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Keywords: Food policy, rice, political economy, Vietnam, Communist Party

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The political economy of policy exceptionalism during economic transition: the case of rice policy in Vietnam

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Abstract

The global food security agenda depends on the world rice market which is the thinnest among key cereal markets and often distorted by government interventions. Existing literature suggests that these interventions are not economically efficient. This paper focuses on the political economy of those interventions, asking why they were adopted. The answer is drawn from insights on Vietnam as a case study. Although by no means a representative case, Vietnam is chosen not only for being a key rice exporter but especially so for its unique success in overcoming the inherent tension between ‘socialist’ and ‘market-based’ objectives during its transition to a market-based economy, albeit with a socialist orientation. We find that rice sector in Vietnam has not been fully reformed to follow market rules despite Vietnam’s accession to the World Trade Organization. This is due to the interaction of economic liberalisation processes and the ruling Communist Party’s political survival strategy. In this context, seemingly economic disequilibria are shown to be stable, enduring policy settings. In open economy politics, the case reveals how economically sub-optimal policies may be ‘successful’ politically even in the face of what appear to be severe domestic political constraints on reform from external economic pressures.

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Keywords: Food policy, rice, political economy, Vietnam, Communist Party

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1. Introduction

The literature on the political economy of agricultural protectionism is heavily slanted to the analysis of advanced industrial countries. In this strand of work, agricultural policy is seen as ‘exceptional’ (Grant, 1995; Skogstad, 1998; Sheingate, 2003) with distinctive sector-specific institutions which protect not just agriculture as an economic sector but also the agricultural policy process itself from the pressures of open economy politics. Indeed, agriculture has often been seen as a paradigmatic case of policy exceptionalism more generally (Daugbjerg and Feindt, 2017); an economic sector that is treated as a special case in the policy process, with its own closed, elite level networks favouring to certain special interests over general welfare improving policy reforms.

Recent work has queried whether agricultural trade liberalisation related to the inclusion of the agriculture sector within the WTO in the 1990s has initiated a process of the “normalisation” of agriculture in policy terms (Daugbjerg and Feindt, 2017). This discussion is also catalysed by the unsettling effects of spikes in world food prices in 2007-08 and the re-emergence of a food security agenda after several decades (Grafton et al., 2015). Furthermore, the growing recognition of the part of industrial agriculture in climate change has generated speculation about agricultural policy being pulled from its exceptional institutional moorings. The evidence of deinstitutionalisation in the governance of the agricultural sector in advanced economies remains mixed; with the recently freighted term of “post-exceptionalism” used to describe a partial but incomplete shift away from the closed policy legacies inherited from previous eras. Agriculture remains different in several important ways and not an easy case for existing models of open economy politics (Daugbjerg and Feindt, 2017; Daugbjerg et al., 2017).

The paper presents a historical political economy of rice policy development in Vietnam. We argue that, contrary to the “post-exceptional” trajectory identified in developed economies, rice policy is becoming more exceptional in the context of an economy-wide transition from state socialism to open markets. We argue that the post-exceptional label does not describe accurately Vietnam rice policy or its trajectory under pressures of WTO ac-

cession. Further, this is a case study that is not represented in the existing literature on agricultural policy exceptionalism as Vietnam is a developing country in Asia and a one-party socialist state in transition.

We explore the case of Vietnam rice policy as an influential case of the kind of institutional dynamics at the interface of domestic and international policy-making in the context of state socialist policy legacies. The Vietnam rice policy case shows strong, and at least at the surface, unexpected resistance to market liberalisation in which the Communist Party's inherited policy legacy endures, and there is no observed partial shift in policy driven by external pressures. The paper provides a historical account of the centrality of rice to Vietnam's governing regime and its essential function in building and maintaining support and, in doing so, reveals a novel underpinning of exceptionalism in agricultural policy not previously catalogued in the literature.

In addition to being selected as an influential case of agricultural protectionism, rice is also an essential sector in itself: it plays a dominant role in the global food security and poverty reduction agenda. Rice is a staple of many poor people and consumed by half of the world population (Maclean et al., 2013). Its production involves about 860 million people, most of them are poor, being a primary source of their income (Dixon et al., 2001).

Global poverty reduction and food security benefit greatly from rice price stability. However, rice market is the thinnest among all cereal world markets, and full of policy interventions by both exporting and importing countries, thus making it the most volatile (Timmer, 2012). Indeed, government interventions were found to contribute to the surge in the world rice price in 2006–2008 (Headey and Fan, 2008; Dawe, 2010; Tadasse et al., 2016), with their impact accounting for approximately 45% of the surge (Martin and Anderson, 2011, pg. 426). Among these interventions, those by India and Vietnam as exporting countries and Philippines as an importing country played a decisive role.

This paper develops a political economy analysis on Vietnams rice policy interventions over time with a focus on why they were adopted and why they have endured during Vietnam's economic transition. Central to our analysis is the objectives of the ruling and the

only Party and institutional arrangements to serve those objectives. We argue that rice policy formulation, which involves the Party's top leadership, is critical to the Party's political survival, and underpins Vietnam's development story in the past, and likely in the future. This driver of agricultural exceptionalism is not currently considered in the literature.

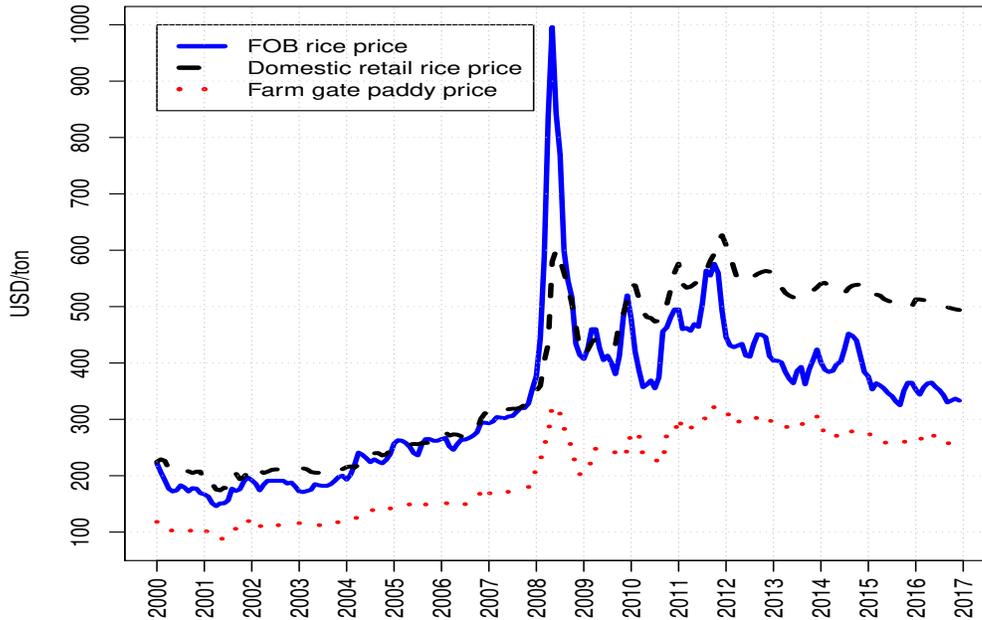
The paper uses both quantitative and qualitative data, which are both historically specific. In particular, the quantitative data describes market trends, while qualitative data aims to investigate the stickiness of policy-making institutions. Our distinctive contribution to the literature comes from our elite and semi-structured interviews with various stakeholders in the rice sector, and the tracing of the Party's resolutions since its inception, institutions and changes in institutions, and documents from various sources including press and media, all in historical contexts. To this end, we hope to be able to outline the key drivers of policy exceptionalism in the Vietnam rice sector.

Our research contributes to the literature in a few important ways. First, it offers an influential case study not only for Vietnam being a key rice exporter in the world, having a sizeable impact on the world rice market but especially how rice policy remains exceptional amidst the tension between socialist policy legacies and more recently introduced objectives of trade liberalisation in the formulation of rice policies during Vietnam's economic transition. On the one hand, agricultural policies with rice as its core underlying Vietnam's story which is arguably the most successful one in world development economics for having impressive economic growth success with little inequality. On the other hand, institutions in the rice sector are at times contradictory to market-based rules, as seen, for instance, in the recent and long-lasting wedge between its domestic and FOB prices (Figure 1). Second, it contributes to a growing literature that investigates political economy of agricultural policy¹. This literature has been critical to shedding light on policy exceptionalism in agriculture and food markets in both developing and developed countries².

¹See (Swinnen, 2010) and Anderson et al. (2013) for extensive literature reviews.

²At the risk of over-simplifying, other related areas that existing literature have focused on are implications of those interventions on food security, household welfare and poverty reduction and their links with and impact on bilateral/multilateral trade and global price/price volatility/food crisis. For the formers, for example, the impact of rice policies has been analyzed by Deaton (1989) for Thailand, by Minot and

Figure 1: FOB, domestic retail rice prices and farm gate paddy price



Sources: FOB prices are from IRRI (2017), domestic retail rice price and farm gate paddy price in Mekong region are from GSO (2017), exchange rates are from IFS (2017)

2. Data and methods

To answer the question why rice policy interventions have been adopted in Vietnam, we apply a process analysis of both quantitative and qualitative data.

2.1. Quantitative data

Trends are described at both macro- and micro-levels using quantitative data. In particular, at macro-levels, we use aggregate statistics on population, gross domestic product (GDP), imports and exports, prices from various sources, notably Vietnam’s General Statistics Office (GSO), Food and Agriculture Organization (FAO), and International Rice Re-

Goletti (1998); Ghosh and Whalley (2004); Ha et al. (2015) for Vietnam, by Warr (2008); McCulloch (2008) for Indonesia, by Martin and Anderson (2011); Anderson and Nelgen (2012); Ivanic and Martin (2014) for the world. For the latter, see their impact on bilateral trade between Bangladesh and India in (Dorosh, 2008), among Southeast Asian countries Hoang and Meyers (2015); Alavi and Htenas (2015), world prices by Headey and Fan (2008); Anderson and Martin (2009); Dawe (2010); Timmer (2012); Tadasse et al. (2016) just to name a few.

search Institute (IRRI). At the micro-level, we use three household living standards surveys in 1993 (the first survey of this kind in Vietnam) and in 2004 and 2014 to capture the trend in consumption and production at the household level at a 10-year interval.

