families" was not the same in all locations or co-ops. It was insignificant for areas with high percentage of members supporting the revolution but too much for those with small percentage of people volunteering to fight in the South.

This practice led the government to assume some responsibility for subsidizing the above "policy families". The solution for other distributive problems at co-op level was left to the districts and/or co-ops in accordance with general guidelines and corresponding to the concrete local conditions.

The 6<sup>th</sup> Plenum also brought a deep change in land-use policy. It was said that idle land belonging to co-ops could now be farmed by agents other than the cooperative itself and, based on the area and the fertility of land, tax exemption for certain years or for ever was announced. Among the agents, co-op members were also listed. This was welcomed by the peasants in the North since the limitation of 5% family land and for more than one decade, the application of mechanisation to soil preparation had led to a large area of idle land which was co-op property and thus foreign to peasants. There existed the paradox that peasants were underemployed, living poorly and hungry because of food shortage while land was not used, or more exactly, was not allowed to be used to produce food. One of the goals in the policy change was to solve that inconsistency.

This facilitated much local experimentation. One experiment carried out

before 1980 in Doson district near Hai Phong City was considered to be the most successful and it spread so quickly that, by the spring 1981, it became predominant practice throughout the country. There, the official policy line was not strictly implemented. Not only was idle land divided and used by agents, in particular by peasants, but most of the cooperative's land was contracted out. In return, the cooperators had to deliver a certain amount of food or agricultural products to the co-op. This practice was first known as "secret contract", or in the words of Long (1993), as the "sneak contract" since it had no official sanction and was later called the "new contract" or "end-product contract" after Central Committee Directive 100/CT/TW legalized it in January 1981 [N.V. Long, 1993].

Actually, the 1979 reforms to a large extent legalised what had already occurred in 1977 (Le Duc Tho, (1982), in Vickerman, 1986) and was known as "fence breaking" action. Other sources also confirmed that this kind of contracts had actually appeared spontaneously in the early 1960s in Vinh Phu and Hai Phong, but they faced opposition from authorities considering them incompatible with the agricultural cooperative system [Beresford, 1985 and Lam, 1993:153]. The reforms led to contracting of output quotas to individuals and families, and more radically, land to families and the first wave of reform began.

#### 4.2 The first wave of reform; 1981-1987

##### 4.2.1 Contract System no.100, 1981

The fall in food and agricultural output per capita and a large amount of food imports in 1980 induced lot of discussions about reasons and solutions for agricultural development in the coming period. In addition, the "sneak contract" system had spread more or less spontaneously nearly everywhere in the countryside and was later known by leaders who were involved in the struggle against the crisis of cooperatives at that time. The search for certain methods of economic organisation in the rural periphery from the centre met the various local interest's receptiveness to the attractions of own-account activity when Prime Minister Pham Van Dong visited Doson-HaiPhong in 1980. "There a cooperative which was a model for the adoption of the new system was praised for having used the system secretly since 1972" [Dai Doan Ket, Hanoi, 1981; in Fforde, 1991].

On January 13<sup>th</sup>, 1981 the Central Secretariat of the Central Committee of the CPV issued the Directive No.100 CT/TW aiming at improving this contract

system and officially allowing it to include both groups of farmers and individuals [Pham Xuan Nam, 1991]. A "contract system" was official established. This is now known as "output-contract" system to households or "Contract System no.100".

Its aim was to raise agricultural production by linking direct producers with the results of their work, and allowing greater freedom in disposing surplus products. Prices were increased to provide farmers with greater incentives to sell the surplus to the state and preferential access to state-produced industrial goods was provided. The role of the co-ops was changed in principle to one of overall planning, supervision and support of production.

The former "Three contracts" system was replaced by the new "output contract" one [Long, 1993] which had been designed to give considerable economic power to the central Management Committees of the cooperatives and was "usually resented and resisted" [Fforde and Vylder, 1988]. In contrast to the former, the latter decentralised the direct control of labour to the co-op members themselves; ie, to the family level. Land was given to the family by the cooperative and the average output over the previous three years usually formed the basis for the amount of output to be produced [L.T. Nghi, 1981]. Instead of the brigade, the contract was now signed by the cooperative and peasant family or household, in which activities were divided between cooperative and cooperators on the basis of the old system of work norms and labour categories. The cooperative was responsible for performing certain tasks such as water supply, seeds and land preparation and pest control. Cooperator households were to perform the most labour intensive jobs like planting, transplanting, taking care of growing plant, weeding, fertilising, harvesting and animal husbandry.

Taxes and reductions for health services as well as other fees and contributions were also accounted for in the contracted amount of output. Basing on these, the cooperative then reduced or increased the co-operators' share. The "contract yield" for each plot of land was open to negotiation in a public meeting, from which farmers got 30-40% for their labour and manure. Cooperators, who overfilled the target, could enjoy the excess and treat it in the same way as that received from their private plots; ie, freely disposing and selling on the free market<sup>45</sup>. A strong incentive was created

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<sup>45</sup>This was true for the southern half of the country. For the North, however, state and/or local authorities stipulated a certain percentage of the excess of the contract amount farmers had to sell to socialist trade sector

to encourage farmers to increase production.

Parallel to cultivation, the development of animal husbandry was also stimulated. Peasant families were again allowed to keep and raise cattle, pigs, poultry and fish (as many as they could) and had to sell only a certain amount of pork or beef, depending on which region farmers belonged to, to the state at the delivery price. The rest, farmers could sell to the state at negotiating prices with 10 to 50% higher than the former and buy certain scarce consumer goods, building materials or agricultural inputs also at negotiating prices. The details were provided in the so-called "Two-way contract". The same was applied to the excess of food quotas. The rest was disposable freely. With this regulation, there existed no further obligation of selling pigs imposed on families raising more pigs and no more fear of farmers becoming capitalists if they kept some pieces of cattle privately. Renewal in economic thinking appeared: *"The richer our people, the stronger our country"* was now the leadership idea. The development of animal husbandry helped raise farmers' income and thus investment in modern inputs and improve land fertility which brought high yield to farmers and collectives as well as high surplus to the state.

#### 4.2.2 Agricultural production under Contract System no.100

The 1981 reform, especially in agriculture and investment, had positive effects on output, land and labour use, labour productivity and thus income to labour [see Tables 4.1; 4.2; 4.3; and 4.4]. The reform was a way to motivate labour and mobilize the capital of collectivized peasants on a parcel of contracted land. Labour and other resources invested in production process were re-allocated more evenly between private and co-op land.

Family plots grew beyond the statutory 5% limit, as co-ops were encouraged to contract out land not directly utilised or left fallow between harvests. Besides, the contracts with individuals had further provided equal work and income opportunity for male and female labour, an improvement over the old system.

As a result, typical increases in output at micro level of the winter crop 1980-1981 were of the order of 25-30%; the application of this "output-

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at so-called negotiating price which was in fact set by authorities, farmers were not involved in this process and which was still much lower than that on the free market.

**Table 4.1 Agricultural Development in Vietnam, 1981-1985**

	Unit	1981	1982	1983	1984	1985	81-85/76-80
National income from agriculture	Dong (mil.)	64,0	70,8	76,2	79,3	83,4	127
Food production (paddy equivalent)	tons (mil.)	15.0	16.8	17.0	17.8	18.2	127
Rice productivity	tons per ha	2.17	2.47	2.50	2.50	2.84	123
Area of industrial annual crops	hectares (thous.)	416	468	523	572	601	162
Area of industrial perennial crops	hectares (thous.)	260	288	334	404	470	153
Pork production, live weight	tons (thous.)	567	643	692	716	749	157
Food stuff delivery to the state	tons (thous.)	2.74	3.15	3.79	3.81	3.91	197
Average food per capita	kilogram	273	299	296	303	304	

Source: Review of Cooperative Movement. Hanoi: General Statistical Office, 1989.

contract" system in the North and Centre led to a sharp jump in food output of about 20 to 25% [Fforde and Vylder, 1988: 70] and a rise in productivity of rice farmers in the North by about 12% and in the South by 16% [Pingali and Xuan (1990) in Timmer, 1993]. Paddy rice production rose by nearly two million tons or 11.2% from 1981 to 1982: 15 million tons and 16.83 million tons respectively [Tran Hoang Kim, 1992:127]. As output grew faster than population, the average food per capita increased too (see Tables 4.1 and 4.4). Compared with the two five year periods, rice production rose by 27%; pigs by 22%; and cattle by 33%. The annual overall farm GDP increased by 6% compared to 1-2% previously [David Dapice, 1994:7]<sup>46</sup>.

The production of other non-rice products, especially those as inputs for agro-processing industry such as tea, coffee, sugarcane, pineapple, peanut, etc, accounting for about 25% of the total agricultural output value

<sup>46</sup>data on food production and rice output are inconsistent in different sources even they are all given by the General Statistical Office.

