

AGRICULTURAL DEVELOPMENT AND LAND POLICY IN VIETNAM: POLICY BRIEFS

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FOREWORD

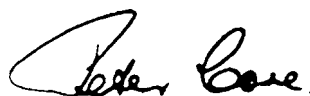
Land use has been central to the history and development of Vietnam, as has been true in other parts of the world. The ways in which land is used and ownership defined and transferred between generations have profound effects on the economic, social and political outcomes in a country. This is particularly true for Vietnam given her political history and the dramatic changes that have taken place over time in land use policy.

The policy briefs in this booklet are a summary of the major research findings from the Australian Centre for International Agricultural Research's Project ADP1/1997/092 entitled 'Impacts of alternative policies on the agricultural sector in Vietnam'. The main aims of the project, which provided the information for these policy briefs, were to assess the impacts of the Vietnamese Government's new policies on agriculture and to provide economic models suitable for analysing policy reforms.

Research work for the project involved the Faculty of Economics and Rural Development at Hanoi Agricultural University No. 1, and

Agricultural and Resource Economics at the University of Sydney. The results of the research work have been written up in detail and published in both English and Vietnamese in an ACIAR Monograph entitled 'Agricultural development and land policy in Vietnam', which is available in hardcopy or downloadable free from the ACIAR website, www.aciar.gov.au.

The long-term development of Vietnamese agriculture depends on the efficient and effective use of its small land area, but land tenure and use sits within a complex historical, political and cultural context. The research results from the ACIAR project, which are summarised in these policy briefs, will be useful to both Vietnamese policy makers and the international research community.



Peter Core
Director, ACIAR



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AGRICULTURAL LAND USE FLEXIBILITY

PURPOSE

To outline the importance of flexible agricultural land use in a market-oriented economy, and recommend government policies that will encourage land use flexibility.

BACKGROUND

Flexibility in the use of agricultural land indicates how readily land use patterns can change in order to adapt to varying production conditions and opportunities. It includes changes in:

- cropping patterns and livestock raising
- land use from the adoption of appropriate advanced technology
- land use resulting from varying levels of investment in production inputs.

Since 1986 Vietnam has moved from a centrally planned economy where agricultural production was under the control of the State to a socialist-orientated market economy where farm households have more individual control over their production activities. In a market economy land use flexibility is important for a number of reasons:

- Agricultural land use flexibility allows farmers to respond to market signals such as the prices of inputs and outputs. Prices of inputs directly affect investment levels and production costs, while output prices have a direct effect on production results and returns to investment.
- Because prices are always fluctuating, flexibility in land use allows producers to take advantage of market opportunities and reduce disadvantage when price changes occur.
- Agricultural production takes place under variable climatic conditions that increase production risk. In such conditions rigid and inflexible production in response to pre-determined production targets does not allow adaptation to unusual circumstances. Farmers benefit from land use flexibility that allows them to reduce the risk associated with the production process by saving costs and reducing possible losses, and thereby increase their income.

Since farmers have been able to make their own production decisions based on available resources, their management skills and the price signals, crop patterns in some farm households have changed remarkably. Research undertaken for the ACIAR project has documented that diverse land use practices exist (for example, there were 63 distinct land uses from

200 households in the two northern provinces of Ha Tay and Yen Bai). Economic returns from different land uses also varied considerably and were generally higher for perennial crops than annual crops. For annual crops rotations of rice with vegetable (food-stuff) crops generally gave higher returns than rotations of rice with other food crops such as maize and cassava. Highest returns were obtained from niche crops such as flowers and ornamental plants.

ISSUES

In practice land use flexibility is affected by several factors, including:

- the rules and regulations governing the use of land
- farmers' awareness of land use opportunities and possibilities
- the ability of farmers to respond to market opportunities
- access to financial and other resources needed to make changes to land use.

Land policies play an important role in determining the degree of land use flexibility that exists in Vietnam, including policies on:

- *the term of agricultural land use.* Longer land use rights increase security of tenure and encourage the investment required to change land use, for example from annual crops to perennial crop options.
- *land use classifications.* Annual and perennial crop land classifications are determined by the government and stated on the land-use-rights certificate, thereby acting as a constraint to land use flexibility. There is also a need for flexibility to be

balanced by necessary land use zoning or control (eg protection of forest areas). Many land use changes are required to be officially registered and incur a fee. This is a transaction cost which discourages land use flexibility.

- *the amount of land that can be held by the farm household.* Land ceilings can act to discourage flexible land use through limiting land accumulation by efficient producers, and because of lower security of tenure for land over the limit leased from the State. Land over the land limit is also subject to agricultural land tax.
- *the rights and responsibilities of the agricultural land user.* As land is 'owned by the people as a whole' there are responsibilities associated with its use. It is required that land should be farmed efficiently with appropriate crops and rotations, and that attention be paid to maintaining the fertility of the land. In practice this is determined by restrictions on land use that are specified on the certificate of land use rights.
- *agricultural land prices.* Rental and land transfer values do not reflect true market prices, but rather are determined within a pricing framework set by the central government, with the actual prices fixed by the provincial or municipal authorities. Failure of the land-use-rights market to accurately reflect market values restricts the ability of efficient farmers to take advantage of market opportunities to increase production, and of inefficient farmers to leave the sector.

Other government policies which have an impact on land use include those related to: credit provision to rural households and rural

industries, investment in rural areas and infrastructure, markets and prices, goods circulation and trade, education and training, and science and technology. Besides these policies, other factors also affecting land use flexibility are:

- the land use design and planning system of the central government, which is implemented by local government at provincial and district levels
- land use planning at the communal level such as the planning of irrigation systems, transportation networks and land allocation
- the service provision system at the communal level such as input supplies, land preparation, crop protection and the adoption level of new technology by farmers.

POLICY RECOMMENDATIONS

The extent to which land use flexibility exists has a direct effect on both farmers' incomes and agricultural development.

RECOMMENDATIONS FOR GOVERNMENT

- Through the use of macro policy changes, especially land policy, create favourable conditions for land use flexibility at the household level.
- Through land use planning, with close links to macro-level land use plans, provide for land use flexibility by farmers.
- Provide accurate information (including forecasts) related to markets and production in a timely fashion to farmers to enable them to make production choices.

