Trade liberalization and marketization of agro-products

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TRADE LIBERALIZATION AND MARKETIZATION OF AGRO-PRODUCTS

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1. INTRODUCTION[1]

Renovation of the Vietnamese economy is a marketization process, shifting from a centrally planned mechanism to a market economy. Although the decisive milestone of the Doi Moi period is defined as The 6th Congress of Vietnam's Communist Party (December 1986), the marketization process in agricultural production began much earlier, even as early as 1981 with Instruction No 100 CT/TW (January 1981) issued by the Secretariat Board of Vietnam's Communist Party. Since then, trade liberalization and agro-product marketization processes have opened up opportunities for farmers in production development and life improvement. Due to marketization, Vietnam's agricultural production has grown steadily. Some agro-products have become major exports of the Vietnamese economy. In fact, farmer's incomes and lives have improved considerably. The poverty rate has decreased quickly and this is regarded as one of the salient successes of the economic renovation process in Vietnam. The issues discussed are the impacts of marketization on agricultural produce and the lives of farmers. However, the increase in the rich/poor divide poses problems which need to be solved in the future.

The objective of this paper is to review how the marketization process has impacted on agricultural production and the lives of farmers in Vietnam since the 1990s.

2. THE POLICIES ON TRADE LIBERALIZATION DURING THE DOI MOI PERIOD IN VIETNAM

2.1 Price policies

Before the Doi Moi period, there was a dual pricing policy for agricultural products. This meant the market price was much higher than the purchasing price and the Government

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[1] This report is written in cooperation with B.A Ms Pham Le Hau, B.A Ms Dinh Ninh Giang, B.A Ms Do Thu Trang

seriously interfered in the agricultural market in order to supply input materials for industrial production. This had a severe effect on the agricultural industry. Agriculture accounted for 30% of GDP and attracted more than 70% of the labor force, hence sustainable development of the whole economy heavily depended on the stability and development of the agricultural industry.

After the Doi Moi period, prices were market driven. The higher market price of products motivated the development of production. In turn, making Vietnam one of the leading rice exporters in the world. This trend was also promoted by an open-door policy helping introduce Vietnam's products to the world market.

2.2 Policies on import and export

After the reform, especially in 1989, the Government decided to end the monopoly of State owned enterprises in import-export activities. Local and private enterprises are now entitled to take part in import-export activities. Terms and conditions were gradually loosened; conditions on foreign trade contracts were eliminated in 1992, conditions and regulations on minimum capital in 1994, conditions on transport licenses in 1995, and import licenses in 1996. Now, only a business license is required. This loosening of restrictions encourages the import-export activities of enterprises.

Generally, the tax rates on exported agricultural products are lower than those on processed industrial goods creating an incentive to export agro-products. Some tax policies have changed. The changes have been toward reducing the number of taxed items as well as tax rates. Especially after becoming a member of ASEAN and AFTA in 1995, Vietnam has gradually carried out the Common Effective Preferential Tariff Scheme (CEPT), with the import-export tax reduced to between 0 and 5% among ASEAN countries. This process started in 1996 and is expected to be completed in 2006. The tax rate on all goods and services, previously more than 20%, was reduced to 20% in 2001, and those which had a rate of less than 20% will be reduced to 0-5% by 2006. Items on the Temporary Exclusion List were gradually shifted to the Reduction List during the period of 1999 to 2003 so that the tax rates levied on such items will be reduced to 0-5% in 2006. The tax rates levied on the items on the General Exclusion List will not be reduced. The tax rates levied on items on the Sensitive List, including agro-products such as eggs, meat, poultry, rice and sugar amongst others, will be reduced to between 0 and 5% by 2010 (Table 1).

Table 1: Liberalization schedule for some major agro-products of Vietnam in accordance with CEPT/AFTA

Items	2002	2003	2004	2005	2006
Rice	20%	20%	15%	5%	5%
Maize	5%	5%	5%	5%	0%
Vegetables	10%	5%	5%	5%	0%
Fruits	20%	5%	5%	5%	5%
Coffee (un-roasted)	10%	5%	5%	5%	5%
Tea	20%	20%	15%	5%	5%
Peppercorn	10%	5%	5%	5%	0%
Natural Rubber		3%	3%	3%	3%
Sugar	20%	20%	15%	10%	5%
Wood	5%	5%	5%	5%	5%
Pork	20%	5%	5%	5%	0%

Source: Cong bao (Official Gazette) No.17 April 25, 2002, No.18 April 30, 2002, No.19 May 05, 2002, No.97, 99, 101, July 22, 2003.

Apart from import-export taxes, non- tariff barriers also considerably influence the domestic market prices. Experience from developing countries showed that they usually use non-tariff barriers to intervene strongly in export- import activities. The commonly used methods are quota, management of activities of exporting enterprises, trade licensing and price subsidies. In some cases, these methods incur an invisible tax levied on exported produce, reducing the competitiveness of the agricultural industry.

Integrating into AFTA and being on the way to becoming a member of WTO (estimated in 2005), Vietnam is expected to remove all non-tariff barriers. According to AFTA agreement, the quantitative limits for items on the Immediate Reduction List will be removed with the expiration of application suspension for these items. Other non-tariff barriers including additional customs fees and technical barriers need to be eliminated gradually over a 5 year period after the expiration of application suspension for these items.

In terms of import quota, the Government declares annually the list of items subject to import quotas, including such items as petroleum and chemical fertilizer, decided by the Prime Minister and other items licensed by the Ministry of Trade (in cooperation with Ministries in charge). The number of import restrictive items is changing every year. Such items as seeds, pesticides and food-stuffs being exported to Vietnam are examined and kept in quarantine to ensure standards of food hygiene and safety as well as to prevent harmful organisms entering Vietnam, following the Ordinance on Food hygiene and safety (approved by the National Assembly in July 2001). The List of Import Restrictive Items for a 5-year period (2001- 2005) is issued in Decision No 46/2001/QD- TTg dated 4 April 2001).

Generally, trade liberalization and international economic integration related policies are appreciated for their effective implementation and positive effects on economic development.

2.3 Rural Credit policies and financial services

Apart from the aforesaid policies on ownership, price and import-export tariffs, trade liberalization of produce is promoted by other related policies such as rural credit and financial services. Clause 8 of the Law on credit organization in 1997 requires that the State offers preferential credit policies in terms of: capital, interest rates, conditions, loan period for agriculture, rural areas and farmers to help build facilities, infrastructure, to speed up the economic structural movement in agriculture, to develop goods production and to carry out rural industrialization and modernization.

Together with the transition to a market oriented economy, Vietnam implemented basic reforms in its banking and financial system. The rural financial system including: Vietnam Bank for the Poor (VBP), Vietnam Bank for Agriculture and Rural Development (VBARD) and Peoples' Credit Fund (PCF) officially supports Vietnamese farmers and facilitates access to capital. Vietnam Bank for the Poor (VBP) was established in 1996 with the objectives of providing poor farming households with preferential credit and helping poverty reduction and hunger elimination activities. Vietnam Bank for the Poor does not aim at making profit but helping the poor get loans with preferential terms such as low interest rates and no mortgage requirement.