2.2. Qualitative data

Qualitative data come from two sources including secondary and primary data. The secondary data include documents issued by Vietnam's authorities, especially the Communist Party of Vietnam (CPV) and Government of Vietnam, news and media as well as existing academic studies. A review of this information focuses on the direction of the leadership in Vietnam revealed in the party's documents and the government's socio-economic development strategies and plans, and how they are translated into legal documents for implementations.

The primary data comes from a series of both elite and systematic interviews. These interviews were to address the knowledge gap arisen from possible inconsistency between written plans, strategies and legal documents on the one hand, and their implementation on the other hand due to the dramatic economic transition in Vietnam and its starting level. They also provide us with information that is not available using secondary data.

2.2.1. Sample selection

Based on a desk research on the structure of Vietnam's rice market and rice market management, our sample includes stakeholders grouped into six categories as below:

- Category 1: policymakers at both central and provincial levels.
- Category 2: rice export companies.
- Category 3: banks.
- Category 4: rice experts from universities, research institutes and non-governmental organizations.
- Category 5: rice millers, wholesalers and collectors.
- Category 6: rice farmers.

Category 1 consists of agencies involved directly in regulating and monitoring the domestic rice market. At the central level, they include the Government Office (GO), the Ministry of Finance (MOF), the Ministry of Trade and Industry (MOIT), the Ministry of Agriculture and Rural Development (MARD), and the Vietnam Food Association (VFA). At the provincial level, they include the Provincial People's Committee (PPC), the Departments of Planning and Investment (DPI), Trade and Industry (DOIT), and Agriculture and Rural Development (DARD). In each of those agencies/organizations, we planned to interview one to three officers in a division(s) that takes charge of rice/the rice sector.

In category 2 are food export companies. The most important ones among those are Vietnam Northern Food Corporation (VNF1) and Vietnam Southern Food Corporation (VNF2) who are the largest and state-owned trading food companies, serving as an essential tool of the government to control Vietnam's rice market. In addition to these two corporations, we planned to interview some state-owned provincial food companies because they are crucial to the implementation of rice policies at the provincial level. The sample of category 2 also includes some private rice companies to investigate any discrimination in treatment by government agencies/policies towards them due to their ownership.

The sample in category 3 focuses on the support to rice exporting companies and farmers in terms of subsidized credit and interest. Here we include the State Bank (SBV) as the main policy maker and the Bank for Agriculture and Rural Development (Agribank) as the main policy implementer in this regard. One to two commercial banks were included in this planned sample to get variation in opinions.

Category 4 includes representatives from academia, research institutes and non-governmental agencies who have expertise on rice/rice policies in Vietnam. Meanwhile, categories 5 and 6 comprise of representatives from wholesalers, millers, collectors and farmers selected in main rice-producing provinces, namely two in the Mekong River Delta (i.e. Can Tho and An Giang) and one the Red River Delta (i.e. Nam Dinh). We try to reach millers, traders and farmers of different production scale to collect as diverse information and opinions as possible.

2.2.2. Questionnaire

Table 1 shows an interview content discussed with our interviewees. It is designed based on the role and responsibility that different stakeholders have in the rice market. There are two kinds of questions including open-ended and closed. The former is applied mostly to elite interviews with policy makers, banks and rice experts; the latter is used for categories 5 and 6 while a combination of them is asked in interviews with rice exporting companies. Furthermore, depending on the pace of an interview, the background and knowledge of the interviewee, different questions are raised to get answers for our questions of interest.

Table 1: Interview contents and interviewee groups matrix

No	Interview content	Cat. 1 Central	Cat. 1 Provincial	Cat. 2	Cat. 3	Cat. 4	Cat. 5	Cat. 6
1	Rice policy objectives	X	X			X		
2	Rice policy makers and implementers	X	X			X		
3	Domestic rice market stabilizing tools	X	X			X		
4	Rice export managing tools	X	X			X		
5	Government support for the rice sector	X	X	X	X	X	X	X
6	Dominant rice wholesalers		X	X		X	X	X
7	Dominant rice retailers		X	X		X	X	X
8	Exported and domestic rice comparison		X	X		X	X	X
9	Domestic rice price changes	X	X	X		X	X	X
10	Main difficulties with the domestic rice market			X		X	X	

2.2.3. Interview process

The field survey lasted about 2 months, from December 2016-January 2017. As seen in Table 2, we succeeded in reaching almost all planned interviewees, except VFA and VNF2

who refused to participate in our survey. As almost all interviewees in Vietnam asked for questionnaires in advance, we sent them to all groups.

Table 2: Intended versus actual interviewees by category

Agencies	Intended interviews	Actual interviews
Category 1: Central agencies		
Government office	1	1
Ministry of Industry and Trade	3	1
Ministry of Finance	3	2
Ministry of Agriculture and Rural Development	4	4
Vietnam Food Association	2	0
Category 1: Provincial agencies		
Provincial People's Committee	3	3
Department of Industry and Trade	3	3
Department of Finance	3	2
Department of Agriculture and Rural Development	3	3
Category 2: Rice companies		
Vinafood 1	1	1
Vinafood 2	1	0
State-owned provincial food companies	3	3
Private companies	10	9
Category 3: Banks		
State Bank of Vietnam	2	1
Agribank	1	1
Other commercial banks	2	1
Category 4: experts, research institutes and universities	10	11
Category 5:		
Wholesalers and millers	6	5
Collectors	9	7
Category 6: Rice farmers	15	15
Total number of interviewees	85	73

3. A political economy of Vietnam from the rise to power of the Communist Party to the Innovation (Doi Moi) Policy

Established in 1930, Communist Party of Vietnam (CPV) founded by Ho Chi Minh follows the Marxism-Leninism political ideology. As a result, two key goals stand out in

CPV's strategies and directions. They include the absolute power of the party over the state and the society and the development of a society with social equality. The creative application of the Marxism-Leninism political ideology contributed to CPV's success in leading Vietnam to independence and reunification through victory in two resistance wars against France and the US. Nonetheless, it was also partly responsible for a socioeconomic crisis that led to the party's adoption of the Innovation (Doi Moi) Policy. In this process, rice- and agriculture-related policies were of particular importance and are discussed in this section (Table 3).

3.1. From party establishment to country reunification

This period witnessed a fight for independence, followed by resistance wars against France, and later the United States. Reunification of Vietnam was not achieved until April 1975. Two main objectives set by the party for this period: (i) carry out the people's national democratic revolutions to gain independence and liberalize the country, and (ii) development of communism. To achieve these objectives, CPV which was called the Labour Party of Vietnam (LPV) then, emphasized and effectively used armed propaganda and political activities to build "people's army" in "people's wars" (Giap, 1962).

Part of the party's political activities was the use of rice-related policies to gain support from the poor. Of these, two stood out. The first one was the slogan "land for tenants" initiated by the party in 1938 in the context of agrarian polarization when the wealthiest 2.5% of landholders owned 45% of all rice land while the poorest 72% of peasants accounted for only 15% of the riceland (Kiernan, 2017). The second one was the party's instruction "to break open Japanese paddy stores to cope with starvation" in the face of the worst famine experienced in March 1945³ which took lives of 1–2 million people in the North of Vietnam (Moise, 1983). Following this instruction, the Viet Minh⁴ mobilized poor people

³The famine happened due to the exploitative colonialism by Japan and France, the passivity of the Japanese-backed regime, natural disasters in late 1944, and difficult transportation due to the attack to Japan's routes of supply transportation from the South to the North of Vietnam during the World War II (Gunn, 2014).

⁴The Viet Minh is a short name of Viet Nam Doc Lap Dong Minh Hoi which means the League for the

Table 3: Historic milestones of Vietnam under the leadership of the Communist Party, 1930-1986

1930 ...	●	CPV established.
1945 ...	●	August Revolution; Independence declared.
1946 ...	●	Resistance war against France started.
1953 ...	●	Land Reform Law.
1954 ...	●	The war against France ended; Geneva Agreements temporarily divided Vietnam into North and South.
1958 ...	●	North Vietnam started collectivised production.
1975 ...	●	Reunification; Asserted the direction to communism.
1976 ...	●	5-year plan to advance to the social mass production, bypassing the stage of capitalist development.
1977 ...	●	Cambodian-Vietnamese war started.
1978 ...	●	Joined Comecon trading block.
1979 ...	●	Sino-Vietnamese war (1 month).
1980 ...	●	Constitution guaranteed CPV's sole leadership.
1981 ...	●	CPV's Directive 100 allowed a contract system; Governments' Decisions 25-CP and 26-CP allowed enterprises have production plans additional to the state allocated plan.
1985 ...	●	CPV's Price-Salary-Money reforms implemented to remove bureaucratic concentration mechanism-subsidy but failed.
1986 ...	●	Hyper-inflation of 775%; CPV launched Doi Moi (Renovation) Policy.

to break open thousands of rice stores under Japan's control to get rice for redistribution to hungry people (baomoi, 2011). This movement at the height of the famine had boosted the popularity of Viet Minh among the peasants and working masses, thus raising their support and involvement in the August revolution which led to Vietnam's independence in September 2nd, 1945 (Gunn, 2014; Moise, 1983; Kiernan, 2017).

