This paper, prepared by Dr Adam Fforde, addresses three goals: (1) it reviews proposed rural development strategies and reports on constraints to their implementation; (2) it reviews the structure and ethos of the Ministry of Agriculture and Rural Development (MARD), and assesses the consequences for MARD’s capacity to implement rural development strategies; and (3) it summarises various wider issues relating to Viet Nam’s overall development path, further details of which can be found in the Appendices. Policy recommendations are suggested.
1. INTRODUCTION

1.1 Aims and Overview

This paper addresses three goals:

1. It reviews proposed rural development strategies and reports on constraints to their implementation.
2. It reviews the structure and ethos of the Ministry of Agriculture and Rural Development (MARD), and assesses the consequences for MARD’s capacity to implement rural development strategies.
3. It summons various wider issues relating to Vietnam's overall development path, further details of

### Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>DARDs</td>
<td>Departments of Agriculture and Rural Development</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>MARD</td>
<td>Ministry of Agriculture and Rural Development</td>
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<td>ODA</td>
<td>Overseas Development Assistance</td>
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<td>RD</td>
<td>Rural Development</td>
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<td>RDS</td>
<td>Rural Development Strategy</td>
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<td>SOE(S)</td>
<td>State Owned Enterprise(s)</td>
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<td>VCP</td>
<td>Viet Nam Communist Party's</td>
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### APPENDICES:

1. Some Evidence - Results of a Field Trip
2. Notions of ‘Governance’ and ‘Civil Society’ Applied to Vietnam’s Rural Institutions and the Role of the State
which can be found in the Appendices.

Its main policy recommendations are as follows:

1. Attainment of equitable, rapid and sustainable rural economic growth requires a major re-orientation of the underlying philosophy determining Rural Development Strategy (RDS). The main issue is one of cognition, and secondarily recognition of the relationship between changes in cognition and the political economy that underpins the incentive structure. This is increasingly well understood in some areas. It is the 'meat and drink' of current reform efforts.

2. Existing dominant Rural Development (RD) policy has a 'vision' of RD within which the dominant economic agencies are: family farms, State Owned Enterprises (SOEs) and cooperatives. In this view, which is not unchallenged, new small-scale private businesses are viewed as, at best, transitional forms to be tolerated, rather than a true and normal element of RD. This leads to a conception of rural development support activities - a RDS - focused upon provision of services and resources to prioritised units, mainly SOEs but also cooperatives, with farming families viewed as largely passive suppliers of materials to them for marketing and export. This model is economically inefficient and should be discouraged. However, it underpins much but not all state rural development activities.

3. Various provinces and elements of central policy-making bodies, by virtue of their position within the process, have moved ahead in recognising the importance to RD of creating an economic environment around family farms that provides them with stable and coherent marketing channels. This has political economy implications, most importantly in enhancing local democracy and gaining control over economic rent-creation. With regard to the creation of effective marketing and processing activities, when SOEs either fail, or operate at prohibitive cost in terms of subsidy or reduced local value-added, then new entrants are encouraged. These are usually small-scale, thus generating high levels of employment. They are also 'local' so that profits retention and expanded processes of production occur locally. They are economically efficient, as they operate with hard budget constraints. But they lack economies of scale and suffer from weak market power when confronting foreign traders. For such localities, rapid processes of learning are occurring as local state power - via credits, extension services, zoning and infrastructure spending - is exercised to support a rural economy where SOEs do not dominate the space around family farms. This is the minority position, but is far more successful and so is gathering strength. It should be supported.

4. Insofar as MARD is required and able to support rural development in the second rather than the first of the two above directions, it needs to operate along a number of axes. This will not be possible without certain profound changes in MARD's underlying ethos towards the second of the two above positions. Under current conditions, this of itself will not ensure that 'conservative' localities will conform. These axes are:

   - Establishing the rationales for the economic successes of the second 'model', and the relative failure of the first, and developing appropriate arguments to present to policy-makers.
   - Reducing so far as is possible the incentives, through various entry barriers, credit plans, zoning etc that create economic rents and so discourage local initiatives that explore the opportunities offered by the second model. Recent developments in the fertiliser and rice trade sectors point in this direction. This means, however, that the overall strategy of cash crop and other marketable surplus developments to be integrated, as they are in some provinces, into a view of the political economy consequences - what rents are created, and to what extent do these encourage continued implementation of the SOE-prioritised strategy?
   - Developing guidelines for local authorities to ensure that cooperatives are genuinely representative of their members. This could be done by requiring popular endorsement of their development plans under appropriate conditions.

Without these changes and the ability to implement such measures, the dominant RDS effectively requires MARD to operate in a way that constrains rural development.

Ongoing discussions amongst Vietnamese policy-makers can be understood in terms of still unresolved differences regarding the nature of rural development, the roles to be played by key actors and the overall nature and thrust of official policy. This paper looks at these in terms of two broad alternatives, and assesses MARD's capacity to implement each in turn. These are referred to as the 'priority to SOEs and cooperatives' and the 'open playing-field with state regulation' models. MARD, as it presently exists, is a far more effective implementer of the first model. However, under Vietnamese conditions, this model can already be seen creating major problems, not only in terms of its own internal logic and coherence, but also for farming families seeking to exploit market opportunities through stable marketing structures.

This ongoing policy debate finds itself, in 1998, facing certain conjunctural challenges:
1. Rapid growth in non-agricultural incomes at farm level, where the pattern of investment driving the rapid growth rates has seen farming families accumulate fixed, circulating and 'soft' capital in services, primary processing and other income-generating activities. Thus, less than 50% of farming family net incomes now (1996) come from primary production\(^1\). The farming family base of the rural economy is showing a dynamism and capacity to accumulate that is not matched by its environment.

2. The economic slowdown, which commenced in 1995 for domestic reasons\(^2\), has been worsened through 1998-99 by a combination of disenchantment on the part of overseas investors and the regional financial crisis, leading to a grossly over-valued exchange rate and slower growth, threatening major macro-economic difficulties. The SOE-priority policy stance was re-affirmed at the early 1998 4th Plenum, which also stated a need to pay far greater attention to rural development. Resource constraints are therefore biting at a time when state priorities remain subject to debate.