2.4 Investment policies

The investment policies of the Vietnamese Government aim at building infrastructure, irrigation, research and an agricultural encouragement system in order to back agricultural and rural development objectives. Recently, governmental investment has been the most important factor in the total investment in agricultural infrastructure. Besides this, the State also has a series of policies assisting farmers in obtaining production materials such as fertilizer, seeds and irrigation with a view of helping farmers increase their output and hence their income.

In order to be more active in supplying chemical fertilizer for agricultural production, the State has an investment plan to increase the capacity of two chemical fertilizer plants in

Ha Bac and Phu My to 500,000 tons/year, ensuring the ability to meet 25% of the demand for chemical fertilizer in the whole country.

Moreover, the State also encourages the application of advanced technology to create high-yield varieties, in order to supply farmers. The use of advanced cultivation methods such as chemical fertilizers, irrigation and pesticides has become popular in rural areas. Individuals and organizations from all economic sectors are encouraged to invest in studying, breeding, multiplication and using new varieties. They are also encouraged to apply advanced technology to agricultural production in order to create a competitive advantage for produce.

Since Instruction No.100 was promulgated in 1981, Vietnam's economy has changed from being centrally planned to a market economy and it is following the path towards trade liberalization. Trade liberalization has a great effect on agricultural production as well as on the national economy. Vietnam's agro-product market can be considered much more competitive than other sectors because there are millions of farming households directly taking part in trading activities. Therefore, the agriculture sector has achieved a record growth rate and farmers' lives have gradually been improved.

3. THE MARKETIZATION PROCESS OF AGRO-PRODUCTS DURING THE DOI MOI PERIOD IN VIETNAM

3.1 Rate of agro - commercial goods in total agro – products

The marketization of agricultural goods is the start of economic reform in Vietnam. Agricultural reforms such as allocating land to farming households and facilitating farmers' access to the market offered farmers self-sovereignty in terms of producing and trading goods, thus enhancing motivation for production.

Therefore, since 1990, agricultural production has grown rapidly with an average annual growth rate of more than 4% (1991-2003) (Table 2). Vietnam's agricultural market changed from that of a self-sufficient one to one offering diversified goods production with an export orientation. Some items such as rice, coffee, cashew and seafood have a relatively high competitiveness and an important position in the world market. The commercial rate of agro-products has increased rapidly, from under 30% in 1995 to over 40% in 1999. There are some products with a high commercial rate: coffee accounts for 95%, rice (47%), and pepper (83%). Rice, a staple of the Vietnamese, has an export proportion of 11% of the total annual output. The export turnover of agricultural, fishery and forestry products has increased by 15% annually, accounting for 30% of the total export turnover of the whole country (Ministry of Agriculture and Rural Development [2003]).

Table 2: GDP annual growth rate in agriculture

Unit: %

Industries	1991-1995	1996-2000	2001-2003	1991-2003
GDP Agricultural, forestry and fishery products	4.09	4.42	3.47	4.07
- Agriculture	4.10	4.53	3.00	4.01
- Fishery	5.21	4.89	8.11	5.75

Source: General Statistical Office (1996), (2000a), (2004a).

3.2 Production and trade of the main agricultural products

The situation of production and trade exchange of some of Vietnam's major produce is discussed as follows:

3.2.1 Rice

Traditionally, rice plays an important role in agricultural production in Vietnam. Over the past 13 years, rice output has increased rather rapidly because the rice-growing area increased by 23% from 1990 to 2003. Meanwhile, output increased 45%, causing rice output to increase from 19.2 million tons in 1990 to 34.5 million tons in 2003; an increase of 79%. During this period, Vietnam had the highest rice growth rate in the world. The food output growth rate was higher than the population growth rate so the average food per capita also increased considerably: in 1990 291.2 kg per person, in 2003 427.2 kg/person; an increase of 46.7%. Therefore, food deficit, a common occurrence before Doi Moi, was eliminated (Table 3).

Vietnam's rice export volume accounts for about 11% of the rice volume traded in the world market (Ministry of Agriculture and Rural Development [2003]). In recent years, the volume of high quality rice exported has gradually increased. The quantity of high quality rice (long grain) with a low rate of broken grains (5- 10%) accounted for more than 53% in 2003. At the same time the amount of medium quality rice has seen a decrease. Rice prices in the world market fluctuate greatly, so the volume of rice turnover is down despite an increasing rice export volume. For instance, in 2001 rice export volume increased 7% compared with 2000 but the obtained value decreased 28.2%, and in 2003 rice export volume increased 17.8% while the export turnover increased by only 3.8%

(Table 4).

Table 3: Growing area, yield, production of paddy

Year	Growing area (thous.ha)	Production (thous.tons)	Yield (Quintal/ha)	Product/person (kg)	Export (thous.tons)
1990	6,042.8	19,225.1	31.8	291	1,624
1991	6,302.8	20,293.9	32.2	302	1,033
1992	6,475.3	21,590.4	33.3	315	1,946
1993	6,559.4	22,836.5	34.8	328	1,722
1994	6,598.6	23,528.2	35.7	332	1,983
1995	6,765.6	24,963.7	36.9	347	1,988
1996	7,003.8	26,396.7	37.7	361	3,003
1997	7,099.7	27,523.9	38.8	370	3,575
1998	7,362.7	29,145.5	39.6	386	3,730
1999	7,653.6	31,393.8	41.0	410	4,508
2000	7,666.3	32,529.5	42.4	419	3,477
2001	7,492.7	32,108.4	42.9	408	3,721
2002	7,504.3	34,447.2	45.9	432	3,236
2003	7,449.3	34,518.6	46.3	427	3,813

Source: General Statistical Office (2004a).

Table 4: Vietnam’s rice export volume and turnover 1989 – 2003

Years	Volume (million tons)		Turnover (million USD)	
	Volume	***Growth (%)***	***Turnover***	***Growth (%)***
1990	1,624	-	310.4	-
1991	1,033	-36.4	234.5	-22.5
1992	1,946	88.4	418.4	78.4
1993	1,726	-11.2	362.9	-13.3
1994	2,040	18.1	449.5	23.9
1995	2,044	0.2	546.8	21.6
1996	3,020	47.8	854.6	56.3
1997	3,550	17.6	885.0	3.5
1998	3,800	7.0	1,100.0	24.3
1999	4,500	18.4	1,026.0	-7.3
2000	3,476	-22.8	845.0	-17.7
2001	3,721	7.0	607.0	-28.2
2002	3,236	-13.0	705.0	16.3
2003	3,813	17.8	732.0	3.8

Source: General Statistical Office (2004a).

Vietnam's rice export market before 1999 consisted mainly of ASEAN countries such as Indonesia, the Philippines and Singapore. According to data in 1999, these three countries imported 552.4 million USD worth of rice from Vietnam, accounting for 51% of Vietnam's total export volume (the Philippines: 24%, Indonesia: 12.2% and Singapore: 14.7%). In 2002 this accounted for only 35.1% of Vietnam's total export volume, a decrease of 51% compared with 1999. In particular, Singapore's rice import value by 2002 accounted for only 2.5% of Vietnam's rice export market share.

Instead, according to the oil for food exchange sponsored by the United Nations, Iraq became an important rice export country for Vietnam. In 1999, Vietnam's rice export turnover to Iraq was 110 million USD, in 2002 this increased to 276 million USD, 2.5 times higher, accounting for 38% of the rice export market (Table 5).

