

SECTION II

*Southeast Asia:
Vietnam, the
Philippines,
Indonesia, and
Thailand*

7

chapter

Rural development issues in Vietnam: spatial disparities and some recommendations

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Before 1945, Vietnam was an agricultural economy with a large gap in income and living standards between the urban and rural population. Even in rural areas, the farmers who made up 90 percent of the population only managed 25 percent of the farming area. In 1945 Vietnam gained independence, and the government instituted land reform, redistributing 800,000 hectares of land to more than 2 million farmer households. The state reduced land rent by 25 percent and cut most taxes for farmers, which helped to improve social equality in rural areas, promote agricultural production, and narrow substantially the gap in income and living standards between rural and urban areas.

In the years between the 1960s and the early 1980s, Vietnam's agricultural production declined considerably due to war and a central planning economy. Since the mid-1980s, Vietnam has embarked on an era of market-oriented reform. The land and production materials of cooperatives were distributed to farmer households. The private sector has been encouraged, and trade liberalization has been pursued. As a result, agricultural production, in particular, and economic growth, in general, improved. In the past 30 years, Vietnam has experienced a period of robust development and renovation. For the past 20 years, the annual growth rate of the Vietnamese economy averaged 7 percent. The human development index (HDI) increased more than 6 percent, from under 0.69 in 1999 to 0.73 in 2004. According to the World Bank, the poverty rate dropped from 58.2 percent in

1993 to 19.5 percent in 2004 and to 16.0 percent in 2006.

Despite these significant successes, concerns have arisen regarding the socioeconomic disparities between the rich and the poor, between the urban and the rural areas, between the plains and the highlands, and among ethnic groups. These disparities are having many negative impacts on the economy, society, and environment and on the efficiency and sustainability of the development process. As Vietnam becomes increasingly globalized, industrialized, and market oriented, these socioeconomic disparities may threaten the sustainability of the country's renovation and development.

This paper is based on published data of official studies and surveys of the General Statistical Office (GSO), some ministries and sectors, and researchers inside and outside the country. It seeks to describe the current disparities in Vietnam's agriculture and rural areas and to offer recommendations for improving the situation.

Current spatial disparities and policy issues

Since Vietnam shifted to a market economy in the mid-1980s, industrialization and urbanization have accelerated rapidly. From 1992 to 1997 (before the Asian financial crisis), average gross domestic product (GDP) growth was 9 percent a year. By 2007 the share of agriculture in GDP declined to 20 percent, while that of industry and services was 42 and 38 percent, respectively. Foreign investment increased dramatically. In the period of

2001–05, the revenue of foreign enterprises rose 30 percent a year, and the revenue of private enterprises rose 34 percent a year. Based on the five living standard surveys conducted by the GSO in the 13 years between 1993 and 2006, the poverty rate declined 42 percent, moving 35 million people out of poverty.¹

Vietnam's agricultural structure changed substantially during this time period. According to the GSO, from 2001 to 2006, the area devoted to rice paddy declined by nearly 341,900 hectares, while production output increased from 32.5 million tons in 2000 to 35.8 million tons in 2006, due to the use of new rice varieties and the application of modern cultivation techniques. Productivity increased from 42.4 quintals per hectare in 2000 to 48.9 quintals per hectare in 2006. The production output of export crops, such as coffee, rubber, tea, and pepper, also rose. The production value of livestock increased 7.1 percent annually. The export of agroforestry and fishery products increased rapidly, to US\$9.6 billion in 2006, 2.3 times higher than in 2000. Forest coverage expanded from 34.2 percent in 2000 to 37.5 percent in 2004, an annual increase of 0.7 percent (MARD 2005). From 2001 to 2006, aquacultural yield tripled to 1.7 million tons, and fishery catch increased 20 percent to more than 2 million tons, for a combined catch of 3.7 million tons.

The agroforestry and fishery product-processing industry grew 14 percent annually, focusing on vegetables, fruits, and timber. Rural crafts increased 15 percent annually. Currently, the country has around 2,020 craft villages with more than 1.5 million households, creating more than 10 million jobs and playing an important role in addressing unemployment in rural areas (MARD 2007). Since 1996, average income per capita has tripled in rural areas. The living conditions of rural people have improved in terms of the supply of clean water and electricity, means of communication, development of small enterprises and rural crafts, and incidence of poverty.

Urban and industrial areas grew rapidly as agricultural land was claimed from rural areas. Farmers received low prices for their land, but, once the land was used for other

purposes and managed by enterprises or localities, rather than individuals, the price of land rose dramatically. This price difference created social inequality and gave rise to disputes in many regions.

A large number of rural workers has migrated to urban areas, and migration has helped to narrow the income and employment gap between rural and urban areas. In 1995 average income per capita in current prices was 2.6 times higher in urban than in rural areas. In 2006 the difference was nearly 2.1 times (GSO 2006, 2007b).

In 2007 Vietnam became a member of the World Trade Organization (WTO). Before that, Vietnam was a member of the Association of South East Asian Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC), and other bilateral and multilateral agreements. The process of international integration has helped to narrow the economic, cultural, and social gaps between Vietnam and other countries.

All of these processes have concentrated investment, infrastructure, labor, land, and capital in urban areas. They also have improved spatial linkages, expanding infrastructure and services and improving market accessibility for many regions. In general, the socioeconomy of the country has been developing, but Vietnam's urban, industrial areas have been developing much faster than its rural, agricultural areas (see table 7.1). In other words, spatial disparity has become a big concern.

