



# CAPITAL MOBILIZATION AND INVESTMENT FOR RURAL INDUSTRIALIZATION AND DEVELOPMENT

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After 10 years of implementing *đổi mới* policies, our country has recorded many achievements and escaped from the socio-economic crisis, generating preconditions to enter a new evolution era: Speeding up the national industrialization and modernization and Vietnam's rank in the international arena.

The positive changes happen in agriculture and rural areas: farm production increases continuously in terms of extent, productivity and output. The food problem has been resolved basically, not only for domestic consumption but also for annual export of millions of tonnes. The farming has begun to shift to goods manufacturing.

However, the rural production is not consistent with large-scale requirements. It is still modest, scattered and mainly derived from households growing rice, industrial perennials, fruit and breeding poultry. The rural infrastructures remain poor and develop unevenly, not meeting conditions of industrialization and modernization. The rural economic restructure is slowly, the work-force redundant, job insufficient, and farmers' income low. The income gap between rich and poor farmers, as well as city and countryside is

widening... This situation is attributed to the shortage of necessary conditions for rural development, especially productive forces and the Government's investment. This area's capital accumulation is too low, as such, the rural development toward industrialization and modernization - construction of an advanced agriculture - is a strategic matter.

The current rural industrialization and modernization require both high economic growth rate and social stability, that is, generating more jobs, reducing unemployment and wealth difference between farmers, increasing income and social welfare, and shortening the gap between urban and rural areas. To reach these targets, the system of material base of agriculture and rural sector should be built and developed.



farm production should be shifted to industrial one step by step. In addition, the rural network of infrastructures should be perfected and technological achievements applied to production and services in rural areas, with the aim to increase output, product quality and economic performance and restructure the rural economy effectively. Also, the rural work-force employment, modernization of management and production models, development of human resources in line with the national industrialization and modernization are problems to solve.

To fulfil the rural industrialization and modernization soon, an appropriate percentage of capital sources should be earmarked for investment in rural areas with a view to:

- building, renewing, and perfecting the system of infrastructures; securing minimum conditions for investments; improving economic and living environment and ensuring the evolution of rural production;

- restructuring the rural economy based on the establishment of new economic structure of agriculture-industry-service including farming, forestry, fishery, processing industry, commerce, tourism and other services; and combining the industrialization and the restructure of working population in agriculture across the country;

- developing post-harvest technologies, industries processing farm, forestry and marine products and rural services; gradually changing from extensive to intensive investments, and bringing Vietnam from agricultural economy into industrialized one;

- ensuring food security; increasing the number of industrial perennials, vegetables; making the husbandry one of main production areas; expanding the area of forests, and greening the bare hills and developing fisheries.

To reduce the fraction of agriculture to GDP and labor redundancy, the following solutions should be implemented:

- developing rural infrastructures (roads, irrigation, electricity, clean water, marketplaces, schools, health stations...) by local government budgets and public money; these infrastructures should be built as preconditions for rural evolution.

- revitalizing traditional occupations, occupational villages; creating new occupations and expanding medium- and small-size industries;

- step by step restructuring the rural labor by generating additional non-farm jobs in rural areas; building plants and economic establishments, as well as upgrading cities to attract workers from their vicinity;

- making policies that encourage and mobilize every source of capital to fully tap the country's existing potentials for rural development and favorable conditions for collective economy to grow, thus giving active assistance to family economy.

To carry out these solutions, relevant agencies should effectively use financial and monetary instruments with the aim to attract financial potentials for rural progress. Initially, from now until 2010, the following measures should be taken:

- (1) Financial policies applied to agriculture and rural areas in the period of industrialization and modernization should be consistent with economic policies in the 2001-2010 period.

- (2) Regarding investment policies, rural development in the process of industrialization and modernization is considered as the nucleus in the Party's economic development strategy in the current stage and the next years. To intensify farm production and rural economic restructure, investment policies should be reformed basically, increasing the state budget for agriculture to some 30%. The government should generate incentives to attract public funds for the construction of rural infrastructures, creating favorable environment for foreign investment in farming and prioritizing aid projects to rural areas at most. The state capital for rural development investment should be distributed following the principle: focusing on those areas having natural and socio-economic conditions favorable for large-scale production, thus acting as a lever to help other areas develop and avoiding equal investments in all areas. The key projects for farm production such as dykes, dams, and main irrigation works should be built. The investment orientation is as follows:

- Increasing investment capital for rural development including capital construction in terms of volume and ratio, mainly increasing the investment percentage for this area from 20% in 1999, 23% in 2000 to some 28%-30% of the gross investment in 2010 in line with the requirement for annual 4 to 5-percent growth rate in the next 10 years. The state capital investment is required

to rise from VND20,000 billion in 2000 to 30,000-33,000 billion in 2010, credit from 30,000 to 50,000-55,000 billion. The investments in agriculture, forestry and fishery should be redistributed in favor of irrigation projects, rural infrastructures and support services.

- The foreign direct investment is estimated at US\$2 billion including 1.5 billion in farm industrialization. The trend is to build and upgrade projects of irrigation, electricity, and farm mechanization.

- Setting up village-based centers for rural development together with implementing programs on creating jobs; afforesting 5 million hectares; and making policies for revitalization of traditional industries and occupations with a view to attracting funds for reduction of rural labor redundancy.

- The Government should make legal frame more liberal to strongly mobilize domestic and foreign investments in agriculture and rural areas.

- (3) Perfecting the land policy such as expanding land limit and encouraging rich farmers to form large farms for processing and export.