Table 5: Vietnam's major rice export markets

Countries	Export value (1000 USD)		Export market share (%)	
	1999	***2002***	***1999***	***2002***
Total	**1,025.095**	**726,263**	**100.0**	**100.0**
Iraq	109,845	276,165	10.7	38.0
Indonesia	246,313	151,569	24.0	20.9
Philippine	125,569	85,365	12.2	11.8
Singapore	150,573	18,098	14.7	2.5

Source: General Statistical Office (2001b), (2004a).

3.2.2 Coffee

Vietnam is a country having favorable natural conditions (soil and climate) for coffee production. The main coffee producing areas are the Central Highlands (Tay Nguyen) and South-Eastern regions. Vietnam's coffee industry has a history of hundreds of years but the high growth rate was only reached during the Doi Moi period. Over the 13 years from 1990 to 2003 coffee growing area has increased 4.3 times, the productivity has increased 1.95 times, and the output has increased from 9.2 thousand tons in 1990 to 771.2 thousand tons, a 700% increase (Table 6).

Table 6: Production and export of coffee in Vietnam

Year	Growing area (thous.ha)	Production (thous.tons)	Yield (Quintal/ha)	Export (thous.tons)
1990	119.3	92.0	7.7	89.6
1991	115.1	100.0	8.7	93.5
1992	103.7	119.2	11.5	116.2
1993	101.3	136.1	13.4	122.7
1994	123.9	180.0	14.5	176.4
1995	186.4	218.0	11.7	248.1
1996	254.2	316.9	12.5	283.7
1997	340.3	420.5	12.4	391.6
1998	370.6	427.4	11.5	382.0
1999	477.7	553.2	11.6	482.0
2000	561.9	802.5	14.3	733.9
2001	565.3	840.6	14.9	931.0
2002	522.2	699.5	13.4	722.0
2003	513,7	771.2	15.0	749.0

Source: General Statistical Office (2001c), (2004a).

Among agricultural products, coffee is an item with a high export proportion, accounting for 95%. Export volume increased from 89.6 thousand tons in 1990 to 931 thousand tons in 2001, over 10 times higher. Vietnam is the second largest exporter, after Brazil, of coffee.

Vietnam's main markets are European countries and the USA. Among these, Germany is the largest; in 2002 its import value was 51,697 thousand USD, accounting for 16% market share. In the same year the USA accounted for 12% and Belgium 9%.

However, the majority of Vietnam's coffee export is Robusta coffee and is exported in raw, unprocessed form (coffee bean). From 2001 to 2004, the world coffee price market dropped and recovered slowly, hence Vietnam's coffee growers are facing difficulties. The Government is encouraging farmers to change variety (from Robusta to high value Arabica) and limit the expansion of current growing areas.

3.2.3 Rubber

Rubber is a perennial industrial plant that must be grown and cared for 7 years before harvesting. However, exploitation of rubber trees may last 30- 35 years. French settlers grew this crop in the early 20th century. During the Doi Moi period, rubber-growing rapidly increased. From 1990 to 2003, the area devoted to this practice doubled; from 221.7 thousand ha to 436.5 thousand ha. Together with this expansion, rubber productivity has been increasing; in 1990 the average productivity was 2.6 quintals/ha, and 7.2 quintals/ha in 2003, an increase of 2.8 times. Vietnam's rubber output was more than 300 thousand tons in 2003, 5 times higher than in 1990 (Table 7).

Table 7: Growing area, yield, production of Rubber

Year	Growing area (thous.ha)	Production (thous.tons)	Yield (Quintal/ha)	Export (thous.tons)
1990	221.7	57.9	2.6	75.9
1991	220.6	64.6	2.9	62.9
1992	212.4	67.0	3.2	81.9
1993	242.5	96.9	4.0	96.7
1994	258.4	128.8	5.0	135.5
1995	278.4	124.7	4.5	138.1
1996	254.2	142.5	5.6	194.5
1997	347.5	186.5	5.4	194.2
1998	382.0	193.5	5.1	191.0
1999	394.9	248.7	6.3	265.0
2000	412.0	290.8	7.1	273.4
2001	415.8	312.6	7.5	308.0
2002	428.8	298.2	7.0	455.0
2003	436.5	313.9	7.2	433.0

Source: General Statistical Office: (2001c), (2004a).

Most rubber output is for export and Vietnam is one of the leading rubber exporters in Southeast Asia. Over the past 13 years (1990- 2003) the volume of rubber exported has increased more than 5 fold. The main importers of Vietnamese rubber are China, Singapore, Ukraine, the USA, Malaysia, South Korea and Taiwan. Among them, China occupies the largest market share; in 1999 it accounted for 43%, and 33% in 2003. However, compared with the volume of 17- 18 million tons of rubber per year in the world market, Vietnam rubber export volume accounts for only 1/20 of the world's market share and exports are mainly of unprocessed products, hence the export value is low.

3.2.4 Pepper

Over recent years, pepper production has ceaselessly increased both in terms of quantity and quality. From 1990 to 2002, pepper output increased 8 times and pepper plantations are constantly being largened; from 9.2 thousand ha in 1990 to 49.7 thousand ha in 2003. Pepper yield also increased 1.5 times over the 13 year period (Table 8).

Table 8: Growing area, yield, production of pepper

Year	Plant area (thous.ha)	Production (thous.tons)	Yield (Quintal/ha)	Export (thous.tons)	Export revenues (Mill. USD)
1990	9.2	8.6	9.3	9.0	9
1991	8.9	8.9	10.0	16.3	18
1992	6.4	7.8	12.2	22.3	15
1993	6.7	7.5	11.2	14.9	14
1994	6.5	8.9	13.7	16.0	26
1995	7.0	9.3	13.3	17.9	39
1996	7.5	10.5	14.0	25.3	47
1997	9.8	13.0	13.3	24.7	63
1998	12.8	15.9	12.4	15.1	64
1999	17.6	31.0	17.6	34.8	137
2000	27.9	39.2	14.1	36.4	143
2001	36.1	44.4	12.3	57.0	91
2002	47.9	46.8	9.8	78.4	108.0
2003	49.7	70.1	14.1	74.1	-

Source: General Statistical Office (2001c), (2004a), Nguyen Sinh Cuc (2003).

Although the world's pepper market has experienced many big changes in price as well as volume, pepper exports are constantly increasing; from 9 thousand tons in 1990 to 74.1 thousand tons in 2003. Most of Vietnam's pepper export is exported through intermediary parties. The pepper price in the world market is generally decreasing, hence pepper export revenues from 1999 to 2002 have decreased. For instance, export output in 1999 was lower than that of 2002 while the export revenue was higher. In 1999, export revenues reached 137 million USD but in 2002 it was only 108 million USD, decreasing by 21%.

In the past, Vietnam's main pepper markets were ASEAN countries; in 1999 Singapore accounted for 40.6% of the market share, and Laos 19.3%. But now, the market has expanded to other countries such as the USA, the Netherlands and Germany *(Source: International Merchandise Trade-Vietnam 1999 and 2002).* According to the Vietnam Pepper Association (VPA), in the first 4 months of 2004 in particular pepper exports to the USA increased by 65%, to Germany 17%, India and Pakistan 120% and 478% respectively compared to the same period of previous year[2]

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2 *Source*: www.vnn.vn/kinhte/nonglamthuysan/

3.2.5 Tea

Tea is a perennial industrial plant that serves domestic and export demands. The northern uplands of Vietnam have suitable soil and climate conditions for growing tea. Over the past 10 years of implementing a policy of combining production with processing and export, Vietnam’s tea production has developed quite fast. In 1990 tea growing area was only 60 thousand ha with a production rate of 5.4 quintals/ha and output of 32.2 thousand tons, and in 2003 the area was 116.2 thousand ha with a production rate of 8.1 quintals/ha and output of 94.5 thousand tons. Over 13 years, the total area of tea plantation nearly doubled, production increased 50% and output nearly tripled (Table 9).