Disparities between rural and urban areas

By the end of 2004, there were about 14.2 million rural households, of which 10 million

Table 7.1 GDP growth rate and GDP per capita in Vietnam, by ecological zone

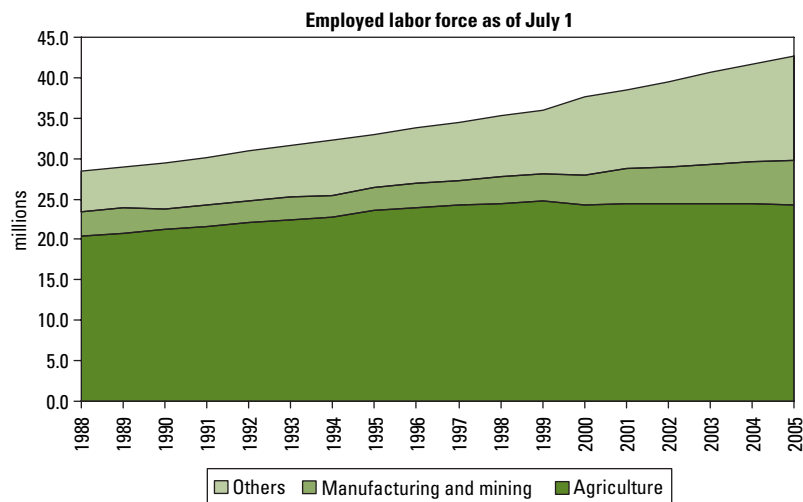
Zone	GDP per capita (US\$)	GDP growth rate ^a
Red River delta	753	8.68
Northeast	417	8.08
Northwest	300	7.98
North central coast	388	7.62
South central coast	585	7.59
Central highlands	420	9.38
Southeast	1,967	8.46
Mekong River delta	826	8.71

Source: Provincial Statistics Office (2008).

a. Adjusted based on the official national growth rate.

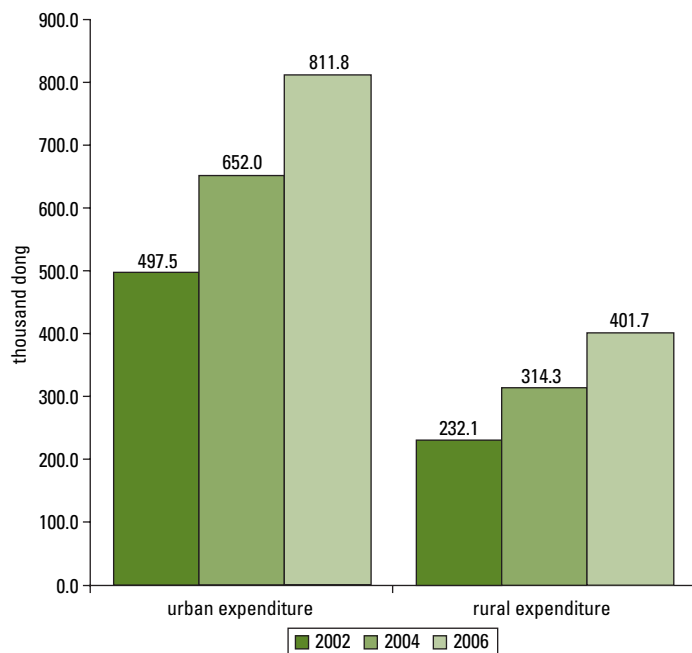
worked in agriculture, accounting for 74.3 percent of total employment (see figure 7.1). The household production and business structure has become increasingly diversified. The share of income from livestock and nonagricultural activities in total household income is increasing. Average income per

Figure 7.1 Employment in Vietnam, by sector, 1988–2005



Source: GSO (2007a).

Figure 7.2 Urban and rural expenditure in Vietnam, 2002–06



Source: GSO (2007b).

capita in rural areas rose from 2.1 million dong in 1995 to 6.1 million dong in 2006.²

Despite the remarkable improvement in living standards of the Vietnamese people generally, and rural people particularly, the expenditure and income gap between rural and urban areas is still wide, as shown in the Vietnam household living standards surveys (see figure 7.2). The difference in monthly income per capita between urban and rural areas continues to grow, from 1.8 times in 1993 to 2.1 times in 2006.

Besides, there is a difference in accessibility to information, markets, employment, and education, which is difficult to measure. For example, according to the GSO's Enterprise Survey 2006 (GSO 2008a), 21 percent of enterprises in rural areas said that the quality of rural roads is poor compared with 13 percent of enterprises in urban areas; 25–30 percent of rural enterprises considered traffic a hindrance to development, compared with only 14–20 percent of urban enterprises; and 8 percent of rural enterprises complained about the condition of telephone service, compared with 0 percent of urban enterprises. Twice as many rural as urban enterprises thought that the supply of electricity is unreliable and a hindrance to their business, while 9 percent of rural enterprises complained about the poor quality of education and training, compared with only 1 percent of urban enterprises. Finally, 31 percent of rural enterprises complained about the quality of vocational education, twice the percentage of urban enterprises voicing this complaint.

Poor living standards

Rural households have low income and thus spend much of it on basic living expenses, such as food and drink (see table 7.2). Meanwhile, urban households have higher income and thus more disposable income.

The disparity in living standards is evident in the nutritional value of food consumed (see table 7.3). The main source of energy for rural people is starch (rice), while that for urban people is protein (livestock and fishery products). Urban dwellers eat twice the meat per capita as rural dwellers. Rural people mainly consume pork, while urban people consume a diverse menu of

Table 7.2 Average living expenditure in urban and rural areas of Vietnam, 2006

dong thousand per person per month

Item	Urban	Rural
Food, drink, and cigarettes	291.0	160.6
Food	43.2	46.5
Foodstuff	151.1	81.8
Fuel	13.6	8.8
Meal outside home	65.9	15.2
Drink and smokes	17.2	8.4
Other	304.5	122.9
Clothes, hats, shoes	24.6	13.7
House, electricity, water, sanitation	33.9	8.7
Household equipment and devices	53.9	25.8
Health care	38.0	21.2
Travel and post	74.5	27.3
Education	42.9	16.2
Culture, sports, and entertainment	12.9	1.8
Other effects and services	23.8	8.1
Total	595.4	283.5

Source: GSO (2007b).

Table 7.3 Energy in the Vietnamese diet in rural and urban areas, 2000

percent

Region	Protein	Fat	Sugar
Rural	14.6	15.64	69.8
Urban	12.7	10.9	76.4

Source: Ministry of Health, Institute of Nutrition (2004).

livestock products (for example, poultry, cattle, eggs, and milk).

Living standards and the incidence of hunger and poverty have improved significantly in recent years. However, the gap between the plains and the highlands is still wide (see table 7.4). Infant mortality is between 31 and 34 percent in the highlands, compared with between 14 and 20 percent in the plains. The malnutrition rate follows the same pattern.