- Actively pursue supportive activities related to credit provision, introduction of technology, and development of input and output markets as these are critical to land use flexibility.

RECOMMENDATIONS FOR LOCAL GOVERNMENT

- Through land use planning, create a favourable environment for land use flexibility.
- Establish and develop infrastructure and service systems in rural areas that will enhance flexibility in land use.
- Strengthen the extension system for diffusing technology to farmers.

RECOMMENDATIONS FOR FARMERS

- Encourage the enhancement of education levels and knowledge about technology and markets to help farmers take advantage of opportunities to change land use and obtain higher economic returns.
- Seek to enhance farmers' ability to access information and to respond quickly to changes in the market that affect returns from agricultural production.

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LAND FRAGMENTATION IN NORTH VIETNAM

PURPOSE

To inform policy makers about the public and private benefits and costs associated with land fragmentation. These benefits and costs need to be considered when implementing policies that promote land consolidation.

BACKGROUND

Land holdings in North Vietnam are highly fragmented as a result of a land allocation policy that distributed land so that there was equitable quantity, but inequitable quality, of land distribution to households. In mountainous areas of North Vietnam land fragmentation is also exacerbated by geographic conditions. Although most households have many plots, land use rights certificates were issued for the total holdings, with the certificates recording multiple rather than individual plots.

ISSUES

1. From a theoretical point of view land fragmentation has both private and social benefits and costs. A summary of these is provided in Table 1. Many of these costs and benefits are difficult to assess and quantify (eg equality of land holdings amongst households, possible delays in the application of new technology).
2. Using survey data from 508 plot-based observations from 188 farm households in the north of Vietnam, it was found that an increase in the number of plots per farm had a negative impact on crop productivity (measured in equivalent rice yield) and increased family labour use and other money expenses. However, data analysis also showed that fragmentation was a significant factor for increased crop diversity. In the context of subsistence-oriented agricultural production, diversification may lead to security of not only food but also farmers' incomes. These results suggest that private benefits from consolidation are not certain given existing technology. However, savings may be made, especially in labour use.
3. Econometric analysis of whole-farm survey data (as distinct from plot data) from Yen Bai province suggested that

increasing plot number was associated with higher net values of farm production. However, this was not the case for Ha Tay province, which indicates that land fragmentation may in some cases be clearly beneficial, and in other cases not, depending on location.

4. As Vietnam appears to have surplus agricultural labour, at least for much of the production year, the real benefits to farm households from land consolidation may not be apparent until the real opportunity cost of farm labour begins to rise. This opportunity cost will clearly be affected by a number of factors, such as the availability of employment opportunities for farm family members and the wage rates associated with these opportunities, the level of education and age of the rural workforce, the time of year and the season. The transaction costs involved in job searching will be an issue, as will the reliability of the employment.
5. If the number of plots is a significant factor in labour use, it would seem that appropriate policies to provide motivation and incentives for land restructuring will be those that are designed to allow the full effect of the rising opportunity cost for labour to be reflected in the rural sector. While i) the opportunity cost of labour is low, ii) surplus labour is retained in agriculture, and iii) labour use is subject to peak load periods, the provision of other incentives for restructuring of land ownership and use may have little effect.
6. If the role of technology is seen as one means of shifting the balance of benefits versus costs toward the farmer, then clearly research and development and the extension system and its effectiveness in having new technologies adopted will be important. The nature of the technologies in terms of capital or labour intensity will also be important.

Table 1 Costs and benefits associated with land fragmentation

Benefits of many plots		Costs of many plots	
Private	Public	Private	Public
Risk spreading: flooding disease and pests	Implicit insurance Equality of land amongst households	Cost increases Higher labour use Border land loss	Less labour releases Mechanisation delays Application of new technology delays
Inheritance flexibility	Increased biodiversity	Access difficulties	Planning of commercial production zones difficulties
Crop rotation flexibility		Dispute increases	Higher transaction costs when used as collateral
Small parcels for transfer/sale/ mortgage		Irrigation difficulties Mechanisation difficulties	Management
Seasonal labour spreading		Application of new technology difficulties	
Management			

POLICY IMPLICATIONS

- Land consolidation may benefit farmers in the short term through higher crop productivity, but may result in cost increases through the loss of risk-spreading strategies and other private benefits of having many plots, especially in subsistence-oriented agriculture.
- Government-directed land consolidation policies need to be implemented with care. In some areas a degree of land fragmentation may be beneficial, especially in the mountainous areas or where risk of drought and floods is higher.
- Government policies to increase off-farm opportunities for farm-based labour, so increasing the opportunity cost of rural labour, should provide incentives to consolidate land holdings.

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THE VALUE OF AGRICULTURAL LAND AND LAND USE RIGHTS IN VIETNAM

PURPOSE

To provide a simple explanation of the factors affecting the value of long-term assets, particularly agricultural land.

BACKGROUND

At present agricultural land in Vietnam is considered to be owned by the people as a whole and 'the State is the representative of the people's ownership of land'. Land use rights are generally defined for a particular parcel of land and period of time, and define a person's use of land. These are recorded in the 'Red Book'. Transactions in land use rights form a 'parallel market' system for land, incorporating the rights of inheritance, exchanging, mortgaging, collateral, renting in and out, and selling and buying, plus the more recent addition of use for joint ventures. There are ceilings on land holdings (eg 2 ha for annual crops in the Red River Delta and 3 ha in the Mekong Delta), and agricultural land tax must generally be paid on land held over the land limit.

ISSUES

1. The value of land to the landholder, V_h , in principle, is the net present value of the future stream of earnings from the land including any changes in the value of the asset. This calculation will include deductions for taxes and any other costs of holding the land.

The value of land to a potential purchaser, V_p , will be the net present value of the stream of earnings that are expected if the asset were purchased. For the exchange to take place the purchaser's valuation must be greater than the landholder's valuation by at least any transaction costs (fixed, t , or *ad valorem*, a). Thus, $V_p \geq V_h + a + V_h + t$

Transaction costs can be an important limitation on an active market in land or land use rights being developed.

2. The term of a land use right or lease affects the value of the asset, and expectations about the renewal of the right or lease will also affect the value. The value of a VND100,000 stream of earnings from an asset, assuming a 5% discount rate for an infinite period, is $100/0.05$ or VND2 million; truncated to 20 years the value is VND1.246 million. Any transaction costs involved with renewal will also reduce the value of the asset.