Table 9: Planted area, yield, production of tea

Year	Plant area (thous.ha)	Production (thous.tons)	Yield (Quintal/ha)	Export (thous.tons)
1990	60.0	32.2	5.4	16.1
1991	60.0	33.1	5.5	8.0
1992	62.9	36.2	5.8	13.0
1993	63.4	37.7	5.9	21.2
1994	67.3	42.0	6.2	23.5
1995	66.7	40.2	6.0	18.8
1996	74.8	46.8	6.3	21.0
1997	78.6	52.2	6.6	33.1
1998	77.4	56.6	7.3	33.3
1999	84.8	70.3	8.3	36.2
2000	87.7	69.9	8.0	55.6
2001	98.3	75.7	7.7	67.9
2002	109.3	94.2	8.6	77.0
2003	116.2	94.5	8.1	59.8

Source: General Statistical Office: (2001c), (2004a).

The volume of tea exports is increasing. In 1990 it was 16.1 thousand tons but in 2002 it was 77 thousand tons. In 2003 alone, due to changes in the world tea market the tea export volume decreased to 59.8 thousand tons. However, tea prices in the world market decreased from 1,530 USD/ton to 1,077.7 USD/ton, hence the total value of tea exports only increased 1.6 times despite a higher export volume (2.3 times) over 4 years (1999-2002).

In the past the majority of tea was exported to (former) Russia. Now Vietnam’s tea is exported to many countries, principally Iraq (28%), Pakistan (16%) and Taiwan (19%) (2002 Statistics) (Table 10).

Table 10: Major tea export markets

Countries	Export value (1000 USD)		Market share (%)	
	1999	*2002*	*1999*	*2002*
Total	**45,147.0**	**82,983.0**	**100.0**	**100.0**
India	987.0	7,701.0	2.2	9.3
Taiwan	8,551.0	15,903.0	18.9	19.2
Iraq	10,985.0	23,058.0	24.3	27.8
Russia	1,282.0	3,640.0	2.8	4.4
Japan	1,762.0	2,136.0	3.9	2.6
Pakistan	2,780.0	12,841.0	6.2	15.5

Source: General Statistical Office (2001b), (2004b).

3.2.6 Livestock

Compared with 1990, the number of cows had increased 41% by 2003, pigs 102% and cattle 137%, but the number of buffaloes decreased by 1% and goats and sheep by 20%. The number of buffaloes, goats and sheep reduced but the total meat output for the market was still high because of the increase in the number of cows, pigs and cattle.

Table 11: Livestock population

Year	**Buffalo** *(thous. Heads)*	**Cattle** *(thous. Heads)*	**Pig** *(thous. Heads)*	**Goat, sheep** *(thous. Heads)*	**Poultry** *(Mill.heads)*
1990	2,854.1	3,116.9	12,260.5	141.3	107.4
1991	2,858.6	3,135.6	12,194.3	133.7	109.0
1992	2,886.5	3,201.8	13,891.7	133.1	124.5
1993	2,960.8	3,333.0	14,873.9	132.9	133.4
1994	2,977.3	3,466.8	15,587.7	131.1	137.8
1995	2,962.8	3,638.9	16,306.4	126.8	142.1
1996	2,953.9	3,800.0	16,921.7	125.8	151.4
1997	2,943.6	3,904.8	17,635.9	119.8	160.6
1998	2,951.4	3,987.3	18,132.4	122.8	166.4
1999	2,955.7	4,063.6	18,885.8	149.6	179.3
2000	2,897.2	4,127.9	20,193.8	126.5	196.1
2001	2,807.9	3,899.7	21,800.1	113.4	218.1
2002	2,814.5	4,062.9	23,169.5	110.9	233.3
2003	2,834.9	4,397.3	24,879.1	112.5	254.3

Source: General Statistical Office (2004a).

The increase in livestock production created a better supply for the domestic market as well as for export. However, due to many shortcomings in quality standards and meat processing machinery, livestock producers face difficulties finding export markets. Especially, since 2003, the outbreak of H5N1 bird flu in many regional countries including Vietnam has had a diverse effect on the industry's growth rate.

3.2.7 Fishery

Compared with other produce, fishery products have many advantages both in terms of input and output. This field is receiving more and more support from the State through many programs and projects (offshore fishing, aquaculture, fishery export, and more), hence since *Doi Moi*, the growth rate of this industry is higher than other agricultural industries.

Due to the high growth rate, the fishery's proportion of output value in agriculture is constantly increasing, from 8% in 1990 to nearly 19% in 2002 (Table 12). It is worth noticing that fishery tends to obtain stable development in both fields of fishing and aquaculture. Output has increased nearly 6 times (from 162.1 thousand tons in 1990 to 966.1 thousand tons in 2003). However, over recent years, the coastal fishery areas have become depleted, hence fishing activities now take place mainly in offshore fishing grounds. In this scenario input costs increase rapidly but output and market price do not increase proportionately leading to a smaller contribution of fishery to GDP.

Table 12: Share of agriculture, fishery and forestry in gross output of this sector during 1990-2002

Unit: %

Industries	1990	1996	1997	1998	1999	2000	2001	2002
Agriculture	84.1	80.6	80.6	81.5	81.5	80.2	77.4	76.9
Forestry	7.6	5.3	5.1	4.6	4.6	4.5	4.5	4.3
Fishery	8.3	14.1	14.3	13.9	13.9	15.3	18.1	18.8

Source: Nguyen Sinh Cuc (2003).

In the field of aquaculture, the worked area increased nearly 3 times, production doubled and the output increased 6 times during 13 years (1990-2003) (Table 14). However, fishery development over recent years was not planned and uniform. Converting some fish farming areas into shrimp farming areas increased the input costs because the cost of shrimp farming is higher than that of fish farming. Moreover, the tendencies that pursue only productivity and output, and ignore quality, hygiene and safety bring about some difficulties for market expansion.

Table 13: Production of fishery

Years	Total products (thous. tons)	Caught products (thous.tons)	Farmed products (thous.tons)
1990	890.6	162.1	728.5
1991	969.2	168.1	801.1
1992	1016.0	172.9	843.1
1993	1100.0	188.1	911.9
1994	1465.0	344.1	1120.9
1995	1584.4	389.1	1195.3
1996	1701.0	423.0	1278.0
1997	1730.4	414.6	1315.8
1998	1782.0	425.0	1357.0
1999	2006.8	480.8	1526.0
2000	2250.5	589.6	1660.9
2001	2434.7	709.9	1724.8
2002	2647.4	844.8	1802.6
2003	2794.6	966.1	1828.5

Source: General Statistical Office (2004a).