Rural institutions in Viet Nam at the time of writing (early 1998) are in a state of flux. Official policy is subject to debate, and at the same time farmers and commercial organisations are also shifting their methods of Organisation. In Viet Nam, according to some authors, institutional change has largely arisen as the result of processes that combine local experimentation with central direction. As of 1998, this means that the structure of policy debates can be seen on the ground in terms of diverging local practice. This is most striking in the case of the tensions between the two basic 'Models' of rural development strategy referred to above.

Viewed 'in the large', it is this dynamism and flux that is the most basic characteristic of Vietnam's rural institutions, and their associated national support bodies, such as MARD.

Policy debates remain significant and in many areas unresolved. Reflecting the pragmatic and highly politicised nature of change, the report stresses the question of cognition. Since institutions have tended to arise spontaneously (at least to a significant extent) in recent Vietnamese history, reflecting the self-creativity of the base, this is an important influence on rural institutional change\(^3\). It has important implications for the role that external assistance can play:

1. Since these are Vietnamese processes, and Viet Nam is a country with sophisticated and subtle cultural roots, ownership of the process will remain Vietnamese. Vietnamese perceptions of the morality and nature of state action are different from each other, and from those of many Western authorities.
2. Similarly, as local variation is very great, local ownership within Viet Nam is also a fact of life that has to be considered. Even within a single province, different districts will implement their own interpretations of high-level instructions. These higher levels will also differ - this comes out very clearly in the experiences of local communes in implementing the new Cooperative Law (see Appendix 1).

1.2 Rural Institutions - Basic Conclusions

The basic conclusions of the report are as follows:

1. The market economy, dating from 1988/89, has permitted the strong development of the family economy. Although still constrained in many ways, at the family farm level production decisions are based upon profit maximisation decisions that lead to economic efficiency. At this level, institutions have emerged that are effective and efficient. However, at farm level the share of wages in total incomes remains low, and the development of non-farm employment limited\(^4\). Questions arise as to why this is the case, after a decade of rapid economic growth.

2. The development of economic institutions above the family farm is a very different matter.

3. Two different development models, with very different implications for state policy, are under discussion in Viet Nam and can also be observed in practice at a local level.
   - the 'priority to SOEs and cooperatives’ model, which is very common in MARD.
   - the ‘open playing-field with state regulation’ model.

4. The first, dominant, model has the closest links with the past, and is therefore linked to maintenance of the status quo; in this sense it is conservative. Its dominance is shown by the following:
   - MARD remains unreconstructed, with its philosophy and organisation based upon service delivery, and
upon support to SOEs.

- SOEs, which with very few exceptions 'pressure the population' (see below), remain, within the dominant model, the officially favoured vehicle for mobilising resources in the economic environment around family farms. This follows the position with regard to development of 'relations of production' in a 'socialist direction'
- Whilst there is a long way to go, key markets, such as those for rice and fertiliser, now operate more efficiently, although they are still dominated by SOEs. This suggests that economic efficiency can be increased in sectors dominated by SOEs, through increasing and improving the nature of competition in such markets.

5. The roles played by cooperatives left over from the 1980s in the rural economies of the north and centre are probably closely connected to the rural unrest that emerged in the early months of 1997 (see below). Their activities appear in fact to have been greater than had been previously understood, providing a platform for the creation and appropriation of local economic rents. The new Cooperative Law, whilst seeking to improve the position, is being included in the 'active' policy position taken with regard to the need to strengthen production relations (see below) in a socialist direction. Evidence, including that from the micro level, suggests that this will mean that cooperatives 'of a new type' will not properly reflect farmers' interests.

6. At present, there is no evidence that dominant policy-makers believe that the growth of commercial activities in the economic space around the family farms - especially processing - should be carried out by new entrants from non-state sectors; rather, state policy is being directed to ensuring that this space is to be (as it has been in the past) dominated by SOEs.

7. The combination of new-style cooperatives and preference for SOEs implies, since this sectoral priority dominant official policy, the need to create methods of reducing the costs in terms of economic efficiency and growth.

8. It follows that the economic efficiency of the economic environment around the family farm is likely to be well below what should be possible, slowing growth and creating major risks for donors in that resources channelled through the prioritised channels will, by adding to economic rents, support inefficiency.

2. INSTITUTIONS, POLICY IMPLEMENTATION AND THE NATURE OF RURAL DEVELOPMENT

2.1 Overview of Viet Nam's Rural Institutions - Recent Trends in Rural Social Organisation

2.1.1 The Formal Structure and its Relationship to the Informal

Viet Nam possesses the formal structures of a well-developed RDS. Since 1995, the amalgamation of Ministries into the Ministry of Agriculture and Rural Development has created a peak body responsible for coordinating RDS. MARD possesses an internal structure that is superficially unexceptional, made up of a number of Departments, with associated Institutes, Task Forces and Schools. Its core Departments are the ten 'branch' Departments:

- Forestry Development
- Forestry Protection
- Agro-forestry Extension
- Plan Protection
- Product Processing
- Investment and Construction
- Water Resource Management
- Floods and Storm Management
- Settlement and New Economic Zones.

It is worth recalling that the largest of the Ministries from which MARD was created was the Ministry of Agriculture and Food Industries. Whilst reforms have seen the large number of SOEs involved in processing and export moved to the Ministry of Finance, MARD remains closely associated with them, through activities such as zoning, credit allocation, allocation of Overseas Development Assistance (ODA) and Foreign Direct Investment (FDI), planning, extension and other activities. Local - provincial - SOEs active in these areas are similarly involved with the provincial level Departments of Agriculture and Rural Development (DARDs). The state share of processing industrial output has been on a rising trend through the 1990s.
The key issue, therefore, is the relationship between MARD and the DARDs and the various structures around farming families.

Whilst local equivalents to MARD exist at province as well as at district level, there are also important initiatives to penetrate into the commune structures. Here can be found extension workers and other channels for communication and dissemination of ideas and targets. However, local resources and intentions vary greatly, so that in some areas these staff are lacking, whilst in others they act as supporters of local-farmer-initiatives and in others as channels for local rural development planning.