**Table 4.2 State Capital Invested in Agriculture, 1981-1985**

	Unit	1981	1982	1983	1984	1985
State Capital Investment	1982 Dong(mill.)	2939	2390	3100	4427	4608
Long-term loans to coops	1982 Dong(mill.)	17	42	79	130	289
Fertilizer production	tons(milli)	783	873	1330	1917	1819
Electricity for agriculture	Kilowatts (million)	311	256	243	307	308

Source: Bao cao tong ket phong trao hop tac xa nong nghiep. (Review of Agricultural Co-operative Movement), General Statistical Office, Hanoi 1989.

[Timmer, 1993] also increased (see table 4.3). Agriculture, under the reform, had actually contributed to the recovery and development of industrial production (see Table 4.5) with some lagged years. By delivering inputs to the industry it created employment for workers and facilitated a higher capacity utilisation. Agricultural development further created a better food supply to the non-agricultural and urban population which helped people there save time<sup>47</sup> spent in queuing and shopping in order to shift it to productive activities. In turn, these created backward linkages to agriculture by raising agricultural income, broadening the agricultural trade and further stimulating foreign exchange earnings (see Table 4.6) as a large part of the output coming from agro-processing industry was to serve export purpose.

Nevertheless, the reform also created a number of problems. The periodic reallocation of land according to co-op regulation for short term use, in common, one year use for short term crop, discouraged farmers to invest in cooperative land. The result was that output per hectare on family land was twice (Tho, 1982) and three times (Beresford, 1985) that on cooperative land.

<sup>47</sup>In the years of serious food shortages, working people had to and in many cases were allowed to leave their job for some hours or even the whole day every fortnight or a month for buying food. In case they did not want to or could not leave their job they often had to go in the very early morning to get a place in the front to make sure that they could buy and could return to work. Waste time was enormous.

**Table 4.3. The Development of main Non-cereal Production, 1976-1991**

	unit	1976	1980	1985	1990	1991
<u>Soy-beans</u>	tons	20.7	32.1	79.1	86.6	98.7
<u>Peanuts</u>	Thous. tons	100.1	95.2	202.4	213.1	211.7
<u>Sugarcane</u>	Thous. tons	2,986	4,359	5,560	5,398	5,940
<u>Tobacco</u>	tons	15,570	25,538	39,199	21,827	28,749
<u>Jute</u>	tons	28,153	30,465	47,084	23,803	26,726
<u>Rush</u>	tons	62,819	72,254	92,789	63,354	49,658
<u>Mulberry</u>	tons	51,247	74,496	55,836	100.2	97.87
<u>Tea</u>	Thous. ton s	77.9	94.5	126.9	145.1	154.0
<u>Coffee</u>	Thous. tons	12.3	36.4	35.8	320.6	353.3
<u>Rubber</u>	Thous. tons	40.23	41.0	47.9	57.94	73.74
<u>Coconut</u>	thous. tons	155.3	311.3	611.8	894.4	1,038.
<u>Pepper</u>	tons	352	556	1,317	8,632	8,865
<u>Oranges</u>	thous. tons	2.7	83.3	111.3	119.2	127.3
<u>Pineapple</u>	Thous. tons	123.4	336.6	363.0	467.9	475.1

Source: Statistical Data on Vietnam's Agriculture, Forestry and Fishery, Hanoi 1992.

More crucially, the inherent problem of control over rural cadres was not solved because of the maintenance of the superstructure of cooperative intact and the lack of effective markets for local collective inputs. The system of input provision was often cumbersome and very inefficient.

#### 4.3 Macroeconomic impact on agricultural development; 1981-1987

At a macro level, as insufficient resources were allocated to agriculture the momentum in agricultural growth could not be maintained once the initial effects of improvement in static efficiency had passed (Pforde and Vylter, 1988). While Table 4.2 showed an absolute rise in investment in agriculture, especially from 1983 onwards, its share declined; this figure was



**Table 4.4. Production, Area, Yield of Food Crops and Food\* per Capita, 1976-1993**

	Food production in rice equivalent (million tons)	cultivated area (thous. ha)	Rice productivity (Tons/ha)	Food per capita (kgs)
1976	13.47	6,192	2.17	274
1977	12.62	6,640	1.90	250
1978	12.27	6,780	1.81	239
1979	13.98	6,921	2.02	267
1980	14.41	7,049	2.04	269
1981	15.01	6,987	2.15	273
1982	16.83	6,968	2.42	300
1983	16.99	6,775	2.51	296
1984	17.80	6,817	2.61	304
1985	18.20	6,834	2.66	304
1986	18.38	6,812	2.70	300
1987	17.56	6,710	2.62	281
1988	19.58	6,967	2.81	307
1989	21.52	7,090	3.03	332
1990	21.49	7,111	3.02	324
1991	21.72	7,403	2.93	321
1992	24.21	7,300	3.33	n.a.
1993	24.50	n.a.	3.43	n.a.

Source: Economy of Vietnam Review and Statistics, Tran Hoang Kim, Statistical Publishing House, Hanoi, 1992 and Tong Cuc, 1994.  
\*is also referred to as 'grain', which are used alternatively in Table 2.3 and in all Vietnam's Statistical Yearbooks.

20% in 1976; 19% in 1980 and 18.5% in 1985 [Fforde, 1988; Table 2.11:49]. Other sources indicate that because of budgetary deficits and high costs of industrial and certain infrastructure projects<sup>48</sup> keeping investment in agriculture from rising, the real level of fixed public agriculture investments in the 1981-1985 period were only 42% of those made in 1976-1980 and the corresponding ratio for farm inputs was only 58%.

In solving the contradictions between farmers' and state's interests in distribution and circulation of agricultural products and inputs, a new price policy concerning the state procurement prices was issued by the Council of

<sup>48</sup>Soviet aid was tied and long-term large project aid thus had no or very little impact on agriculture.

**Table 4.5. The Growth of Industrial Production, 1976-1989**  
(compared with the previous year, at 1982 price)

Year	Total	Group A*	Group B*	State	Non-State
1976	100	100	100	100	100
1977	10.8	18.3	7.6	11.8	8.7
1978	8.2	11.0	6.8	5.8	13.4
1979	-4.7	5.4	-9.7	-10.4	7.0
1980	-10.3	-6.7	-12.3	-15.2	-1.6
1981	1.0	-3.8	3.9	-1.0	4.0
1982	8.7	3.9	11.4	4.0	15.5
1983	13.0	12.0	13.6	11.6	14.9
1984	13.2	9.3	15.1	14.3	11.8
1985	9.9	4.7	12.5	10.0	9.7
1986	6.2	3.9	7.2	6.2	6.2
1987	10.0	10.7	9.6	9.3	10.9
1988	14.3	10.8	15.9	15.5	12.9
1989	-3.3	-1.7	-3.9	-2.5	-4.3
Average	5	4.3	5.3	3.6	7.2

Source: Economy and Finance of Vietnam, 1986-1990.  
Statistical Publishing House, Hanoi-1991].

\* Group A and B are heavy and light industry respectively.

Ministers on the 26<sup>th</sup> September 1981. The new official price level was raised to five to seven times as high as that of the previous period in the North and Centre [see Table 4.7].

The new official prices, however, were still about half those on the free market. The prices for agricultural inputs such as fertilizer, diesel-oil, pesticide and other means of production provided by the state were also adjusted to the CMEA import prices. They were five to fifteen times higher than before. In fact, this adjustment tended to favour the state and cut down the huge government deficits due to oversubsidy and overvaluation of the *Dong*. In 1981, for the purpose of internal accounting, the exchange rate was raised from 5.64 to 17 *Dong* to the *Ruble*.