Table 14: Planted area, yield, production of farmed aquatic

Year	Plant area (thous.ha)	Production (thous.tons)	Yield (quintal/ha)
1990	295.7	162.1	5.5
1991	309.8	168.1	5.4
1992	341.4	172.9	5.1
1993	381.7	188.1	4.9
1994	393.4	344.1	8.7
1995	453.6	389.1	8.6
1996	498.7	423	8.5
1997	504.14	414.6	8.2
1998	524.5	425	8.1
1999	524.6	480.8	9.2
2000	641.9	589.6	9.2
2001	755.2	709.9	9.4
2002	797.7	844.8	10.6
2003	858.3	966.1	11.3

Source: General Statistical Office (2000b), (2004a).

Vietnam's aquatic product export markets are Japan, the USA and the EU. Vietnam started to export to the USA after it removed its trade embargo on Vietnam. In 1999, the USA accounted for more than 13% of Vietnam's aquatic product export and in 2002 this share reached 33%. The total aquatic product export value increased 5 times during 1990-2002, from 0.24 billion USD in 1990 to 1.1 billion USD in 2002 (Table 15). The total aquatic product export turnover reached 1.1- 1.2 billion USD/year (2000- 2002) and this item has the highest export value of all other export produce.

Table 15: Gross output and export in value of fishery

Year	Output value of fishery (Bill VND)	Output value of fishery (at constant 1994) price (Bill VND)	Value of fishery export (Mill.USD)
1990	2,046.5	8,135.2	239.1
1991	4,511.6	9,308.4	285.4
1992	6,026.7	9,798.7	307.7
1993	8,244.8	10,707.0	427.2
1994	11,739.8	13,028.0	556.3
1995	14,524.1	13,523.9	621.4
1996	16,145.3	15,369.6	696.5
1997	17,515.7	16,344.2	782.0
1998	19,306.9	16,920.3	858.0
1999	20,742.6	18,252.7	971.1
2000	24,748.1	21,777.4	12,100.0
2001	28,819.1	25,359.7	12,112.0
2002	31,365.2	27,600.2	11,310.0
2003	34,333.6	30,212.3	-

Source: General Statistical Office (2000b), (2004a).

3.2.8 Fruits and Vegetables

Along with agricultural development, vegetable and fruit growing industries started a long time ago in Vietnam. Due to the many different soil types and climatic conditions, there are many kinds of tropical and subtropical fruits and vegetables, and even some temperate crops. Growing and harvesting crops of different kinds of fruits and vegetables is a year-round activity. However, as an economic industry, fruit and vegetable production is less developed. Even though these products are commonly consumed, the total production area accounts for only a small proportion of the total area devoted to other crops. The total production value of fruit and vegetables accounts for only 7- 8% of the total value of the farming industry.

For a considerable period, due to the long-lasting food deficiency, Vietnam's agricultural production policy focused on food production. The result of this is the slow development and lack of attention to fruit and vegetable industries. This situation made the State and farmers focus on food production. Therefore, the amount of cultivated land reserved for fruit and vegetable farming is small, accounting for about 4.5% of the total area of agricultural production land (Table 16).

Table 16: Output and growing areas of some major fruit trees

Year	Fruit- tree growing area *(thousand ha)*	Output of some major fruit- trees (thousand tons)				
		Orange	*Banana*	*Mango*	*Longan, litchi, rambutan*	*Pineapple*
1995	346.4	379.4	1,282.2	152.5	223.3	184.7
1996	375.1	491.5	1,318.7	187.9	275.9	185.2
1997	425.8	404.8	1,316.1	164.8	405.2	199.2
1998	447.0	401.5	1,208.0	180.4	428.6	243.6
1999	512.8	383.5	1,288.4	174.7	557.9	255.6
2000	565.0	426.7	1,124.8	177.1	614.2	291.3
2001	609.8	451.5	1,080.5	180.3	670.3	318.2

Source: Nguyen Sinh Cuc (2003).

From 1999 to 2003, the total annual output of fruit-trees was about 5 million tons. The fresh and processed fruit market has expanded to many countries in the world. The export turnover of fruit products increased from 21 million USD in 1994 to 344 million USD in 2001. However, in 2002 and 2003 the export turnover dropped. (Table 17)

Table 17: **(Fresh and processed) vegetable and fruit exports in Vietnam in 1995-2003**

Unit: million USD

Year	**1994**	**1995**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Value	21	56.1	71.2	52.6	106.6	213.1	344.3	221.2	151.5

Source: General Statistical Office (2001a), (2004a).

Despite the increase in export value, the fruit export volume accounts for only 15-20% of total output. Vietnam's fruit and vegetable exports are usually unprocessed. Only some products such as pineapple, banana, longan are processed and canned but on a small scale and using of date techniques.

Major fruit and vegetable export markets in the early 1990s were Russia, Japan, Hong Kong and Singapore. But in recent years, thanks to free trade with China, export volumes of fruits such as banana, litchi, mango and longan have increased rapidly. In 1996, the export market share to China only accounted for 2.46% but it increased to 27.0% in 2002. Meanwhile, because of the changes in Eastern Europe's market structures, Vietnam's fruit and vegetable export volume to Russia and other Eastern European countries sharply decreased; in 1996 the export volume to Russia accounted for 21.4% of the fruit and vegetable export market, but in 2002 this was only 2.0% (Table 18). The facts show that Vietnam's market share is small and unstable. The competitiveness of fruit and vegetable products is low and the export market is not sustainable.

Table 18: Vietnam's vegetable and fruit export market proportion

Unit: %

Countries	1996	1998	1999	2000	2002
Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
China	2.5	8.8	28.3	10.7	27.0
Taiwan	5.2	9.2	13.4	7.2	9.5
Japan	17.3	9.8	9.0	9.8	7.2
Laos	-	-	8.8	-	3.9
America	5.3	4.0	3.8	6.2	2.8
Cambodia	-	-	3.6	-	2.4
Holland	4.8	3.8	1.7	-	2.3
Russia	21.4	13.9	0.9	6.7	2.0
Hong Kong	1.6	2.5	3.1	1.8	1.7
Singapore	13.2	13.4	2.5	10.5	1.4
France	1.7	2.0	2.6	1.9	1.2
Canada	-	1.3	0.9	3.6	1.1
Italy	2.1	3.4	1.7	6.6	0.8
Malaysia	-	-	1.5	-	0.8
Germany	1.5	3.9	1.6	4.2	0.7
South Korea	16.7	13.4	1.7	7.6	0.6
Indonesia	-	-	4.3	-	0.6
South Korea	-	-	2.8	-	0.5
Thailand	1.9	2.0	1.0	3.2	0.2

Source: General Statistical Office (2004a).

4. EFFECTS OF AGRICULTURAL PRODUCT TRADE LIBERALIZATION ON FARMER'S LIVES, HUNGER ERADICATION AND POVERTY REDUCTION TASKS

As yet, Vietnam has not carried out intensive research on the effects of trade liberalization policies on farmers' income and livelihoods. In fact, it is very difficult to evaluate exactly and quantitatively the effects of trade liberalization on farmers' income and the results of the hunger elimination and poverty reduction policies. During the Doi Moi period, the implementation of trade liberalization and market-based economic development brought Vietnamese people in general and farmers in particular opportunities to look for new jobs, increase their income and reduce poverty. The evidence from surveys on people's income and their living standard conducted in recent years shows that income in monetary terms has increased considerably among the majority of the population, and poverty has been reduced remarkably. The speed of hunger eradication and poverty reduction in Vietnam is impressive and highly appreciated by the international community. Hereinafter, we will consider the effects of trade liberalization on farmers' lives in general and poor people in particular in terms of two main aspects. Firstly, income and living standard, direct elements reflecting the population's real life, and secondly, business and development opportunities, which are important elements for the future prospect of poverty evasion.