2.1.2 Informal Structures

These are best itemised as follows:

1. Growth of a private farming base that is increasingly diverse and 'normal'. Land concentration has been occurring in some areas, but in general this has been limited to areas with low\(^7\) population densities.
2. Growth of farmers' own organisations, especially in the Mekong, but only to a limited extent in other regions. Since these other regions were those that were most strongly collectivised, and where many cooperatives remained undissolved, growth of farmers' organisations has cut across the issue of what to do with the old cooperatives\(^8\).
3. Levels of rural unrest rarely seen in rural Viet Nam. Farmers have objected openly and strikingly to various cadre activities, most especially in Thai Binh and Dong Nai provinces, but also elsewhere\(^9\). Little is known about the organisational frameworks that supported these activities.
4. Entry of private sector businesses into the environment around farming families has been weak; there has been little attention from FDI to this area and private Vietnamese capital has tended also to stay away. The reasons why remain contentious, and difficult to research given the official position that there are no longer legal entry barriers. The two competing explanations are that there are, in fact, significant entry barriers, and that the main reason has been the higher rates of return to be made in other sectors. These may be brought together through the observation that entry barriers can be broken, given adequate resources, and that the process of capital accumulation has now reached the point at which these resources are now sufficient to start breaking through.

2.1.3 Recent Changes in Formal Structures - At Village Level and Below

There are two main recent trends in the development of formal rural institutions.

1. The application of the new Cooperative Law and the Viet Nam Communist Party's (VCP's) 'active' position on its use (Order # 68 - see below).
2. The effects of state policy upon entry to important export-import businesses, such as fertiliser, cashew and rice. By enhancing competition between SOEs, this has reduced margins to farmers' advantage, and opened the way for emergence of a more 'normal' set of marketing channels, where import-export traders with significantly higher levels of equity ('own capital') in their liability structure are linked into coherent vertical structures linking farming families to final demand.

In addition, it is understood that, partly in response to the rural unrest, measures will be taken in coming months to enhance local democracy at the base, through improving the ways in which the local population will be involved in the decisions of the local administration. It is not yet known precisely what forms this will take.

Appendix 1 presents information from a field trip to Thanh Hoa province late in 1997. This argues that local authorities often appear unable to ensure that farmers retain control over their cooperatives. Measures are needed to support local democracy in this area, through the operation of the local People's Councils, recent popular democratic initiatives and effective implementation of existing regulations.

2.2 Alternative Rural Development Policies

Two alternatives exist and can be found expressed in local development practice as implemented by local authorities, and in policy documents. Both draw upon a range of experiences and philosophical positions. The first is well expressed by the 1996 Rural Development Strategy\(^10\). The second, referred-field with state regulation' model\(^11\), to here as the open playing, is best found in the practices of certain provinces and even districts. The difference between these two positions has deep philosophical roots in alternative definitions of the possible role of the state in development: is the state there to manage and control, or is it there to regulate
and create conditions for local initiatives to realise local potential? In the West and in many developmental debates, this relates to the tensions between 'top-down' and 'bottom-up' understandings of planning and popular participation. These issues are also addressed by current debates in Viet Nam. What is striking is that the pervasive economic power of SOEs is closely related to the 'top-down' approach. Here, as we will see, it is the opinion of many informed commentators that SOEs do not act in the public interest, 'squeezing' farmers and using state power to support them as they do so.

2.3 The Realities of Rural Development - Some Opinions

In December 1997 the project of which this paper is part assisted in the Organisation of a discussion on rural institutions, chaired by Mr. Chu Huu Quy, which was attended by a number of senior experts (see References). This wide-ranging discussion revealed a series of deep underlying dissatisfactions with the situation. The questions chosen for discussion show this:

1. What are the main contradictions facing the re-accessing and re-assessment of the rural areas in an objective way?
2. What, as we move into the new conditions of the second half of the 1990s, are the factors determining the development of the family farm economy? Where lie the lines defining the areas of responsibility of farmers and of the government?
3. The issue of the village, rural social organisations at the base and the democratisation of rural life.

These senior intellectuals were concerned about general issues of great importance, relating to the overall framework of thought, although this rapidly led to more practical issues. What can be said about this?

In my opinion, rural development should not be understood as the 'object' (doi trong) of government and party action. Instead, rural development is constituted by the interactions between three spheres, of which government and party is only one. Government is thus, with others, a participant in the totality that is rural development. This is not yet fully understood. For example, the 1996 Draft RDS states that 'Rural development is mainly the task of the masses - the state provides active assistance' (p. 13). But it does not concretise this in an implementable manner; indeed, this paragraph focuses upon the need for policies to 'give a strong stimulus for the people to participate in rural development'. The key word is 'mobilisation' (huy dong). How are the people to mobilise the government? This is not mentioned.

Vietnamese rural development strategy is 'stuck' (be tac), for two basic reasons:

- The basic nature of rural development is not yet fully understood by all relevant actors;
- Important conditions for its implementation have therefore been widely ignored, especially enhancement of democracy at the base.

MARD, the key actor in the implementation of state and party policy, remains structured according to a view of rural development within which the state is the subject and farmers an 'object', without that self-dynamism and scope for autonomous action that they have in fact shown through recent history. MARD has not yet gone through the radical reconstruction, both in terms of its internal structure and the thinking of its cadres, that would mark a clean break with the past 'top-down' approach to understanding and supporting rural development. One simple indicator of such a change would be a great expansion of two areas of activity:

- Methods of assessing farmer interests and thinking; it is striking that farmgate price data have only been available for a few months. Severe institutional problems arise, though, if the Cooperative Association that is to group the 'cooperatives of a new type' in a peak Organisation does not properly reflect farmers' own interests. This may happen if the new-style cooperatives are not directly controlled by farmers.
- Methods of influencing farmer thinking and intellectual capacity, so as to support farmers' own efforts to exploit market and other opportunities open to them. Establishment of the General Training Department (Tong cuc day nghe) at the Ministry of Labour points in this direction. An obvious line of attack in this area would be the linking of farmers' own organisations to sources of information through the internet and Web sites. However, a shift to facilitation rather than mobilisation would involve fundamental re-thinking across a wide range of areas, and it has not yet happened. This is one crucial aspect of the institutional environment facing farmers, as it greatly influences the ideas and activities of state bodies.

Over the next two generations, or so, it is more or less certain that Viet Nam will shift from being a predominantly rural society to one where its economy is no longer based upon agriculture. The Vietnamese Communist party, at the VIIIth Congress, stated the goals of industrialisation and modernisation. These were
re-affirmed at the early 1998 4th Central Committee Plenum. Viet Nam will become more urban, possessing a labour force far more specialised than now, and it will become far richer. Present day rural society will have been radically transformed. By what and by whom? Who are creators of these changes? Who are their authors?