The impact of reforms faded as inflation continued to rise at high levels, 50% to 60% a year, and during only three or four years after the price adjustment in 1981, prices of many goods and materials rose to ten times though these had already been raised by a factor of ten compared to 1980 prices [Tiem, 1991:102]; but official prices were not adjusted until 1985. While it was stipulated in the agricultural product procurement policy that buying agricultural products from co-op farmers and selling agricultural

**Table 4.6 Export Value of Agricultural Products; 1985-1993**  
(Million of Ruble-Dollar)

Year	Total export value	Agricultural export	Share of agricultural export
1976	222.7	75.3	33.8
1980	338.6	116.2	34.3
1985	698.5	274.2	35.4
1986	822.9	329.2	40.0
1987	696.4	355.9	51.1
1988	1938.4	349.2	33.6
1989	1946.0	742.2	38.1
1990	2404.2	783.2	32.6
1991	2067.0	628.0	30.4
1992	2475.0	800.0	32.3
1993	2700.0	900.0	33.3

Source: Statistical Data on Agriculture, Forestry and Fishery, Statistical Publishing House, Hanoi, 1990:190 and 1994:133.

inputs and industrial consumer goods to them should follow the "two-way contract"<sup>49</sup> according to the principle of equality, the state side often violated and broke this transaction contract respecting time, quality, quantity and availability of exchange goods without any sanction. To the co-op farmers, the state stated very clearly all provisions should be executed regarding criterion of goods to be sold, time and location while nothing was obliged on the state side except for an uncertain commitment that the state would fill the contract when and where the conditions were suitable. Nobody knew what, how much and when he or she would get in exchange for the goods sold to the state but because of the general shortage economy and the monopolist position of the state in providing such kinds of good they had no

<sup>49</sup>The state procurement of agricultural products and all state provision of agricultural inputs as well as exchange goods against the "two-way contract" ---also called two-way-barter exchange contract--- were carried out by specified local state trade companies. The districts were the lowest level.

**Table 4.7 State Prices before and after the 1981 Adjustment**

Item	Unit	Before Adjustment (9/1981)	After Adjustment (9/1981)	Change times
<u>Procurement:</u>				
1. Paddy Prices:				
. In the North;	D/kg	0.52-0.56	2.50-2.70	4.9
. In the Central	D/kg	0.50-0.65	3.00-3.50	5.3
. In the South	D/kg	0.50-0.56	2.50	4.4
2. Peanut	D/kg	1.5	8.00	5.3
3. Tobacco	D/kg	5.1	25.00	4.9
4. Tee	D/kg	0.75	4.00	5.3
5. Coffee	D/kg	7.6	44.00	5.7
6. Sugarcane	D/ton	82.0	400.0	4.8
7. Rush	D/kg	0.5	2.7	5.4
8. Jute...	D/kg	1.2	7.5	6.3
<u>Input</u>				
<u>Provision:</u>				
1. fertilizer	D/kg	0.52	7.50	14.4
2. Diesel oil	D/ton	45.00	500.00	11.1
3. Small Tractor	D/p	4500.00	25100.00	5.6
.....				

Source: Phan Van Tiem, 1991:82,83,95.  
Where D is Dong and p is piece.

other choice<sup>50</sup>. Farmers' interest was not ensured by legislation.

It was common for the state to lag in paying farmers both money and normal goods for a period up to two crops and for scarce or large amount of goods up to five years. Farmers had to waste much of their time in transporting and queuing up to do their duty on product deliveries to the

<sup>50</sup>Commercial staff came to headquarters of the co-op and talked with co-op managers about the barter exchange ratios in a very general manner; eg, 200 kgs of liveweight pigs or 600 to 800 kgs of rice for one bicycle, 20 kgs of paddy rice for one meter of trousering or 40 kilograms against a pair of trousers, etc. Farmers took their rice to store houses of agricultural procurement company to sell and signed the exchange contract for bicycles or trousering, trousers, etc. Normally, they received exchange goods after some months. In many cases, peasants were very disappointed for what they at last got. Bicycles did not work. Cloths were cut according to state norm ---2m in all; and trousers were all in the same size, same or strange colour which did not meet the taste of farmers. They could wait but until when? Many of them accepted what the state provided and sold it again with loss or took to get them repaired. Sometimes, exchange ratios were adjusted or cut down by the state side after farmers had already sold their products to the state.

state on one side and time in keeping going on to ask for their exchange results due to endless delay and promise of the state on the other side.

Cheating and impolite behaviour of state commercial staff became easy understandable. State procurement was referred to as a "robbery action" and even mentioned in speeches of some high authorities. The tolerance of farmers was also limited. In many cases farmers gave up their interests and lost the confidence in government. Farmers were understanding unhappy when, even after a bumper crop, they had to work more and their share was less. At such a time, people could observed how sharp the contradiction in interests was between the co-op peasants on one side and co-ops and the state on the other side. Social studies showed that,

...peasants did not go to work; let ripe rice be on all fields without harvesting; they wished rather a lost crop than a bumper one....Since the former (1) freed them from large obligation and thus work to complete it; (2) made the state reduce the delivery target and in combination with the exaggeration of losses, the retained share to be distributed within the co-op would rise while the latter made them worse off. Therefore peasants' life was better when they had been facing a lost crop... Peasants realised that they would rather work and yield just the amount they were allowed to get....That was a paradox but also a rationale of co-op's economic life because fields and crops were not really theirs [Hanoi, 1991:104-136]<sup>51</sup>.

On the other hand, for cultivation, peasants had to buy more inputs at free market prices as the contract amounts which they had to deliver to the cooperative were raised<sup>52</sup>. The higher their yield from the contracted land the more they had to sell to the state at low fixed prices and to contribute to common funds from which a large part was used by co-op cadres for their

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<sup>51</sup>Some ideas and data used to illustrate the fate, attitude and response of the co-op peasants in the paper under the given source [Hanoi, 1991] were selected from those published in "Mot so van de kinh te cua Hop tac xa nong nghiep o Vietnam" (Some economic problems of Vietnam's agricultural cooperative) of an author collective of Institute of Social Studies under the leadership of Prof. Pham Nhu Cuong.

<sup>52</sup>Since explicit goal of socialist production is high output, targets were set based on the productivity of the most advanced co-ops (about 5% of the total) of the previous year and future projection which led to a big gap between the actual and target output. On the other hand, though the amount of food and livestock to be delivered to the state remained unchanged for a certain period of 3-5 years [tax: 10%; obliged sale: 10% of the total output and obliged sale at incentive price: 15-40% (30-40% for high-level co-op) of the excessive amount above the target (White, 1985)], different authority levels and even cooperatives often raised these for local or cadre use purposes.

parties, receptions and gifts to high level cadres coming to visit, supervise or check the co-op. Little was left for sale on the free market. Efforts of farmers were not compensated as they were faced with falling prices and rising costs of production.

In many areas, poor management, the excessive burden put on agricultural income<sup>53</sup> and corruption within the cooperative management led to the practice that farmers could receive only 15-20% of their output under contract after meeting production costs, taxes, and other "squeezes" at the hands of officials who came to be known as "new local despots" [Hanoi, 1991:140, C.V. Lam, 1993:157 and others]. Official surveys also showed that during 1986-1987 co-op households in the North were able to retain about 20% of their crop yield and from 1976 to 1988 over 60% of co-op members' total income came from "five percent land" [Tong Cuc, 1990], while other sources suggested a figure being 70% [Vietnam's Institute of Social Studies, 1991:130].

Inflation pushed up prices of food and foodstuff further. By the beginning of 1985 the difference between the free market price and the state negotiated procurement price was up to ten times of that set in 1981. In order to make peasants sell their products, the state had to provide them with agricultural inputs in advance, especially to the South<sup>54</sup> but this effort had little success. Consequently, peasants borrowed more and more from the state. Private debt problems were also common. There was one year in which peasants' debt accounted for millions of tons of rice [Tiem, 1991:87]. In addition, in

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<sup>53</sup>The workpoint regime was pushed to the peak of its non-sense. The unlimited inflation of the workpoints was loaded on the head of co-op members with many -dozens of- unreasonable costs, to which, lawfully, they did not have to bear, such as: the payments made to party leaders, local authorities, cadres of different unions, to those doing military exercises -that was a very large number, since peasants at the age of 17 to 45 for men and to 35 for women belonged to this force and they had to participate in the training course for 15 to 30 days a year, payment made to the village and commune cultural team for all their exercising and performing, payment for obligatory workdays -normally one month, payment made to female peasants applying birth control methods, ..., payment for price difference due to low sale price for agricultural products delivered to the state and at very low internal prices distributed to policy beneficiary families and members, for gifts to institutions and cadres they had to and for the parties of co-op managers. They even had to pay for crime practices e.g creating fake situation to cover up the track of a murder case, etc [Hanoi, 1991:140].

<sup>54</sup>Under the conditions of agricultural production in the South the state had to buy all agricultural products and sell material and agricultural inputs and consumer goods at negotiated prices as high as free market price at the time contract was signed.

many areas of the South, co-op managers used this opportunity to enrich themselves. As middlemen, on behalf of co-op members they received exchange goods, materials and other inputs for agricultural production, and on the other side, they acted as representative of the state in collecting taxes and contracted sales of peasants. They used state and co-op funds and divided these among themselves. This practice created large collective debt which was not easy to collect and, in many cases, debt cancellation was the result.

In March 1985, it was repeated in grain and foodstuff procurement policy that procurement prices should create economic incentives to stimulate peasants producing. It required that price setting be based on the negotiation between the state and farmers and; ensure that farmers could earn rational profit after subtracting production costs. Along this line, a new price system for agricultural products was formed. In general, the new procurement price level was to seven to ten times that of 1981-1985 period. For agricultural inputs prices were also raised to ten times as the exchange rate was revalued from 17 Dong to 210 Dong against 1 Ruble.