The popularity continued to increase due to the way the hunger was addressed after an interim government of Vietnam was formed. In particular, the then president Ho Chi Minh identified two measures to address famine. First, an 'emergency' measure was a movement to give up a meal every ten days to save food for relief. Second, a 'solve-the-problem-at-its-root' measure was to increase production. A decisive factor was to plant non-rice crops such as corn and cassava on all available and suitable land as at that time, from the end of 1945 to the early 1946, it was not suitable to plant rice. As a result, the output of non-rice staple food increased by four-fold compared with that before 1945, being equivalent to about 506 thousand ton of paddy, which was enough to cover the food shortage, solve the hunger problem and reduce rice prices in 1946 (Tuoi Tre, 2005). This victory brought about high confidence and faith of most Vietnamese in the Viet Minh since it was achieved in an extremely difficult situations caused by natural disasters, difficult transportation, external invasions and natural resources exhausted by colonialists (Tuoi Tre, 2005).

Shortly after gaining its independence, in December 1946, Vietnam had to wage a resistance war against the invasion by France. Given the dominance of France's army due to it being well-resourced, the resistance forces had to retreat to the mountainous areas. To develop political bases in the delta region and among the population of whom 90% were farmers, policies related to agriculture and farmers were central to the LPV's political agenda. In particular, LPV issued a few directives on confiscation for redistribution of land owned by "Vietnamese traitors" (in 1949), redistribution of communal land (in 1952) and rent reduction (in 1953). However, the impact was not substantial (Moise, 1983). In this circumstance,

Independence of Vietnam in English. It was formulated in China in 1941 by Ho Chi Minh, led by LPV but open to persons of various political persuasions. It operated as a national front organization to lead the struggle for Vietnamese independence from French rule.

LPV decided to proceed a land reform. A draft Land Reform law was discussed at the first national congress of CPV (Term II) in November 1953 which was passed by the National Assembly in December 1953. The law, which was applied mostly in the North due to the Geneva Agreements⁵, specified how different land and production means were confiscated for redistribution to landless and poor people. Despite of mistakes in identifying and executing landlords, this reform has successfully established private ownership of land for former tenants who accounted for 50–60% of the rural population due to its equity redistribution criteria (Ha, 2006; Moise, 1983).

After completing the land reform, the North transited to communism from 1958 towards the late 1970s. Key to this transition was collectivisation of agricultural production. The reason was two-fold. First, LPV aimed to build a command economy where the state controlled all production, trade and distribution/redistribution. This aim could not be achieved without collective agricultural production because this collectivisation would facilitate state purchase of agricultural products for food supply in urban and industrial areas, input supply for factories, and [state revenues] for exports (LPV, 1959). Furthermore, it would also hamper the development of private traders – a form of capitalist economy. Second, collectivisation of agricultural production would remove the tenant-landlord relationship entirely and develop a classless rural Vietnam which would not happen otherwise in the context of private agricultural production, private ownership of land and production materials and materials (LPV, 1959).

In this light, collective agricultural production was implemented in the form of agricultural collective cooperatives which developed from a low-level to a high-level. For low-level cooperatives, mostly during 1958 –1960, land and other production means were used collectively but owned privately, and cooperative outputs were distributed on the basis of both land and labour contribution (Ha, 2006). Early failure was evident with paddy output dropped by

⁵Geneva Agreements arranged a settlement which brought about an end to the war against France. According to these agreements, France agreed to withdraw the troops from Vietnam which was temporarily divided along the 17th parallel until elections could help to unite the country. These elections were never held since it was widely believed that Ho Chi Minh would be elected.

3%, rice yield reduced by 190 kg/ha, and farmers' confidence in collective farming declined (Ha, 2006).

Nonetheless, collectivization was pushed quickly further with the implementation of high-level cooperatives, mostly during 1960–1975. This implementation transformed the rural sector into a command economy: farmers purely worked as hired labour, owning no land or production means; cooperatives as decision-making units, operating in line with an “overall” plan from above; all cooperative inputs/outputs were supplied/sold by/to state-owned companies at pre-determined prices (Ha, 2006). Further failures were seen as sharp reduction in agricultural production: reduction in total cultivated land area and rice land area were 5% and 8%, respectively; reduction in cattle stock was 18%, all led to food deficit and increasing food imports (Ha, 2006).

Meanwhile, the party's political strategy in the South involved, *inter alia*, a far better agrarian policy compared with that of the South Vietnam's government, thus playing an important role in winning people's support. In particular, in the areas controlled by National Liberalisation Front (NLF) which was supported by the North Vietnam, land policies focused on land redistribution with decisions made at the village/hamlet level, rent reduction and higher farm wages. As a result, landlordism had been abolished and the rent in these areas was as much as a quarter of that in the areas controlled by the South Vietnam's government (e.g. 5–10% versus 25–40%)(Callison, 1983). This comparison had imposed a threat to security in areas controlled by the South Vietnam's government, hence contributing to its fall (Ha, 2006).

3.2. 1975 – 1986: from the country reunification to the Doi Moi policy

After the fall of Sai Gon, Vietnam was reunified in April 1975. At this time, the party emphasized two goals including the dictatorship of the proletariat and the building of communism in the whole country (LPV, 1975). For the former, the country adopted the name of the Socialist Republic of Vietnam in July 1976 after a general election to the national assembly; the party changed its name into CPV in 1976, and had its absolute power over the state and the society incorporated into a revised constitution passed by the National As-

sembly in 1980⁶. For the latter, the CPV led by Mr. Le Duan set forward a 5-year plan for the country to advance “fast, strongly and directly to the social mass production, bypassing the stage of capitalist development” despite evidence of the failure of the command economy in the North (CPV, 1980). At the heart of this plan was the development of districts into agro-industrial complexes, following a model first introduced in the former Soviet Union and was later popular in smaller socialist countries (Rama and Või, 2008).

The plan had severe adverse consequences for Vietnam’s economy. Production grew more slowly than population did rather than 14 - 15% as forecasted in the 5-year plan (CPV, 1979). The problematic situation was worsened by the loss of crops in 1977-1978 due to natural disasters caused. The wars with China and Cambodia brought about criticism from all quarters and costs while the assistance from China ceased. The tension with China led Vietnam to join the COMECON trading block in 1978, with the consequences of much higher prices for imports.

The stagnating economy provoked change from below in the form of ‘fence-breaking’ experiments by local leaders. The first experiment was initiated in agriculture possibly because agricultural commodities are necessary for life, thus being critical for social order maintenance. Since collective production gave farmers no incentives to work hard, farmland was left idle and unattended while food was in shortage. After carefully inspecting and consulting with farmers, in 1966, at the height of the collectivisation, Mr. Kim Ngoc, the Party Secretary of northern Vinh Phuc province, proposed the household contract system, according to which communes assigned land to individual households in exchange for a specified output or a quota. Any output above this quota was allowed to be kept by the households. This system was strongly supported by farmers, resulting in much higher output and household living standards, thus being scaled up throughout the province. Nonetheless, as the leaders’ determination to expand collective production was very high at that time, Mr. Kim Ngoc was severely criticized by Mr. Truong Chinh, who was then the Chairman

⁶The party’s first national congress, Term IV (LPV, 1976), agreed on changing the name of LPV into CPV while the 9th Central Committee Congress (Term IV) in 1980 agreed on changes to a revised constitution (LPV, 1980). The name of the country was changed

of the National Assembly, and the experiment was terminated.

By 1979, Vietnam confronted an economic crisis. Food was not sufficient even in Ho Chi Minh City despite being near the ‘rice basket’ Mekong river delta. Fence-breaking experiments became bolder and more prevalent to address frustration at the local level and avoid starvation. For example, in the late 1970s, in Doan Xa commune in northern Hai Phong province, ‘sneak contracts’, which farmed out land to individual households, resulted in a six-fold increase in crop volume and helped stop their dwellers from leaving the country to become beggars (Dang, 2013). In the South, to ensure sufficient food in Ho Chi Minh City, the city’s food company with endorsement by the city’s Party Secretary Vo Van Kiet at that time, had to purchase rice throughout the Mekong delta at the market price in spite of its being five times higher than the price set by planners in Hanoi (Dang, 2013). Fence-breaking also happened in other sectors such as imports exports, with the establishment of companies with names beginning or ending in ‘imex’ to directly handle foreign trade and circumvent bottlenecks due to Vietnam being part of the COMECON block (Rama and Või, 2008).

In the context of demand not being continuously met by supply, CPV leaders became more open-minded to policy reform than they had been after the reunification. Some of the top [and conservative] leaders made multiple trips to the field to observe fence-breaking experiments directly. No sanctions were imposed, or any experiments curtailed, but rather a spirit of ‘let’s see how it goes’ prevailed (Vnexpress, 2016). The clear signs of their tolerance of this creeping market economy were evident in the resolution of the party’s 6th Congress (term IV, September 1979). In particular, it emphasized the need to free production, modify the pricing and distribution system, encourage state, collective and households unit to increase production which was allowed to be traded freely, encourage industrial and manufacturing production for exports. In 1981, the approach was made more specific in agriculture with the issuance of Directive 100 on the contracting system. This system allowed cooperatives to assign land to farmers or a group of farmers in exchange for a specified output or quota. Farmers were allowed to keep the amount exceeding the quota, thus being encouraged to exert effort in their farming. Similar changes were seen in industrial production, where

enterprises were allowed to develop additional plans (plans 2 and 3) in addition to the plan assigned by the state (plan 1) and sell the additional output in the market (Decisions 25-CP and 26-CP dated 21/1/1981 issued by the Government).

Despite evidence that the economy was starting to improve as a result of this new approach, a fresh crisis hit. Since 1982-1983, prices were driven high due to too much competition [and demand] for too little [extra than state-planned] goods produced. CPV carried out reforms on price-salary-money in 1985 to remove bureaucratic concentration mechanism-subsidy⁷. But the reforms failed, resulting in a hyper-inflation of 775% in 1986, and continued to be 3-digit in two following years. This hyper-inflation further eroded the trust in the leadership of local populations. Food including rice was in serious shortage, and rations of six necessary food items⁸ were sold using stamps. In this situation, Vietnam's leadership initiated, in a top-down manner, a new economic model based on the principles of a market economy. To this end, the party's sixth national congress adopted Doi Moi (Innovation) policy to transform the Vietnam economy away from central planning to one in which the market governed.