4.1 Overview of farmers' living standards

According to the Vietnam Development Report 2004 (World Bank *et. al*, [2003]), Vietnam's poverty rate dropped from 58.1% in 1993 to 37.4% in 1998 (an average decrease of 4.14%/year) and to 28.9% in 2002 (an average decrease of 2.1%/year). The aforesaid speed of poverty reduction is considered an admirable example of the success of the national poverty attack policies by the world. However, with a poverty rate of 29% (in 2002) Vietnam is still one of the poorest countries in the world. Meanwhile, the speed of poverty reduction during 1998-2002 was half as slow as in 1993-1998. Thus meaning, the fight against poverty faces problems, making the sustainability of hunger eradication and poverty reduction achievements difficult.

The core issue in rapid poverty reduction over the past decade was to allot farming land to households in rural areas to develop their farming production and promote export of excess output crop. Market economic development increased people's income in rural areas because farmers could sell their products. Increase in agricultural income became an important factor in reducing poverty in rural areas. Farming households in Vietnam have become much more market-oriented. They can now sell 70% of their produce compared with 48% nine years ago. This has helped many people pull themselves out of poverty quite rapidly (World Bank *et. al*, [2003]).

4.2 Farmers' living standards

Thanks to trade liberalization and the diversification of livestock and crop production, income from agriculture is increasing. As a result, the living standard in rural areas has considerably improved. Infrastructure aids people's lives and social services are being built in Vietnam's rural areas. In 2001, 94% of villages had a motorway to the center, of which, 33% inter-hamlet roads were strengthened; more than 56% of villages had markets; nearly 72% had post offices; 83% of village offices had telephones; nearly 100% of villages had health centers; nearly 100% had elementary schools. The national power network was quickly broadened, now covering 96.4% of all districts and 81.4% of all villages. There are motorways to most hamlet centers and the power network covers most rural areas. The number of farmers using televisions and radios is increasing. There are schools, health centers, cultural houses and markets in most villages. Therefore, the norms of human development in Vietnam are seen to be better than other countries with the same GDP per capita. However, there are differences in poverty levels among different areas. The situation regarding poverty reduction in different areas is as follows:

4.2.1 Mekong River Delta

The Mekong River Delta is a key agricultural production area, in which production of paddy accounts for 1/2 of the total national production of paddy every year (from 1995 to 2003) (General Statistical Office[2004a]). This area also produces many types of fruits, raises many pigs, chickens and ducks, and develops fishery products. This is the only area nationwide that has had a faster decrease in the poverty rate in recent years than in the early 1990s. During 1998-2002 the number of poor people decreased by 3.4% per year compared with the national average of 2%. Therefore, the poverty rate in the Mekong River Delta in 2002 was 23.4%, much lower than other areas nationwide. The real average expenditure per head increased rapidly in rural areas and is now 25% higher than four years ago, of which food poverty accounted for 6.5% (World Bank *et. al*, [2003]).

4.2.2 Red River Delta

There are only a few newly-established zones of agricultural products such as high-class rice in some districts. These production sub-regions are closely related to agricultural processing, bringing about high efficiency and high economic value. This region has succeeded in reducing poverty, while the number of poor people nationwide fell by half between 1993 and 2002 the poverty rate in the Red River Delta was reduced by two thirds, for example in 1993 the poverty rate was 63% but in 2002 it was 22%, of which food poverty accounted for 5.3%. The main driving-force for this rapid poverty reduction is non-agricultural activities, in 1998 about 60% of householders worked in their field but in 2002 it had fallen to 40% (World Bank *et. al*, [2003]).

4.2.3 South East region

This is the biggest region for growing rubber, pepper, cashew, coffee, sugar cane and some other industrial crops in Vietnam. The farming here is intensive and specialized. The region attracts a great number of local laborers. This region has succeeded in reducing poverty and obtained a high growth rate. The region succeeded in reducing the poverty rate from 37% in 1993 to 11% in 2002, of which food poverty accounted for only 3%. However, the gap between the rich and the poor in this region is increasing rapidly. The urban poverty rate is extremely low, making up only 3% of the population whereas the rural rate is 18%. Some rural provinces are lagging far behind other rural areas (World Bank *et. al*, [2003]).

4.2.4 Central Highlands

In this region the main agricultural products are timber, animal husbandry and industrial crops such as bean, medicinal herbs and in particular coffee which has the largest growing area (80%). This has been the biggest reserve of Vietnam in terms of growing industrial crops and supplying wood and forestry specialties. However, this is the poorest region in the country. Infrastructure and social facilities are in poor condition; the number of poor people is high. The prices of many agricultural products are uncertain; hence the local people’s lives are very difficult. Therefore, the poverty rate here is high: in 2002 it was 52%, of which food poverty accounted for 30%. Over the past decade, the poverty rate has remained nearly unchanged showing great contrast to the achievements obtained in other regions (World Bank *et. al*, [2003]).

4.2.5 North Central Coast

This region is in a strong position to develop fishery and forestry products as well as animal husbandry and crop processing. However, this populous region is facing many difficulties with regard to food production. On the other hand, due to the high risk of natural disasters, people's living standard here is low. The agricultural production zones are not developed and the possibility of making profit is low. This is a much less-developed region compared with the nationwide average. In the three years (from 2000 to 2002), the annual poverty rate has gone down by 1% in the North Central region compared with 2% across the country. This region has a low proportion of agricultural products, and it seems that long-lasting poverty leads to inefficient use of forestry land (World Bank *et. al*, [2003]).

4.2.6 South Central Coast

This region has potential for the growing of food crops, industrial crops and fruit-trees, and developing forestry, all of which are highly sought after products that bring about high economic return. The poverty situation in this region is generally much better than the national average. The region's rural poverty rate in 2002 is 31%, lower than the national average rate of 36%, 42% of the population depends mainly on agricultural production compared with 47% of the national population. Those households taking part in agricultural production are gradually integrating themselves into the market. In 2002, 73% of the total agricultural production volume in the Central South coastal area was sold, compared with 39% in 1993 (World Bank *et. al*, [2003]).

4.2.7 Northern Uplands

This region has great potential for agricultural production, forestation, timber exploitation, paper, anise and cinnamon amongst other products. Moreover, the region can develop livestock, meeting local demand as well as being able to exchange this with other regions. The local farmers are introducing more and more products to the market such as corn, cassava, tea and litchi (Table 19). Over the past 13 years the northern mountainous region has made remarkable achievements in poverty reduction. The poverty rate fell from 82% in 1993 to 44% in 2002 (World Bank *et. al*, [2003]).

Table 19: Crop growing area in northern mountainous areas

Unit: 1,000 ha

	1993	1998	2002
Rice	53	49	44
Corn	17	13	26
Cassava	7	7	9
Tea	1	1	7
Litchi, longan	1	2	3

Source: World Bank *et. al*, (2003), p.106.