In fact, these price changes were only a adjustment to adapt to existing circumstances and did not help improve the peasants' situation. Prices were still not the signals of market to production since they did not reflect the real scarcity. Farmers still had to pay more for their production costs. Various policy errors regarding prices for material, technology, wages and money in 1985, and serious inflation in 1986-1988 retarded the development of agriculture and made people's lives in general and in particular, peasants' lives more difficult. In 1986, inflation reached a peak unseen since 1954; the general rate was 587%, of which that of socialist sector was 557%, and that of the free market was 682%. The prices for material inputs and means of agricultural production rose at the highest rate; it was 692% in socialist trade sector and 892% in the private sector. An inevitable result was a high price level of agricultural products and, in particular, that of food and foodstuff sold on the social markets<sup>55</sup>. It is to keep in mind that, in this period, on average, a Vietnamese household spent about 70% of its income on food [Tong Cuc, 1990]. The prices of food and foodstuff went up by 653% [Data used in this section are taken from P.V. Tiem, 1991:156, 157 and 196] and

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<sup>55</sup>Social markets were understood in Vietnam as the combination of "socialist or organised markets" and free markets whereas "socialist markets" consisted only of transactions within and between state and collective sectors and between these sectors and consumers.

considerably contributed to high inflation.

Privately, due to high input price, co-op peasants could hardly invest enough to produce and fell deeply into debt. In 1986 the number of loans to peasants in Tien Hai district of Thai Binh province was eleven times greater than in 1980. Debt was even more common in the South since it included both private and collective debt. In many areas peasants were even unable to pay their taxes. On public media people could know the hardship of peasants. In some places, local authorities even confiscated land, houses and assets of co-op households failing to pay taxes and deliver to cooperative. Meanwhile rich private peasants, mainly in the South, because of high inflation, shifted their investment to unproductive assets, such as houses, resident land, gold, dollars or stocks of paddy rice for speculation purposes.

Moreover, since 1986, the state had been in such severe economic difficulty that it was too poor to invest more in agriculture. Agricultural infrastructure needed to be maintained and extended but no financing was available. Modern inputs were needed but foreign-exchange was constrained.

The more intensively the government used administrative forces to make peasants join the co-op, the higher the share of co-op peasants was in the total and the higher the level of co-op, the lower the output share of the co-op (and the state) farms and thus the lower the peasants' income was. It was reported that the collectivisation programme was generally completed in late 1985 ---although now the co-op had only nominal meaning. In 1986, 93% of the peasant households had joined co-op and production teams. They used 67.3% of the total cultivated area and provided 49.8% of the gross agricultural output. The state sector consisted of 651 farms using 4.1% of cultivated area and was given the priorities in access to all resources such as trained engineers, technician and skilled labours, modern inputs and investment capital---about 20% of the total agricultural investment--- [Hanoi, 1991; T.H. Thu, 1994 and Dapice 1994], but added only 2.1% to the total output. Meanwhile the private sector including the 5% land plot of co-op peasants farmed on 28.6% of the cultivated area and yielded 48.1% of the total output [Statistic Yearbook, 1986]. Official data indicated that food income per capita decreased by 37.7% between 1964-1965 and 1981-1987 and food income per labourer fell by 37.9%. The reason lay in distribution of the total disposable food among three categories ---the state, co-op and farmers. The share of the state rose from 24.4% in 1964-1965 to 29.1% in 1987, that of the co-op went up from 6.9% to 21.3% while peasants' share decreased from 66.6% to only 49.6% respectively



[Hanoi, 1991:137].

As a consequence, farmers left contracted land and returned it to cooperative; this practice became widespread in the northern provinces. It had contributed to an overall stagnation and decline in grain production in the whole country since 1985. Eventually, poor weather and poor incentives together led to a lost harvest in 1987, food production fell to 17.5 million tons, nearly one million tons less than 1986 [see Table 4.1]. Meanwhile the total population increased by 2.3% per year [WB, 1990]. A serious food shortage and famine followed in March 1988 and affecting an estimated 9.3 million people in twenty-one northern provinces [Tong Cuc, 1990] and left domestic animals in jeopardy. All these factors set back the development of Vietnamese agriculture in 1986-1987.

#### 4.4 General assessment of the first wave of reform; 1981-1987

The "output contract" or "Contract System no.100" contributed to the development of production in many areas in the early 1980s. It widened the scope for private sector production and mobilised a substantial amount of underutilized resources which led to a sharp increase in grain output between 1982 and 1984. The main difference lay in the payment which was now made to small groups of labourers or households instead of the brigade in the previous period and which was dependent on yields on their contracted land. Incentives were tied to end product and a fixed production quota was given to encourage more investment in extra care for higher output.

Nevertheless, the reforms did not really change the basic structure of the production, the role of households and cooperatives and the relation between the localities and the state. Under the reform conditions, the responsibility for production remained with the collective. Families and individuals were still hired labourers, and no security of land tenure as well as private marketing was provided. The new system was simply another "grudging" attempt to improve collective land, labour utilisation and income distribution under the control of the co-op cadres and, still based on the old "three contract system"<sup>56</sup>. It rather strengthened than weakened the co-op. The co-op officials continued assigning tasks to collective units, groups, families, and individuals on the basis of whom they thought could perform them

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<sup>56</sup>The main content of the "three-contracts system" is presented in the previous chapter.

best or whom they personally favoured. Labour arrangement as such did not change, nor did the power of collective and village cadres [Hong (1981); Yem (1991) in Long, 1993:174-175].

The 1981 reform was not followed by more fundamental changes. Indeed, in 1985 there was a move toward renewed collectivisation and centralisation of the economy. In addition, the shift in the price, wages and salary policy also contributed to the depreciation of the reform impact. The procurement grain prices were almost confiscatory and thus gave very weak incentives for agricultural production [WB, 1990:8]. As a result, the recentralisation period (1985-1987) delivered a very high inflation record leading to a deceleration in growth. Agricultural output grew by only 1% in 1986 and in 1987, rice output fell by 4.6% (from Table 4.4).

Production and distribution of food was inadequate for the country's needs and once more Vietnam found itself again in sharp crisis. Vietnamese people, especially the peasantry suspected the leadership of the Party and increasingly lost the confidence on Government. Consistently, for a society relying on an agrarian economy, the only way to get out this situation was again to be found in the further agricultural reform. Resolution no.10 passed on April 5<sup>th</sup>, 1988 proved to be decisive in this respect.

**CHAPTER FIVE**  
**VIETNAMESE AGRICULTURE IN THE SECOND WAVE OF REFORM;**  
**RESOLUTION NO.10, 1988**

**5.1 Background to the reform of 1988**

The acute economic crisis occurring in the late 1985 and 1986 reflected the gravity of the mistakes in the economic policies applied in the old economic model. The general price, wage and monetary reform in 1985 contributed substantially to the aggravation of this crisis. The VI Party Congress in December 1986 seriously re-evaluated the country's development strategy and decided to launch upon a new development programme "Doi Moi" or "Renovation". The objective of "Doi Moi" is to change the economy from an inward-looking and centrally-planned to an outward-oriented market one but under the regulation of the state. Debates went back to the ideas of Lenin and Bucharin about the necessity of a mixed economy in NEP. The role of agricultural sector was reconsidered. Agreement was met that agricultural sector has not only a supply function (delivering foodstuffs, raw materials and export) but also a function of a market for manufactures [Johnston and Millar (1961); Timmer (1993) in Dapice 1994<sup>57</sup>; and Erlich (1960) in Dijkstra (1992)]. The policy package has been since in the process of changing and completing to give guideline to special economic sectors. In 1987, once more, the economic crisis which was essentially a procurement crisis, rooting from the decline of agricultural production, raised the demand for a new reform. Agricultural policy and other policies---agricultural price and procurement policies--- were carefully reconsidered and amended in order to recover agricultural production by giving more autonomy and incentives to peasants. This process, in agriculture, meant the decentralisation and/or decollectivisation in the production organisation and management, a process of re-tolerancing economic interests between the state and co-op peasants and

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<sup>57</sup>The approach is that agriculture can contribute:

1. to increase the supply of food and non-food agricultural raw material for domestic use;
  2. to earn foreign exchange;
  3. to provide growing markets for industrial output;
  4. to provide domestic savings;
  5. to provide labour for a growing non-farm sector.
- [Ha noi (1991) and David Dapice, 1994:7].