4. Rice policy: socialist policy legacies in market transition

4.1. Economic context: The importance of rice in Vietnam

Rice has played essential role in Vietnam's history, culture and economics. It has been cultivated in Vietnam for thousands of years, as part of wet rice civilization in Southeast Asia. At the household level, rice is important for households' living standards, especially in rural areas. Figure 2 represents household per capita consumption and household probability to

⁷The idea of these reforms was to account for all production costs based on their market prices and pay workers the wages that were commensurate to the actual cost of living. All state subsidies were to be removed, and money was to be printed based on this so-called 'socialist accounting system'. However, enterprises managed to get low prices for their inputs, thus affecting the state revenues, while workers managed to get high salaries, hence affecting the state budget. To cover the budget deficit, more money was printed, money notes were changed to save the printing cost, and only a fixed amount of money could be exchanged per each household, etc. This caused chaos in the monetary market, which in turn affected the good market.

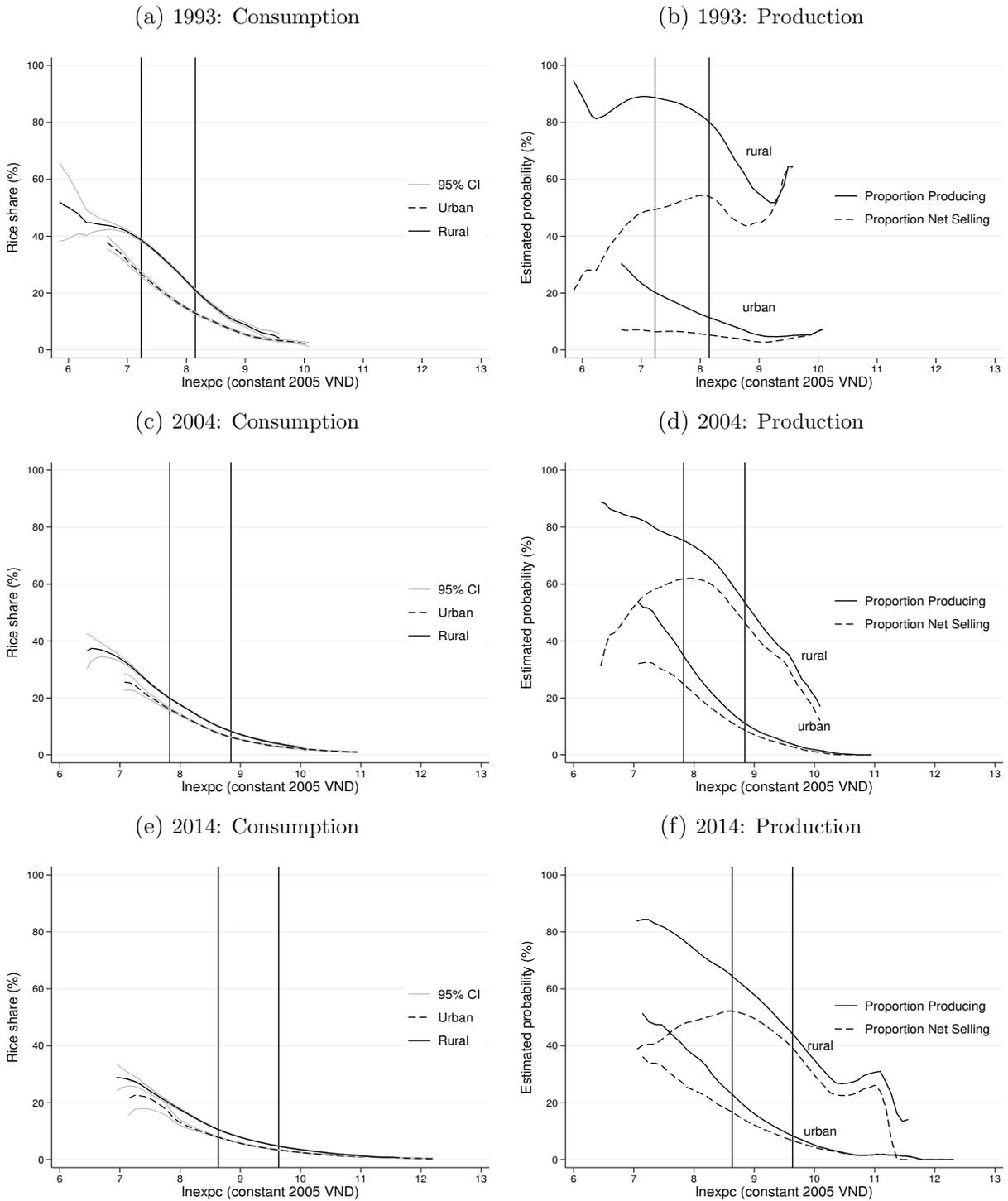
⁸The six necessary food items include rice, pork, fish sauce, sugar, fuel (charcoal, firewood, oil) and laundry soap.

produce and sell rice against its wealth. This wealth is proxied by its logarithm of expenditure since logarithm makes the distribution closer to a normal one and reduces variance while income is hard to be measured precisely in Vietnam. As can be seen, as much as 88% and 80% of the rural 20th and 80th households, respectively, were involved in rice production in 1993 when the first household survey was carried out. The results make sense given the context Vietnam's economy then was dominated by agriculture after decades of wars, international sanctions and an embargo by the US, as well as being a command economy. The rapid transition since the adoption of the Renovation policy in 1986 has witnessed many institutional changes, which in turn results in substantial economic restructuring with a smaller contribution by agriculture. In this light, the probabilities of producing rice of the rural 20th and 80th households fell sharply to 75% – 55% in 2004 and 65 – 43% in 2014 as the economy gradually shifted toward industry and services sectors. Nonetheless, these figures still reflect a widespread impact on rural employment and income in Vietnam by the rice sector.

On the consumption side, rice is the single most important staple. Its contribution to Vietnamese diet remains of significant importance in rural areas, despite the sharp fall in its share in the nation's average calorie intake. Indeed, rice accounted for almost 76% and 61% of the total calorie intake per day in rural and urban diets, respectively, in 1993 (Table 4). Two decades later, these numbers reduced by almost two-fold for rural dwellers, being 27%, and by four-fold for urban dwellers, being 13%. This said, as the nation gets increasingly richer, rice has lost its preeminence in Vietnamese diet but remains a principal food for rural dwellers who account for two halves of the population (Kompas et al., 2015).

Nonetheless, the decline of rice contribution in the total household expenditure has been dramatic. In particular, in 1993, rice accounted for 40 – 20 % and about 26 – 15 % of the rural and urban 20th and 80th households' total household expenditure, respectively. By 2004, the corresponding numbers were about halved, especially for rural dwellers, and they fell further to 10 – 6% and 8 – 4 % in 2014. This outcome, as expected, reflects the Engel's law which says that the poorer a family is, the larger the budget share it spends on

Figure 2: Evolution of rice production and consumption in Vietnam: 1993 – 2014



Notes: Data are from Vietnam Living Standard Survey (VLSS) 1993, Vietnam Household Living Standard Surveys (VHLSS) in 2004 and 2014. *lnexpc* is the logarithm of household expenditure per capita. Since income is hard to measure precisely in rural Vietnam, we use household expenditure per capita as a proxy for household wealth. The two vertical bars represent the 20th and 80th centile households.

nourishment.

Table 4: Share of rice and cereals in the total calorie per capita per day: 1993 – 2014

	Share of rice			Share of cereal		
	1993	2004	2014	1993	2004	2014
Whole country	73%	58%	21%	80%	63%	23%
Rural	76%	64%	27%	83%	68%	29%
Urban	61%	44%	13%	67%	49%	14%

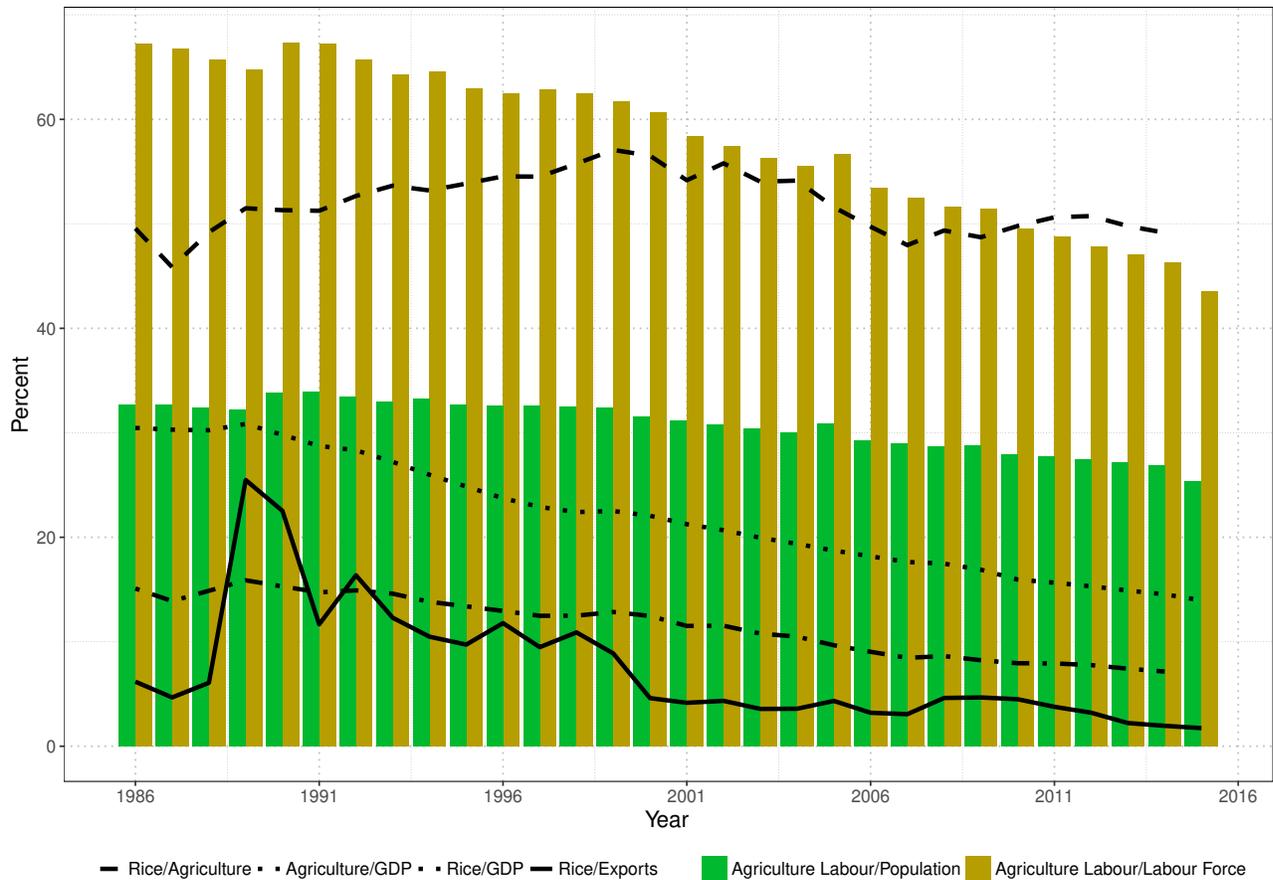
Notes: author calculation using VLSS 1993, VHLSS 2004, 2014 and the calorie conversion rates by National Institute of Nutrition (2017) and used in Trinh et al. (2017)