3. To purchase long-term assets requires credit when liquid assets such as cash are not available, and access to credit requires collateral and an adequate future income stream to make repayments. Truncated ownership periods reduce the value of an asset for purposes of collateral. The value of a land use right for 'tin chap' or 'trusted mortgage' collateral is limited to VND10 million. If 23% of a VND10 million annual income stream were used at the rate of VND2.3 million per year for loan repayments at an interest rate of 10% over a 13-year period, then a loan of VND16.3 million could be supported; if the period were extended to 20 years a loan of VND19.6 million could be supported. The length of life of an asset affects its collateral value.
4. Investment in the long term in infrastructure such as buildings, irrigation works and equipment requires long payback periods. Uncertainty about the title of the land on which these assets are located or used reduces the incentives to invest in them.
5. Future capital gains in the value of land provide a major reason for seeking to hold such an asset because gains, which are free of taxation, will clearly be preferred to income or production that is taxed. It could be argued that it is in the interest of society to tax both income and capital gains; however, any government policy intentions in this direction should be transparent to avoid being a disincentive to investment.

6. Survey work in Ha Tay province conducted in 2001 showed that the average rental price for cultivated land was VND500/m², and the average buying price was VND5000/m². The net present value of a stream of rental flows of VND500/m² over 13 years at a 5% interest rate is VND4932/m². Therefore, the buying price in Ha Tay appears to be a rational capitalisation of the rental rate over the approximate time remaining to 2013 of the 20-year land use rights (granted in 1993) on annual cropping land.

POLICY IMPLICATIONS

For a strong and growing agricultural industry, exchange of land among alternative users and uses will raise the efficiency and flexibility to adapt to changes in local and world markets.

Such markets function best with:

- low transactions costs
- long-term certainty of tenure
- ease of exchange
- enhanced certainty of future earnings.

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TAXES AND AGRICULTURAL LAND USE

PURPOSE

To inform policy makers and others about some of the implications of the new policy of tax exemptions and reductions on agricultural land use from 2003 to 2010, and to present recommendations on planning for the reintroduction of an agricultural land tax after 2010.

BACKGROUND

Exemptions and reductions to the agricultural land use tax were announced under Resolution 15/2003/QH11 (17 June 2003) and Ordinance 129/2003/ND-CP (3 November 2003).

The agricultural land use tax in Vietnam was based on Decree 031/SL (1951) and was designed as a tax on the benefits arising from land use. This has changed to be a tax on both land and land use benefits (ie a tax on 'property' and 'income') since the Ordinance on Agricultural Tax (1983) and the Tax on Agricultural Land Use Law (1993) were issued.

Under the existing law the tax is calculated as an amount of rice for a land class, but farmers pay an amount in cash dependent on the rice price determined each year.

The total amount of agricultural land use tax forms only a small part of the country's GDP and the total national budget (Table 1). The cost of collection of the tax has been large in relation to the revenue derived.

The World Trade Organisation (WTO) requires its 145 members to reduce agricultural taxes by 45% overall in the next 5 years (see WTO available at: <www.nhandan.org.vn/vietnamese.taday/kinhte/17kinhtethegioi_wto.htm>). At the end of 2003 China will reform agricultural taxes to help support farmers, and in line with Vietnam's entry to the WTO, overall agricultural taxes must be reduced in the medium term. This is a worldwide trend resulting from globalisation and integration with the WTO.

The implementation of Resolution 15/2003/QH11 and Ordinance 129/2003/ND-CP will result in most farm households and organisations either being exempt from paying agricultural land use tax, or having the amount they must pay reduced.

THE NEW POLICY

The tax exemptions include:

- agricultural land under the land limits for both farm households and individuals
- agro-forestry land under the land limits allocated to households from state-owned enterprises
- agricultural land, both under and above the land limits, for 'poor' households and households located in areas classified as having 'special difficulties'. Poor households are determined on criteria set by the Ministry of Labour, Invalids and Social Affairs. 'Difficult' areas are based on the Government's Poverty Alleviation Program 135.

Subject to 50% tax reduction are:

- economic, political, sociopolitical, socioprofessional, armed forces and administrative organisations which manage and use agricultural land
- land holdings in excess of the land limits which are used for agriculture and forestry by households and individuals, including land allocated by state-owned enterprises.

Implementation of the policy is from 2003 to 2010.

ISSUES

ADVANTAGES OF THE 2003 REFORMS:

- Improve the balance between taxation and income for all land users, most of whom are farmers. Farmers are the poorest class in Vietnamese society, and the majority of ethnic minority people and people in remote areas are farmers.
- Reduce the difficulties and inequities associated with a tax based on a standard rice quantity and where payments in cash are determined by the rice price. In poor-yield years or when the rice price is high, the tax collection is high relative to those years with a good harvest or a lower price. In some poor regions the rice price may be higher, and therefore the tax amount will be higher, than in richer regions for the same land class.
- The tax exemption is considered to be assistance to farming and an incentive for reinvestment in production, or to be used for savings and consumption by farmers.
- Generally, farmers have welcomed the removal or reduction of the agricultural land use tax. The reforms have been politically popular.

Table 1 Agricultural land use tax as a percentage of the GDP and national budget

Year	1996	1997	1998	1999	2000	2001
Percentage of GDP (%)	0.7	0.5	0.5	0.5	0.4	0.3
Percentage of national budget (%)	3.0	2.6	2.7	2.5	2.0	1.7

Source: <www.vietnamtourism.com/\pages/business_eco/sltk/nam2002/n_thunstyle.htm>

DISADVANTAGES OF THE 2003 REFORMS:

- Budget revenue of local governments will be reduced as all of the agricultural land use tax was collected and used by local governments.
- Tax exemptions may not help in natural resource management. There are anecdotal reports that some farmers are not using their land since they are no longer required to pay tax, and local authorities have no incentive to enforce productive land use practices.
- In areas of less fertile land and in the mountainous areas, farms tend to be bigger and farmers are more likely to have to pay the reduced rate of tax. In flat fields and deltas land productivity tends to be high and land areas are generally under the land limits, so the tax is exempted. Thus, there continues to be an inequity where users of less fertile land may pay tax while users of more fertile land may not.
- There is now a big gap in the amount of land use tax paid between urban and agricultural land users because the value of urban land is much higher in comparison with the value of agricultural land.

