



# Exiting from Collective Agriculture

## Land-tenure reform in Vietnam

Michael Kirk and Nguyen Do Anh Tuan

**B**y the mid-1980s, it became painfully clear that Vietnam's system of collective agriculture was not working. In 1987, after several years of slow growth, food production actually declined by 4.4 percent and famine struck parts of the country. Making matters worse, inflation had risen from 92 percent in 1985 to 775 percent in 1986, making food more and more expensive for the country's population of 60 million.

At the Sixth National Party Congress in December 1986, the Vietnamese Communist Party enacted a series of reforms that would ultimately transform Vietnam from a centrally planned economy to a market-oriented one. The reform process, known as *Doi Moi*, did not really take hold until 1988, but once the collectives were dismantled, land-use rights were assigned to farmers, agricultural markets were liberalized, and wider economic reforms were implemented. As a result, Vietnam's economy took off. For about a decade starting in the early 1990s, the country's gross domestic product (GDP) grew at an annual rate of 7.6 percent thanks in large part to the rapid increase in agricultural growth, which grew 4.9 percent annually between 1996 and 2000, when the growth rate reached an all-time high.<sup>1</sup>

The reforms unleashed a new entrepreneurial spirit in Vietnam, both in agriculture and in other sectors. Farmers intensified rice production, diversified into new crops such as coffee and cashews, and improved the quality of the food they produced. By stimulating agricultural and overall economic growth, the reforms helped reduce rural

poverty, hunger, and malnutrition. In just five years—from 1993 to 1998—the share of people living in poverty fell by 21 percent. Among children younger than five, the rate of stunting—meaning a low height for age, a symptom of poor nutrition—declined from 53 to 33 percent during the same period.<sup>2</sup>

## Collective Agriculture in Vietnam

When Vietnam achieved independence from France in 1954, the Geneva Accords divided it into two countries with opposing ideologies—the Democratic Republic of Vietnam in the north adopted a socialist ideology influenced by China and the Soviet Union, and the Republic of Vietnam in the south pursued a capitalist ideology influenced by the United States. Civil war soon followed.

The rural economies of the two countries were very different. In North Vietnam's collectivized agriculture, groups of households formed production brigades, which were responsible for meeting government quotas for agricultural production. In South Vietnam, agriculture was highly commercialized and more oriented to the export market, and tenant farmers or sharecroppers cultivated land owned by landlords.

Following reunification in 1975, the Vietnamese Communist Party attempted to extend its centrally planned system—in particular, its large-scale agricultural collectivization—to the whole country. In the south, however, collectivization did not take hold. By 1980, only 24.5 percent of farm house-

This chapter is based on Kirk, M., and T. Nguyen. 2009. *Land-tenure policy reforms: Decollectivization and the Doi Moi system in Vietnam*. IFPRI Discussion Paper. Washington, D.C.: International Food Policy Research Institute.

holds belonged to a collective, and in many cases, southern farms were collectives on paper only.<sup>3</sup>

Moreover, collective agriculture was performing poorly. In 1976 and 1977, agricultural production contracted by 0.5 percent and 6.6 percent, respectively. The amount of grain available in the country was falling, forcing the government to increase grain imports sharply. Government procurement of food also dropped, as farmers sought to avoid the state procurement system and instead sold their output through informal private markets, where prices were reported to be 10 times higher.<sup>4</sup>

By the early 1980s, Vietnam faced an economic crisis. Western and Chinese aid to the country was declining, government food procurements were falling, and a food crisis was emerging. The unpopular system of collective agriculture was on the verge of spontaneous breakdown. The Vietnamese Communist Party responded by issuing Directive 100 on January 13, 1981. This directive allowed collectives to contract with individual households to produce a certain amount of agricultural goods and then sell any surplus they produced in the private market or to state trading agencies. In mid-1981, procurement prices of agri-

cultural goods were increased to the same level as market prices.