At the country level, rice has been economically important to Vietnam, but its role has gradually diminished as well. Towards the country reunification in 1975, rice production brought a fifth to Vietnam’s GDP (Figure 3). In the late 1980s and the early 1990s after the launch of economic reforms, starting in agriculture, and then liberalizing markets, rice exports accounted for a quarter of the total export revenues, thus being a primary source of foreign reserves that Vietnam badly needed. By the mid-2010s, however, rice contribution to Vietnam’s GDP and exports was merely 7% and 2%, respectively.

Having said that, rice production remains key in agriculture. Data since the early 1980s which is more reliable due to the wars prior that shows an entirely steady contribution of rice in the total agricultural product. Notably, while this contribution was about 53% in the early 1980s, it only fell slightly to 50% in the early 2010s. That means rice production has actually expanded in a shrinking agriculture sector. This expansion makes economic sense since Vietnam has comparative advantages in rice production and it is increasingly integrating into the global economy.

Not only economically important, but rice also plays an almost decisive role on development outcomes of Vietnam, especially the social outcomes. Since rice is the main staple and rural households are highly likely to produce and sell rice (Figure 2), its prices have a substantial impact on a household consumption and income. Meanwhile, the shares of rice in agricultural product and of agricultural labour in the population and the labour force in Figure 3 indirectly confirm a broad-based influence rice has on social outcomes such as

Figure 3: Share of rice, agriculture and labour (percent)



Notes: GDP = Gross Domestic Product. Data values up to 1975 is for the North of Vietnam only.
 Sources: Data are from Vietnam's General Statistics Office, ITC and FAO databases.

poverty and inequality.

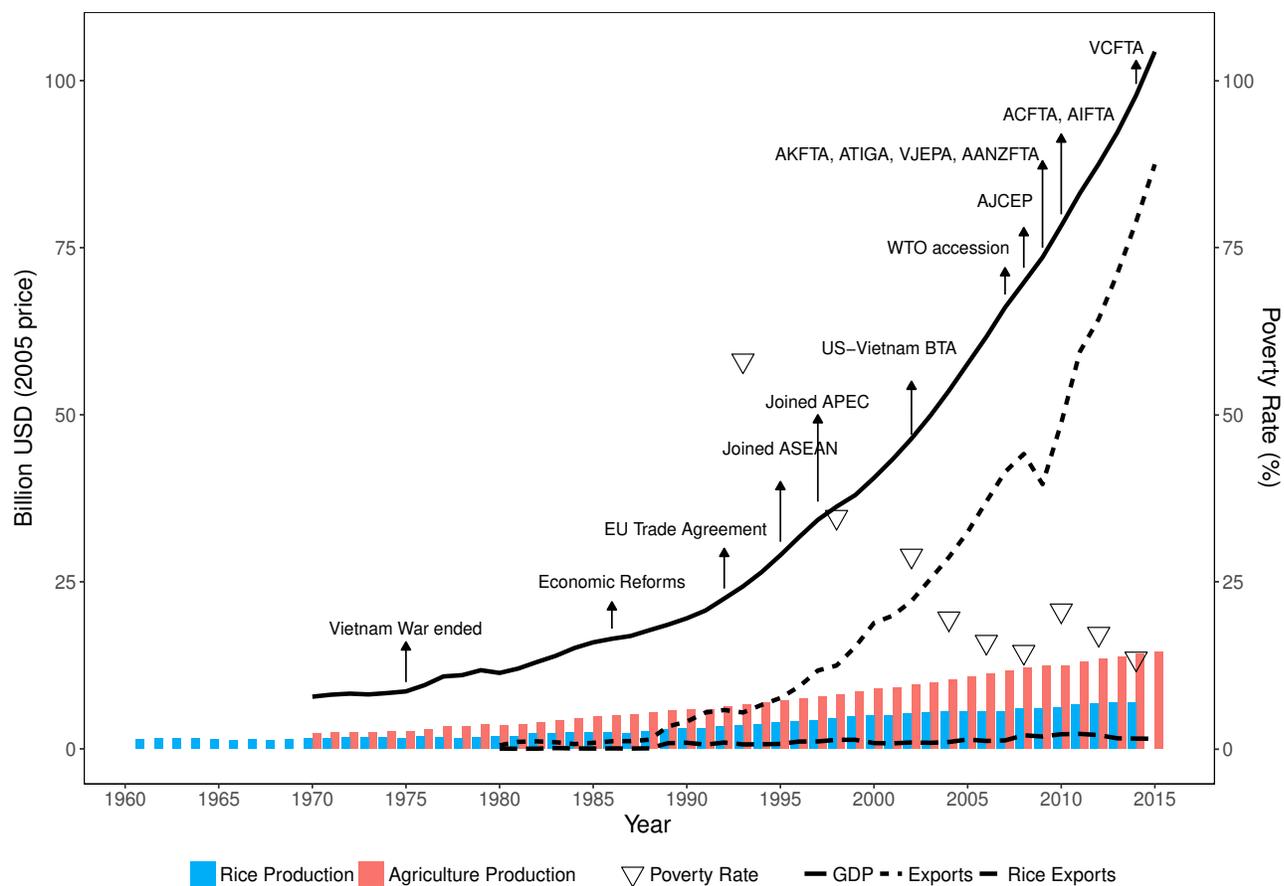
In the 1980s, Vietnam was among the poorest countries in the world, with GDP of 12.5 billion USD (2005 price). More than three decades later, its GDP increased by almost ten times, and Vietnam is now a middle-income country. From a relatively closed economy, it is now one of the openest economies in the world, with exports of goods and services accounting for almost 80% of GDP (Figure 4). In mid 1988, Vietnam was close to famine, prompting a request for emergency humanitarian aid from the United Nations. Yet in 1989, Vietnam was the third largest rice exporting country, and has since developed as a major global exporter of rice, coffee, black pepper, cashew nuts, and fish and fishery products.

Another relevant background feature to the development of rice policy in Vietnam is the inclusive nature of economic growth in recent decades. Precise estimates are not available but close of 90% of the population might have lived on less than \$1 a day in purchasing power parity (PPA) terms before Doi Moi (Rama, 2014). From 1993, when the first household living standard survey was carried out, until 2014, the national poverty rate fell by three quarters, from 58% to 13.5% (Figure 4, Table 5). The bump in 2010 was due to the change in the way the poverty line was calculated, but the downward trends using either poverty lines are clear. Inequality measured by Gini coefficients remains relatively constant in the range from 35 to 39%. HDI ranks 115 out of 188 countries, compared favourably with much richer countries (UNDP, 2016).

4.2. The development of Vietnam rice policy since Doi Moi

Since Doi Moi, rice production in Vietnam was initially boosted by two key policies on de-collectivisation: the Land Law that took effect in the January 1988, which assigned households the right to use and obtain benefits from the land leased from the state on a long-term basis; and the party Politburo's Resolution 10/NQ (Term VI) which ended most characteristics of the collective farming system, establishing instead a household-based one. Following the de-collectivisation, there were initial reforms in a market liberalization direction. For example, food market was liberalized by the party Central Committee's Resolution 06 (Term VI) issued in 1989 allowing farmers to freely sell their products in the

Figure 4: Inclusive growth



Notes: GDP = Gross Domestic Product; VCFTA= Vietnam Chile Free Trade Agreement (FTA); ACFTA=Association of Southeast Asian Nations (ASEAN) China FTA; AIFTA = ASEAN India FTA; AKFTA = ASEAN Korea FTA; ATIGA = ASEAN Trade in Goods Agreement; VJEPA = Vietnam Japan Economic Partnership Agreement; AANZFFTA = ASEAN Australia New Zealand FTA; WTO = World Trade Organization; EU = European Union;
Sources: Data are from Vietnam's General Statistics Office, ITC and FAO databases.

Table 5: Poverty and inequality

Indicators	1993	1998	2002	2004	2006	2008	2010	2012	2014
Poverty Rates									
Whole country	58.1	34.7	28.9	19.5	16	14.5	20.7	17.2	13.5
Urban	25.10	9.2	6.6	3.6	3.9	3.3	6	5.4	3.8
Rural	66.40	45.5	35.6	25	20.4	18.7	27	22.1	18.6
Gini indices									
Whole country	35.7	35.4	37	36.8	35.8	35.6	39.3	35.7	34.8

Sources: Vietnam (household) living standard surveys carried out by General Statistical Office in respective years. Poverty rates are the proportions of population with expenditure per person lower than a poverty line which is constructed as the cost of a basket of food and non-food commodities for basic needs (World Bank, 2012). Gini coefficients are in the range of [0%, 100%] where 0% means every person receives the same income while 100% implies that one person has all income and the rest has none.

market at the market price after fulfilling their tax obligations. To encourage exports, the exchange rate was unified, state monopoly of foreign trade was eliminated in the same year, and procedures were streamlined to motivate enterprises to export their products. Land use rights of farmers were further extended to include the rights to “exchange, transfer, inheritance, lease, and mortgage” in the Land Law 1993, which facilitated the use of land as collateral for credit (Table 6). However, the limit for land allocation and transfer was capped at three ha to avoid the emergence of landlords in the rural areas.