ISSUES REQUIRING CONSIDERATION

- Compensation of local governments (in agricultural areas) may be appropriate for the loss of agricultural land use tax revenues; otherwise, in order to cover their budgets, local governments may ask farmers to pay additional fees.
- A policy may be needed in relation to the management of land resources so as to avoid situations where farmers let land lie fallow.
- Agricultural land use tax reductions and elimination provide very limited income relief so poverty alleviation should still be considered under other agricultural and rural development policies.
- If poor farmers have sold, leased or transferred their land already without recording changes in the Red Book (a common practice), this policy does not help them, and the people who farm their land may be richer but not officially recorded as the land users.
- In the longer term a new policy on taxing of agricultural land use will be needed after 2010. The use of rice quantities and payments dependent on the rice price is inequitable in relation to either income or the value of the land used.
- Farm communities may wish to pay for community services which relate to the value of land but which cannot be provided without the collection of taxes.

- In the years between 2003 and 2010 there is a window of opportunity for the government to give consideration to policy regarding market-based land valuation.

RECOMMENDATION

In order to reduce the inequity in tax collection between urban and agricultural land, tax should be calculated on a fixed percentage of the land value rather than land class. In this way the tax becomes a 'property' tax rather than a tax on the benefits of land use (an 'income' tax).

To implement such a recommendation there is a need for new regulations on the value of land. If land value is based on the market price, there needs to be an active and unrestricted land market so that the market price can be used to determine land values. If the land value is to be determined by the government, it should change based on changes in the market price of land. In addition, the tax rate will need to be adjusted to the new set of land values. There is likely to be a significant administrative cost in implementing a system of valuing land.

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INTEREST RATE POLICY CHANGES

PURPOSE

To inform policy makers and others about some of the possible consequences of the major changes made to interest rate policy on 30 May 2002.

BACKGROUND

Changes in interest rate policy were implemented on 30 May 2002 as a result of Decision 546/2002/QD-NHNN of the Governor of the Central State Bank of Vietnam. This Decision has allowed new arrangements for the direct negotiation of interest rates with borrowers for commercial credit contracts in Vietnamese *dong*. While this will result in freer interest rate markets, the rural economy may suffer some disadvantages from this new policy.

THE PREVIOUS SITUATION

- The banking system in Vietnam has operated at both state and commercial levels, with commercial banks being business organisations operating in the monetary sector.
- Since 1988 the State Bank has regulated interest rates charged by commercial banks. In reality, commercial banks are state-owned banks and therefore have been required to sponsor and support government programs.
- Many sectors/programs receive government support by way of favourable interest rates. This has meant that commercial banks have been unable to operate as market-oriented businesses.
- These policies have meant that the credit markets are underdeveloped.
- Loans for agricultural households are generally small and usually for short to medium terms, and are for production purposes and usually not for investment reasons (see Table 1 below).

MAIN CONTENT OF THE POLICY (DECISION 546)

- Commercial banks can negotiate directly with customers when setting interest rates for commercial credit contracts in Vietnamese *dong*.
- The bank can determine interest rates based on the supply of and demand for capital in the market, and take into account the level of trust or confidence they have in the customer or customer group.

- Customers can include Vietnamese legal entities and individuals, and foreign legal entities and individuals operating businesses in Vietnam.
- The interest rates set by the Central State Bank are to be considered as a reference and indicator of current market interest rates. Commercial banks are allowed to set varying interest rates, loan types (eg short-, medium- or long-term) and loan amounts for each individual customer.
- The requirement for mortgaged property has been reduced, especially for farmers.
- As constraints on loan amounts have been removed, farmers can now borrow larger amounts without the need for mortgaging assets, as long as they can prove credit solvency and their project is accepted by the bank.
- The new policy should result in better conditions for farm households and commercial farms to be able to borrow the capital they need to expand their production, according to their individual financial resources.

ISSUES

The new policy has a number of possible advantages and disadvantages, especially for the rural economy.

ADVANTAGES INCLUDE:

- The markets determine the interest rates, which are therefore no longer controlled by direct regulation of the government.
- This liberalisation of interest rates will lead to the development of credit markets that are appropriate in a market economy.

POSSIBLE DISADVANTAGES OF THE NEW POLICY ARE:

- Agricultural production is risky. Commercial banks will therefore tend to lend to customers who present less risk to the bank, and this has the potential to affect lending to farmers and restrict their financial resources and projects.
- Rural sector banks will have the opportunity to transfer capital to non-rural sectors where profits may be higher. Larger loans generally have lower interest rates; for example, the Vietnam Bank for Agriculture and Rural Development (VBARD) set different interest rates as of 8 August 2002 as follows:

Table 1 Amount of the last three loans borrowed by households prior to 2000 (VND million)

	Ha Tay	Yen Bai	Binh Duong	Can Tho	The north ^a	The south ^a	Whole country ^a
Per household	9.86	4.60	11.47	9.28	7.69	10.33	8.97
VBARD loans	7.49	4.25	10.58	8.56	6.37	9.50	7.82

^a Calculated as the average for the two provinces in the north and south and for the whole country
Source: ACIAR Project ADP 1997/092 survey of 400 households in 2001

- for loans less than VND10 million the interest rate is 1% per month
- for loans less than VND50 million the interest rate is 0.9% per month
- for loans greater than VND50 million the interest rate reduces to 0.85% per month.

Generally, larger loans are found in the non-agricultural and non-rural sectors.

- Following liberalisation the interest rate has tended to increase and reach a consistent level for the whole economy. Therefore, the agricultural and rural sectors, with generally smaller profits, face disadvantages compared with other sectors; for example, the interest rate for short-term loans before 31 May 31 2002 was 0.9% per month, but was increased to 1% per month from July 2002.

The Decision is a major policy change for the State in the management of capital resources. The direct negotiation of interest rates with individual customers represents a substantial change in the way banks do business. Commercial banks will change to operate more like true market-oriented business organisations.