3. PARTY AND STATE POLICY

3.1 Main Issues - Notions of 'Governance' and the Origins of Order' in Vietnamese Rural Society

Any discussion of 'order' should take the notion of 'civil society' seriously as a scientific concept, since it posits a separation of society into relatively autonomous spheres. However, the Western notion of 'civil society' drawing upon different philosophical and moral roots, tends to assume that civil society can exist in some sense separately and with full autonomy from the rest of society. These are old and complex arguments. It is useful to point out these cultural differences.

Early analyses of these and related issues can be found in the books by Dao The Tuan and Phan Dai Doan cited in the References.

What is important here is that the emergence of the market economy and the shift to a state "Ruled by Law" (Nha nuoc Phap quyen) do imply a need for consideration of issues that other countries have discussed in these terms:

1. What is and should be the relationship between local formal and local official organisations? How, for example, should farmers' interests be expressed, if they are then to act upon official actions?
2. How should the interests of commercial organisations (in Viet Nam the issue is SOEs) be handled?

These issues are under discussion, and this reflects import trends in rural institutions.

The main conclusion drawn from the senior experts' workshop was that rural development policy, and its implementation, was not yet well developed and adequately situated within the overall national development policy. One can point to the debates about just what the relationship there will be between the overall goal of industrialisation and rural development. In summarising the workshop, it was argued that:

- willy-nilly, agriculture and the rural areas should have a large role to play, yet this role is undervalued (p.49) - in practice, state resources devoted to rural development are minimal.
- whilst the family economy had developed and grown, it still needed a 'democratisation of the decision making of the farmer economy' (p.50). In this context, there were forces at work acting against farmers' interests; these needed to be identified and explicit policies developed to counteract them.
- markets were developing in ways that required efforts on the parts of farmers to create 'countervailing power' through their own organisations (p.51). But what these might be, and how they might be institutionalised, was not yet clear.
- the official political institutions at the level of the village and commune were also an issue; why was it that the unrest in Thai Binh had occurred (p.51)? In many areas the People's Councils were only formally holders of power, and real power lay with the local party structures, who went too far in encroaching upon areas where the people should be taking the decisions for themselves (p.52).

3.2 Official Thinking and Institutional Implications

3.2.1 'Relations of Production' and Rural Development Policy

Official rural development policy has a clear class basis, that is, it integrates the official analysis of important questions in such areas as the 'relations of production' into the RDS. "Relations of production" are a Marxist-Leninist concept, usually to do with issues relating to the Organisation of society and economy rather than society's productive capacity, which can be referred to as the 'forces of production'. Within this way of thinking, each particular 'sector' (thanh phan) has different historical value: as the quote above states, the state and cooperative sectors 'should' in time become the foundation of the national economy. This implies that they are different from, and more important than, other 'sectors', such as private capital (which employs labour) and the individual economy. These are fundamental issues to do with the official 'line' and view on the most important
development trends in the country. Before and after the introduction of renovation (‘Doi Moi’) the state sector has been given highest priority, now expressed in terms of its ‘guiding role’ (‘vai tro chu dao’) in the national economy.

For example, the most recent (early 1998) 4th plenum of the Vietnamese Communist party argues that one of the main issues of the present is that:

"Industry, above all processing industry, has not yet developed; labour productivity is low; unit costs are high; technology is backward, output structure has changed only slowly... The construction and reinforcement of production relations in a socialist direction has been carried out sloppily (bi buong long)\(^{15}\).

It is fair and reasonable to characterise this position in terms of a 'vision' of rural development within which the main agents are:

1. Farming families
2. Cooperatives
3. State businesses
4. Private business

In this view, the role of private business is limited, for reasons based upon the official class analysis and its view of the correct path of development of production relations 'in a socialist direction'. This position is consistent and coherent. What has it implied for the recent development of rural institutions? As we have seen, it is the opinion of a number of senior experts that SOEs do not act differently from other businesses operating in a market economy; most importantly, without active measures being taken they exploit monopoly if they can, against the interests of others, such as farming families. Also, the evidence from Thanh Hoa shows that the cooperatives 'of a new type' violate the principles of voluntariness and members' own control expressed in the Cooperative Law. What about the position of private businesses entry into areas, such as processing, in the commercial space around farming families?

An earlier study by members of the UNDP consultants' group argued that the rural economy was characterised by an 'absence' of new entrants into the economic space above farming families - specifically, private businesses. This opinion can be compared with the content of Section II of the 4th Plenum Resolution, entitled 'Develop agriculture and the rural areas in the direction of industrialisation, modernisation and cooperativisation, democratisation'. This section reflects the class position of the party, which sees the key logic of rural development as being one where state businesses dominate the environment around farming families, and where new socioeconomic organisations are primarily to be encouraged in the form of cooperatives. There is little positive in this section for the entry and development of new private businesses by comparison with the following:

"Develop forms of cooperation between state businesses and cooperatives and farming families. Construct branch Associations operating according to democratic and self-managing principles; in them state businesses will have a central role"

It is official policy that there should be a:

"...concentration of efforts on a strong development of farmers' collectives in accordance with Order # 86 of the party Secretariat (see below) and the Cooperative Law".

However, it is not clear to what extent these desires are reflected in reality. We lack data on crucial issues:

1. What forms new businesses and commercial forces are taking in the rural areas;
2. What the costs of penetrating entry-exit barriers have been;
3. What are the competitive forces acting, especially between SOEs;
4. To what extent is the observed slow emergence of new entrants to the rural economy caused by entry-exit barriers?

What is clear, however, is that dominant elements in official policy have a clear position in favour of SOEs and cooperatives, and against other sectors, especially the private business sector.

The MARD report on agricultural and rural industrialisation (see References dating from August 1997 reflects this position. Pages 20-21 discuss sectoral policy under three headings - SOEs, cooperatives and the private
sector.

For SOEs:

"The state will strengthen and develop the capacity of those SOEs that are making profits, and will establish a number of new units in rural areas in order to act as nucleuses for local development like the Lam Son Sugar Mill and the Song Hau state farm." (p. 20)\textsuperscript{16}

For cooperatives:

"For now, in accordance with local conditions, farmers should be encouraged to join diverse forms of cooperation, including cooperatives acting according to the Cooperative Law. In the north and centre, ... the 13,000 cooperatives in existence should be guided in transforming themselves so that they operate in accordance with the Cooperative Law... to avoid rural unrest... cooperatives must be helped to fix their activities... and support their members through service provision... (p. 20).