At first, this partial reform seemed promising—agricultural growth reached 10.6 percent in 1982. Success, however, was short lived. The reforms, designed to make collective agriculture more efficient, were not deep enough to give farmers real incentives to produce more. Agricultural growth started to slow in 1983 and became negative by 1987. Inflation rose sharply, reaching 775 percent in 1986. The gap between free market and official prices was 10 times or more. Per capita food production fell below the minimum needed level of 300 kilograms a year. People were going hungry again.

## Overtaking Collectivization

Under the *Doi Moi* reform process adopted in December 1986, the collective agriculture system began to be dismantled. The reforms had sweeping goals: they sought to stabilize the economy, develop the private sector, increase and stabilize agricultural output, shift the focus of investment from heavy to light industry, focus on export-led growth, and attract foreign investment.

It was not until 1988, however, that the Communist Party issued Resolution 10, which

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*Selling rice in the market, Vietnam*

shifted the focus of rural development from collectives to household production. Resolution 10 obliged the agricultural collectives to contract land to households for 15 years for annual crops and 40 years for perennial crops. Households were allowed to buy and sell animals, equipment, and machinery. They still had to meet production quotas, but the production amounts and prices were fixed for five years, giving households a degree of certainty that they had previously lacked. The private sector was allowed to engage in food marketing.

Further reforms followed. From 1987 to 1991, the government relinquished control over prices and opened markets for both domestic and international trade. In 1989, it sharply devalued the country's currency, making Vietnamese exports much more competitive on international markets.

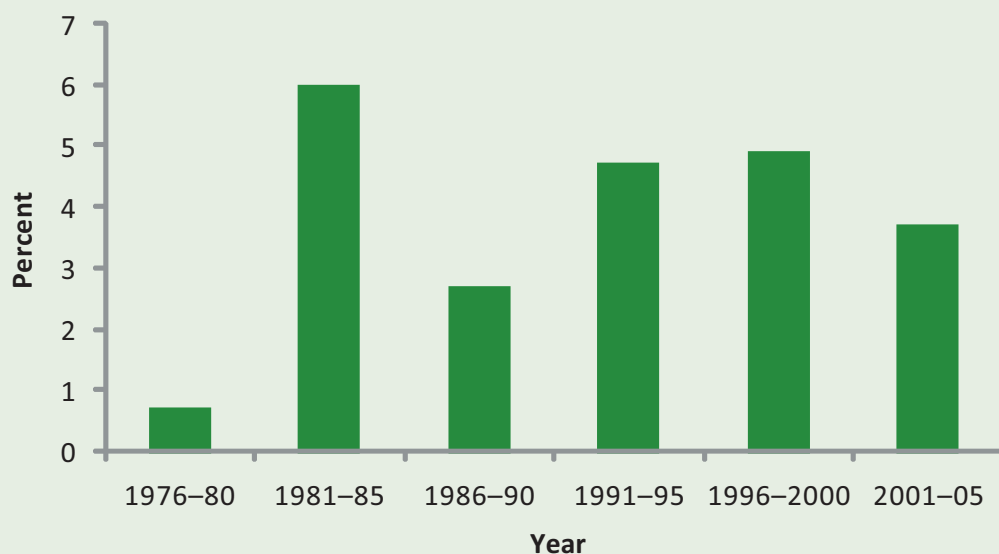
The reforms unleashed a surge of entrepreneurship and productivity. Agricultural growth jumped, reaching 3.8 percent a year from 1989 to 1992. As the government retreated from controlling markets and prices, farm households had new incentives to produce more and sell their surpluses. Vietnam, which had imported more than 460,000 tons of food in 1987 and again in 1988 to meet shortfalls in national production, became the

world's third-largest exporter of rice in 1989, alleviating national food shortages and generating large amounts of foreign exchange for the country.