However, in this initial market liberalisation policy trajectory only state-owned companies could export because they were easier to control by the government (IFPRI, 1996). Initiatives to free exports in this period had the effects of high competition among exporting companies, low exports prices, and failure to implement some signed contracts, hurting Vietnam’s reputation (IFPRI, 1996). In response to these consequences, the 9th party Central Committee (Term VI) issued a direction on controlling markets and exports of rice in 1990:

“... fully control whole sales, and organize well the circulation of some key commodities in order to be able to stabilize prices .. ; ... quickly arrange exports and services organizations (both central and local) ...[to] avoid too much concentration and too much dispersion, ensure strict control of rice exports at the central

Table 6: Reforms and key milestones since Doi Moi

1986 ...	●	CPV launched Doi Moi (Renovation) Policy.
1988 ...	●	CPV's Resolution 10 decollectivized agriculture production; Land Law gave households a long-term use right.
1989 ...	●	Market oriented reforms; Unified exchange rate; State monopoly of foreign trade eliminated.
1990 ...	●	A two-tier banking system; Company Law and Private Enterprises Laws; Equitization of state-owned enterprises.
1991 ...	●	Troops withdrawn from Cambodia; The Soviet Union collapsed.
1992 ...	●	Trade agreement with EU.
1993 ...	●	Land Law gave households the "exchange, transfer, inheritance, lease, and mortgage" land rights; Normalized financial relationships with international financial organizations.
1995 ...	●	State Enterprise Law; Joined ASEAN; Normalized relationship with the US.
1997 ...	●	Asian Financial Crisis.
1998 ...	●	Joined APEC.
2000 ...	●	Enterprise Law issued and implemented; Securities Trading Center established.
2001 ...	●	Trade agreement with the US.
2005 ...	●	Competitive Laws in effect; Enterprise Law having little differential treatment by ownership to enterprises.
2007 ...	●	Official member of WTO; Global financial crisis.
2008 ...	●	Global financial and food crises.
2013 ...	●	Land Law.

level ...”

The policy counteraction to market liberalisation endures almost three decades later. Control over the wholesale market and exports of rice have been exercised through three

key institutions. The first one was state-owned food enterprises. The central food enterprise (Vinafood) was established in 1987, merging all big regional and provincial food companies, as part of urgent tasks on food production, distribution, circulation and consumption set in multiple documents issued by the party Central Committee and Politburo in 1987. Given the inherent North-South difference, Vinafood was separated into Vinafood 1 and Vinafood 2 in 1990, to enhance their effectiveness (Decisions 46-CP and 47-CP dated 17 July 1995). The former oversees all food companies north of Thua Thien Hue and has 29 members; the latter oversees all food companies south of Quang Nam Da Nang and has 31 members (IFPRI, 1996). These two enterprises were later promoted into state corporations in 1995 as part of the pilot model which established about 20 state corporations in key sectors of Vietnam (Decision 91-TTg dated 7/3/1994). Vinafood 1 and 2 have been tasked with ensuring food security, long-distance food trade and transportation, coordination of provincial and city food companies. In particular,

*“... Purchase, preserve, process, provide whole sale and retail sale, reserve, circulate food, agricultural products, **stabilize prices, ensure national food security...**”*

(Decisions 609/QD-TTg dated 25/4/2011 and 339/QD-TTg dated 7/3/2011)

The second institution is Vietnam Food Association (VFA) which was established in 1989⁹ and comprises of food producing, processing and trading food enterprises, most of them are state-owned. Its mission is to:

*“... coordinate business activities to protect appropriate rights of members and contribute to ensuring **food security**, satisfying domestic demands and exporting food to the world market in line with the state policies ... **Guide and administer imports and exports of rice and food stuff**”*

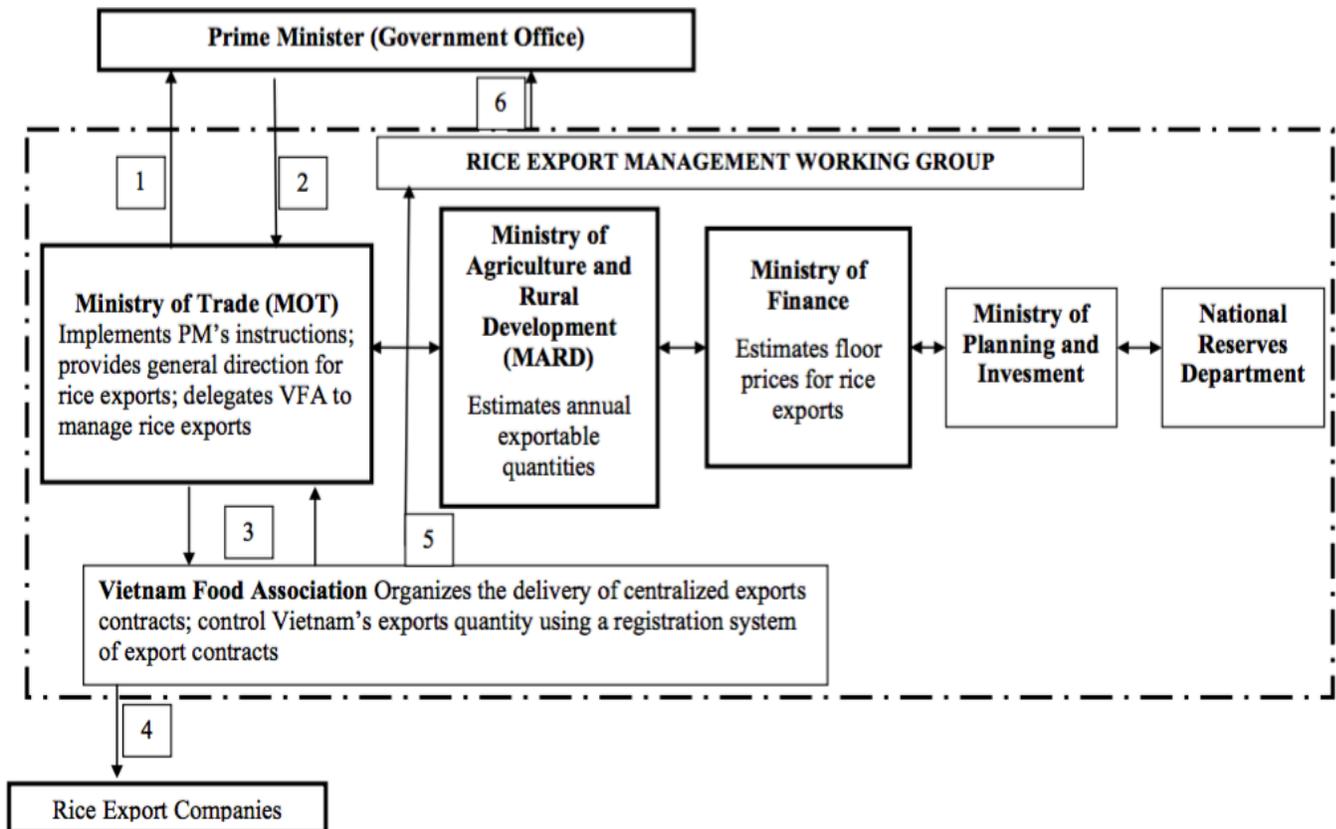
(Regulations of VFA, dated 3/10/2006 issued by Ministry of Home Affairs)

The third institution is an inter-ministerial management unit which is in charge of rice

⁹It was called Vietnam's Food Imports Exports Association when first established by Decision 727/KDDN-QD dated 13/11/1989. Its name was changed in 1999 by Decision 33/1999/QD-BTCCBCP dated 26/08/1999. Its latest regulations were promulgated in 2006. Like other associations, VFA was established based on Decision 64-HDBT on management of imports and exports issued in 1989 by the Council of Ministers.

export management. When first established, this unit was called a rice export management team and comprised of representatives from MOIT, MARD, MPI, MOF, SBV, the State Price Committee, Government Office, and some key food companies. In 1999, a rice export and fertilizer import steering committee was established. This committee took on an additional task of managing fertilizer imports, and also had representatives of key rice producing provinces and the chairman of VFA. Since July 2008, rice exports have been managed by a working group on rice exports which includes representatives from representatives from relevant government agencies and VFA (Figure 5).

Figure 5: Rice Export Management in Vietnam since 2008



Notes: Adapted from Dang et al. (2013). (1): MOT sends recommendations to Prime Minister (PM) on rice exports orientation every year; (2): Based on MOT's recommendations, PM gives guidance and delegates MOT to implement it; (3): MOT delegates Vietnam Food Association (VFA) to manage the rice exports; (4): VFA directly manages and directs rice exports; (5): If any issues arise, VFA reports to MOT and the Rice Export Management Working Group for resettlement; (6): Issues beyond the group and relevant ministries' responsibilities are submitted to PM.

Using these three institutions, Vietnam has attempted to balance policy objectives of

promoting rice production and exports with the achievement of socialist policy goals. These goals would appear to risk coherence in Vietnam's rice policy: on the one hand, Vietnam needs to liberalize domestic and exports rice markets to enhance efficiency in rice exports, which in its turn helps boost rice production, income and employment for many rural dwellers; whilst on the other hand, it supports a natural (group) monopoly over the rice exports market to obtain social outcomes such as equity.