Low rate of savings and investment

According to the Ministry of Planning and Investment, in the period between 1996 and 1998, rural dwellers made up 80 percent of the total population but only 29–33 percent of social consumption expenditure (*Saigon Economics Times*, June 10, 1999). Rural people were able to save, on average, only 172,000 dong a year in 1994 and 700,000 dong a year between 2001 and 2006. On July 1, 2006, the average savings

Table 7.4 Income and health indicators in the plains and highlands of Vietnam, 2004

Region	Income per capita of the lowest group (US\$ PPP)	GDP per capita (US\$ PPP)	Infant mortality (percent)	Malnutrition rate of children under 5 (percent)
Highlands				
Northeast	455	308	31.4	29.8
Northwest	329	225	33.9	32.0
Central highlands	406	275	34.1	35.8
Plains				
Red River delta	616	530	14.8	22.8
Southeast	806	1,385	14.4	19.9
Mekong River delta	563	451	19.8	25.1

Source: VASS-UNDP (2006).

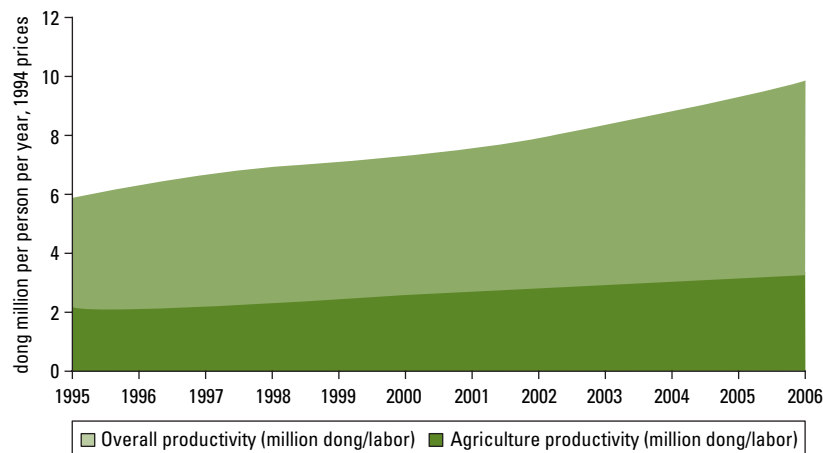
of rural households was 6.7 million dong, an increase of 3.5 million dong compared with October 1, 2001. Despite the improvement, such levels of savings are too low for productive investment.

While saving is low, most farmers, farm owners, household heads, and private enterprises usually mobilize their own capital for investment; very few turn to banks for credit. Therefore, their ability to buy land, hire labor, purchase equipment, renovate technology, change production structure, and industrialize agriculture and rural areas is limited. Most farmers use backward technology, and few households have fixed assets. About 30 percent have breeding facilities as their main asset. And 14–18 percent have other small fixed assets such as gardens, cattle, sows, breeding boars, and pesticide pots. Few have high-value fixed assets such as warehouses, cars, and trailers. When income rises, farmers tend to purchase durable equipment. In 2005 each rural household invested an average of 1.2 million dong in durable equipment, up slightly from 1 million dong a year in the period of 1998–2000 (GSO 2002, 2007a).

In general, backward technology and small-scale production lead to lower labor productivity in agriculture than in society as a whole, where labor productivity has increased rapidly thanks largely to international investment, technology, and modern management (see figure 7.3).

Regional disparities

To narrow these types of disparities, Vietnam has adopted many policies. For example, the government has constructed clinics, schools, markets, and cultural centers and upgraded

Figure 7.3 Labor productivity in Vietnam, 1995–2006

Source: GSO (2007a).

Table 7.5 Living standards in the highlands and plains of Vietnam, 2004

Region	Adult literacy rate (percent)	School attendance rate of all school-age children (percent)	Number of doctors per 10,000 people	Local budget for health care (dong per person)
Highlands				
Northeast	90.4	73.6	61	65,080
Northwest	76.0	65.3	39	62,582
Central highlands	88.2	73.9	46	75,891
Plains				
Red River delta	96.2	76.0	51	48,089
Southeast	93.6	71.1	56	97,559
Mekong River delta	89.8	61.5	41	45,320

Source: VAASS-UNDP (2006).

roads, electricity, communication, and irrigation systems in highland provinces. Consequently, the index of health care and education is similar in the plains and the highlands (see table 7.5). However, the economic disparities among groups of people and areas have had many negative impacts on the economy, society, and environment.

Uneven job opportunities

The rural population was 60.7 million in 2005, accounting for 73 percent of the total population of the country. The rural labor force was approximately 33.3 million, making up more than 75 percent of the country's labor force.³ The number of employed workers in rural areas increased from 28.6 million (80 percent of total employment) in 1996 to 32.9 million in 2005 (76 percent of total employment). In the period of 1990–

2000, the agricultural sector contributed almost 37 percent of the newly created jobs. The indexes for the industrial sector and the service sector were 19.8 and 43.5 percent, respectively. The situation was totally different in 2000–06, when 5.7 million jobs were created. The industrial sector employed 57 percent and the service sector employed 49 percent of workers in these new jobs, capturing the jobs lost in the agricultural sector. The number of laborers in the agricultural sector declined 1.5 percent during this period (2006 compared with 2000).

It is becoming more and more difficult to create jobs in rural areas. The annual growth of new rural jobs is 1.7 percent, which is lower than that of the country as a whole. The proportion of employed workers in rural areas has decreased gradually. From 1996–2005, the percentage of unemployed who were in rural areas was more than 80 percent a year. In 2005, 3.53 million people were unemployed, and nearly 87 percent of the unemployed were in rural areas. In addition, the unemployment rate was higher in rural than in urban areas (10.2 and 9.8 percent, respectively, in 1996, 9.1 and 6.6 percent, respectively, in 2000, and 9.3 and 4.5 percent, respectively, in 2005).

Compared with the situation in other Asian economies and the world, in Vietnam labor is highly concentrated in rural areas. This partly reflects the current trend toward capital-intensive rather than labor-intensive use of technology in industry.

Labor productivity

Labor productivity is much lower in rural than in urban areas. Rural workers use backward tools and technology, resulting in low productivity and income. Urban workers in the industrial and service sectors use advanced technology and apply modern management techniques, resulting in high productivity and income.