a process of transition from a collective agriculture to a primary household one. However, the above had only its meaning on paper. The delay of introduction of these policies to the practice caused a lot of damage for the agricultural production as discussed in the previous section. Food shortage was one of the main reasons ensuing high inflation in 1986 and 1987. Recognising this, in early 1988, the Party Politburo claimed that the reasons leading to this situation were:

1. The lack of a proper socio-economic development policy aimed at creating a rational industrial-agricultural structure; agriculture had received too little attention in the past, leading to lack of domestic suppliers of agricultural means of production and of agricultural processing; research and dissemination of new techniques were inadequate; there was great waste in the utilisation of investment and inputs in agriculture, and both irrigation and materials supply were poor.
  2. Collectivisation has been carried too far and too fast; people had been forced into collectives, which has been too large and too hostile to the family economy.
  3. Failure to abolish the system of administrative supply and problems with local cadres had reverse effects upon producer incentives; cooperatives neither functioned efficiently nor could be relied upon not to tax rice production excessively.
  4. Mistakes in macro policy had biased incentives against staples production and had been exacerbated by the failure to implement policies designed to improve the situation.
  5. State materials supplies to agriculture went through too many intermediaries and therefore increased the price to the producer.
  6. The organisation of agricultural support from the centre to the base was ineffective and clumsy; technical cadres were concentrated too far from the producer, and local cadres received inadequate training and encouragement.
  7. Rural educational programmes were ineffective.
  8. Local Party organisations were often based upon family connections or particular areas within the communes, and contained bad elements that exploited the local population.
- [Resolution No.10, 1991:10-13, Fforde and Vylder, 1988:96].

Thus, the main mistakes and weaknesses of macro-policies in agricultural and rural development were mentioned but the basic institution, the cooperative was not critically considered.

## 5.2 The "Resolution 10 contract" or "Household contract"

Starting from the above mentioned points, the Politburo's response came in the form of a resolution entitled "Renovation in Agricultural Economic Management" which had two important aspects. One was to guarantee peasants in the collective sector greater control of their lives and fruit of their labour by reducing the coercive impact of the cooperative through improving the democratic content and, cleaning up the same organisations through sacking or moving incompetent or corrupt cadres. The other was the reaffirmation of the equality of various economic sectors: state, state capitalist, collective, private capitalist and individual economies aiming at improving material incentives, raising output, mobilising agricultural surplus and eventually creating a more productive agrarian market economy.

Further, with respect to the collective sector, the Resolution made clear that cooperatives and production teams were voluntary economic organisations of the peasants with the status of juridical persons and self-governing units which determined their own form, scale, orientation and mode of production. They were completely responsible for their productive and marketing efficiency. Within the co-op, the workpoints regime was abolished and replaced by the product contract package for all production links to be carried out on each specific plot of contracted land. More economic independence was given to the cooperatives such as cooperatives are to be equal before law with all other economic units and to be free to buy and sell all economic assets except for land.

The Resolution was obviously addressed directly to the northern and the central provinces where the cooperatives were located since the southern provinces, especially in the Mekong delta, had resisted collectivisation for more than a decade and had been working on the basis of the household and the market. In 1988, from 90% to 99.6% of peasant households in the former belonged to cooperatives while only 6.9% of peasant households in the vast, rice-growing Mekong delta were co-op members [Vietnam Studies, 1990].

A key provision of Resolution no.10 was the contracting of co-op land to peasant households for a time period of ten to fifteen years and not less than five years and; the assurance that households could retain at least 40% of average crop yields which were to be decided at the time of the contracting and should remain fixed for a period of five years. It was also stated that households which did not meet the contract yield quota would have to

compensate the cooperatives in kind or cash at the going market price but those exceeding it could keep entire surplus.

Further, beside affecting the main part (75-80%) of land used for the normal contract, Resolution no. 10 also paid attention to the stimulating the most able and best endowed farm families in terms of labour force, experience and capital by setting aside 10-15% of total land of good quality to contract out to them for higher target and the rest 5-10%, often marginal land, to allocate to those winning the competitive bidding.

This was known in the North and the Centre as "Resolution 10 contract" or "household contract" and by December 1989, 95% to 98% of all cooperatives in these regions had put the "household contract" into practice.

### 5.3 The impact of the "Resolution 10 contract"

#### 5.3.1 Expected benefits of the "Resolution 10 contract"

With Resolution 10, households become the principal production units in the countryside and had complete freedom in cultivating the contracted land. The co-op management only played a supporting role in water conservation, pest control and crop protection, in the production process besides acting as middlemen between households and state in collecting taxes and overseeing the distribution of the contracted land. Due to this the number of co-op cadres decreased by 35% to 50% and salaries paid to them declined from 3.5% to 1.5% of the contracted yields on the co-op land. Lam (1993) and Toan (1992) report better results. According to their data, by the end of 1990, cadre costs decreased by between 50 and 60%. The money saved was invested in new pumping station, reservoirs, electric relay station and other projects aimed at improving rural economic conditions [Thao, 1990:39-42]. By turning over land and selling or renting farm machines, implements and other means of production, the cooperatives made it possible for the peasants to use land, labour and capital more effectively and thus considerably increase food production [Tong Cuc, 1990]. Peasants came back to land. Through contracts and bids, much of uncultivated land has been put back into use [see Table 5.1]; only in Thai Binh province this area was already 2,700 hectares [Lam, 1993].

The essence of the new policy was that it facilitated the development of economic capabilities of peasant households and guaranteed a long-term stability for peasant family economy. In practice, most contracts are for fifteen to twenty years or longer and they include inheritance and transfer

**Table 5.1 Additional Capacity used in Agriculture; 1981-1990**  
(in thousands ha)

Item	1981-85	1988	1989	1990
-Irrigation area	309.8	49.9	44.7	76.8
-Drainage area	186.3	60.9	16.4	71.2
-Opening up of wilderness	275.8	29.0	108.0	7.2
of which:				
+ production used area	172.3	11.3	79.2	7.0

Source: General Statistical office, 1992:173.

rights [L.D. Thuy, 1992]<sup>58</sup>. For the first time, the Resolution explicitly approved private marketing [WB, 1989 and Long 1992]. By the late 1980s the private sector was the main force everywhere in Vietnamese agriculture. In 1987, it created 53% of total agricultural GDP, of which 97% of animal products, 88% of fish, 82% of vegetable, 98% of fruit, 66% of industrial crops and 20% of food crops [Asian Development Bank (1989) in Selden, 1993].

Another element of the new policy encouraging peasants' enthusiasm in raising production was the abolition of obligatory sales to the state at low price. Paying taxes was peasants' only obligation. All economic relations between co-ops, production teams and state economic institutions were based on the principle of equal exchange according to trade contracts. With this, Vietnam implicitly recognised Bucharins' agricultural policy.

Higher productivity ensured high income per capita (see Table 4.4), more equality in income distribution, more freedom in production decision making and, given stability in the macroeconomic environment, peasant households began to invest more to improve the land and to buy mechanical farm equipment, cattle and other means of production. A large amount of investment capital was mobilised in the rural areas<sup>59</sup>.

<sup>58</sup>It was not the case of the North as local authorities did not approve.

<sup>59</sup>In the Mekong Delta, the peasants and government together put tens of million of Dong to improve land fertility which raised rice output there from 1.2-1.5 tons/ha to 8-10 tons/ha by raising two crops a year. In the central high lands, over 70% of capital invested in coffee had come from peasants families [Lam, 1993:159].

One factor greatly contributed to the development of the agricultural production was the liberation of internal trade which was mainly concerned with the trade of food and foodstuff. Transport and trade barriers among and between districts, provinces and regions were eliminated. Tight control over prices was abolished. This facilitated long-distance trade and thus a smooth circulation of agricultural products within the country. Agricultural producers in the commodity production regions, mainly of the South again found their consumers and economic incentives which encouraged them to invest more in and specialise further their production.

The new policies prevented a slowdown in agriculture and helped increase production output in the years following the reform. The largest gain was brought to Vietnamese agriculture. Grain production increased by 11.5% in 1988 and 10% in 1989. In 1989, with total grain production of 21.44 million tons, Vietnam, after many years of food insufficiency, could not only provide enough rice for domestic consumption but also be able to export 1.4 million tons of polished rice and became the third largest rice exporter in the world. Output of other crops also showed an upward trend, especially that of the perennial crops such as coffee and rubber, pineapple, pepper, mulberry, etc. Together with rice these helped export earning reach 212.5% in 1989. On average, the annual export earning from agricultural products increased by 27.7% during the period 1988-1993, which had never been before (see Tables 4.3; 4.4 and 4.6). The domestic animal herd rose further [Tong Cuc, 1992]. Agriculture thrived and took a major step from subsistence to commodity exchange.