Recent experience shows that for new cooperatives to emerge the assistance of SOEs with regard to technology and marketing is very necessary. At the same time the cooperatives can act as agents and satellites for SOEs in the rural areas" (p. 21)

For the private sector:

"Law should be improved so that, with policies, a stable legal environment is created for the private sector to feel safe in investing capital; in the development of raw material production, development of industry and services in the rural areas, carrying out their business in a legal manner. Those private businesses meeting the right criteria should be allowed to participate directly in import and export. " (p. 21)

This shows clearly the sectoral priorities of the RDS. It also shows the continuing strength of the vision of development whereby the economic 'space' between farmer and market is to be dominated by SOEs and cooperatives, which are understood as being relations of production that are socialist, and therefore more progressive.

\textbf{3.2.2 Policy towards the New-style Cooperatives as Reflected in Formal Documents}

During the first half of the decade, many but no means all of the cooperatives set up during the period prior to 1988 were dissolved. According to an official report, by 1995 there were some 16,250 agricultural cooperatives left out of the peak of over 17,000. These were of three types:

- a minority (10%) that were still operating effectively, mainly in service supply.
- a substantial number, around 40%, who still operated in providing a number of inputs, but relied for their incomes upon levies upon cooperators' land, which was generally unpopular (source cited in fn p.3).
- another substantial number (45%) that only really existed on paper, but which yet secured incomes from such measures as sales of cooperative assets, reclaiming debts from cooperators or imposing levies upon their members. This provoked great discontent and led to the cooperative acting as a restraint upon the development of the family economy (reference as above).

The key issue here was the ability of cooperatives of the old type to impose land levies. In total, it was common for these to amount to up to 50% of the gross rice yield.

The legal position is laid down in the new Cooperative Law. There are two key provisions in this that bear upon the development of rural institutions in the closing years of the decade:

1. All cooperatives have to operate according to this Law. This implies that all existing cooperatives have to be re-established, which is a major burden and permits cooperators to question their rationality, given the unpopularity of most of them (see above).
2. The new Cooperative Law specifically prohibits the imposition of levies upon cooperators' landholdings.

There is no information to hand about the extent which the process of re-establishment of cooperatives has developed. It appears that the intention was that this happen rather quickly and extensively, but the rural unrest of 1997 may be one reason why this process has been made complicated. Dominant official policy was and
remains that this should happen.

The party position is laid down in Order # 68, which was re-affirmed and acknowledged in the early 1998 4th Plenum Resolution:

"There should be a strong development of cooperative economic forms (in the rural areas), with reform of the activities of SOEs in agriculture and the rural areas and the development of SOEs in distant and remote regions ... There should be a continued development of the autonomous role of the family and individual economies. There should be a concentration upon guiding a strong development of farmers' forms of economic cooperation in accordance with order # 68 ... and the Cooperative Law."

Order # 68 refers to the need for the collective economy to become the "political and social foundation of our country" (p.2). What are its functions envisaged to be?

1. Acting as agents for SOEs in the procurement of agricultural products in 'their areas' (p.5).
2. The state bank at province and city level is expected to re-allocate capital between cooperatives, without subsidising losses (p.7).
3. Receiving 'favourable conditions' in terms of issues such as taxes, allocation of credit (p.7).

It is hard to judge, given the policy stance adopted, just what the likely effects are upon new entrants who, in the environment above and around farming families, are the intended targets of state policy? What has been happening? What is most clear, however, is that the private sector is not viewed as having high priority, and indeed lower priority than cooperatives and SOEs.

As we have seen, this policy stance is viewed by senior experts as problematic. The micro level evidence from 'Thanh Hoa (Appendix 1) points to a lack of farmer control over these organisations similar to that reported above for their predecessors.

4. SOME CONCLUSIONS AND POLICY RECOMMENDATIONS

The logic of events suggests that changes in the understanding of the situation will occur. This will be supported by well-targeted overseas assistance as well as by appropriate use of Vietnamese research capacity. In the rural areas, this will likely take the form of:

- An expansion of local democracy and a shift away from direct control over farmers' organisations to their indirect regulation through the state, in a similar manner to private businesses.
- A more sceptical attitude towards SOEs, matched by a more liberal attitude to the private sector and a far greater wariness of the 'political economy' problems created by top-down thinking backed up by use of various economic rents.

With regard to policy changes and institutional evolution at peak level, this should be matched by:

1. Radical re-structuring of MARD, based upon changes in conceptualisations and associated reinforcement of the power and influence of policy-making organs, aiming to shift the focus from supply of services to facilitation and enhancement of farmer family ability to explore and exploit opportunities open to them.
2. Greater attention by policy-makers to the institutional effects of rent-creation, and the adoption of measures designed to ensure that positive initiatives by local authorities are not inhibited by the creation of incentives (such as cheap credit - the 'Sugar Plan' is an example) that discourage the emergence of efficient institutional structures.
3. Establishment of institutionalised feedback loops between farmers' independent organisations and policy makers and implementers.
4. Abandonment of the 'movement' to establish 'cooperatives of a new type'; establishment of institutionalised methods for assessing the extent to which any given farmers' Organisation actually is controlled by its members.
5. Encouragement of the emergence of new entrants into the economic space around farming families, with Law used to regulate monopoly, in combination with use of farmers' organisations to secure countervailing market power.
These trends should enhance efficiency and strengthen development processes. It is not easy to judge with what speed they will occur. They should be encouraged.

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APPENDIX 1: SOME EVIDENCE - RESULTS OF A FIELD TRIP

1 Some Evidence - Results of a Field Trip

Here the paper presents some conclusions from a visit to three examples of 'New-style Cooperatives' (Hop tac xa kieu moi) in Thanh Hoa province, carried out in October 1997. Party and state policy are discussed in the next section.

1.1 The Context of the Formation of New-style Cooperatives in Thanh Hoa

Thanh Hoa is the largest province in Viet Nam in terms of population (3.5 m), lying between the Red River delta and the north-central region. Historically, it has never been divided, nor merged with other provinces.