Food security

For the past 15 years, Vietnam has enjoyed stable growth of agricultural production, which has ensured food security for the majority of the population. Cereal production increased from 301 kilograms per capita in 1990 to 479 kilograms per capita

in 2004 (see figure 7.4). Vietnam exports a large quantity of rice and retains its position as the second-largest rice exporter in the world. The consumption of many agricultural products such as vegetables, fruits, meat, seafood, and forestry products as well as the volume of agricultural exports have expanded constantly. Production of food per capita is as follows: vegetables, 67 kilograms, fruit, 29 kilograms, seafood, 28 kilograms, and meat, 25 kilograms.

At the local level, only the Red River delta and the Mekong delta grow more than enough rice to satisfy local demand. Other areas, especially the highlands and some coastal areas, are not self-sufficient in food production. They produce other products and buy rice for consumption.

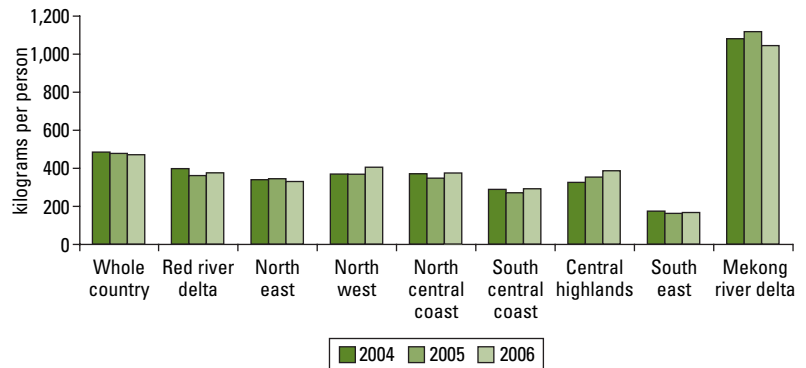
When natural disasters, epidemics, and unemployment depress income in an area that does not produce sufficient rice to meet demand, residents cannot afford to buy food, leading to food insecurity at the local level despite a surplus of food in the country as a whole. To obtain food security at the local and household levels requires outside sources of income and access to markets. It is also important for the state to maintain a reserve of food and to offer other forms of support during emergency situations.

Nutritional structure

Although the country does not face starvation, disparities still exist in the quality and makeup of food as a result of income differences among groups of people. Food still absorbs most of the poor's income, preventing them from investing in production and improving their standard of living.

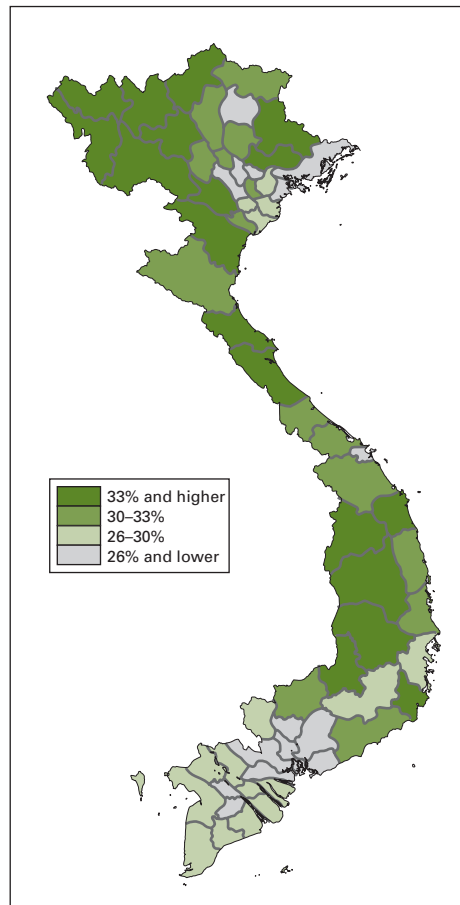
As Vietnam's food security has improved, so has its nutritional status. There were approximately 10.9 million malnourished Vietnamese in 2004 compared with 15.9 million in 1994. However, nutritional status mirrors income, with the percentage of malnourished people much higher in rural than in urban areas. The rate of underweight children less than five years of age in the highlands is twice that in urban areas. Also, 42.3 percent of children in remote areas were malnourished in 2004, compared with 23.4 percent in urban areas. As shown in figure 7.5, mountainous areas such as the northeast, north-

Figure 7.4 Cereal production per capita in Vietnam, by region, 2006



Source: GSO (2008b).

Figure 7.5 Distribution of malnourished children under five years of age in Vietnam



Source: Ministry of Health, Institute of Nutrition (2004).

west, and central highlands have the most malnourished children in the country. They also have the highest rate of children whose diets lack protein, fat, vitamin A, iodine, and

other essential ingredients. At the same time, children in cities are at risk of obesity due to excessive amounts of food. Such differences lead to significantly different levels of physical and intellectual development between areas.

Migration

The economic disparities between areas push labor out of underdeveloped areas and pull labor into developed ones. Vietnam has experienced waves of migration both of jobs and of workers from rural to industrial, urban areas. In Vietnam, the southeast is the main source of jobs, in addition to Hanoi and Ho Chi Minh City. The Red River delta and the Mekong River delta are the main source of workers. As shown on table 7.6, most of the Vietnamese labor force is unskilled. The flow of immigration is to the southeast region (including Ho Chi Minh City). The number of people moving within the Red River delta is huge, but not shown clearly in the table. The reason is that most of the immigrants to Hanoi are included in the Red River delta.

According to the statistics of the Vietnamese Household Living Standard Survey in 1999 (GSO 2000), most of the immigrants to Hanoi were from the central north and the Red River delta, and some were from the northern mountainous area, while most of the immigrants to Ho Chi Minh City came from the Mekong River delta, the southern area, the central highlands, the central area, and the Red River delta (see figure 7.6).

Economic growth rate

In general, provinces with a high share of agriculture in their economic structure (which means those with a low level of industrializa-

tion) often have lower economic development indexes than those with a high share of industry in GDP (see table 7.7). Industrialized provinces contribute more to the national budget and thus have more political power. This is the reason why local authorities tend to give priority to accelerating industrial development and reducing the contribution of agricultural production to the local economy. In this race, provinces without advantages for industrial development will certainly lag behind in economic growth.