4.3 Farmers livelihoods in specific commodity regions

Efforts towards trade liberalization can be a direct and strong driving-force for the establishment of specialized agricultural zones producing crops and livestock to sell in the market with a high commercial value. Specialized farming zones have a great impact on the income and lives of farmers, as follows:

4.3.1 Sugar-cane material specialized areas

These areas, which were established beside some existing sugar plants such as Lam Son Sugar plant in Thanh Hoa Province, Son Duong Sugar plant in Tuyen Quang province, Tra Vinh Sugar plant in Tra Vinh Province and Phung Hiep Sugar plant in Can Tho province amongst others, attracted a great number of local farmers. Sugar cane farmers and plant workers working under contract to companies have a stable income and life. About 80% of households working in sugar-cane production zones have a house, television and motorbike. Power supply, roads, schools and health centers in the areas have been upgraded. Economic centers such as rural markets as well as services for agricultural production and farmers' daily lives are normally established and develop quickly. The people's living standard is improved considerably (Ministry of Agriculture and Rural Development [2003]).

4.3.2 Rice production specialized area

This zone is located in the Mekong River Delta. Due to initial measures such as intensive rice farming and changes in crop structure the rice output and quality have increased. Therefore, the living standard in this area has improved. This specialized area can produce enough rice to meet not only the demand within this and neighboring areas but also for export. Rice production creates stable employment for nearly 60 million people in rural areas. Rice cultivation also greatly contributes to poverty reduction, reduction of child malnutrition, social equality, the development of health, education, and culture and stability of society and reinforcement of national defense. As a result, the poverty rate in the Mekong River Delta was 23.4% in 2002, much lower than the national average (World Bank *et. al*, [2003: 112]).

4.3.3 Maize production specialized area

Maize production has increased in terms of area and output. Maize is a staple food of ethnic people in the northern mountainous area. Maize is also used as feed for livestock. Some large-scale maize plantations are located in the Southeast with nearly 133.2 thousand ha and the Northeast with 206 thousand ha in 2003 (General Statistical Office [2004a]).

Cross-bred maize growing areas now account for 80% of the total maize growing area nationwide. Cross-bred maize has replaced low-yield maize breeds. New breeds of maize generally create a sudden growth in terms of maize output in key areas, improving maize growers' life in these areas (World Bank *et. al*, [2003]).

4.3.4 Fruit tree specialized area

These zones are located in the Mekong River Delta and the Southeast and Northern uplands. In these areas some fruit farms such as Luc Ngan litchi farm, Nam Roi grapefruit farms have been established, which not only meet domestic demand but also export a great volume of produce. Many areas devoting themselves to fruit tree growing have become prosperous in recent years.

4.3.5 Aquatic husbandry specialized area

Aquatic husbandry has seen a high growth rate over recent years. During 13 renovation years (1990-2003), the gross output value of fishery has increased 18.7%/year. The annual average increase of aquatic products and caught products has been 23.7% and 15.3% respectively (*General Statistical Office: Statistical Yearbook, Statistical Publishing House, Hanoi 2004; p.165*). During this period, the total production of fisheries has increased 17.2% per year, of which annual average increase of aquatic products and caught products were 23.7%, and 15.3% (General Statistical Office [2004a: 170]). The high growth rate in the production output of fisheries in general and the production of aquatic husbandry in particular has contributed to poverty reduction in areas such as the Mekong River Delta and in the Southeast with 'tra', 'basa' fish and brackish shrimp raising activities.

4.4 Some main issues

Looking back at the development of agricultural production in specialized areas shows that though many products have not established a firm footing in the market, improvement in farmers' incomes is very clear. However, trade liberalization and marketization of agricultural products calls for farmers to face new challenges compared with the old centrally planned mechanism. Due to the limitations of production ability, capital, information, approaching capability and market integration, many farmers do not know how to deal with fluctuations in prices of agricultural products in the market.

Being in debt in rural areas is quite common and has increased in recent years. A problem compounded by the fact that farmers fail to get specific market information. Then as the market price of agricultural products increases farmers concentrate on growing these products. Due to changes in the market, leading to the fact that the supply of some products exceeds demand, the products are sold at a low price if at all. Therefore, farmers sustain heavy losses and become unable to pay off debts.

Typically, farmers in some Central Highland areas have heavily invested coffee over recent years but as harvest time came the coffee price dropped resulting in many farmers being unable to repay loans. According to a General Statistical Office's estimation, about 40% of coffee growing households in the Central Highland area are faced with this difficult situation (World Bank *et. al*, [2003]). A drop in the price of agricultural products when the price of agricultural material and industrial goods serving agricultural production constantly increases leads to situation where revenues are not enough to pay for costs and causes debts in rural areas to increase. According to a survey in Thai Binh province, in each *'sao'* (about 360 square meters) two rice crops are cultivated per year with an output of around 440 kg per *'sao'*, with a turnover of 913,000 VND. However, the input cost is 743,000 VND of which the cost of materials and irrigation accounts for 51%; soil working, rice plucking and pesticide ejection accounts for 14%. There are also some other miscellaneous costs thus finally resulting that in reality farmers earn on average only 85,000 VND of crop (equivalent to 6 USD). Each person in Thai Binh province now has an average farming area of 1.6 'sao', meaning he/she can earn about 20 USD of crop (*Saigon Times*, No 45, 11 April, 2004).

The disparity among areas, especially between rural and urban areas is astonishing. According to the results of the *Vietnam Living Standard survey in 1997-1998* conducted by the General Statistics Office and the World Bank, the average annual income per capita is 3,465 thousand VND (in urban areas: 9,057 thousand VND, in rural areas: 2,544 thousand VND). A difference of 3.65 times between rural and urban areas. The average income in Hanoi and Ho Chi Minh City is 10,637 thousand VND, 4.18 times higher than in rural areas and 3.0 times higher than the national average. Clearly, the difference between rural and urban areas over recent years has increased: from 2 times in 1993 to 3.65 times in 1998 and about 4 times in 2001 (Nguyen Sinh Cuc [2003: 146]).

It is worth noting that the income of people in rural areas up to now has relied on agriculture and this situation remains almost unchanged compared with previous years. The price of agricultural products is not stable and changes negatively creating great disadvantage for farmers, especially rice growers. So, despite the agricultural growth in recent years, farmers' incomes have not increased proportionately hence, in some years, in some areas, leading to a decrease in purchasing power. The price of agricultural products tends to drop whereas the price of industrial products tends to increase rapidly, leading to a decrease in farmers' real income. This was shown most clearly in 1996 and 1997.

Between 1998-2002, *a Science Technology Application Program* serving rural and mountainous areas was carried out by the Vietnamese government, obtaining many good results. 300 models applying advanced technology to the production of food crops and fruit trees were set up, 17 models of safe water treatment, rural hygiene and irrigation and 7 models of shrimp breed production farms were built. These models attracted thousands of researchers from more than 50 science technology organizations. However, in order to introduce Vietnam's agricultural products to countries worldwide it is necessary to promote the application of science-technology to crossbreeding and agricultural product processing with a view to enhancing the quality of export products. Despite having good crops, farmers have low incomes; this situation is quite common in some areas.

Box 1: Paradox between output and price

Farmers rarely have a good crop and a good price. In many years, they have a good crop but not a good price or a good price but not a good crop. This was true, in 1992, 1995, 1996, 1997, 1999, 2000 and 2002 when they had a good crop but the price dropped. In 1991, 2001 and 2003 they did not have a good crop but the price was high. Over the 13 years, only in 1994 and 1998, have farmers had both a good crop and a good price.