As in other provinces in north Vietnam, the cooperatisation movement started in the late 1950s (in 1958). In 1981 the output contract system was adopted in accordance with Chi thi 100, then in 1988 another output contract system was implemented, this time in accordance with Nghi quyet 10. With the output contract systems, the old-style cooperatives progressively lost their basis for existence, and many but not all collapsed. In March 1995 the Economics Department (Ban kinh te) of the provincial party Organisation carried out its own assessment of the situation facing the remaining old-style cooperatives. The results of this work were presented at a large Conference under the heading “Transformation of the old-style cooperatives and the development of new cooperative forms in the rural areas of Thanh Hoa “ (April 1995). At this conference there were a wide range of very different opinions, including those which asserted that dissolution of the old-style cooperatives implied destruction of Socialism. The most ardent advocate of the latter position was the Agricultural and Rural Development Department of the local provincial administration. After the Conference, the party Organisation of the province (Tinh Uy) issued Decision # 09/NQQTU on the reform of agricultural cooperatives and the development of new cooperative forms in Thanh Hoa (see References). In September 1995 the People's Committee of the Province issued a Decree implementing decision # 9 of the provincial party Organisation.

In the two and half years that have passed since then, Thanh Hoa has established 58 new-style cooperatives, around 9% of the total number of communes in the province (total - 627). According to the province, these new-style cooperatives present three basic types:

- Dissolution of the old-style cooperative and establishment of a new-style agricultural cooperative.
- Utilising the old-style cooperative as a basis for changing it into a new-style cooperative, now called an Agricultural Service Cooperative.

Dissolution of the old-style cooperative and establishment of a new-style cooperative, called an Agricultural Service Cooperative.

Amongst the 58 newly established cooperatives, the smallest contains 10 households (Ho) and the largest 239.
In those communes where there is still no cooperative, the local authority (the commune People's Committee) receives the assets of the old cooperative and carries out tasks such as services and procurement of levies on output. In this situation the Manager (Chu nhiem) of the Cooperative is simultaneously the Chairman (Chu tich) of the People's Committee.

The field visits showed each of the three examples of newly-established cooperatives outlined above. In each place interviews were carried out with the cooperative leadership, the local party leaders and the People's Committee of the commune, and visits were made to and interviews carried out with families that were both participating and outside the cooperative.

The following broad conclusions can be reached:

1. **Decision # 09 of the Province Party Organisation has two basic components:**

   - reform of agricultural cooperatives
   - development of forms of economic cooperation in rural Thanh Hoa.

   In essence, this reflects the desire of the provincial party authorities to re-establish agricultural cooperatives under new forms. This follows from the fact that the agency pushing for these organisations, for reform and for the development of cooperatives is the party and local authority rather than the local population. New-style cooperatives are not to be formed autonomously, but instead there is an external agency that takes the initiative to establish them, in other words the essence of this is their re-establishment. Put in other words, the party and state are in control of the issue, whilst the population have virtually no independent power over whether they do or do not participate in this process.

2. **What is the basis of the re-establishment of cooperatives?**

   - This re-establishment is directed in an organised manner from higher levels. At the province there can be seen the province party organisation's Decision, and the People's Committee Resolution. At national level there is the Law on Cooperatives.
   - implementation of this reestablishment is carried out according to a certain sequence and in accordance with a number of definite models.

3. **In reality, how is the process of re-establishment being carried out?**

   - The old-style agricultural cooperatives in Thanh Hoa generally collapsed after Decision # 9 and the Cooperative Law (see below). The local state solved the problems presented by this by shifting cooperatives' functions across for the commune People's Committee to manage. This method was adopted by most communes in rural Thanh Hoa, and also in other provinces of North Viet Nam.
   - New cooperatives are established according to one or other of the three models mentioned above. Each district has its own particular way of doing this, and district leaders seek ways of proving that their method is appropriate to their district's conditions.
   - The process of re-establishment is in fact rather slow, as can be seen from the fact that after 30 months there are only 58 cooperatives covering 9.2% of the communes of the province. This shows clearly that the process is not supported by the general population.

4. **The hope of those re-establishing cooperatives (the party and local authorities) is to create a 'movement' (phong trao), which would require most communes to follow suit.**

   In accordance with the party's way of understanding the situation, this is a way of reinforcing socialist production relations in the countryside (since cooperatives are a form of collective property) and thus avoid deviating from the socialist path. The party expects to be able to gain the opportunity to control the new cooperatives by placing its people in the Management Committee (Hoi dong Quan tri).

   If the process were indeed to become a 'movement', this would run the risk of slowing rural development. This would be because it would reduce the autonomy of farmers in production and other economic activities, as their livelihood would steadily become dependent upon the cooperatives, despite their being labelled as 'service cooperatives'.

### 1.2 Some Conclusions Reached from the Field Visits to Three Models of New-style Cooperatives

This report does not repeat details noted during detailed interviews, discussions and observations. Instead the
following broad conclusions are drawn:

1. The role of the new-style cooperatives as far as the population is concerned

- The cooperatives provide services and assistance to farmers' agricultural activities, such as: water supply and drainage, ploughing and harrowing, agricultural extension, forecasts of pests and diseases. But these services are not only provided to the members of the cooperatives, but also to all families in the commune.
- Compared with the old cooperatives the service activities are cheaper. For example, in cooperative Thieu Hung, the cost of pumped water supplies used to be 14.0 kg/sao, but has now fallen to 10.1 kg/sao for the autumn harvest and 8.2 kg/sao for the main harvest.
- Capital seems to have been managed and preserved better over the first year of operations. For example, in Tan Thanh cooperatives, after one year the cooperative still had 89.9 mn dong made up of 66 mn dong inherited from the old cooperative and 23.9 mn in the form of share contributions.
- The cooperatives tend, with the local People's Committee, to meet certain social functions common in the rural areas, such as providing housing for war veterans, solving water disputes and helping poor families.