Poverty rate

Vietnam has achieved significant progress in poverty alleviation; however, there is still a considerable difference in poverty density among regions. Regions with a high proportion of poor households often lack natural and socioeconomic resources, have few advantages for economic development, and lack accessibility to markets. They are often the mountainous, island, remote, or ethnic minority areas, which are far from urban centers and are underdeveloped in terms of industry and services. Although from 2000 to present, the absolute density of poverty has changed, the relative density has remained nearly stable. The next population census will be conducted in 2010.

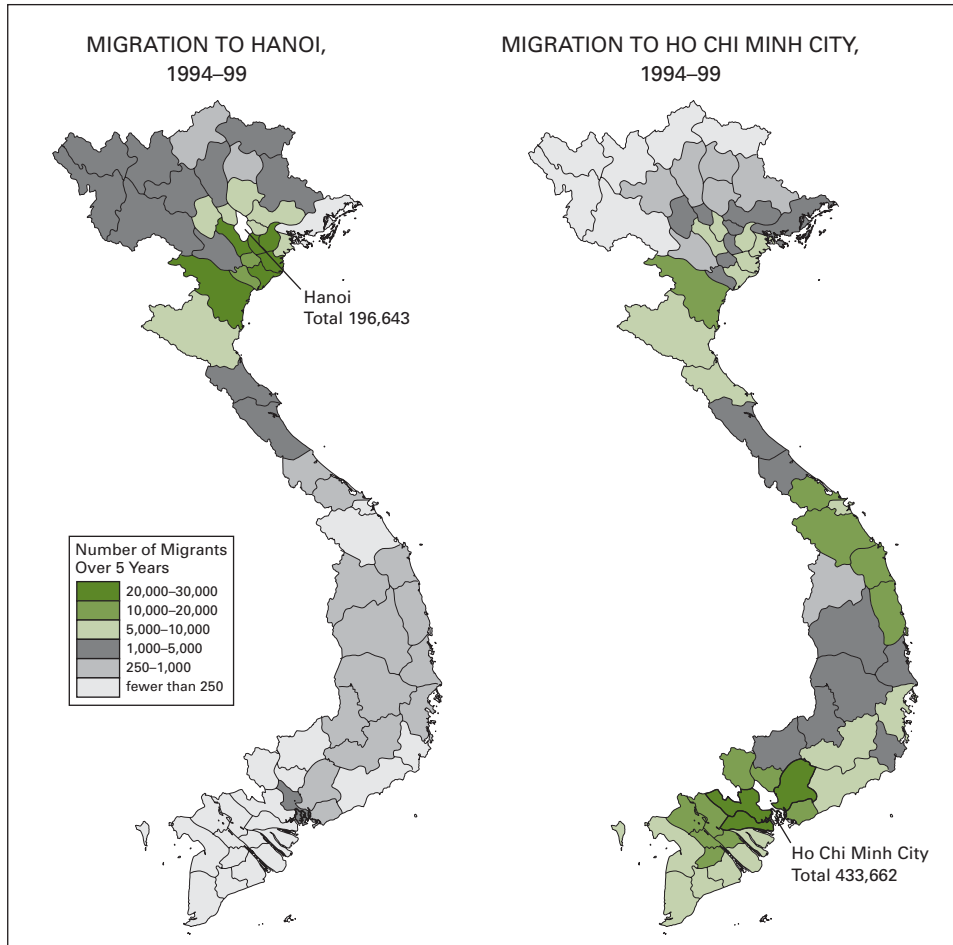
As shown in figure 7.7, regions with a high poverty rate are in the northwest, northeast (mountainous areas in the north), and along the range of mountains in the west (west of the north central coast and central highlands). The region with the lowest poverty rate is the southeast, which is the most industrial region in the country. The delta and coastal areas have a low poverty rate.

Table 7.6 Labor and migration situation in Vietnam, 2004

Region	Percent of the national labor force (percent)	Percent of workers who are unskilled	Percent of people living in urban areas (percent)	Net immigration (number of persons)
Red River delta	22.6	68.5	24.5	-4,656
Southeast	14.9	67.8	53.7	94,424
Mekong River delta	21.3	85.7	20.2	-38,632
North central coast	12.4	84.1	6.0	114
South central coast	8.2	74.9	29.0	-8,017
Northeast	11.8	81.8	18.7	-11,717
Northwest	3.2	88.8	13.8	-379
Central highlands	5.6	84.3	28	-1,676
Vietnam	100	77.3	26.5	0

Source: GSO (2006a).

Figure 7.6 Source of migrants to Hanoi and Ho Chi Minh City, 1999



Source: Based on migration survey data, GSO (2006a).