RECOMMENDATIONS

The effects of the new policy on the rural economy should be carefully monitored to see that the requirements for credit in the rural sector are met so that its growth and development is not restricted through limited availability of credit.

Monitoring could include:

- tracking of the distribution of bank loans into the rural and non-rural sectors and comparison with distribution prior to the Decision
- monitoring of loan amounts and interest rates made by VBARD and other commercial banks to both household farms and larger commercial farms.

Facilitation could be provided to farmers when making loan applications to banks through the agricultural extension system.

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AGRICULTURAL PRICE POLICIES

PURPOSE

To outline the importance of price policies in a market economy, and discuss trends in the Vietnamese Government's application of agricultural price policies.

BACKGROUND

In a market economy price is considered an important and efficient signal for resource allocation. It is also a major factor in assessing the opportunity cost of commodities and services. Under the market mechanism price is the engine which stimulates not only production but also other economic relations in order to meet consumer demands. Based on the price, scarce resources of a society will be used in whichever industry is the most profitable.

The price of agricultural products is significant not only in economic terms, but also from a political aspect because it affects the income of farm households, the prices paid by consumers and export earnings. The income of almost half the world's population is dependent on agricultural production, which is affected by the prices of agricultural products.

In a market-driven economy price is considered to be a major mechanism of resource allocation, helping to answer questions such as:

- What commodity and services should be produced?
- How should they be produced?
- How should benefits be distributed between production factor owners?

ISSUES

In developing countries where multiple market failures are common, the price mechanism does not always operate well. In the presence of market failure the market price does not guarantee that targets of both efficiency and equity will be obtained. In Vietnam government intervention on price has been used to: i) increase the output of agricultural production; ii) stabilise the price of agricultural products; iii) guarantee national food security; and iv) provide food and other raw materials for an industry.

The risks associated with intervention in market price mechanisms include distortion of market prices and misallocation of resources.

The requirements of AFTA and entry to the WTO will result in the lowering or removal of many price and non-tariff interventions

to agricultural input and output prices. Enterprises and domestic producers will face challenges in obtaining a level of competitiveness that will enable them to compete effectively in global markets.

RESEARCH FINDINGS

LIBERALISING POLICY TRENDS

Since the *doi moi* policy was introduced in 1986 Vietnamese agriculture has generally reached higher production levels. The price of agricultural products has increased (or decreased) to the level of international prices, and the price of production inputs has also moved to more closely reflect world market prices. The price policy of the government has provided more equitable prices for consumers and reduced the impact of crises that have occurred in the world market, especially for sensitive commodities such as food. In the rice market, for example, the government has applied measures to control price such as quotas and regulation of the number of exporters.

Domestic policy has focused on the provision of subsidies for material transportation, as well as on tax reduction and exemption, to encourage the development of trade in the mountainous areas in order to reduce the price gap between regions. Other policies have been related to determination of the floor price for rice, encouragement of exports, establishment of a fund for price stabilisation, and support for farmers to sell agricultural products.

Since 1989 the Vietnamese Government has implemented significant steps to liberalise trade. The monopoly previously held by state-owned enterprises in export and import

activities has been terminated. As a result, in recent years enterprises managed by provincial or district authorities and private companies have entered into export and import activities. Today, most agricultural products are generally not affected by non-tariff barriers, with the notable exceptions of rice, sugar and fertilisers.

The government has implemented a trade liberalisation policy for rice exports. As a result, in 1997 the number of rice exporters was 23 companies, increasing to 33 in 1998 and 47 in 1999. Rice export quotas also increased year by year and were able to be adjusted. For the sugar industry, imports are controlled by a quota system and the government determines the number of importers. In Vietnam there is a limited regional area which has international competitiveness in sugar production. The removal of sugar quotas and other non-tariff barriers in the next 10 years presents a challenge not only for sugar companies but also for farmers who produce sugarcane.

FARMER PERCEPTIONS OF PRICE POLICIES FROM SURVEY DATA

- Services which have been traditionally performed by agricultural cooperatives, such as irrigation and seed supply, are still the dominant activities of cooperatives and were rated as 'good' by farmers. For services not traditionally performed by cooperatives and where the private sector can be involved, such as veterinary services and sale of produce, it is likely that there will be competition between cooperatives and private sector organisations.

- Inputs and materials supplied to farmers came from different sources (state-owned and private companies, cooperatives, traders and exchange between farmers). Supply to households from the agricultural cooperatives increased between 2000 and 2001. The agricultural cooperatives sold inputs to farmers at lower prices in comparison with other sources (traders and private companies), even when taking account of the interest rate levied for late payment.
- More farmers in the northern surveyed provinces (Ha Tay and Yen Bai) assessed the price of seeds as 'high' in comparison with southern farmers (in Can Tho and Binh Duong). Most farmers believed that the prices of fertiliser and pesticides were high. Generally, farmers assessed that wages were at an 'average' level, but more households in the south said that wage rates were 'high' or 'very high'.
- Many farmers believed that they would invest more on inputs such as seed and fertilisers if the prices of inputs decreased. This suggests that a financial constraint is one of the barriers to increased agricultural production on small household farms in Vietnam.

POLICY RECOMMENDATIONS

- As information is important for household decision-making in a price-responsive economy, there is an opportunity for government to focus on market research as well as price forecasting, and provide farmers with sufficient information on demand, supply and prices of agricultural

products in both the domestic and international markets. Helpful information about where and what to produce (eg products with high quality, low production cost and high comparative advantage) could also be provided.

- Where advantageous, the government may find ways to change policies to strengthen cooperatives so that they can serve farmers not only in the supply of production inputs but also by selling their outputs. Raising the efficiency and effectiveness of cooperatives may mean that they can have a more effective role in the sale of products and use their marketing skills to achieve better and timelier sales, possibly through a wider use of contracts.
- As price subsidies and other forms of support distort the real expression of comparative advantage and lead to inefficient use of resources, such mechanisms should be gradually reduced and removed in a way which allows for the necessary resource adjustment to take place. A focus on providing for macroeconomic stability and a stable set of international trading relationships will greatly enhance the domestic stability of prices and allow necessary adjustments to take place.

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AGRICULTURAL LAND POLICIES AND POVERTY

PURPOSE

To outline land policy changes that will further encourage the development of the rural sector and contribute to the alleviation of poverty.