This is a delicately balanced policy legacy whose institutions are under pressure from Vietnam's increasing integration into the global market which requires compliance with the commitments in bilateral/multilateral trade agreements. We periodize this dynamic between open economy pressures and sticky domestic policy institutions using salient policy changes: (i) the period from 1991-2000 when exports were controlled by quotas; (ii) the period from 2001-2007 when quotas were removed, exports were encouraged, and procedures for exports approval were streamlined; and (iii) the period from 2008 to present when food security emerged as a major concern in the world and fear of increasing inequality becomes more visible.

4.2.1. Period One: 1991 – 2000

Between 1991 – 2000, Vietnam recorded impressive results in economic development. It was one of the fastest growing economies in the world during 1992–1997: GDP grew at 8%–9.5% while exports at about 20% per year (World Bank, 1998). Industry was the fastest growing sector of the economy while agriculture output was doubled that before Doi Moi (World Bank, 1998). Vietnam had made substantial progress in expanding relationship with other countries outside the communist block. Notably, it signed a bilateral trade agreement with the EU in 1992, joined ASEAN in 1995 and APEC in 1997, and prepared for negotiations to become a member of WTO (Table 6). However, the Asian financial crisis in 1997–1998 encouraged the party to promote a self-reliance approach to *“develop agriculture and rural economy as a firm basis for socio-economic stability and development in any circumstances”* (Resolution 05-NQ/TW, 17/10/1998). This approach is added to the overall development view of CPV for this period: *“food production plays an important role to satisfy basic needs*

of people and ensure social stability” (Resolution 05-NQ/HNTW, 10/6/1993).

During this period, rice exports were controlled by quotas and unregistered exports were strictly prohibited. By 1994, there were about 50 rice exporting companies but rice exported concentrated in a dozen of companies. In particular, Vinafood 2 accounted a quarter of the total rice exports while the next 14 largest companies accounted for about 57% (Inter-ministerial Circular 02/TTLB/NN-TM, 06/02/1995). These 15 companies were called key rice exporting companies and had been allocated as much as 70% of quotas in 1995. Quotas were also allocated to provincial food SOEs based on their province’s rice output. Specifically, provinces which produced than 600 thousands ton of rice or more had two SOE granted with quotas while those producing 200 thousands ton of rice or more had only one SOE allocated with quotas.

In 1995, the market power of Vinafood 2 was further concentrated when being promoted into state corporations (together with Vinafood 1). These two central SOEs are among the first 22 state corporations which were established to ensure a leading role of the state in the industrialisation and modernisation of the economy (Decision 91/TTg dated 7/3/1994). Key exporting companies now confined to only Vinafood 1, Vinafood 2, and some provincial SOEs of major rice-producing provinces. In 1996, 80% of the quotas were allocated to Vinafood 2 alone for it to allocate among its subsidiaries (Dang et al., 2013).

Due to possible opposition from provinces against the dominating power of Vinafood 2, a more decentralized management mechanism was in place in 1997. In particular, the government allocated only 30–40% of the quotas to central SOEs (i.e. Vinafood 1 and 2). The remaining 60-70% of the quota was assigned to major rice-producing provinces of which the chairmen of the people’s committees could redistribute them to their provincial SOEs (Dang et al. (2013), Decision 0089/TM-XNK). The power of major rice producing provinces¹⁰ was further consolidated via their official representation in the rice export and fertilizer import steering committee established in 1999. In this committee, VFA presented

¹⁰These provinces included Long An, An Giang, Kien Giang, Tien Giang, Dong Thap, Can Tho and Vinh Long, all in Mekong river delta.

views of all SOEs members. Although central SOEs lost their representation at the steering committee, their CEOs normally took turns to lead VFA, and they had a substantial influence on all decisions made by VFA due to the dominating representation of their subsidiaries in this organization.

Vietnam further reformed rice exports sector in 1998. The reforms were in part to boost exports to help economic growth which fell from more than 8% to less than 6% due to the impact of the 1997 Asian Financial Crisis. They were also necessary in the medium term due to commitments in (on-going and forthcoming) trade agreements. Specifically, *‘regardless of ownership, any enterprises with business licences in food or agricultural products, can export rice’* (Decision 12/1998/QD-TTg, dated 23/1/1998). Furthermore, exports registration was replaced by an approval system, streamlining procedures of granting permission to export rice for enterprises. This reform was encouraging as it allowed food/agricultural products producers/traders to have a better and more direct access to the world market (Minot and Goletti, 2000). Besides, Vietnam subsidized exports of agricultural commodities through price support provided by an Export Support Fund¹¹ and used export taxes flexibly.

However, these reforms were counteracted by the changes in rice exports management in 2000, which favourably enhanced the market power of Vinafood 1 and Vinafood 2. In particular, they were assigned to sign all rice exporting contracts under government-to-government (G2G) agreements or influenced by the government which accounted for 50-60% of the total rice exports, and protected against competition from other Vietnamese rice exporters in these markets (Dang et al., 2013). After signing contracts, they could export up to 30% of the contract quantity and entrusted the remaining 70% to other exporting SOEs in exchange for up to 0.5% commission (Document 12/TM-XNK dated 17/03/2000).

Besides, the government used two direct tools to stabilize domestic prices to harmonize the interest of both consumers and producers. First was “floor” and “ceiling” domestic rice

¹¹Being established in September 1999, this fund aimed to cover the bank interest for the purchase of agricultural commodities when the world price fell, having adverse effects on domestic production; reserve agricultural products for exports; provide finite financial support for losses in exports activities of some commodities due to exogenous risks or the lack of competitiveness (Decision 195/1999/QD-TTg dated 27/9/1999).

prices which were determined by the State Price Commission. Second was the “floor price” for rice exports which was determined by MOIT based on the world rice price. Rice was allowed to be exported if being sold equal to or higher than the “floor price” (ACI, 2002).

In summary, Vietnam achieved food security and price stabilization set in Resolution 05 - NQ/HNTW, 1993 by using central SOEs with market power and exports quotas. On the one hand, this management makes sense because central SOEs with market power could coordinate production and demand to ensure sufficient rice for domestic consumption, and export surpluses. Their coordination deemed necessary since Vietnam as the whole can produce much more rice than its demand; however, except Mekong and Red River deltas, all regions are either food deficit or self-sufficient. Besides, “floor prices” of rice exports and domestic ‘floor’ and ‘ceiling’ prices set by government agencies, if done correctly, would help stabilize domestic prices and balance interests of different population groups, thus maintaining social equity and stability – the party’s political objectives. On the other hand, this arrangement was not the most efficient in economic terms. Not only that rice markets were fragmented with substantial price differentials across regions (Minot and Goletti, 1998; Baulch et al., 2008), these interventions also created opportunities for rent-seeking and corruption.

4.2.2. Period Two: 2001-2008:

This period was associated with an economic boom. GDP grew at a high and steady rate of 6%–7% until the financial and food crises in 2007-2008 (World Bank, 2011). Domestic reforms were carried to create enabling and equal investment environment for enterprises and enhance the competitiveness of the economy (Table 6). Securities trading centres were established to mobilize capital for the economy with stock market capitalization skyrocketing from 2 % to 40% of GDP from 2005–2007 (World Bank, 2008). At the same time, poverty rate continued to fall sharply, being halved from 2002 to 2008; Gini coefficients increased only slightly from 35.4% in 1998 to 37% in 2002 but fell back to 35.6 in 2008 (Table 5).

On input control, agriculture land, especially rice land, was protected against rapid urbanization and modernization following Resolution 05-NQ/TW, 1998. For the first time, rice land was classified separately from annual agricultural land (the 2001 Land Law revision).

With this classification, farmers were not allowed to plant any crops other than rice in the rice designated land, especially the wet one. To boost rice production via mechanization and economy of scale, the limit for land allocation and a transfer was increased from three to six ha in the Mekong River region and four ha in other regions in 2007 (Resolution 1126/2007/NQ-UBTVQH11, 2007).

Concerning market controls, Vietnam reformed its rice exports market in line with other domestic reforms and international practices. In May 2001, it removed the quota system and encouraged enterprises of all economic ownership to export rice and agricultural products. This removal aimed to promote competition among rice exporters, thus expanding Vietnam's share in the world market (Ha et al., 2015).

Despite this removal, the government's quantity control of rice exports has remained virtually unchanged. It was only transferred from a quota system into one of annual export targets which are found restrictive and binding (Nielsen, 2003). In this new system, VFA becomes a super civil association with authority to approve exports contracts, both in quantities and prices. In particular, it approved no further contracts once the total quantity of contracted rice exports reached the government's annual target which was set in consultation with the steering committee. It guided floor export prices to ensure rice was sold at a reasonable price for domestic consumers, profitable for farmers and business-efficient for exporting enterprises (VFA regulations issued by Ministry of Home Affairs, 3/10/2006). It also provided advice to MOIT (which acted on behalf of the Government) to assign enterprises to sign G2G contracts, and allocate these contracts to key rice producing provinces after considering the benefits for the signing enterprises. On top of this system was the absolute power of the prime minister to take any necessary measures to intervene in the rice market to *'ensure the benefits for farmers, stabilize agricultural production and the domestic market, reduce burden in rice production and circulation in face of price fluctuations in the domestic and world markets'* (Decision 46/2001/QD-TTg, 04/04/2001).

Besides, there was a lack of transparency in the interest that VFA was expected to present and that of large SOEs. In particular, the chairman of VFA during 2006-2014 was

Mr Truong Thanh Phong who was also the general director of Vinafood from 2003–2013. This combined responsibilities made it hard to isolate the interest of enterprises, versus those of the association, the province, and the country at large.

To this end, there was little diminution of the market power of rice exporting SOEs in the face of reforms. Precise estimates of central SOEs' share in the rice exports market are not readily available and vary by year, but patchy ones are revealing. For example, Vinafood 2 accounted for 42% and 36% of total rice exports in 2007 and 2008, respectively, while the corresponding numbers were 9% and 11% for Vinafood 1 (Pham and Nguyen, 2009; Tsukada, 2011). In the period 2010-2015, the two central SOEs accounted for about 60% of the total export quantity of rice (Baomoi, 2017).