With the transition to a household agriculture, labour force was increasingly liberalised. Many traditional occupations, which were prohibited since the beginning of collectivisation, have been reemerged in the countryside, especially in locations near market centres and surroundings of the provincial towns. There has been also a movement to a wide variety of new and sometimes lucrative occupations [Long, 1993]. These activities are very demand and price sensitive and contributing significantly to the improvement of peasants' living conditions.

Another positive impact of Resolution 10 was that, it put pressure on population growth in rural areas, especially in the most densely ones.

Consequently, a researcher and professor at the Party Training School Nguyen Ai Quoc emphasized that:

the household economy is a new form of production that has attained the highest economic efficiency in the history of our agriculture. The creation of households as the main economic



units and the development of the household economy will directly destroy the organisational and management structures of the old cooperatives and will negate them as models for development [N.V. Thao (1990) in N.V.Long, 1993:179].

However, such a conclusion seems unwarranted since the positive impact of the reform was not the same in different regions. Surveys and observations made by the University for Agriculture No.1 and the Institute of Agricultural Economics Research revealed that:

(1) increases had been occurred primarily in the predominantly rice-growing regions Red River delta and Mekong delta. No increase was observed in other regions;

(2) the highest rates of increase were in areas having initial higher overall production and higher food per capita;

(3) increase was faster and larger in Mekong Delta provinces where the cultivated areas was largely in private hands before the reform than that in the Red River delta and the highly collectivised northern and central provinces where household economy began to emerge only after the reform;

(4) in 1990, only two central provinces and seven Mekong delta provinces had a slight per capita production increase over 1989 level. The rest of the country suffered from a decline in production and in some cases even substantially.

To assess exactly the impact of reform on the development of agricultural production, further research is needed which can not be dealt with in this paper.

### 5.3.2 Consequences of the new contract system

The new contract system together with other new macro-economic policies created a rather favourable environment for agricultural development; it also generated new contradictions, concerns and hindrances in the rural development. Problems which have emerged after the implementation of Resolution 10 can be seen in the most important factor of peasants' economy; ie, the land issue; social differentiation within the peasantry; the opportunity of professional change; cadres and management; the operation of existing co-ops; the problem of credit and input supply, and the system of educational and health services.

In Vietnam in general, and in the North in particular, land is very limited. The average land available for one household was about 0.3 to 0.4

hectare in the North; 0.4 to 0.6 hectare in the central coastal region and 0.6 to 1.5 hectare in the Mekong Delta [Quoc Toan, 1992]; or land per capita is about 0.1 ha for the country as a whole [from Table 4.4]. Resolution 10 required the basic land be allocated equally. Land "fragmentation" occurred since village and co-op cadres, attempting to avoid "land wars", classified and divided land in small plots of varying fertility in different parts and contracted them to households according to family size. Official surveys in fifteen typical districts of the Red River delta carried out by the Institute of Agricultural Planning in 1990 showed that, on average, a household worked less than one-third of a hectare of land divided into seven to seventeen tiny plots dispersed at distance up to 1.5 kilometres from the household's residence [Tram and Cao, 1990]. Long (1993) says that in Hai Hung; a province of the Red River Delta, Households marked their areas with stakes and string and performed various tasks ---soil preparation, fertilizer application, weeding and harvesting--- individually. These tiny plots obviously constrained the application of new technology such as machine and modern inputs as well as discouraged households investing into land but encouraged exploitation of land. Impressed by his visit, Long concluded that:

"Many households seemed to mine the soil for all it was worth rather than make long term investment to increase its fertility" [N.V. Long, 1993:186].

Furthermore, for their own interest, in many areas, co-op cadres retained to control over land allocation by arbitrarily shortening the land use duration to three to five years and in many cases to even one to three years although Resolution 10 clearly stipulated that the leasing time for contracted land should be 10 to 15 years. This further worsened the already existing poor investment situation on contracted land.

Dividing land into small plots to contract them out to peasants was carried out within each high level co-op. Since land was now distributed egalitarianly, many hamlets received less while the other received more than that they contributed before. This practice caused land disputes appear everywhere (over 200,000 cases since 1988 -David Dapice, 1994) among the hamlets, especially in the North, where the co-ops were located. In the South, land disputes also occurred with the implementing of Resolution 10 but for another reason. Many peasants there even demonstrated against local officials failing to return land, which was illegally and arbitrarily taken from peasants when farmland was redistributed in South Vietnam in the 1978-1983

period, to the old users according to Directive No.47 [Asia Yearbook, 1990].

Closely related to if not being directly considered as a result of the land issue was the differentiation of the peasantry within and among the regions. The reasons for this among the regions were the availability of land and its fertility, the geography, climate and those of peasant households are the level of capital accumulation and capital input, the farming experience, the diversification in production and the ability to access to the market. Southern peasants enjoy favourable conditions and that help explain why most of the rich peasants are from the South, especially the Mekong Delta. However, the process of differentiation has been taken place there also stronger than anywhere else. Poor peasants could not finance their production process, transferred their land use right to rich ones and had to work for them since there were little employment opportunity in non-farm activities. Their income was not regular since agriculture has highly seasonal character.

On the other hand, in general, land was not transferable and could not be used as collateral. This restrained the movement of labourers to new services and business occupations<sup>60</sup>. Official survey carried out in four representative districts of four provinces in the North: Gia Lam (Hanoi), Thuong Tin (Ha Son Binh), Chau Khe (Ha Bac) and Dong Hung (Thai Binh) pointed out that many northern households who were engaged in handicraft or have sideline occupations wanted to leave agriculture to do other jobs but held on to the contracted land as security against economic, social and political uncertainty, though, for them, income from agriculture was negligible. They hired agricultural labourers working on their contracted land and concentrated their energy and time on other occupations. Therefore, the small and scattered plots, delays and difficulties involved in negotiating and leases discouraged much investment. Without further policy improvement, the egalitarian land allocation would certainly not guarantee long-term efficiency.

The most concern in the rural areas since the 1988 reform were those emerging within the co-ops and communes which ceased to finance or support social activities in the countryside. This resulted in the failure of the communal services in education, health and welfare.

In the area of education, many primary teachers left their job since state salary was too low and co-op subsidy was cut. On the other hand, peasants have become autonomous economic units; they tried to use their labour

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<sup>60</sup>only in the North, in the South peasants did transfer and worked as agricultural workers and they were happy with this, as they told researchers.

as intensively as possible. Many of them withdrew their children from school to save tuition cost and at the same time to secure their labour. As a result, annually, the ratio of children leaving primary schools reached 20-25% after the reform, which had never been before. The problem has become more serious as the right on free education and medical treatment was abandoned.

Worrying about this situation, at the Seventh Party Congress (1991), a delegate from Phu Yen province ---in the central region--- stated that, in the field of education, before the reform 100% of the cost for kindergarten and 80% of the cost of lower and middle schools were financed by the co-op. Thus, without co-op funds, it was difficult to see how education could be financed and he further proposed to maintain support by co-op for social welfare.

Health services had deteriorated while their costs had risen. Peasants' expenditure on health service went up from 3-4% in 1986 to 5.1% in 1989 but peasants were not satisfied with what they got. Medicine was no longer subsidized and there was no fund available for reserve. On the other side, rural nurses and medical workers came back to land to find the security for their income since they were no longer be paid by the co-op. As a result, health care stations often lacked either medicine and/or doctors or nurses. This contributed to the worsening of the health situation of rural population. The ratio of children suffering from malnutrition, partly due to failing to get preventive care, in 1989 reached 36% [Data used in this section are taken from N.S. Cuc, 1990, 1991].

Ignoring these problems today, Vietnam certainly has to pay very high prices in the medium- and long-term for both, economic and social aspects. The practice has shown how efficient the investment is in human capital.

A further social problem arising with the reform was the erosion of both commune and family solidarity, a result of the social differentiation. The lack of cash and access to rural credit facilities of poor peasants created more and more usury activities among the rich peasants<sup>61</sup>. Therefore, to some extent, the reform tended to favour the rich and hurt the poor.

Another kind of undermining of social morality was the formation of clans by rich peasants which resulted in the neglect of poor households outside the clans. Poor households were usually childless elderly people and

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<sup>61</sup>In the village of Dong Ha in Thanh Hoa province, more than 42% of the households borrowing money said they had paid "cut-throat interest rates" and 12% of the debtors paying these interest rates said they had borrowed the money from family members [Long, 1993:200]. The practice showed this rate varies between 100-300% for a crop up to six months.

disabled veterans that had been "policy households" before the reform. Researchers stated that rich households also said they even did not mind paying bribes to local officials and bureaucrats if it was the price of conducting business. This showed a clearly tendency of the undermining of law and orders, especially in the areas around the urban and market centres.