BACKGROUND

Land resources are one of the key determinants of poverty. Land is a primary means of generating a livelihood, and a main vehicle for investment, accumulating wealth and transferring wealth between generations. Over the last two decades the Vietnamese Government has adopted land policies to move from a collectivised state-controlled agricultural production system to one based on individual farm households in the market place. New land policies have granted land use rights to individual farmers, which, given the property rights attached to land use rights, approximates land ownership. Land policies can affect: i) the household's ability to produce for their subsistence and generate a marketable surplus; ii) farmers' socioeconomic status; and iii) farmers' incentives to invest in using land in a sustainable manner.

Vietnam is still predominantly a rural country, and the rural economy will play an important role in the future industrialisation and modernisation of the national economy. During recent years poverty has been reduced at an impressive rate, from 58% of the population in 1993 to 29% in 2002 (Asian Development Bank et al 2004). However, poverty is concentrated in rural areas, with urban households spending 78% more than equivalent rural households (Asian Development Bank et al 2004). A large proportion (80%) of the poor are farmers who lack skills and technical know-how, and have low accessibility to credit and other production resources. Land policy that enables and encourages development of the rural economy is crucial.

LAND POLICIES AFFECTING DEVELOPMENT OF THE RURAL ECONOMY

Although the new land policies create a favourable environment for growth of the rural economy, some policy bottlenecks still exist:

- Of farmers who operate large-scale commercial farms in Thai Binh, Ha Nam, Nam Dinh, Ninh Binh, Ha Tinh, Yen Bai, Tra Vinh and Dong Nai provinces, 75%

reported that they were allocated land in 1988 and now there are only 4–5 years left on their land use certificates. This time is too short for a sustainable long-term investment in land.

- Of large-scale farms, 65% exceed the ceiling level on land holdings. The government has issued an inter-ministerial circular on issuing certificates to large commercial farms to enable farmers to obtain credit and market access. However, the process of issuing land certificates in general, and to large-scale commercial farms in particular, is still slow, and this acts as a disincentive for farmers to operate farms in the changing market environment.
- Although on-farm decision-making has generally been liberalised, in some provinces where strong traditional cooperatives exist, crop choices in land use are still controlled by the cooperatives or district authorities to achieve production targets set at a higher government level (eg VND50 million/ha). This inhibits farmers from optimising their objectives in accordance with their needs, their resource endowment and market demands. Some crop choices set by outsiders can face a market risk that may have farmers fall below the poverty line again.
- Information about market transactions is still limited and this sometimes causes land markets to be inefficient. An inefficient land market will hinder reallocation of land resources in accordance with adjustments in the rural and urban economies.
- In some northern provinces, especially in the Red River Delta, land exchanges have been administratively directed under the close supervision of local authorities to address problems of land fragmentation. This can create greater risks for farmers; for example, after land redistribution some farmers may be left with all their land holdings being infertile or prone to flooding.
- A considerable number of farmers who are only engaged in rural cottage industries still keep land for farming. All farming activities in these cases are carried out by hired labour. Of these farmers, 75% reported that, although making a loss (estimated at 25–30%) from their farming activities, they still wanted to keep land due to the uncertainty associated with their rural off-farm industries.
- With the high rate of urbanisation and industrialisation taking place, more agricultural land resources will be converted into industrial land, leaving many more farmers as landless farmers. For example, land funds in Bac Ninh and Hung Yen provinces that were provided for industry zoning up to the year 2020 were fully allocated by 2002. Farmers with money from land compensation often cannot run their non-farming activities in a sustainable manner since they lack the technical know-how needed to run the businesses or to be employed by entrepreneurs.
- Land is not the single determinant of poverty. More effort should be made to help the poor improve their farming skills and access credit and markets, so that they can effectively use their land and labour resources.

POLICY RECOMMENDATIONS

1. The term of land use rights is still short (20 years for cultivated land), and that can create a degree of land insecurity and inhibit investment in land improvement. There is a need to critically look at the term of land use rights with a view to lengthening it.
2. The policy on land ceilings inhibits productive farmers from consolidating and investing in land. The ceiling policy should be reviewed, taking into account crop choice, technology and the socioeconomic situation of each region.
3. Further policies to encourage and permit land use flexibility are needed. Individual farmers should be able to make crop choices based on their own objectives and resource availability.
4. An institutional framework to facilitate transferability and security of land use rights is necessary. This framework should recognise the reality of the land market and provide an efficient mechanism for the land market to operate. It should also specify the rights and obligations of people involved.
5. Land exchange to address land fragmentation would operate better in the market mechanism within a recommended institutional framework, so that people involved in land exchange can benefit from their transactions based on agreed market prices.
6. There is a need to help farmers who have left their land for other non-farming businesses to have access to markets, and to provide information on markets and technologies for their new businesses.
7. More training is needed to help farmers in the expanding urban and industrial areas obtain better skills to enable them to be engaged in non-farming activities if they leave their land because of urbanisation and industrialisation.
8. Access to credit and market information is essential. Credit provision should be closely linked with extension services to ensure that credit is efficiently used to help farmers generate income in a sustainable manner. Participatory approaches to extension should be adopted to involve all farmers and farming communities in identifying their own problems and solutions. The solutions should then be implemented using local resources with considerable support from the public sector.

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HOUSEHOLD INCOMES AND INCOME DIVERSITY

PURPOSE

To comment on the relationship between farm size and the value of farm production, and the diversity of sources from which Vietnamese rural households' incomes are derived. The importance of off-farm income in raising overall agricultural household income is highlighted.

BACKGROUND

Vietnam has approximately 11 million small household farms, many of which consist of fragmented land holdings that total less than one hectare. There is a diverse range of on-farm activities in many households, including multiple crops, livestock and aquaculture. Off-farm activities also provide a substantial component of household income for many households. However, many other households are almost totally dependent on income from crop and livestock activities. Improvements in rural living standards during 1993–98 were driven predominantly by a diversification in on-farm activities (World Bank 2000).

ISSUES

The need to increase agricultural productivity (and hence farm income) is central to the debate on rural development in Vietnam. Agricultural productivity involves both land and labour productivity. The combination of small farm sizes and a high proportion of the population involved in agriculture means that labour productivity is low, indicating a potential for productivity growth as labour moves out of agriculture or, alternatively, combines agriculture with off-farm work.