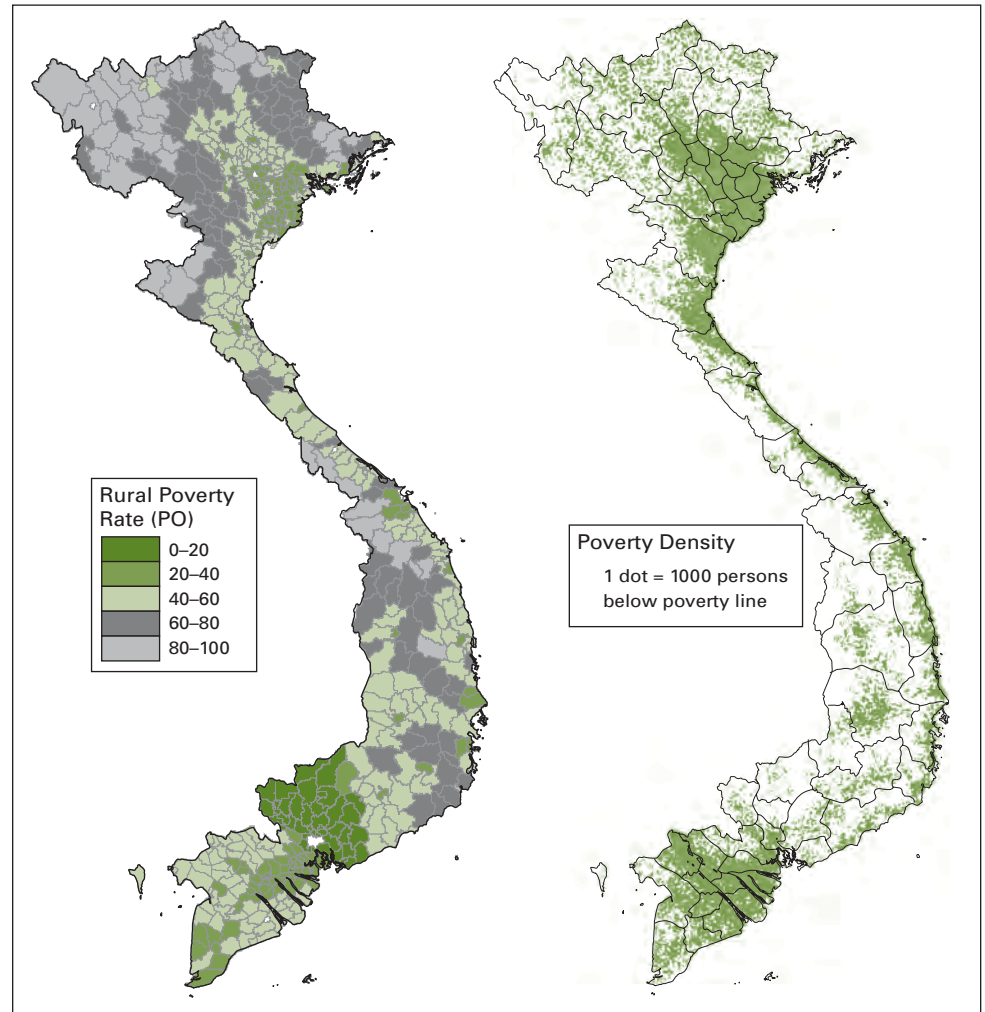
Table 7.7 Economic growth rate in Vietnam, by province, 2006

Provinces	GDP per capita (US\$)	Contribution to national GDP (percent)	Proportion of agricultural GDP in total GDP (percent)
Provinces with low share of agriculture			
Quang Ninh	908	1.41	7.46
Da Nang	1,099	1.24	4.17
Ba Ria, Vung Tau	10,572	13.97	1.56
Binh Duong	1,189	1.64	7.00
Provinces with high share of agriculture			
Thai Binh	422	1.12	39.91
Ha Tinh	307	0.57	43.47
Ben Tre	517	1.00	54.67
Vinh Long	564	0.85	53.00

Source: Provincial Statistics Offices (2008).

However, regions with the highest population density (which are the most developed regions) also have the highest poverty density. They are the Red River delta, the

central coast, and the Mekong delta. Only the southeast has a high level of economic development but a small absolute number of poor households.

Figure 7.7 Poverty rate and density in Vietnam

Sources: Swiss National Centre of Competence in Research (NCCR) North-South Switzerland; Department of Population and Labour Statistics, General Statistics Office (GSO); Informatics Center for Agriculture and Rural Development (ICARD), Ministry of Agriculture and Rural Development (MARD).

GNI and other equality indexes

While Vietnam has been developing economically, social and economic inequality has been lower than in other countries in the region. From 1993–2004, Vietnam's GNI (gross national income) was almost unchanged, while the economy grew rapidly. From 2004–06, GNI went down a little. Vietnam's GNI has remained stable thanks largely to improvements experienced by the three middle quintiles of income. In 2006 these three groups accounted for 50 percent of total expenditures. However, the gap between the richest and the poorest group widened during this period, and GNI varied

considerably among regions in the country (see table 7.8).

According to statistics of the population and housing census in 1999, poor areas in the mountains of the north, the north central coast, the south central coast, and the central highlands have a high GNI compared to the national average. In the future, Vietnam needs to address not only poverty but also inequality (see figure 7.8).

Investment

Due to differences in natural and socioeconomic conditions and in investment incentives, foreign investment varies by region, as

Table 7.8 Poverty in Vietnam, by region, 2004

Region	Percent of population below the food poverty line	Human poverty index (HPI)	Gap between 20 percent richest and 20 percent poorest	Income per capita of 20 percent poorest (US\$ PPP)
Red River delta	4.59	8.4	7.0	164
Southeast	1.82	9.6	8.7	233
Mekong River delta	5.22	20.0	6.7	159
North central coast	12.24	15.8	6.0	114
South central coast	7.58	13.8	6.5	141
Northeast	9.35	18.6	7.0	124
Northwest	21.81	32.7	6.4	95
Central highlands	12.30	20.5	7.6	119
Vietnam	6.92	15.1	8.3	142

Source: GSO (2006c).

does the creation of jobs and income (see table 7.9). Capital, technology, management skills, and job creation will, in turn, alter the local infrastructure, service sector, and urbanization of the localities, further widening the gap among localities.

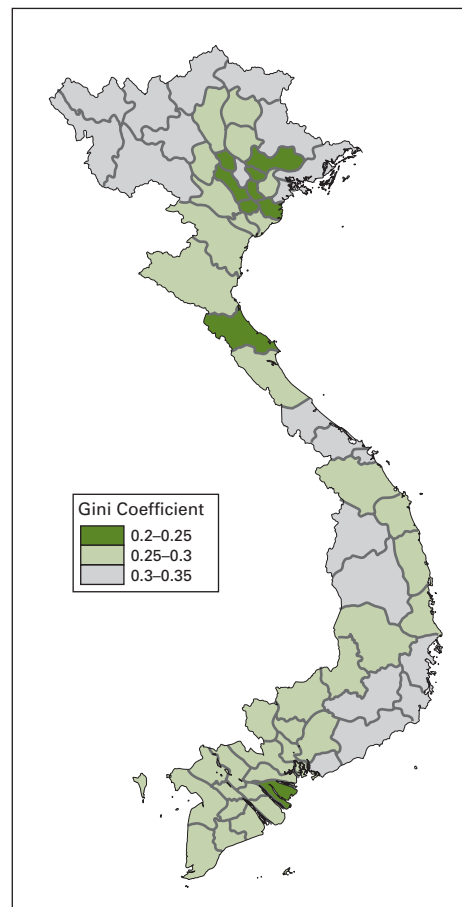
Causes of disparities

Spatial disparities are caused by many factors. First, differences in natural conditions such as topography, land, climate, and resources create differences in the ability of each region to adapt to different modes of production and to make use of comparative advantages. In addition, the socioeconomic characteristics of each region play a role, including population density, language, culture, quality of blue- and white-collar skills, and business culture (such as the ability to cooperate, entrepreneurial mindset, interest in education, and understanding of the need to save and invest).