Equally problematic was the operation of the co-op under the new conditions. Now the co-op played only a role of a supporting institution in the agricultural production but in many regions, co-ops left their tasks: water conservation and crop protection to households. As a consequence, the yields of 1988 spring rice crop fell by 0.25 ton per hectare which made the total paddy output decrease by 0.102 million tons compared to that of 1989 [UNDP and FAO, 1989; L.V. Toan et.al; 1991]. Hence, an additional burden was loaded onto the shoulders of the peasants. In some areas, peasants still had to contribute to co-op funds up to 30% of their total contracted output [Tien, 1993:78]. Dapice (1994) figured out this number of up to 25% [Dapice, 1994:6].

Since the co-op ceased to play the intermediate role in the supply of inputs and credit while the agricultural input market and the rural bank network were not developed and the operation of rural bank was limited, peasants found great difficulty in getting inputs and financing investment. The spread of extension programmes on high yielding agricultural technology and new farming practice to the peasants also became less efficient without the active supporting of the co-op.

These problems are open for further debates on whether to change existing agriculture to a complete on private ownership based household agriculture or not.



CHAPTER SIX  
CONCLUSIONS AND POLICY IMPLICATIONS

6.1 Conclusions

The land reform of 1955 brought land to peasants and gave them the right to make their own production decision. Their permanent dream became a reality. After only four years, a small subsistence agriculture was shifted to a commodity one, although still simple.

The attempt to build socialism immediately from a backward agricultural society induced Vietnam to apply a socialist economic model which required a large surplus accumulated from agriculture to finance the costly industrialisation process carried out by the state under the central planning system. In addition, one half of the country was under war conditions; this also necessitated huge assistance from agriculture. Collectivisation was seen the means to collect this surplus and therefore a household agriculture was shifted to a collective one. In the early years of the model, collective agriculture permitted the state to extract agricultural surplus which was impossible under the conditions of a small and dispersed peasant economy.

Vietnamese collectivisation, in its first decade, together with the impact of large foreign aid, showed positive results. Productively, collectivisation facilitated the introduction of new technology: partial mechanisation, new irrigation and chemical fertilizer which helped raise output by doubling yields per hectare through increasing the crop intensity from one to two or three crops per year. As a result, collectivisation "enabled the people of the densely populated Red River Delta especially, to shift away from the brink of starvation which has been a persistent threat during the colonial period" [Beresford, 1985:21]. Economically (and also politically), along with large socialist aid, it helped implement of the industrialisation process by channelling resources to industry, increase industrial production impressively during the FFYP and better supply the peasantry with incentive goods. Socially and culturally, collectivisation contributed to rural development. Most of the northern peasants became literate. Schools, cultural houses, clinics, and many rural public facilities were built and financed by the co-op funds. For the first time in Vietnamese history, all children could go to school for free or a very little fee. The co-op welfare system assured all single people, old people, handicapped people, women and poor children had a basic amenities. The co-op represented

a social guarantee. Politically and ideologically, co-op agriculture supported the Party and Government by providing the army with human and material sources so that Vietnam, together with international peace-loving movements, could end the US bloody war in the early 1970s and gain success in the nation's struggle.

Although there existed some problems in co-op organisation and management, peasants' interests were in general guaranteed. Collectivisation ensured a relative equality for the majority of the rural population. The principle "One for all and all for one" and the goal "everyone has food to eat, cloth to wear and everyone can access to education" were realised. Therefore, agricultural production, labour productivity and income per capita increased in this period and the DRV model was appropriate to this time.

Nevertheless, in the early years of the model, collectivisation had already contained factors of its failure. Imposed collectivisation "ignored caveats in the work of Marx, Engels, Lenin, and Bukharin that successful co-op transformation must be consistent with peasant interests and avoid forcible expropriation" [Selden, 1993:210]. Collectivisation in Vietnam violated the premises of gradual and voluntary cooperation in both parts of the country. Collective agriculture proved to be more inappropriate and inefficient when the low-level co-op was rapidly converted into the high-level one by the end of the US air war and especially after the liberation of the South in 1975. The inappropriateness and inefficiency of collective agriculture were exposed in both incentive structure and organisation and management of the production.

In the Party and Government, collective agriculture was increasingly understood as an instrument of the state to control rural economy and population. Co-op peasants were understood as rural proletariat. Peasants became hired labourers. Their economic and moral rights as well as interests were increasingly ignored. Their incomes were only a residual and increasingly repressed. This was highly paradoxical in the light of Marxist theory; it reversed the theoretical relationship between 'necessary' and 'surplus' labour product [White, 1985:104]. Socialist value and price theories were largely violated. Artificially setting low prices for agricultural products and imposing unequal exchange policy further oppressed peasants. Using its price and marketing policy, the state was only interested in squeezing agricultural producers as much as possible. In addition, the strategy of heavy industry bias and production according to a central quantity plan regardless of quality did not supply the peasantry and agriculture with incentive goods and/or goods



with proper quality. Furthermore, the indifference in the co-op members as the result of collective ownership and egalitarianism in distribution further rose. Collective agriculture, therefore, reduced considerably the incentive and enthusiasm of peasants to produce for the social economy. Next were the problems of co-op organisation and management. They became more cumbersome and irrational in the high-level co-op. Others were the poor investment in agriculture, clumsy and inadequate supply of inputs to agriculture and the aftermath of the US war contributed strongly to the stagnation of agricultural production. The inevitable result was that; agricultural output fell sharply.

As a consequence, a procurement crisis occurred. The government could not buy products from peasants to realise its subjective wish. The government's goal was therefore not achieved. Agricultural surplus and inputs to be invested in industry shrank. Industry and agriculture did not complement each other but impose constraints on each other. The attempt to build a strong working-class and peasantry alliance failed. These can be seen as the most important and integrative reason for the crisis and failure of the model.

The 1980s agricultural reforms were to solve these problems. The process of decentralisation of the economy in general and agriculture in particular began in 1981. The 1981 agricultural reform gave peasants some economic incentives which helped stimulate and increase production for a short time since it allowed only a little change in the basic institution (the co-op). The inconsistency and contradictions in policies at both sectoral and macroeconomic level, the reemergence of a tendency of recentralisation of the economy in 1985 and the unsolved problems of the co-op again took away economic incentives given by the 1981 reform. Peasants' income was repressed to the lowest level. Their situation was even worse than before the 1981 reform. Poor price and good incentives made peasants just assure their own subsistence but reduce the marketable surplus, and economising their energies by restricting cultivation like the case in Zambia [White, 1985:111]. The contradictions between the peasants' and the state's interests became unsolvable. Peasants left land. As a consequence, production stagnated and declined sharply again in 1987 which caused a famine in early 1988.

At last, the Party and Government had to recognise an obvious fact that: to foster production, "Collective exploitation" of the peasantry had to be stopped and economic incentives had to be given to producers<sup>62</sup>.

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<sup>62</sup>The gravity of serious mistakes in economic policies and management was recognised in 1986, at the VIth Party Congress.

Centralisation and collectivisation in agriculture did not and would not bring desired results since they could neither guarantee economic and social interests of the peasantry nor mobilise, efficiently allocate and utilise existing human and capital resources.

The 1988 agricultural reform solved this problem rather successfully. It really brought more economic incentives to the peasants and helped production recover and increase drastically in 1988 and 1989.

The 1980s' agricultural reforms reflected a process of decentralisation and decollectivisation of agricultural production, a process of abandonment of Stalinist style of collectivisation, a process of transition from a centrally planned and collective agriculture (mainly in the North) to a household dominated and market led growth one. The reform of the basic institution (the co-op) in 1988, the change in macroeconomic mechanism and its policies created a better environment for agricultural development.

The achievement in grain production in 1988-1989 led to the total liberalisation of food price and food trade; allowed Vietnam to establish food security for the first time after many years of food import and food aid dependence and export a large amount of food. The reforms laid the foundation for the generally successful economic reform and stabilisation programme in 1989. For the poor country, Vietnam, solving the food problem was the most important step for handling with other economic problems such as fiscal policy, inflation<sup>63</sup>, macro prices, etc.

Empirical evidence, therefore, disproved the three arguments supporting the collectivisation mentioned at the beginning of the second chapter. The failure of the collectivisation in agriculture revealed that:

(1) agricultural production can not be organised and managed like that of industry since it is to be carried out under certain conditions, sequences and requires special care skills;

(2) cooperative agriculture was not superior to peasant household one respecting labour productivity, growth potential and income due to inappropriate incentive structure, highly inefficient management and low technology level;

(3) it is difficult to ensure that collectivisation would prevent differentiation in the peasantry since there existed uncontrolled inequality

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<sup>63</sup>Inflation rate fell from 308% in 1988 to 96% in 1989 and 36% in 1990. Indeed, it was a result of the interaction of different macroeconomic policies in the radical reform process.

in income distribution;

(4) the benefits of high free market prices would not ensure that through collectivisation the state would have the central control over agricultural production and surplus.