Rural poverty is a significant problem and the income gap between rural and urban areas is increasing. Poverty is concentrated in rural areas, with an estimated four-fifths of the poor working mainly in agriculture. Earning off-farm income is perceived as one way that small households can escape the small farm poverty trap, and is one of the major reasons for differentiation between farm households in Vietnam (Luong and Unger 1999; World Bank 2003). However, households who are unable to make a living from the land find few opportunities for stable income generation off the farm. There is an urgent need for reforms to stimulate greater off-farm employment.

Both diversity of farm production and diversity of income sources can be viewed as risk reducing strategies used by small landholders. However, risk plays a role in restricting the land use choice of poor households, whose livelihoods are extremely vulnerable to both household-specific (eg illness) and community-wide shocks. The risk of failure associated with on-farm investments or new enterprises can deter subsistence farmers from expanding their economic base or changing their farming activities. Furthermore, when marketing institutions and infrastructure such as transport are not well developed, a shift to non-food crops can make small farmers particularly vulnerable.

RESEARCH FINDINGS

The results reported were calculated from survey data of 400 farm households in Ha Tay, Yen Bai, Binh Duong and Can Tho provinces in 2001. Estimates were made of the percentage of household net value of production (NVP)¹ from a range of sources. Off-farm income was also estimated.

- There was a substantial inequality in land area farmed both on a household and per capita basis. For example, among the households surveyed, 80% of the population/households farmed only 50% of the land in Ha Tay and 34% in Yen Bai.

- Small farm size and low asset value were linked to households classified as being in the 'poor' socioeconomic group². For example, poor households in Ha Tay had on average approximately half the land area of households classified as 'above average', and in Yen Bai poor households had only approximately one-fifth the land area of above average households.
- Total NVP from agricultural activities was related to farm size and land type, but other factors such as assets, education, family labour and measures of land fragmentation significantly affected the NVP in some provinces.
- Households were engaged in a wide range of farm production activities in all regions, but more so in the northern provinces where the percentage of production from livestock and aquaculture activities was generally higher. However, it is clear that farming activities are a key component of production for these small farm households (Figure 1). Aquaculture and forestry generally provide only a small proportion of production value (although it is high for some individual households).
- Income from off-farm activities included income from handicrafts, the provision of services, and wage and casual labour. Handicraft production value was generally very small. In all provinces off-farm earnings made a substantial difference to both average and median net values

¹ NVP is the total value of household production from agriculture, aquaculture and forestry, including produce consumed by the household, *minus* the cash costs of production (ie the cost of family labour is not deducted).

² Prior to surveying, households were classified by commune authorities into socioeconomic groupings: 'above average' (ho giau), 'average' (ho trung binh) or 'below average' (ho ngheo).

of household production (Figure 2). The increase in median values indicates that off-farm employment was important in raising the incomes of the poorer 50% of households.

- Generally, there was a perception among households that there were more opportunities for off-farm work than 5 years previously.

POLICY IMPLICATIONS

The research work undertaken in the project was not sufficiently broad in scale to make policy recommendations, but a number of policy implications are given below.

Off-farm income is important for rural households. Policies that foster opportunities for rural people to access off-farm work will be important in reducing rural poverty. Such policies will include those that:

- improve education levels of rural people
- relax restrictions on labour movement for people seeking off-farm work
- encourage the establishment of small to medium rural enterprises in rural areas.

Small farm size and low asset value were clearly linked to households classified as being in the poor socioeconomic group. These data are concerning, and give some insight into the challenge of Vietnam's small farm problem. Policies that encourage adjustment in the rural sector and the movement of people into sectors other than agriculture are necessary.

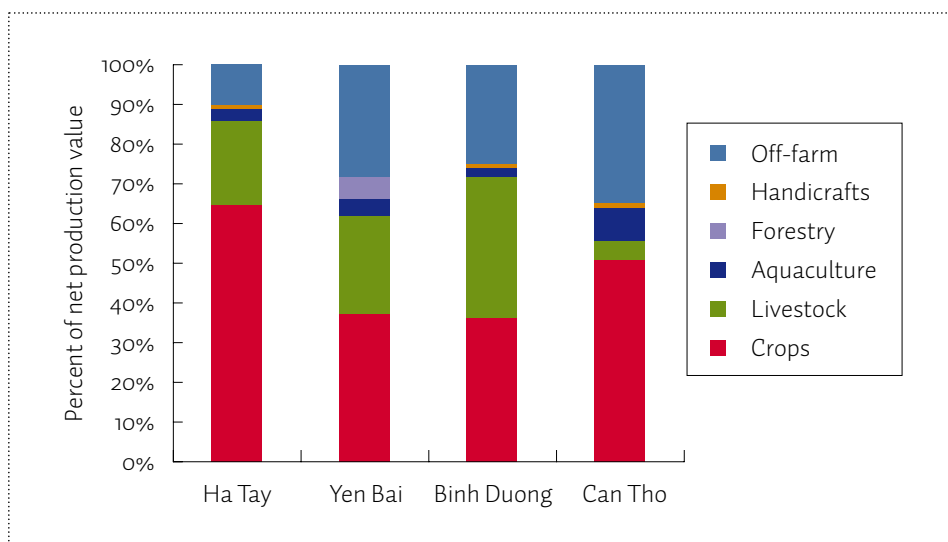


Figure 1 Percentage of total net production value from different sources for surveyed households in four provinces in Vietnam: Ha Tay (n = 97), Yen Bai (n = 89), Binh Duong (n = 84), Can Tho (n = 89)

Land fragmentation was positively related to the NVP of households in Yen Bai province. In this province land fragmentation is not a disadvantage, possibly because of the nature of agriculture in mountainous regions, where a larger number of plots will reflect many different land types and crop choices. The results of these analyses suggest that care needs to be taken in some areas with policies that encourage the consolidation of land holdings.