Year	**Rice output (thousand tons)**	**Growth rate (%)**	**Increase rate, decrease rate of food price (%)**
1991	19,622	2.1	54.2
1992	21,590	20.0	-14.7
1993	22,837	5.8	6.3
1994	23,528	3.0	39.0
1995	24,964	6.1	-20.6
1996	26,397	5.7	0.2
1997	27,524	4.3	0.4
1998	29,146	5.9	23.1
1999	21,394	7.7	-7.8
2000	32,530	3.6	-7.9
2001	32,108	-1.3	6.0
2002	34,447	7.3	2.6
2003	34,519	0.2	2.9

Source: Vietnam Economic Times, No75, May 10, 2004, p.6

Box 2: Vietnam's rice industry and improving the incomes of the poor

Before the 1980s, Viet Nam suffered from a severe shortage of rice. But following a series of liberalizing reforms, rice production rose dramatically thus, producing a food surplus, raising farm incomes, and contributing strongly to poverty reduction. In 2003, Vietnam produced over 34 million tons of rice, nearly three times as much as the 12 million tons produced in 1981. Since 1996, Viet Nam has consistently exported over 3 million tons of rice annually, making it the second largest rice exporter, by volume, after Thailand. But Viet Nam is only the fourth largest exporter by revenue. The prospects for adding value to the rice industry and increasing the income of poor farmers are different now than in the recent past. Recent discussions of 'value chains' in Viet Nam's rice industry reveal several issues that the industry must confront if quality and incomes are to be improved.

During the past few years, the Government has moved toward income maximization and diversification. The overall trend toward liberalization has extended to the rice export market.

The main issues arising from rice value chain analysis are the following:

1. Small farmers will not escape from poverty by growing rice alone. Many yield and productivity increases have been made in the past years. The binding constraint for small farmers in Vietnam is farm size. Farms are simply too small to derive adequate income from rice alone. At the average farm size in the Red River Delta of 0.256 ha, the family is able to meet consumption needs but is still below, even compared with the poverty line of MOLISA of 1.2 million VND/person/year.

2. The rice processing system is very fragmented, using 'two – stage' milling in which small de - huskers mill paddy, which is then sold as brown rice to larger millers for final milling. The mixing of different rice varieties by the numerous small de- huskers in the milling process results in high levels of 'broken rice', leading to a lower quality end - product that fetches loweprices.

3. Large government - to - government contracts dominate exports and create a rice market chain driven by volume, not quality. To meet the requirements of these contracts, large millers and exporters can be faced with very thin- or even negative - margins. This means that millers and exporters only gain sufficient revenue from large volumes and from the sale of by - products (e.g., rice bran).

4. Low levels of processing technology means that little value is added by rice and other agricultural products.

Source: ADB-CIEM-IFC, *Market and Development News*, November, 2004

The income and purchasing power of farmers has considerably decreased because of the drop in price of many agricultural products such as rice, maize, peanut, sugar-cane and in particular rubber, coffee, fruit, vegetables, pork, poultry, flowers and decorative plants compared with the price of many industrial- service products (Table 20).

Table 20: Price index of goods and services

Unit: %

	1996	**1997**	**1999**	**2000**	**2001**	**2002**
1. Price index of goods and services	104.5	103.6	100.1	99.4	100.8	104.0
2. Price index of food	100.2	100.4	92.2	92.1	99.7	99.7
Disparity	*4.3*	*3.2*	*8.0*	*7.3*	*1.1*	*4.3*

Source: General Statistical Office (2004a).

Due to low income, the farmers' ability to purchase non-agricultural goods and services is very low. Therefore, over recent years, food production has shown quite a high, constant growth rate helping farmers eliminate hunger and reduce poverty but not enabling incomes or the living standard to increase as quickly. As a result, the gap between urban and rural areas tends to be bigger. Low income and limited spending have been quite common features in many rural areas in recent years.

4.5 Effects of trade liberalization on business opportunities and development

In terms of the effects of trade liberalization on business opportunities and development, it can be generally said that, in the recent market economy and with trade liberalization, opportunities for business expansion, agricultural production and rural development are greater than ever. With the initial achievements in agricultural development, Vietnam's agricultural products have gained an increasing market share throughout the world. Trade opportunities with other countries have brought about many opportunities to generate high income for farmers. Diversified ecological characteristics, low input cost, cheap labor and good quality goods are the advantages of Vietnam's agricultural products. Some combination models of production-processing-consuming were built, reducing the costs and promoting competitiveness within the international market. The proportion of agricultural products has regularly increased over recent years: in 1993 it was 48% but in 2002 it was 70% and the Central coastal area in particular showed a very high growth rate (Table 21).

Table 21: Proportion of agricultural products sold in Vietnam

Unit: %

Areas	Proportion of agricultural products sold		
	1993	***1998***	***2002***
Nationwide	***48***	***59***	***70***
Northern mountainous area	36	44	52
Red River Delta	39	45	61
Central North	37	44	63
Central coastal area	39	55	73
Highland	77	78	74
South East	69	79	84
Mekong River Delta	59	74	85

Source: World Bank et. al, (2003), p.40.

In order to create more trade opportunities with other countries Vietnam now has popularized its agricultural products' trademark by organizing and anticipating agricultural product fairs and exhibits. Via the fairs, the concerned authorities coordinate with farmers to give directions on agricultural production, to help them in specializing cultivation and production and to eliminate the small-scale or antiquated production methods. In the fairs, many diverse products such as vegetables, fruits, breeds, material, agricultural machinery and technical solutions are displayed. One of the most important factors in trade promotion is the regular popularization effort (both in and out of the country) by organizing fairs and becoming a member of associations such as International Community of Pepper (ICP), and setting up a trademark for Vietnam's tea. Joining WTO is also considered an opportunity for farmers to sell their agricultural products in the world markets in the future.

Today, although Vietnam's products are diversified, they fail to meet market demand. Some agricultural products are poor quality because they are not cultivated using industrial methods. The purchasing power of agricultural products in the domestic market is limited. About 65-70% of food products such as rice (77%), maize (nearly 100%), sugar (nearly 100%), vegetables (90%), tea (50%) and most livestock husbandry products such as meat, eggs and milk are sold in the domestic market but generally the domestic purchasing power is very low due to farmers' self-subsistence, low income and the small proportion of non-agricultural population (about 25% of the population).

Like business opportunities, development opportunities such as opportunities to access to education, culture and society, etc. have also widened. For example, in terms of education and training, over the recent years farmers have constantly accessed other countries in the world: they learn from books, radio and even send their children overseas for further study. A school system has developed in various forms and children have better education opportunities.

5. CONCLUSION

Economic institutional shifting of the open-door policy and trade liberalization have not only created job opportunities and higher incomes thus reducing poverty but also brought about considerable changes in terms of business opportunities and development. Over the 20 years of renovation and implementation of the open-door policy, the achievements of Vietnam in attacking poverty are extremely impressive. The survey statistics show that Vietnam's human development indicator is higher than other countries with the same GDP/person. However, trade liberalization makes Vietnamese farmers poor people in a very poor country compared with the world and region. They now face new challenges in struggling to escape poverty.

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