In general, collective agriculture, due to its unsolved problems, can not finance the country's industrialisation. The model did not work and peasants had little benefit from industrialisation.

The result of reform is promising. Nevertheless, it has showed a major shortcoming which has reappeared in the reform process; ie, success and failure alternated. Reforms and their results formed waves, no clear tendency. Reforms were always piecemeal and cut into separate pieces lacking glue to link one to another. Reforms were not organised as a continuous process. This reflects clearly the weakness, inconsistency and vague in policies and legislation system of Vietnam's government on the one hand, and the lack of sufficient reform's pre-conditions: financial, technological and human, the control and supervision, on the other.

Studying rural reforms of Vietnam, Selden concluded that the reforms often

"proceeded by fits and starts with repeated reverses as the leadership divided over the nature, scope, and speed of reforms" [Selden, 1993:244].

The positive results of reforms often created over-optimism in the leadership and led to the neglect of a critical analysis of the reform effects. As a consequence, interruptions and even back-lashes often set in which brought adverse effects to agricultural production and the economy as a whole. Such events can be observed in years of post-reforms such as 1986, 1987 and 1990. Since the reform is still ongoing. For further success, Vietnam has to learn how to prepare and organise the reform as well as analyze and evaluate the results of reform.

The gain in agricultural production brought by collectivisation can be considered as the result of a long and incessant struggle of the Vietnamese peasants, although often spontaneous, against the administrative and bureaucratic plan orders of the economic management apparatus. It demonstrates the priority of economic methods over administrative ones. In agriculture, the transition process has increasingly liberalised labour force, diversified rural production and provided with the peasants more economic incentives. In this sense, household agriculture shows its superiority over its former collective one in regard to both: resource allocation and economic efficiency.

For a long-term efficiency, beside further changes in the institutions and production organisation; more attention should be paid to the solution of social problems since agricultural development can not be sustainable without a strong social infrastructure.

## 6.2 Policy implications

Problems agriculture is facing (see section 5.3.2) need to be solved in order to foster a long-term agricultural and rural development. The following policy suggestions might be considered:

(1) Prolonging<sup>64</sup> and securing the land-use rights by really freeing use-rights transfer between and among households. This will help mobilise more capital from rich households for a long-term investment in land and diversification of production for higher efficiency and growth. Gradually privatising land, at first state farms to motivate large-scale production, especially in industrial crop farms which help create jobs for rural labourers and expand agro-processing and export-oriented industry.

(2) Improving the rural infrastructure; eg, roads, bridges, irrigation, drainage, electricity connections, and other communications like telephones which are now very poor and inappropriate. It is important to develop the roads system, in particular in the most high poverty areas to reduce transport costs of inputs, raise income for farmers and profit for traders who bring agricultural products to the centre of the cities and inputs to agriculture. Developing communication system is necessary to smooth the travel of information about prices, jobs, production techniques. Labour market, therefore can work better. Furthermore, an appropriate drainage and irrigation system is extremely essential for cultivation of food crops in the deltas and industrial and export crops in highlands.

(3) Strengthening research and extension activities by the government to improve the dissemination of new knowledge and the provision of extension services to individual farmers;

(4) Developing a widespread rural and agricultural bank network to

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<sup>64</sup>The Land Law of 1993 states that, for crops, land use rights should be assigned for a period of twenty years. For forests, land use rights are to be granted for forty years [Dapice, 1994:11]. This is however still short for investment stimulation.

facilitate poor farmers to access to rural credit needed for financing modern inputs and investment in their production, to free them from usury activities and; involve all peasants in activities of the formal financial system;

(5) Rationally setting prices for agricultural inputs and services provided by the state ---in areas the state still has the monopolist power: import, state sector supply---in order to encourage farmers to use modern inputs since without modern inputs productivity gains will not be forthcoming;

Liberalising trade and price of agricultural inputs and/or services for a better service supply respecting time, location and quality of inputs; ie, permitting private sector to participate in the input and service supply activities and allowing agricultural producers to approach and access to international markets;

Rationally setting prices for products of industrial and export crops to encourage peasants to move to high value crop-pattern for a higher export earning;

(6) Improving the management of those co-ops still playing important supporting role by further upgrading acting co-op cadres, dismissing less competent co-op cadres; and further abandoning nominal co-ops;

(7) Devoting more investment and/or subsidy to the rural sector in areas such as education, health, environmental protection and non-farm business, especially to the poor and densely populated regions to help reduce poverty, prepare a healthy labour force and build a favourable environment for rural development by further restructuring the economy, and introducing appropriate income and taxation policy for the rural areas;

(8) Improving and clarifying the land law: an appropriate progressive land tax or a land holding ceiling will prevent an extreme land-concentration and land less; issuing policies to secure the economic, politic and social rights for those having non-farm occupations and running business in the rural areas. These can help stimulate agricultural labourers to move to other professions the rural economy, especially in the North, overcome the existing single food production;

(9) Facilitating and encouraging joint ventures in industrial crops and agro-processing industry for a better utilisation of the most comparative advantage factor of Vietnam: an abundant, educated, hard-working and low-cost labour force.

The transition from a collective to a household agriculture, which is wished by the majority of the peasants, can be very successful in the

allocative and economic efficiency sense if the above conditions are created. Households facing a "hard budget constraint" will know when, where and in what crops to invest to gain the highest income. Moreover, internal and external conditions are changing. This favours the prevailing development tendency. No longer do the Party and Government fear the free market nor view the petty commodity production as begetting capitalism daily and hourly but, instead, these are now encouraged to develop. Externally, Vietnam has improved its relationship with all countries in the region and many countries in the world. More important, the US embargo has been lifted. These together help Vietnam gain access to foreign savings to finance its investment in crucial areas of an outward-oriented and market-led growth though Vietnam perceives that the main source of accumulation must be internal. Apart from industry, many foreign investors have also been investing in agricultural and agro-processing production. This will certainly stimulate the household economy; and Vietnamese peasants will neither have to "share out" poverty such as in the late 1950s; but instead, poverty can be reduced as differentiation of the peasantry continues and specialisation in rural non-farm services and industrial activities increases. The practice has already showed this positive tendency.

## APPENDIX 1

### Some crucial data and periods mentioned in the paper:

- .1858 France occupied Vietnam.
- .1945: Vietnam gained independence from France.
- .1954: Vietnam was liberated and divided into two parts: the North (the Democratic Republic of Vietnam (DRV)) and the South, according to the Geneva Treaty.
- .From 1954 to 1975: The South was under the US control; the economy there was market oriented while the DRV adopted a socialist economic model and began reconstructing its economy based on it.
- .1975: Liberation of the South,
- .1976: Reunification of Vietnam; the IVth Party Congress; the DRV was turned to the Socialist Republic of Vietnam; the VWP was renamed the Communist Party of Vietnam.
- .1979: Party Resolution Six opened a period of economic rethinking, changing in economic policies and forming of reform's ideas;
- .1981: The first partial reforms took place, and the beginning of the first wave of reform in agriculture;
- .1985: The most unsuccessful 'general price, wage and monetary adjustment';
- .1986: Year recording the unforeseen highest inflation rate since 1954; and  
: Party Congress VI approved the "Doi Moi" or "Renovation" Programme;
- .1988: Party Resolution 10; 1988 agrarian reform ---the second wave of reform;
- .1989: Radical economic reform; stabilisation programme;

### Sub-periods of the period 1955-1988:

- .1858-1945: Vietnam was under the French colonialist rule.
- .1954-1957: Economic Reconstruction in the DRV;
- .1958-1960: The Three-Year Plan; Collectivisation of the DRV agriculture;
- .1960-1965: The Period of Low-level co-operative (co-op);
- .1961-1965: The First-Five-Year Plan; in the DRV;
- .1964-1972: The period of the US air war with the 'Rolling Thunder' campaign;
- .1965-1975: The period of high-level co-op in the DRV;
- .1976-1980: The Second-Five-Year Plan;
- .1981-1985: The Third-Five-Year Plan;
- .1981-1987: The first wave of reform in agriculture starting with the 1981 agricultural reform or "Contract System 100";
- .1988 onwards: The second wave of reform in agriculture beginning with the 1988 reform or "Resolution 10".
- .1958-1979: Centralisation of the economy;;
- .1979-1985: Decentralisation of the economy,
- .1985-1987: Recentralisation of the economy;
- .1988 onwards: Decollectivisation in agriculture; collective agriculture as shifted to household agriculture.
- .1989 onwards: Restructuring the economy. The economy as a whole is in the process of transition from a centrally planned economy into a market economy.





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