Success in agriculture became a key driver of overall economic growth. Inflation plummeted to 36 percent in 1989. Growth in the agricultural sector in turn increased demand for construction and services. Although Vietnam experienced cuts in foreign aid owing to the collapse of the Eastern European socialist system during 1990–91, economic growth in the country remained strong. By 1992, Vietnam had fully recovered from the shock caused by the collapse of the socialist system, and the economy's growth rate climbed to 8.7 percent.

Still, it was difficult for farmers to grow commercial crops such as coffee, rubber, cashew nut, and pepper, in large part because they still did not have complete, long-term rights to their land. Financial institutions refused to accept existing land-use rights as collateral, preventing households from acquiring loan funds for agricultural investment. And local governments still played a dominant role in deciding crop patterns for specific types of land, requiring most land to be used for food production and discouraging agricultural diversification and further commercialization. In

**Figure 20.1—Compounded annual agricultural growth rates in Vietnam, 1976–2005**



Source: Authors, based on data from the General Statistics Office of Vietnam, various years.

addition, many rural households, especially poor and smallholding ones, had difficulty obtaining access to production technologies, inputs, and capital for production. In 1993, Vietnam passed a Land Law that extended land tenure to 20 years for annual crops and 50 years for perennial crops such as coffee and rubber.

The period from 1993 to 2000 was the “golden age” of the market economy in Vietnam. The agricultural sector grew at 4.6 percent annually, and the nonagricultural sector grew by more than 8 percent, thanks in large part to heavy foreign investment in Vietnamese industries. Even during the Asian financial crisis during 1997–2001, Vietnam maintained strong economic performance and the agricultural growth averaged 3.9 percent per year.

## Dramatic Effects for Agriculture, Incomes, and Nutrition

Since the late 1980s, Vietnam’s economic reforms have generated powerful incentives to invest in agriculture. The resulting rural growth has raised households’ incomes and standards of living. Agricultural growth peaked at an average of 4.9 percent per year during 1996–2000 (see Figure 20.1).<sup>5</sup>

Reforms have led to greater food security and better nutrition, partly by increasing the production of rice, by far the most important staple food in the Vietnamese diet. Rice is consumed by 99.9 percent of Vietnamese households and accounts for about 75 percent of the total caloric intake of a typical household. From 1980 to 1984, farmers saw their rice yields rise by about 32 percent in the North and 24 percent in the South as a result of Directive 100 and subsequent complementary reforms, followed by similar gains as rice yields increased from 3.2 to 4.9 tons per hectare between 1990 and 2006, as a result of Resolution 10 and other policy and economic changes.<sup>6</sup>

The increase in per capita rice production provided people with enough to eat, thus increasing national food security. Later on, the growth of food production played an important role in stabilizing food prices, increasing real wages, and creating opportunities for farmers to participate in more profitable, higher-value farming and nonfarm activities.<sup>7</sup> Increased food production and higher incomes have also led to more diversi-

fied diets, with measurable benefits for nutrition. Between 1993 and 1998, the rates of underweight in children younger than age five fell slowly, but rates of stunting in children dropped dramatically, from 53 to 33 percent.<sup>8</sup>

The economic changes launched by the *Doi Moi* reforms also pulled many Vietnamese out of poverty. From 1993 to 2002, the incidence of poverty in Vietnam fell from 58 to 29 percent.<sup>9</sup> The number of people living in absolute poverty (regardless of how it is defined) is still high, but the poverty that persists today reflects the fact that some households still have poor access to land or have access only to poor-quality land.

During the 1990s, rice prices increased substantially. Nearly three-quarters of Vietnamese households both produced and consumed rice, but households that produced more rice than they consumed benefited from the higher prices. On average, higher rice prices thus helped households in rural areas, where most of the poor live, at the expense of households in urban areas.

