TO ATTRACT FOREIGN INVESTMENT TO AGRICULTURAL PRODUCTION

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In developing countries, interests of foreign investors are usually different from those of the recipient countries, so new concepts of cooperation and division of labor are needed for ensuring interests of both parties. In this article, we want to present some opinions about development of Vietnamese agriculture and investment from the U.S. and Southeast Asian countries in this sector.

1. Development of agricultural production in Vietnam

In recent years, the agricultural production in Vietnam has developed well making Vietnam one of the world's leading exporters of some farm products (rice, coffee, rubber, etc.). After the economic reform was introduced, peasants were allocated land and allowed to decide on their business while the government ensured them the supply of agricultural materials and technical assistance. These factors helped boost the agricultural output in the past ten years. It's worth noting that the stock of farming land in Vietnam is small in comparison with many developing countries and Vietnam suffers a lot from natural disasters every year, therefore its achievement in agricultural production is more meaningful. However, Vietnamese peasants are facing surpluses of farm products whose prices always fall after good harvests with the result that peasants suffer losses year after year.

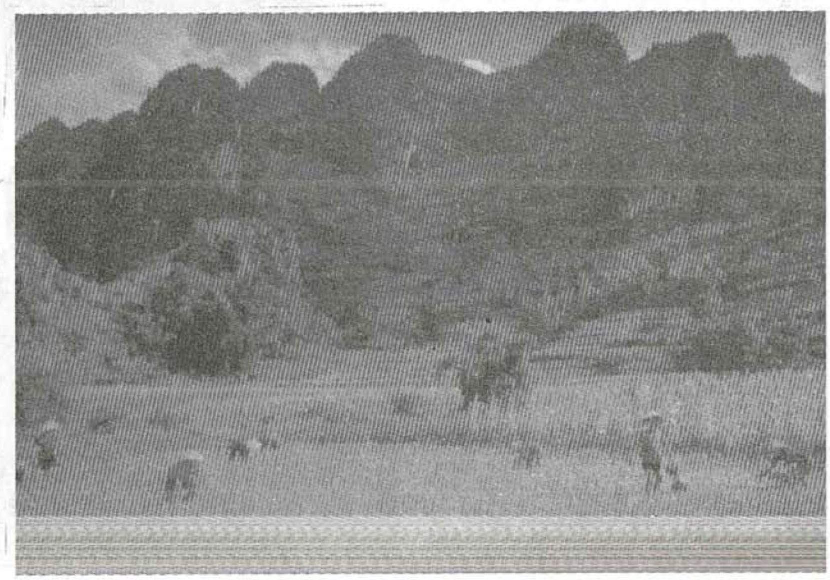
According to the Ministry of Agriculture and Rural Development, the Mekong Delta produced 8.1 million tonnes of rice in the winter-spring crop of 2001, 200,000 tonnes more than the last crop in 2000. Up to April 2001, Vietnam exported 1.3 million tonnes of rice, twice as much export of rice in the first four months last year, but export earnings from this amount increased only by 150% because of falls in prices. Production of other farm products was also high but it isn't sold well. There is a surplus of 250,000 tonnes of coffee. Export of tea fell by 28% and earnings from tea by 32%. The spending power decreased remarkably. In the meantime, Vietnam has to import 90% of the demand for cotton, 30% for tobacco, 70% for cooking oil, 90% for milk powder and 30% for paper pulp. To help peasants, the Government has no alternative but to purchase more farm products for its reserves when it couldn't expand the export markets or enhance the spending power of the people.

In 2001, the Government adopted more measures to deal with this problems: (1) exempting peasants from land use tax; (2) buying one million tonnes of rice and 150,000 tonnes of coffee; (3) encouraging production of farm products as import substitutes and upgrading industries processing farm products for export; (4) supporting marketing and advertising campaigns for local farm products; (5) supplying information about foreign demand for farm products; and (6) forming the Export Promotion Fund.

