

**D**evelopment of large-scale farms is an inevitable trend of the modernization and industrialization of agriculture. In recent years, however, the role of farm economy hasn't been fully estimated. So we need define its role in order to help work out a policy to encourage its further development.

### 1. Farm economy in foreign countries

In the late seventeenth century, England, the first country that industrialized its economy, maintained that the agriculture also needed concentration and operate as large-scale manufacturing concerns. From then on, the agricultural development has been based on operation of large-scale companies and

**Table 1: Efficiency of farm and farming family in producing some industrial crops (per hectare)**

Indicátor	Rubber		Cashew		Black pepper	
	Farm	Peasant family	Farm	Peasant family	Farm	Peasant family
Total sales (VND1,000)	24,692	22,026	12,104	11,909	31,467	41,783
Total cost (VND1,000)	4,304	10,389	2,899	3,720	11,496	28,544
Family labor (VND1,000)	37	3,551	876	1,564	1,189	3,971
Profit (VND1,000)	20,388	11,636	9,205	8,189	19,971	13,238
Profitability ratio (%)	474	112	318	220	174	46
Family income (VND1,000)	20,425	15,187	10,081	9,753	21,160	17,209
Benefit - cost ratio (%)	479	222	498	452	205	70

Source: "Industrialization and modernization of agriculture in Binh Phuoc Province" a survey carried out by the UEH in 2003.

Note: Family income = (4) + (3); Benefit- cost ratio = (6)/(2) - (3).

50% of the world maize and soybean output. In France, some 98,000 farms supply seven million flowers and 600 million flowerpots, and 70% of which are

peasant family that produces some industrial plants in the Eastern South.

The Table 2 also shows that the bigger the size the

omy accelerates the process of accumulating capital for agricultural development. In HCMC alone, the total capital in 332 farms amounted to

# Farm Economy from the Viewpoint of Economics

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aimed at supplying farm products at lower price and in larger quantities in comparison with the production at family level. However, the agricultural production is not suitable to large-scale mode of production because its objects are living things (plants and animals). And as a result, performance of large-scale agricultural companies was lower than that of farming family businesses. Up till now, the family farm is established as the most effective form of agricultural production and becomes widespread worldwide, replacing large-scale companies and subsistence farming as well.

The farm economy contributed a lot to the economic growth in many countries. In the U.S., family farms occupy 65% of farming land and 70% of agricultural output. Its 2.2 million farms produce over

exported. With some four million farm hands (equaling 3.7% of the population), Japanese farms ensure food for a population of 125 million people. In Malaysia, farms produce some four million tons of palm oil, equaling 75% of the national output.

Productivity of farms in developed countries is very high. One agricultural laborer could support 20 persons in Japan, 25 in Italy, 35 in Australia, 35 in Canada, 60 in the Netherlands, 80 in the States, 95 in England and 100 in Belgium.

### 2. Farm economy in Vietnam

In recent years, the farm economy has proved its efficiency based on economies of scale.

The Table 1 shows that the farm excels at profitability ratio and family income in comparison with

**Table 2: Efficiency in cow keeping by scale**

Size of herd (head)	From 1 to 3	From 4 to 9	Over 9
	Number of cow	2	5
Total sales (VND1,000)	3,497	8,000	24,611
Total cost (VND1,000)	4,747	5,860	8,316
Family labor (VND1,000)	4,286	4,969	5,502
Profit (VND1,000)	-1,250	2,140	16,295
Profitability ratio (%)	-26.33	36.52	195.95
Family income (VND1,000)	3,036	7,109	21,797
Benefit - cost ratio (%)	658.57	797.87	774.60

Source: A survey of Binh Phuoc carried by Binh Phuoc Service of Agriculture in 2003.

higher the efficiency. Farms gain better performance than peasant families because of economies of scale.

### 3. The role of the farm economy in the economic growth

Unlike household economy, the farm econ-

VND29.5 billion. In the Eastern South, with 15,708 farms capitalized at VND128 million each on average, the total investment amounted to VND2,010 billion. Under current conditions, increases in the agricultural output and GDP depend mainly on the accumula-

tion of capital, therefore, the development of farm economy will help accelerate the economic growth that serves as a basis for socioeconomic development plans. This means that in the coming years, a policy to develop the farm economy is much needed.

- Up to now, the Vietnamese agriculture is still based on peasant family businesses and they have played an important role in increasing the agricultural output to meet the domestic demand and export targets. At present, however, when the commercial farming has developed and reached foreign markets, the peasant family businesses reveal many shortcomings:

+ Small scale: The small scale in terms of land, capital and mechanization prevents family businesses from enjoying the economies of scale that could make them more competitive.

+ Disadvantages in terms of proportion of commercial goods, quality consistency and brand name: It's hard to specialize the small-scale agricultural production with million of

peasant family businesses spread over wide areas. And as a result, their products don't have the same quality and they couldn't build brand name for their products while the world market poses high standards for product quality, prestige of producers and food hygiene. This situation makes local peasants find hard to sell their products in foreign markets.

+ Difficulties in applying new technologies: Small farming areas and shortage of capital will prevent mechanization, intensive farming and environmental protection. This makes peasants find it hard to maintain their competitiveness in comparison with their foreign counterparts.

+ Difficulties in improving the productivity: According to the World Bank in 2000, the productivity of the Vietnamese agriculture was only US\$244, equaling 75% of China's, 33% of Indonesia's, 25% of Thailand's, 18% of the Philippines' and 4% of Malaysia's.

The productivity in agricultural production depends on soil productivity (value of produce from one

hectare) and soil-labor productivity (farming area per laborer). Many recent studies show that the farms enjoy advantages regarding those two factors in comparison with peasant family businesses. As for these businesses, low productivity make the production cost rise and personal income lower.

- With bigger capital, farming area and better technical knowledge of farm owners, the farms could apply new techniques to improve yield from a unit of land (this will help peasants refrain from deforesting) by using chemicals reasonably (without damaging the environment). This means that the farm economy can help develop the sustainable agricultural production.

- Foreign experience shows that when producers can enjoy the economies of scale, they will spend their profit on expanding their businesses. The farm economy is the best way to develop the large-scale agricultural production. As for the Government, its policy on the farm economy must em-

phasize the following points:

+ Taxes on farms should ensure reasonable income for farm owners.

+ Incentives must be given to encourage farm owners to put as much profit and capital in their production as possible.

+ As for farms that aim at producing high-quality products and exports, the financial authorities must supply low-interest and long- and medium loans with a view to facilitating the industrialization of their businesses.

+ The farms had better establish good relations with farm materials suppliers and farm products trading companies. Tax and other financial incentives could be used to encourage technology transfer, supply of farm materials and distribution of farm products.

In the years to come, Vietnamese peasants will face keen competition from other countries. Developing the farm economy is the best way to improve their income and competitiveness. This effort requires reasonable and bold policies from the Government. ■



Photo by Huynh Hoa