## Land Issues Remain Complicated

Vietnamese farmers now have much more secure rights to land than they did in the 1970s and 1980s. From the 1990s on, land transactions increased considerably as a consequence of the tenure reforms, although with different intensities across the different regions of the country. Land reforms have led to an active market in land transactions: between 1993 and 1998, household participation in land rental markets more than quadrupled, from 3.8 to 15.5 percent. In particular, households with strong agricultural skills and abilities began renting and making productive use of available land, while those without such skills and abilities rented out their land and sought employment in growing sectors of the economy such as manufacturing.<sup>10</sup> Although land sales are technically illegal—only rental is permitted—with more secure land rights, many farmers have diversified their production, with some moving even more into activities like aquaculture and livestock breeding and with others investing in perennial tree and shrub crops, such as coffee and cashews.

But land tenure is not always as secure as it might seem. From the beginning of the reforms, local authorities frequently reassigned land. In rural northern Vietnam, although households were

supposed to retain rights to their assigned land for 20 years, authorities reallocated land twice in a period of five years to accommodate new settlers in the villages, thus undermining incentives for long-term investment.

Moreover, the new system does not necessarily work to everyone's benefit. When poor rural households experience an emergency, they may lease or sell their land to wealthier households, losing control of their land temporarily or permanently and raising the specter of a growing group of landless people in rural areas. In addition, land-use certificates have space for only one name per family, and women's names are normally left off. Women's access to land thus often depends on their marital status, and unmarried and divorced women who devote large amounts of labor to the land are rarely named on titles. A revision of the Land Law in 2004 made an important contribution to gender balance by including the names of both the husband and the wife on land-use certificates, thus creating incentives for women to invest in land and reap its benefits in case of divorce or widowhood.

Land-tenure arrangements have not increased rural people's access to credit as much as may have been expected. Although having a land-use certificate should improve a rural household's access to credit, in particular from formal banking institutions like commercial or rural cooperative banks, banks seem reluctant to accept such certificates as collateral, believing that the land will be hard to seize in case of credit default.

Finally, the reforms have had mixed results for the environment. On the one hand, more secure property rights have led many farmers to adopt agroforestry and rice terraces—practices that help maintain soil fertility and prevent erosion. On the other hand, strengthening people's individual rights to land can put fragile lands at risk. When land reform allocates a rural wetland to a household, for example, the household tends to convert the land to agricultural use or aquaculture.

## Lessons on Land and Market Reforms

Land-tenure reforms designed to enable a smooth transition from a centrally planned economy to a market economy will achieve their objectives only if they are linked to reforms in markets for agricultural commodities (such as rice and coffee), inputs (such as fertilizer), and services (such as



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*Loading sacks of rice, Vietnam*

credit). Generating strong economic incentives for rural producers is crucial, and markets play an important role in every dimension of this process.

Secure and long-term rights to land on which to grow annual and perennial crops are essential. Farmers are much more likely to invest in sustainable agricultural practices, such as soil conservation and agroforestry, if they have long-term, inheritable tenure rights. Vietnam's process of trial and error, with several adjustments made to the leasehold periods, is understandable politically, but it may have delayed the implementation of reforms in some places.

Nonetheless, a flexible, incremental approach in carrying out reforms has advantages over a "big-bang" approach because all steps must be legitimized not only at the national level, but also at the local level. A great deal of information and communication is needed to break resistance against reforms and to convince different stakeholders of the benefits.

## Conclusion

Through its *Doi Moi* reforms, Vietnam has achieved stunning success. After spending decades mired in civil war, poverty, and food insecurity,

Vietnam used policy reforms to build a vibrant and dynamic economy that plays a major role in global markets for rice and coffee, among other things. Economic growth, led by agricultural growth, has drastically reduced poverty and led to improved diets, with measurable results in child nutrition. To be sure, concerns remain. The income gap between rural and urban areas has widened, and

more than 70 percent of the poor are concentrated in rural areas. Rules and regulations on land tenure and land markets could be improved to clarify and strengthen farmers' rights. Yet Vietnam's success proves just how powerful policy changes can be in stimulating food production and economic growth, thus improving the lives and livelihoods of millions. ■

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## NOTES

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