Geographic factors also play an important role in the economic development of each region. Coastal regions have advantages of fishery and accessibility to international traffic. Similarly, border regions, regions that are near an international airport or a big city, especially those near an international route (land, sea, air), or regions that have cultural and natural attractions can use their geographic advantages.

Unequal investment in infrastructure

Investment in infrastructure in favorable regions (plains, urban areas) and economically advantaged regions (rich natural resources, fertile land) is relatively inexpen-

Figure 7.8 Inequality in Vietnam

Source: Based GSO (2000).

sive but highly effective. Therefore, these regions are given priority in the development of infrastructure. Once again, the unequal investment in infrastructure widens the economic gap between localities. Table 7.10 shows a clear relation between

Table 7.9 Investment in Vietnam, by region

Region	Proportion of local budget income in GDP (percent)	Proportion of investment capital in GDP (percent)	Foreign direct investment, 1998–2004 (US\$ million)
Red River delta	28.6	44.8	12,183
Southeast	35.9	32.8	27,518
Mekong River delta	10.9	32.4	1,136
North central coast	19.4	41.9	1,210
South central coast	29.7	45.3	3,315
Northeast	17.5	43.9	1,939
Northwest	8.5	58.4	59
Central highlands	15.5	43.6	966
Vietnam	26.7	37.9	48,341

Source: GSO (2008a).

Table 7.10 Accessibility of infrastructure in Vietnam, by region, 2004

percent

Region	Access to a telephone at home	No access to clean water	No access to electricity	Access to the Internet at home
Red River delta	24.3	0.9	0.4	1.1
Southeast	45.6	6.6	3.6	5.1
Mekong River delta	17.3	31.5	14.4	0.5
Central north	12.6	13.2	3.4	0.2
South central coast	21.3	10.9	2.6	0.5
Northeast	16.1	22.5	10.9	0.2
West east	8.8	57.7	32.7	0.1
Central highlands	18.8	20.0	12.6	0.5
Vietnam	22.7	15.9	7.3	1.3

Source: GSO (2006c).

infrastructure and economic disparities. The people in the most developed regions (the southeast) have the best access to infrastructure and services. In contrast, the people in the most isolated areas (northeast, northwest, central highlands) have the worst access.

Economic structure

Seemingly, the localities with a low share of agriculture and a high share of industry in GDP enjoy a higher growth rate (see figure 7.9 and table 7.11). The regions with a high share of industry can create high export value and make a large contribution to the state and national budgets. A special case is the northeastern region. While many provinces in the highlands have underdeveloped economies and conditions that are not conducive to the development of industry, Quang Ninh province located on the eastern border has a significant gateway to China, a deepwater port; the Ha Long World Heritage site; and the biggest coal mine in the country. Hence, the industry and economy

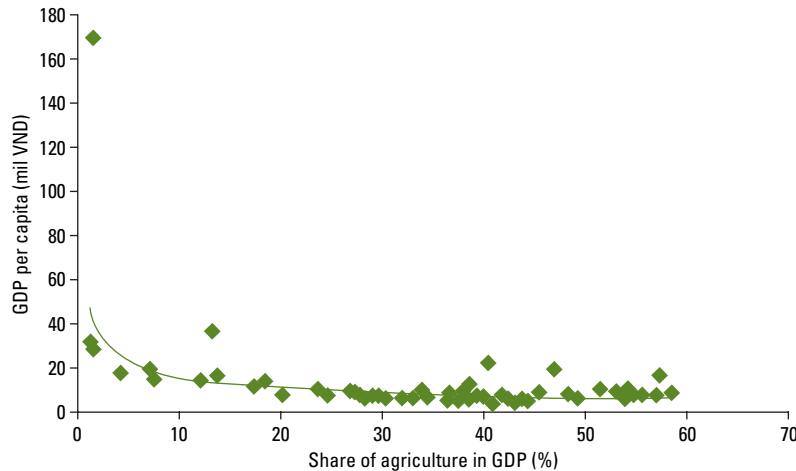
of this province are well developed, raising the average value of the region.

Macro policies

Apart from the natural characteristics of regions, state policies also result in economic disparities. These policies seek to promote growth and create favorable conditions for advantaged sectors, regions, and groups by offering incentives and according them priority in accessing resources. One example is trade protection policy, which treats commodities differently depending on the sector (see table 7.12).

The following are some other macro policies with the same impact:

- In some periods, the domestic currency was kept at an inflated value. This exchange rate policy favored industrial products with low competitiveness, while it disfavored export-oriented industries such as rice, coffee, cashews, and rubber.
- For a long time, the terms of trade were disadvantageous for agricultural products. The price of agricultural products

Figure 7.9 Relation between GDP per capita and agricultural value added in GDP in Vietnam

Source: Provincial Statistics Offices (2008).

Table 7.11 Structure of GDP and economic development in Vietnam, by region, 2006
percent

Region	Share of service in GDP	Share of industry in GDP	Contribution to total GDP
Red River delta	44.43	40.32	19.56
Southeast	30.62	63.95	38.73
Mekong River delta	28.41	31.30	20.53
Central north	36.57	32.27	5.90
South central coast	38.55	37.81	5.95
Northeast	36.34	36.89	5.29
West east	35.99	21.84	1.12
Central highlands	28.21	24.85	2.92
Vietnam	38.07	41.56	100

Source: Provincial Statistics Offices (2008).

Table 7.12 Effective rate of protection in Vietnam, by sector, 1997–2003
percent

Sector	1997	2001	2003
Agriculture	7.74	7.43	12.52
Manufacturing	121.47	95.97	43.94
Mining	6.05	16.39	-0.03
Average	59.54	54.1	26.23

Source: Athukorala (2005).

often rises more slowly than the price of inputs (fertilizers, chemicals, gasoline, machines) as well as the price of consumer goods and services for farmers (medicine, health care, education).