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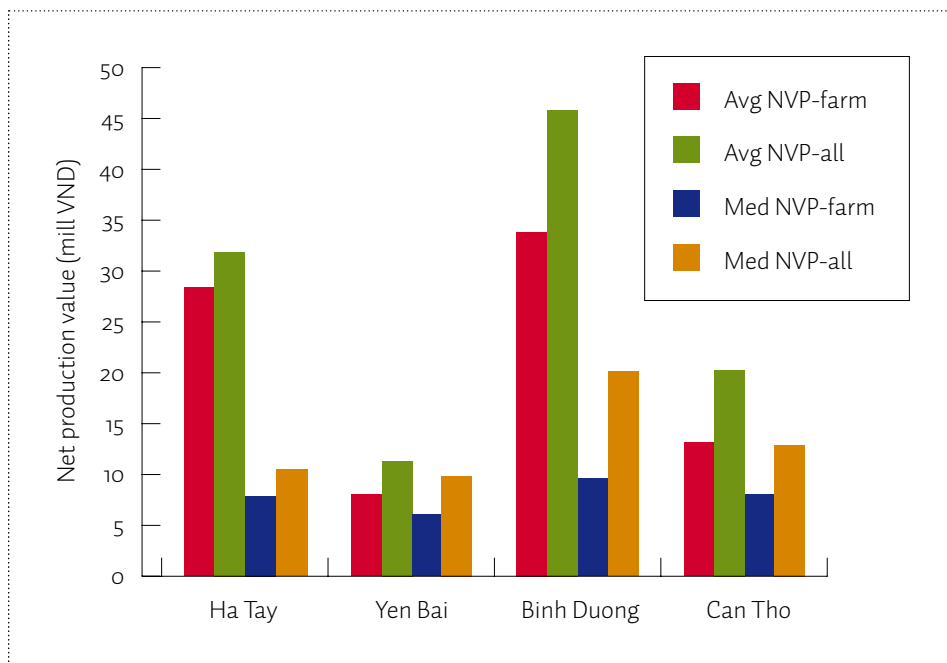


Figure 2 Average and median net value of farm and total production for surveyed households in Ha Tay (n = 97), Yen Bai (n = 89), Binh Duong (n = 84) and Can Tho (n = 89)

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LAND MARKETS AND AGRICULTURAL DEVELOPMENT

PURPOSE

To provide an outline of what may happen to land markets as the process of economic development occurs in Vietnam. Such development includes rising wages, changes in output prices and reduced transaction costs in the land market.

BACKGROUND

The 1993 Land Law built the foundation for development of a market for land use rights (LUR) in Vietnam by providing increased security of tenure over land, facilitating access to credit and making LUR tradeable.

Considerable official restrictions still exist for LUR transfers for agricultural land. Official decrees restrict the circumstances under which, and to whom, LUR can be transferred. However, following the 1993 Land Law many researchers have reported that transfers of agricultural LUR are occurring. It has also been reported, both before and after 1993, that many land transfers occur illegally. The reasons given for these illegal transactions include the costs associated with registering LUR transfers, time-consuming and cumbersome procedures, unclear regulations, and

opportunistic rent-seeking behaviour in near-urban districts and along newly constructed inter-regional roads.

During 2001, 400 farm households were surveyed in four provinces in Vietnam. Details were sought about the involvement of households in the LUR market, as well as evidence of land accumulation and consolidation.

ISSUES

Land rental markets, with typically lower transaction costs and requiring little capital outlay, operate more freely than land sale markets in many developing countries.

Various authors argue that, as there is little empirical support for the notion that large farms are more efficient than smaller farms in areas of unmechanised agriculture, land should, theoretically, pass from large to smaller family-operated farms, although they note that this seldom occurs. Deininger and Jin (2003) also argue that land transactions should favour the small producer with good agricultural ability.

Many countries undergoing transition, and facing situations of multiple market imperfections, place restrictions on the free operation of the land market because of the risk of

land becoming concentrated in the hands of larger, wealthier farmers, and concerns about potential negative effects on both productivity and equity (Deininger and Jin 2003).

However, the land market, and an active rental market in particular, has been recognised as playing a large role in giving access to land to the more productive farmers in developing countries (Deininger 2003).

RESEARCH FINDINGS

In the research undertaken for the ACIAR project land markets were investigated in two ways:

1. By analysing land transactions that had taken place since 1993 in the surveyed households.
2. By modelling household farms in a village context and investigating the effects of various external factors (eg wage rates) on land transactions.

Results from the analysis of land transactions since 1993 were that:

- There was an active market for agricultural LUR, especially in Ha Tay province, where the number of transactions had increased markedly since 1997.
- Land transaction activity varied substantially between regions.
- There was a clear demand for rental land, particularly so in the north of Vietnam.

- In Ha Tay province a similar percentage of households from all socioeconomic groups were involved in the LUR market, but wealthier households held a higher percentage of the total land area transacted.

Results from the modelling work were that:

- An increase in wage rates leads farmers to rent-out more land because crop production becomes relatively less profitable in comparison with working off-farm. If wage rates and opportunities for off-farm work increase significantly, some farmers in a village may rent-out land and/or leave farming.
- Farm profits decrease significantly with decreases in the output prices of paddy crops, encouraging farmers to want to leave farming. As the prices of rice and corn decrease farmers tend to rent-out more land, but the total area of land transacted decreases because land exchanges decrease. This result illustrates the problem facing agricultural development in the north of Vietnam where farmers depend heavily on the cultivation of paddy crops.
- The amount of land rented-in and -out decreases with increasing transaction costs in the land rental market, leading to a reduction in the number of households who participate in the rental markets.

POLICY IMPLICATIONS

- Encouraging development of off-farm work opportunities, together with a level of education that allows participation in the off-farm workforce, is a key method of raising farm family income levels.
- Land availability affects the ability of households to rent and buy land. Households will not rent-out or sell their LUR unless there are opportunities for them to move freely, and without overwhelming financial risk, to other regions and employment.
- An active LUR market, as appears to exist in Ha Tay, will tend to concentrate land in the hands of the more wealthy farmers. This will assist with the commercialisation of Vietnamese agriculture, but will inevitably raise poverty and equity concerns while off-farm employment opportunities in rural areas remain low.
- As the prices of paddy products fall, land transactions will decrease if profitable alternatives are not available. Agricultural policy allowing farmers the freedom to cultivate alternative crops, especially cash crops other than rice, is desirable.
- Reducing the costs of land transactions (such as those associated with the sale and purchase of LUR) would enhance the land market and encourage adjustment in the agriculture sector.

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