- (4) Regarding tax policy on farming land use and rural charges:

- The farming land-use tax should be abolished in the long run, but in the next 10 years, the current tax should be cut by 50%, the poor provinces and districts, especially poor villages should be exempted from this tax from 2001. The sub-tax on areas exceeding land limit as well as import and export duties on farm products should be abandoned.

- Other taxes on manufacturing and services in rural areas should be cut or exempted significantly.

The measures of tax and charge reduction and exemption also aim to stimulate demand in agriculture and rural areas, increase farmers' purchasing power and speed up the process of national industrialization and modernization.

- (5) Developing rural financial markets by expanding state-run banks, branches of joint stock commercial banks and people's credit funds in rural areas to mobilize capital and supply credit for farm evolution; changing from mortgaged loans to fiduciary ones; and offering soft loans to those selected enterprises processing agro-products.

- (6) Making suitable policies to stimulate installment or deferred payment sales of farm machinery and equipment, building steel, cement or other materials for rural pro-



duction; encouraging consumption of local-made goods and expanding services in rural areas.

(7) Giving preferences to technical staff working in villages, especially in mountainous areas, highlands and challenging areas.

To receive maximum financial aids from international financial institutions, and developing countries for rural development, the following measures are suggested:

*First*, keeping macroeconomic environment stable to strengthen the trust of donors and Vietnam's reputation.

*Second*, practicing thrift to increase the percentage of reserve to GDP and continuing the reform of banking system.

*Third*, the legal system and policies concerning the management and realization of ODA-funded projects should be sufficient, integrated, liberal and consistent with international practice.

*Fourth*, regarding signed projects, the disbursement should be speeded up and the management improved, the use of loans supervised regularly with a view to securing the target, and all commitments to international financial institutions and foreign governments should be completed just in the early stage.

*Fifth*, to accelerate the project implementation, there should be an authorized establishment to receive, manage and monitor capital usage to develop the project effectively.

*Sixth*, the relevant agencies should take the initiative in finding the domestic counter capital for each project.

*Seventh*, the system of information should be fast, sensible and reviews are made regularly to draw experience on time for each project in a period.

Although the country's large farms have been revitalized recently, but they generated new promising signs in agriculture and producing far larger output as compared to agricultural households. These farms have implemented specialization and applied new technologies to production. To develop large farms and bring farmers into mass production, some following policies should be implemented:

-Land policy: Fully utilizing 3 million hectares of waste land and bare hills and some 1 million ha of untapped land to encourage farmers and other economic sectors to build large farms and specifying land limit in line with the value of land - use

right; granting land-use right to farmers in the long run with the aim to make them feel assured in developing their farms; and combining the farm expansion with the Government's programs on agricultural development such as afforesting 5 million hectares, breeding aqua-products, growing sugarcane...to set up large farms of forestry, agricultural and fishery.

Regarding populous plains, the Government should stimulate the establishment of small farms by making favorable conditions for the farm owner to lease land from poor farmers in the long run so that these farmers avoid selling their land to survive.

-Capital investment policy: is based on the socialization of capital supply to farms, and encouragement of farm establishment of economic sectors. In the early stage, farms' capital still depends on the bank credit. The credit should be regarded as loans given to rural production. The commercial bank may consider a farm as a special farming household when granting loans. The farm will receive credit in line with its value of land-use right and its feasible investment project. This credit may be higher than that of the common household. In addition, the bank should offer medium- and long-term loans to farms in accordance with their particular projects. As a result, the commercial bank should attract medium- and long-term deposits to supply credit to farms. Along with banks' loans, the ODA capital from other countries and international organizations should be disbursed fast and effectually to farm production. A particular fraction of these capital sources should be earmarked for investments in farms.

The state investment capital is used for directly implementing projects and alluring other capital sources for business expansion. This source plays an important role in socio-economic growth of the country on the whole and the agriculture in particular. In farming, the funds from the state budget should be concentrated on the development of infrastructures in remote and deserted areas with the aim to create favorable conditions for farms to take place and grow. This investment should be in compliance with the Government's plans. The state investment capital should be prioritized to the soil research and planning, and strain study for dry

and waste land and a part of the source is used for supporting price of strains, and technology transfer to newly founded farms.

Regarding capital policy for farms, the purpose and limit of using various sources of capital for farm production should be specified. The social programs such as job creation, hunger eradication and poverty alleviation should be combined with farm development for more efficiency. Farms' assets may be mortgaged for loans. To guarantee those farms which are not eligible for loans or face difficulties in the stage of development, a fund will be set up, a part of its finance is derived from the state budget but most of it come from the public and international financial institutions.

The forms of crop insurance in farms should be stimulated. This practice is feasible because the number of farms is still modest but their size and level of production are higher than those of farming households.

The Government should have detailed policies to promote domestic and foreign investments in developing farms, especially in waste land and bare hills. They include reduction of and exemption from land use tax and rentals in the first years, and interest rate support for the fund of developing farms.

-Policy on product consumption: At macro-level, the Government should be interested in finding markets, and relevant agencies should determine the structure of production in order that the farm's products are salable. The Government implements farm produce protection, preventing foreign agro-products from killing local ones. It should impose high taxes on imported agro-products, resolutely restrict import of agro-products at most and strictly control the flooding of foreign cheap and low-quality goods over local markets via border gates. The Government should sign contracts on buying farms' products, initially from planned farms and at the same time build plants processing agro-products for local consumption and export. When need be, the Government implement price support to help farms in the bumper harvest. In addition, the export duty should be reduced at most, agro-product export associations and overseas agents should be established to protect prices and interests of exporters.