The food crisis 2007- 2008 was a good example of how Vietnam used market-controlling institutions to achieve or fail to achieve social outcomes. During the price spikes, the government imposed two exports bans. The first one was a ban on the signing of all new export contracts beyond the annual export target, imposed from September 2007 to January 2008 based on a recommendation by the VFA in July of 2007 (Ha et al., 2015). The second one, which was considered as one of the key factors contributing to the world rice crisis, was from 25th March until the end of June, 2008 (Martin and Anderson, 2011; Childs and Kiawu, 2009). While the first ban might be an usual management practice, the second one was dramatic. It was later justified on the ground of general objectives in rice export management, namely to purchase all paddy at reasonable prices which were profitable to farmers; ensure food security in any circumstances; stabilize domestic prices at an appropriate level (Government of Vietnam, 2008).

Nonetheless, none of these objectives was achieved. First, farmers did sell all paddy as in any year but their revenues over costs fell sharply from an estimated 85% for the winter-spring season to only 20% for the summer-autumn one (Government of Vietnam, 2008) due to the export ban. Besides, even when SOEs succeeded in making a deal for rice exports at high prices, farmers got paid very cheap (Tran et al., 2013). For example, for the export contract of 1000 ton of rice signed by Vinafood 2 with the Philippines at the price of \$1200/ton rice

in April 2008, farmers were paid about \$US 0.47/kg (Agroinfo, 2009). Second, food security was not ensured both concerning availability and affordability. In fact, supplies of rice in stores effectively disappeared throughout the country, even in Hochiminh City (Ha et al., 2015)¹², due partly to panic hoarding by consumers and speculative delays in sales by rice wholesalers. Ha et al. (2015) found that the poorer a household was, the more it was hurt by this export ban, on average. Finally, domestic prices were not stabilized, either. When the export ban was imposed, prices of staple foods increased by 6.1 and 22.19 in April and May 2008, as compared to 2.2 and 2.28 percent for non-staple foods (General Statistic Office, 2008).

In response to this observation of apparent policy failure, there is no evidence of market liberalising reform. State capacity to control the rice market was evident in how quickly the rapidly climbing rice prices were held in check and then reduced after the Prime Minister, chairmen of provincial people's committee, requested their SOEs to release rice from their warehouses and threatened to punish speculative behaviour (Nhandan, 2008). And there was no evidence of sanctions against any individual implicated in the poor policy performance. Meanwhile, there has been evidence that VFA proposed the second export ban out of the group interest of Vinafood 2 (RFA, 2009; Fulton and Reynolds, 2015).

4.2.3. Period Three: 2009-present

Vietnam's accession to WTO in 2007 was a turning point for the country. Ever since, the economy has increasingly integrated into the world economy. By 2016, Vietnam ranked the 5th in the world in terms of openness, measured by the ratio of its imports-exports over GDP (World Bank, 2017), and is among the fastest growing countries in trade for the period 2005-2015 (WTO, 2016). Although agriculture and fishery products only accounts for 13-15% of the total exports value (World Bank, 2016), they are critical for social outcomes since 43% of the labour force remains involved in this sector by 2016 (Figure 3). Since 2011, rice export value has slowed down but this trend has been offset by strong export performance

¹²See Ha et al. (2015) on the temporary food shortage in Vietnam when the second export ban was imposed.

in vegetables and fruits, coffee, black pepper, cashew nut, rubber and seafood (World Bank, 2016).

Against this background are a few challenges emerged for Vietnam in this period. First is the uneven distribution of the economic gain stem reforms and integration. Contribution to GDP by agriculture has shrunk much quicker, especially since the early 2000s (Figure 4), than the rate of labour moving out of agriculture. As a result, the productivity per labour in agriculture lags behind other sectors, thus widening the gap in wages and incomes and increasing urban-rural and ethnic inequality (World Bank, 2012; Nguyen et al., 2017). In this context, rice policy becomes more social than economic due to its distributional implications as echoed in our interviews with policy makers. To this end, any reforms, though under the external pressure of commitments in trade agreements will even more likely than before, be tainted by social objectives.

Indeed, three issues including agriculture, rural areas and farmers (the so-called “tam nong” issue) attracted much attention of the tenth Party Congress right after the WTO accession. Party Central Committee issued Resolution 26-NQ/TW in 2008, emphasizing that ‘tam nong’ is the basis and an important force for socio-economic development and *maintaining political stability*. It highlighted the need to *increase farmers’ income, reduce inequality and ensure food security, especially rice production*. However, striking the right balance among these (at times) contradictory objectives is challenging.

Since then, measures have taken “to restructure the agricultural sector to enhance its added value and sustainable development” to increase farmers’ income. In particular, comparative advantages have been exploited to produce commodities that are highly competitive in the world market. Private sector investment, specialisation and large-scale production have been strongly encouraged to enhance productivity and efficiency (Decision 899/QD-TTg in 2013). Land Law issued in 2013 allows land accumulation to a threshold of 30 ha and 20 ha for annual land (including rice land) in the Mekong River region and other regions, respectively; 100 ha and 300 ha for perennial land in the deltas and Midlands/mountainous areas, respectively. These thresholds reflect a major change in the mindset of Vietnam’s

leadership who until then was particularly concerned about the emergence of landlord and landless classes in the rural areas, which was viewed as being against their socialism orientation and a threat to political stability.

To ensure food security over a long horizon, protect rice land area was specified in quantity, considering population demand by 2030 (Decree 63/ND-CP in 2009, Resolution 17/2011/QH13 in 2011). Due to rice land designated policy, there has been a gap in returns to the land which is used for producing rice versus other crops (Markussen et al., 2011). To address this problem, some cash transfer of about \$20/ha and \$10/ha, for wet rice land and dry rice land, respectively, have been provided to farmers (Decree 35/2015/ND-CP)¹³. Moreover, the government has invested in building sizeable temporary storage depots to store paddy purchased from farmers during the harvest time which helps ensure reasonable profit for rice farmers, stabilize the domestic rice market and enhance effectiveness in rice exports (Decision 1518/QD-TTg, 2009). This purchase is subsidized in terms of interest for the first few years. Specific regulations have also been promulgated to ensure 30% profit for rice farmers (Document 430/TTg-KTN, 2010). Finally, rice was also listed among 11 essential commodities that have been under the state price regulation since 2012 (Price Law, 2012). Key to the implementation of these measures are central food SOEs that are expected to *play a key role in purchasing agricultural products for farmers, regulate and stabilize markets, supply farmers with necessary goods in the case of natural disasters* (Decree 63/ND-CP, 2009).

A commitment for WTO accession requires Vietnam to open its rice market to foreign-owned companies from January 2011. This implies not only tougher competition for Vietnamese enterprises but also makes it harder for the government to implement its social policies via SOEs. The way Vietnam addresses this challenges takes two forms. First, it controls the growth of rice exporters by preventing small companies from entering the market. In particular, to become a rice exporter, an enterprise needs to own at least one depot

¹³Chu et al. (2017) find that economic efficiency would be enhanced if about 13% of the proposed protected cultivated rice land is released to other agricultural crops but this release is pro-rich, implying a trade-off between economic efficiency and poverty reduction in Vietnam

with storing capacity of minimum 5000-ton paddy and one milling factory with a production capacity of minimum 10-ton paddy/hour. These two facilities must be located in the province/city that has rice surplus for exports or a seaport at the time it applies for a rice exports business licence (Decree 109/2010/ND-CP in 2010). Second, it allows strong influence of SOEs on VFA. For example, when Mr Truong Thanh Phong was the chairman of VFA (2006-2014) and also the general director of Vinafood 2 (2003-2013), he promoted Mr Nguyen Tho Tri, a director of Tra Vinh Food company, a subsidiary of Vinafood 2, to be the standing vice chairman of VFA in charge of communication in 2009, violating some fundamental voting principles of the association (Dat Viet, 2009). Since 4/2015, Mr Huynh The Nang has chaired VAF. But Mr Nang has also been the general director of Vinafood 2 since 7/2014 in addition to being a member of the provincial party committee and the permanent vice chairman of the provincial people's committee of An Giang, the second largest rice producing province in Vietnam. Finally, even if VFA leadership follows the association voting rules, members of Vinafood 1 and Vinafood 2 dominates the association, accounting for 24 percent of the total votes (29 out of 121 as of 31/10/2017).

With this arrangement, vested interests are evident in the way VFA manages the rice exports market. In particular, the floor export prices set by VFA was for other enterprises to follow but not always by Vinafood 2 or its subsidiaries. During 2009, TraVinh Food Company led by Mr Nguyen Tho Tri who was also the vice chairman of VFA exported rice at prices lower than the floor prices set by VFA (Dat Viet, 2009). A similar concern was also raised by Agro (2009) and Slayton (2009).

5. Conclusion

Rice is the most important commodity for poverty reduction since it is an integral part of any solutions to poverty. The world's rice market is very thin and largely driven by interventions by the government of both exporting and importing countries. In addition to being an important case, the political economy of Vietnam's rice policy is also an influential case study of policy exceptionalism in the agriculture sector in developing countries.

Our findings suggest that rice sector in Vietnam remains resistant to reforms despite Vietnam's commitments when joining the World Trade Organization and the corollary open economy pressures forcing change elsewhere in the economy. We have identified and catalogued several sources for this policy exceptionalism, where three key institutions of state control of Vietnam's rice sector endure and adapt to changing domestic and international market conditions. Despite economic policy analysis suggesting welfare-improving reforms, the Communist party's political survival and implementation of its socialist goals is inextricably bound up with rice as a commodity. The paper has provided a distinctive and historical political economy of policy exceptionalism not currently acknowledged in the literature. Far from being a small economic sector on the margins of advanced industrial countries policy agenda, central to our analysis are the objectives of the ruling and the only Party in the country's socio-economic context and the world's situations, and institutional arrangements to serve those objectives. We argue that rice policy formulation, which involves the Party's top leadership, is critical to the Party's political survival, and underpins Vietnam's development story in the past, and likely in the future. Policy remains exceptional but also essential.

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