2. Trials and problems facing the new-style cooperatives

- At root, the new-style cooperatives are not the result of the farmers' own decisions, but stem from the re-establishment of cooperatives under the leadership of the party and local authority. The cooperatives' leaders are made up of people proposed by the party which presents them to the General Assembly of Cooperators for their election. Under this leadership, it is party members and the members of local party committees who are elected to the Management Committee and Management Board of the cooperatives. Concretely:
  - in Tan Thanh cooperatives, the President (Chu tich) of the Management Board is Mr. San, who is the party secretary of the commune; the Manager (Chu nhiem) of the cooperative, Mr Hao, is a party member.
  - in Thieu Do cooperative, the Manager is a party member whilst the President is Mr. Chi, party secretary and also Chairman of the People's Committee.
  - in Thieu Hung cooperative, the President of the Management Committee is also the party secretary (Mr. Tho), whilst the Manager of the cooperative is Mr Que, a party member.
  - The competitive position of all cooperatives is very limited. In all three visited their positions in such areas as ploughing and harrowing services, fertiliser supply etc all rested on monopoly power in some form or another, typically through entry barriers. All cooperative activities remained under the general protection and umbrella of the party committee of the commune and the local authority.
- The cooperatives receive what can be called 'horizontal' subsidies with regard to the capital and monopoly positions carried over from the old cooperatives. For example, in Nga Thanh commune, Tan Thanh cooperative received cheap capital of some 66 mn dong as working capital, 55 mn dong as fixed capital and 25 km of channels and water works previously managed by the old cooperative. Thieu Do cooperative had received 360 mn dong in working capital, near 1 bn dong of fixed assets (mainly in the form of well-built irrigation works carried over from the old cooperative). And in Thieu Hung commune, the new cooperative was supported to the tune of 228 mn dong of working capital and 785 mn dong of fixed capital including a pumping station, again from the old cooperative. The interest rates typically required upon the working capital loans were similar to state commercial bank rates, which are well below free market rates. When payable, they are due to the commune people's committee, offering possibilities for non-payment if felt desirable by local leaders. The new-style cooperatives, so far, appear unable to borrow from the state banking system. The overall impression gained is that these units are not profitable in a genuine commercial sense, offering a reasonable return on the capital they control; instead they reject the common phenomenon of "fake profits; real losses".
- The cooperators (the families participating in the cooperative) do not receive benefits greater than or indeed different from those who do not belong. As the land of the commune is allocated to families and plots are interspersed one with another, irrigation activities do not differentiate between members and non-members. The only real difference is with regard to the purchase of shares in the cooperative. In all three cooperatives, there had been no allocation of profits to members and there seemed to be little intention to do so.
- Cooperative activities in social and economic areas were not clearly differentiated; the boundary was unclear. In other words the cooperatives are not purely economic units. It appears that their main goals are to do with maintaining political stability and reducing poverty in the rural areas. This confusion means that they cannot act as a strong driving force for development as they would if they were clearly operating as farmers' economic organisations.
- It is regrettable that at present the new-style cooperatives are, on the one hand, re-established by the party rather than being the farmers' own organisations, and, on the other hand, their activities are not purely economic as they would be if they were forced to act as commercial units. Instead they are
social-political organisations led by the party. It can be argued that the new-style cooperatives are established mainly to meet the political and social interests of the party rather than those of the family farmers. Farmers, for this reason, are not keen to join.

### 1.3 Some Suggestions

- The party and state need to come to a better understanding of the creative nature of Vietnamese farming families. Recent and historical experience suggests, as has been studied by a number of Vietnamese scholars, that Vietnamese rural communities possess great capacity to act together when it is in their interests to do so. However, a contrary attitude is often revealed by some officials, to the effect that popular understanding is very limited (the ‘dan tri’ is low), so that it is necessary to impose some prior model upon them in their interests. In reality farming families are highly responsive and understand well what is needed. Proper local leadership is there if it can be mobilised effectively.

- The party and state need to have greater respect for popular democracy amongst the rural population in matters to do with rural organisation. In all three cooperatives visited, farming families who did not participate in the cooperative developed in an normal manner, with rice yields tending to rise at rates of around 5% annually. The livestock sector also showed healthy growth etc. This suggests that there is no real development rationale to the new-style cooperatives: they appear in many ways irrelevant to farmers' interests. If farmers voluntarily set up cooperatives then they should be allowed the freedom to choose who is to lead them: real democracy will be needed in the election and selection of candidates for these positions. The current situation is quite the reverse, with the party selecting candidates (as it is put, the party ‘introduces’ people onto the list of those to be elected). As a result these leaders cannot be 100% committed to the interests of their members.

- Parallel with the development of the market economy, here as elsewhere can be seen the strong pressure for various forms of economic Organisation and cooperation. Yet it is important to allow these organisations to emerge of their own volition, when farmers feel the need and organise themselves freely after their own discussions. Under this way of doing things, the party and state would only operate through the legal framework regulating cooperative relations in the countryside. There is no need for direct and deep intervention in the establishment and activities of cooperatives, the establishment of cooperatives on the basis of the centralised and external guidance of the party and local authority in the three cooperatives visited is in reality a re-establishment of cooperatives led by the party but under a new form. Cooperatives of this type will not and cannot bring appropriate benefits to the rural areas and will tend on the contrary to hinder development.

- There is a tendency for confusion between cooperatives and cooperation. A cooperative is an economic Organisation, whilst cooperation is a relationship of cooperation between farming families in production and commercial activities. Thus in the rural areas, cooperative organisation between farmers will be extremely diverse and prolific, mutually interlaced and with a great variety of names. The three cooperative models in Thanh Hoa only deal with a small part of the issues involved: ploughing and harrowing, irrigation, agricultural extension and plant protection. A great range of other activities also require cooperative organisations and it is likely that these will be set up by farmers themselves.
emerging in Viet Nam is a sense that government both rules and governs (the current translation of this latter term at the Prime Minister's Research Group is I am told 'quan ly va dieu hanh'). It contributes to the establishment of an 'order' in the rural areas. A term that can be used for this appears to be 'the, or tinh the, with a semantic range very different from the English term. But this language, reflecting the still minority position of those who argue against the 'SOE priority' model, remains far from widespread.

It follows that the government alone will not, and cannot, be the author of rural development. The 1996 draft of the RDS puts this clearly (see the citation above), but this is not reflected in the pattern of proposed state activities. Furthermore, the government will in some areas have had no impact upon, and therefore no responsibility for, rural development. This fact is not yet fully understood in most official expressions of rural development strategy that I have seen. Instead, the thinking is put in terms of what the government can and should do, thus omitting the positive and often determining nature of the roles played by the other two spheres. Rural Development is understood, when state activities are discussed, in terms of resource allocation and service provision. In many instances, the government can play no role. Often, in attempting to do so, it makes matters worse - the experiences of the fertiliser and rice markets early in the 1990s are good examples.