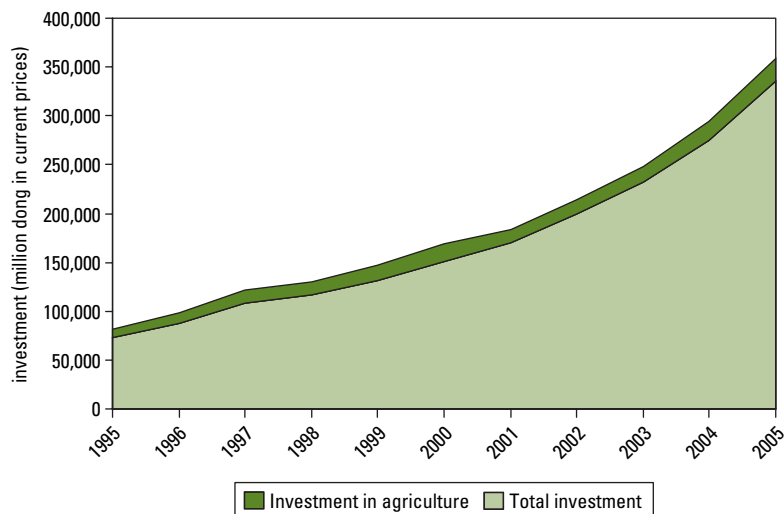
- One of the most controversial policies is compensation for the transfer of agricultural land to industrial, urban land. Normally, the price paid to farmers for land is different than the price paid by enterprises and landowners who will convert it to industrial or urban use. This situation

benefits enterprises implementing industrial and urban development projects and creates an opportunity for speculation, placing farmers at a disadvantage.

There are many other examples of incentives for urban development, such as infrastructure investment, high-quality service, price stabilization, intellectual attraction to cities and industrial zones, and many examples of unfavorable policies for farmers, such as prohibiting the use of outdated vehicles in rural industry and restricting the use of unofficial services (which are performed mostly by migrants from rural areas).

Investment orientation

Although agriculture is creating jobs and income for the majority of the population and contributes 22–23 percent of total GDP, in recent years the portion of total

Figure 7.10 Total investment in the economy and in agriculture in Vietnam, 1995–2005

Source: GSO (2007a).

investment in agriculture has been low (see figure 7.10). Public expenditure for agriculture only accounts for 5–6 percent of the government budget, equivalent to 3–6 percent of total agricultural production, and 1–1.5 percent of total GDP. As a result, the development of infrastructure and many public services (animal health, plant protection, information, research, and technical transfer) have not kept pace with the demand, especially in rural areas.

The proportion of agricultural investment in total social investment decreased from 7.1 percent in 1996–99 to 6.4 percent in 2000–03. Private investment in agriculture and in rural areas only makes up 13–14 percent of private investment in general. Despite the role of foreign investment in the economy overall, the share of foreign investment in agriculture is low, at only 3–4 percent. As a result, the socioeconomic gaps between the rural and urban areas and between agriculture and industry are inevitable.

Recommendations

Although they are not serious yet, economic disparities are increasing in Vietnam. The disparity is not only in space and growth rates but also in accessibility of resources and services, not only in the economy but also in culture, society, and the environment.

The cause of this situation includes both market mechanisms that direct resources to highly profitable fields and areas and public policies that focus attention and resources on industry, services, and urban areas in an effort to accelerate economic growth and development.

The solutions to this complicated problem should begin with research on a theory of sustainable development. All strategies and policies should be formulated to ensure this objective. In principle, key linkages in the economy should be improved as follows:

- Link production, processing, business, and consumption (value chain, commodity chain) so that stakeholders can communicate with one another throughout the process from production to consumption through associations, economic contracts, and community commitment and so that commodity associations can provide science and technology, market information, credit, extension services, and food safety. Such linkages are needed to allow the sharing of profit and risk and allow production households to participate more in the value chain, raising their income and reducing their risks.

- Link the rural and urban areas by removing barriers to the migration of rural laborers to urban areas and create a favorable environment in rural areas to attract investment, develop small and medium enterprises (SMEs), upgrade services and infrastructure, and improve education. Build a system of satellite cities and industrial zones to decentralize urban areas and attract industry to rural areas.
- Link key labor-supplying areas with urban areas and industry so that workers can return home after work and urban dwellers can enjoy life in rural areas. Give priority to spillover industries that mobilize rural laborers in industry and the service sector in urban, industrial zones. This would help to create jobs, raise income, and improve living standards for rural people.
- Link regions by mobilizing private and public capital to build infrastructure, especially key traffic axes among regions, focusing on difficult regions such as mountainous, remote areas and minority ethnic areas and giving priority to agriculture and rural development to ensure equality between favorable and unfavorable areas for industrial development.
- Deal with the issue of an aging rural population by gradually setting up a system of social safety nets and transferring this system from the household level to the community level and the state.
- Apply incentives for ethnic groups not favored by natural and social conditions. At the same time, preserve ethnic cultural, economic, and social values and encourage the community to manage its own life and development and not depend passively on the state and outsiders.
- Build key development corridors (roads, railways) to link the localities within a region, connect foreign localities in Cambodia, Lao, and Yun Nan, China, for example, to the sea through Vietnamese territory, develop key deepwater ports in the north, the center, and the south, and build international airports linking Vietnam to international ports and airlines.
- Attract foreign investment to develop science, technology, and management; promote trade liberalization; and enter integration commitments.
- Through the market, media, civil society, education, and scientific and technological research, give all social classes, including vulnerable groups, the opportunity to participate in the national economic development process, to join and benefit from globalization, and to raise their voice, self-defense capacity, and economic, political, and social position.

Socioeconomic disparity is an inevitable consequence of fair market competition. However, in the current context of higher growth and untenable solutions, such as destroying the environment now and reproducing it later or pauperizing farmers and mobilizing them as unskilled labor in industry, disparities are leading directly to ecological imbalance and social crisis. Therefore, solving the problem of disparity is as crucial as pursuing economic growth.

Notes

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1. According to the official poverty line set by the Vietnamese government.

2. Vietnam's currency is the dong. Vinh, Hoang Ngoc, estimation data based on total agricultural labor force in 2005.

3. The rural labor force is the number of people in rural areas who are more than 15 years old and are involved in economic activities. It does not include people who are unemployed.

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