Besides these measures, I think one more measure could be taken is to encourage production of farm machinery and other agricultural materials as import substitutes. Of these measures, the production of import substitutes is of great importance because it relates to foreign investment. The following are my opinions about this issue:

a. To produce farm products as imports substitutes and exports, the government could carry out, or encourage, many projects, such as:

- Turning 130,000 hectares of



farming land in the Mekong Delta into shrimp farms: This project has just been started by local governments and the Ministry of Fisheries and welcomed by local peasants. However, the spread of disease among shrimp farms in the past few months reminds agricultural authorities of many tasks to carry out (supplying disease-free young shrimps, supplying sea or brackish water to shrimp farms, electrifying shrimp farms with a view to facilitating application of new techniques, etc.)

- Replacing rice with cotton in certain zones in the Mekong Delta: This project is introduced in a pilot scheme by the Ministry of Agriculture and Rural Development and the Vietnam Cotton Corporation. At present, local supplies could supply only 6,500 tonnes of cotton wool out of 70,000 tonnes consumed by the textile industry. Cần Thơ and An Giang provinces in the Mekong Delta can produce some two tonnes of cotton per hectare at a production cost of VND6,000 per kilo.

- Turning some area of rice into meadow: Local supplies can ensure only 10% of raw materials for milk industry so the Government had better allow farmers in the Mekong Delta to do intensive grazing business instead of keeping growing rice. The same policy could aim at encouraging farmers to replace rice with plants for oil (peanut, sesame, etc.) because Vietnam still imports some 30% of its demand for cooking oil.

- Many scientists advise paying more attention to the blue-legged prawn that could be raised in fresh water, instead of shrimps that could only live in brackish water. If the agricultural authorities take this advice, certain rice growing areas could be turned into prawn farms. Another solution is to encourage farmer to raise prawn in their rice fields.

- Replacing robusta coffee with arabica coffee tree because the former is exported at US$500 per tonne as compared with US$1,500 for the latter.

b. Production of farm machinery and other materials for agriculture: the Government should promote industries that support the agricultural production with a view to reducing production cost of farm products because Vietnam spends a lot of foreign exchange on these goods every year and there aren't enough jobs in cities for the young from rural areas.

c. Processing high-quality farm products for export: It's necessary to limit the export of raw materials and promote the export of processed goods. From farm products in Vietnam, a lot of processed and manufactured goods could be produced requiring only medium technologies: tire and tube for autos and motorbikes; milk products of various kinds, seasoning from manioc, canned meat, etc.

Production of the above-mentioned import substitutes requires big investments (USD10 billion a year on average), therefore the Government should adopt new policies to attract more investments from countries that possess huge capital and modern technologies, such as the U.S. and Southeast Asian countries.

2. On American and Southeast Asian investment in agriculture

Vietnam has many favorable conditions for investments in agriculture:

- Stability: The political stability is ensured, the labor is cheap and industrial disputes aren't considerable.

- Preferential treatment for foreign investment: More and more progressive policies have been taken to ensure good business climate for foreign investors.

- Increasing demand for farm products in the region: The demand for high quality farm products in the region is on the increase. In the near future, most countries will shift from production of farm products to production of manufactured goods under effects of supply and demand forces, therefore the demand for farm products will increase.

An FAO survey shows that the Chinese per capita GDP will reach somewhere between US$4,000 and 6,000 and this country with a population of over one billion will import farm products in large quantities in next decades. Moreover, when developing countries complete their industrialization and manufactured goods at low prices flood the markets, the relation between countries exporting farm products and those exporting manufactured goods will become more favorable for the former. Then investments in agriculture will become more profitable.

3. Some measures to encourage American and Southeast Asian investments in agriculture

Vietnam's Foreign Investment Law offers the same favorable conditions as laws of surrounding countries do: most industries are open to foreign investment, procedures are increasingly simple, more and more totally foreign-owned companies are licensed. However, foreign investment in Vietnam tended to decrease in the past few years. To improve the situation, new policies to ensure reasonable profits for foreign investment are needed.

- Factories processing farm products are only allowed to build near sources of supplies of raw materials.

- Foreigners could be allowed to buy land to develop large-scale farms. However, the Government had better encourage foreign investors to develop agro-industry or co-operate with local farmers in running farms.

- The central bank can increase the money supply to help local farmers develop their business, apply new techniques and become strong enough to co-operate with foreign partners ■