All three spheres are Vietnamese. They are influenced by foreign factors (for example, foreign culture affects community values, the world economy influences Vietnamese commerce, foreign advisers influence state policy), but they constitute Viet Nam's social order.

In general, I still see a common failure to understand the nature of rural development. Instead, there is a misunderstanding of it, as the object of state policy and activities. Instead, rural development is a subject, constituted by the three spheres stated above. Within that, human agency operates through various mechanisms. One of these is the formation of institutions and organisations. This has various requirements, including:

- Basic institutions: the ability and right to own and control institutions - for example, family farm production systems, marketing cooperatives, private processors, fertiliser supply companies, etc.
- Resources: the economic success that permits investments in the organisational and human capital required to establish, operate and re-produce institutions.
- Protection of those institutions from, for example, harassment by corrupt officials.

Viewing government and policy as one participant in rural development is in my opinion correct. Rural development is not the object of government actions; rather, government is one of the subjects that constitute rural development.

This problem is one of understanding (nhan thuc); the basic nature of rural development is the issue. The current nature of this understanding has resulted in Rural Development Strategies expressed essentially in terms of state actions. These can be in terms of resources to be supplied, in terms of 'facilitation', or in terms of ensuring 'good policies'. But at root they treat the other two spheres as objects, which they are not. It therefore becomes impossible to imagine how these policies are to be implemented. This is because, in reality, it is through the subjective nature of the other spheres that the state realises its role within rural development. So long as this is not realised, true progress is limited. This means that the roles played by economic logic, and by 'the population', will have to be taken seriously, understood better, and reflected in appropriate institutions.

Consider the following questions:

- Where will the human and Organisation resources come from that will develop effective and stable marketing structures? Development of normal commercial structures can link farmers effectively to final demand.
- How will farming communities ensure that their local administrations and other organisations operate positively rather than negatively in supporting their development? This requires expansion of democracy.
- How will the authorities ensure that the investments in infrastructure required by rapid economic growth are made in a rational and efficient manner?

These questions lead us to understand better the origins of institutions, and therefore of rural development, in terms of interactions between the elements constituting development. As a participant, the government can facilitate these in many ways. Yet, without enhanced and more effective participation of all spheres, through economic and political reforms, the government's participation will itself be ineffective. That is the current situation and the ways in which Rural Development is understood show this. Rural development is a totality within which government is simply, with others, an active participant. The relationship between government, commerce and rural population is not that between subject and object, but between subjects.
It is clear that many unintended results follow from misunderstanding. Take SOEs as one example. According to official policy:

"Development of a multi-sectoral commodity economy with state management in a socialist direction is the strategic Line of the party and State. Economic units from all sectors are equal before the Law, within which the state economy plays a guiding role and with the cooperative economy will gradually become the foundation of the national economy".18

Why is it that many of the senior experts involved in the discussion cited above felt that the interests of SOEs were usually opposed to those of farmers?19 If this is the case, SOEs are acting as profit seeking businesses, rather than organisations acting directly in the public good, then that has important policy implications if they are also to become the foundation of the national economy, as has been officially stated.

If MARD remains highly "top-down" in its view, sectorally sensitive to prioritising SOEs' needs, and official policy committed to the state and cooperative economies, then we need to know more about the factors determining the development of these sectors, and the commercial environment facing farmers.

NOTES:

1Preliminary results from 1996 socioeconomic survey, national stratified sample (around 6,000 households), implemented by ILSSA, MOLISA with SIDA financial support and ADUKI technical assistance.

See IMF and other reports, including ADUKI's *Vietnam - Economic Commentary Analysis*, No. 8, Oct 1996.


4This is the general result from a number of surveys; see also the survey cited in footnote # 1 above.

5Details from personal interviews in MARD, especially with various Department Heads, where the dynamic and changing nature of their cognition was especially obvious. Also from the various Project Documents associated with the upcoming Public Administration Reform Project (Dutch financing) at MARD, which also stress the need for deep changes in conceptualisation.

6Taken from MARD/REFAS 1998 p.6.

7See a number of works, including Le Huy Khoi (1998). He notes that many policies still favour the state and cooperative sectors; that the Land and Land Tax as well as other laws discourage land concentration and encourage illegal land transfers, and that in general there are many signs that the private sector remains constrained (p.27).

8The problems of 'hot spots' has been analysed by foreign as well as Vietnamese scholars - for the former, see the work of Ben Kerkvliet at the ANU.

9Public information on this can be found in the daily press, such as Nhan Dan, and the VCP journal 'Tap chi Cong san' (Communist Studies). There has been much reporting of these events in the foreign press and other media, but it is not possible to check this properly.


12It is understood that the standing committee of the National Assembly will in coming weeks (‘early March 1998’) pass a decision, for government implementation, relating to the use of general assemblies of the commune population to approve certain local administrative activities, such as local planning and infrastructure
spending - see various press reports. Problems with the excessive extraction of local rents were reported as early as 1995 (see various issues of Vietnam: Economic Commentary and Analysis, ADUKI Pty Ltd Canberra).

13 See, eg Dao The Tuan, Kinh te ho nong dan (The farming family economy), NXB Chinh tri Quoc Gia, Ha noi, 1997; also Phan Dai Doan, Quan ly xa hoi nong than nuoc ta hien nay - mot so van de va giai phap (The contemporary management of rural society in Viet Nam - some problems and solutions), NXB Chinh tri Quoc gia, Ha noi, 1996. For a foreign analysis, stressing the 'bottom-up' nature of social change in Viet Nam, see the work Adam Fforde and Stefan de Vyider already cited.

14 See REMAS (1997), for a foreign assessment.

15 Author's translation from text printed in national press.

16 Note the comment above from the senior experts to the effect that these two models are the exception rather than the rule, with the mass of SOEs not seen as capable of acting in this way.

17 Data from 'Tom tat bao cao ... ' (see References).

18 Author's own translation from Order # 68 on the development of the cooperative economy (see References).

19 For example, p.12, arguing that SOEs' interests could only be aligned with farmers when they were placed in joint associations; p.15, that SOEs usually "pressure" farmers'; p.21 that unless farmers have control over cooperatives and markets they will be unable to avoid SOE "exploitation" of them. The thread running through this is that SOEs, like other businesses in uncompetitive markets, have excess market power. "You have to have a system to oppose that monopoly (power)" - p.21