

THE RURAL-URBAN TRANSITION IN VIET NAM:
SOME SELECTED ISSUES

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Foreword

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Abstract

The paper analyzes the process of urban-rural transition under way in Vietnam in the context of its transition to a market economy. In managing this process of change, the government will face important choices on the patterns of urban and rural development and the linkages between the two. Based on how the choices are made, the impact on well-being could be quite different. A negative scenario could include an overconcentration of resources in one or two metropolitan centers, with poor linkages to rural development, and the increasing gap between urban and rural areas having negative social consequences on the cities and the countryside. A more virtuous path would emphasize linkages between urban and rural development.

Policy and investment options in the transition are explored within the emerging pattern of regional development. Vietnam has two clearly defined core areas: Hanoi-Haiphong in the north, and Ho Chi Minh City in the south, which will be the two major centers for urban growth. The hinterlands of these two urban centers (the Red River and Mekong Deltas) vary significantly in their demography and resource endowments, suggesting the need for developing differing approaches.

The government is committed to the development of a third growth pole in the central part of the country (around Da Nang). The growth potential here is more problematic and might depend on major developments in the regional transport system, including transborder arterial roads, a deep water port, and a conscious effort to link the coastal area to its hinterland.

I. Introduction

Viet Nam today is one of the world's fastest growing economies, growing at around 9 to 10 percent per annum. The long-term development goal of the government is to maintain this pace of growth over the next quarter century, transforming Viet Nam into an advanced industrial economy by the year 2020, with a GDP about 8 to 10 times the size of its GDP in 1990 (Government of Viet Nam 1996). Viet Nam will be subject to two profound transitions, one institutional and the other structural. The institutional transition from a command economy to a market economy has been under way for a decade. Alongside the institutional transition, the country is also experiencing a very rapid change in the structure of its economy. In the past five years the share of industry in GDP has risen from 22.7 percent to 30.3 percent, the share of services from 38.6 percent to 42.5 percent, while the share of agriculture has declined from 38.7 percent to 27.2 percent (Asian Development Bank 1996a). Continuing change in the structure of the economy will be reflected in changes in the location of economic activities and the spatial distribution of the population. This rural-urban transition will involve a shift in the center of gravity of the economy from rural, agricultural activities to urban industry and services.

For a given increase in urban GDP, it will make good economic and social sense for the balance to be struck more in the direction of increasing employment levels, utilizing the relatively plentiful resource (labor) and restraining the widening in the gap between levels of urban and rural productivity (and incomes). That is, high rates of growth in the urban population are not only an unavoidable side product of industrialization, but are in one respect a desirable consequence. However, accelerated industrial and urban growth over the medium term may only be sustainable if supported by rural economic transformation. Stagnation in the rural economy would quickly constrain overall economic growth, and even in the context of a strategy of accelerated industrialization there are strong economic reasons why the issue of agricultural productivity should be addressed. Growth in agricultural productivity is a necessary component of a successful industrialization/urbanization strategy, while successful industrialization should also stimulate rural transformation.

While data on recent rates of urbanization in Viet Nam are ambiguous, with sustained annual GDP growth of 9-10 percent, the urban population could be expected to double over the next 15 years. This is the midpoint of government projections and the trend as reported in the Asian Development Bank Viet Nam Urban Sector Strategy Study (1995a). Half of the population would be urban dwellers in about 25 years.¹ The achievement of this transition will require fast rates of urban growth. What are the choices regarding the form and location of this growth which can be influenced by government interventions? How can this process be managed to meet the requirements of urban growth within realistic estimates of resource constraints, without draining the rural areas of resources necessary for sustaining the growth of rural farm and off-farm activities? These are the questions addressed in this paper.

The paper is organized as follows: Section II develops a framework for analyzing the process of rural-urban transition in Viet Nam and future prospects, including possible

¹The terms urbanization, urban growth, and pace of urbanization are used to refer to the demographic growth of urban areas, either in absolute terms or relative to the total population. Relative or absolute growth will be evident from the context.

alternative scenarios. Section III outlines a regional perspective, with three distinct strategies for harmonious rural-urban transition in three different regions within the country. Section IV spells out the implications of this spatial strategy for investment policy and other sectoral policies.

II. Rural-Urban Transition: An Analytical Approach

A. The Location of Economic Activity

As a starting point for considering the process of rural-urban transition, the factors that lead to the concentration and specialization of economic activities in space are examined:

(i) *Industry*

Recent economic theory has re-emphasized the importance of three types of externalities arising from the localization of particular industries in an area, which Marshall (1920) had originally identified, i.e., (i) labor market externalities, (ii) intermediate good externalities, and (iii) technology externalities (Krugman 1991):

- *Labor Market Externalities.* These relate to the advantages which a firm may gain from the easy availability of a pool of workers with particular skills, by locating in an area where there are other firms specializing in the same business, and requiring workers of similar skills. Similarly, on the side of workers, it is to their advantage to move to areas where there are several firms requiring labor with a particular skill, thus increasing their chance of finding another job if they lose employment in one firm, and affording them the advantage of market opportunities for improved wages and working conditions.
- *Intermediate Good Externalities.* A second advantage which arises from the localization of firms in a common business relates to the cheaper and easier availability of particular intermediate goods as well as services. The first unit in an area generates the demand for a range of inputs, making it worthwhile for the suppliers of the intermediate inputs to set up business in the same area. The entry of new firms will expand the volume of demand for ancillary suppliers, who will now reap the benefits of large-scale production, in turn enabling them to bring down their costs in supplying main plants. These decreasing cost tendencies can also apply to specialized services, such as the repair and rewinding of electric motors, and the manufacture of physical inputs.
- *Technology Externalities.* Technology spillovers occur because of the easy flow of information that comes with proximity. Much technological progress occurs in the form of incremental improvements in between the great discoveries, which are first diffused informally through discussions and demonstrations among peers in particular trades. Industrial units located in specialized clusters

can take advantage of such information to reduce costs as well as improve product quality, thereby giving them a competitive advantage vis-à-vis units located in isolated areas, which will be the last to learn about the new improvement.

Thus, strong forces are at work which push toward the concentration of particular industries in specialized locations, although there could be two or more clusters of the same industry within the same country. Where such localization will occur can be a matter of historical accident or a matter of geography, but once an industry begins to locate in a particular area, forces are released which attract further units of the industry to the same area. The process has its limits, as localization in time generates counter forces. Firms competing for workers and space in an area may drive up wage rates and rents. Also, as transport and communications improve, the importance of intermediate input externalities or technology externalities arising from localization could diminish.

(ii) *Agriculture*

This is by nature a land-using activity which has to be dispersed. Nevertheless, there is specialization even in agriculture. In the first instance this is determined largely by variations in soil, climate, topology, and water availability. But within the range of feasibility set by natural conditions, there is still room for choice and specialization, typically involving a historical process in which an initial success of pioneer innovators leads to the spread of a crop throughout a farming community.

(iii) *Services*

The location of service activities is in part a derivative of the location of industry and agriculture, the location of the population engaged in these activities, and the requirements of government and defense. Improvements in communications allow many service activities to locate further from the client, and to choose locations based on supply side considerations. Even in the case of services, however, there may be a tendency for firms to locate in an area which becomes identified with their trade.

B. Core Areas, Peripheries, and Rural-Urban Linkages

A striking fact about the location of economic activities and populations throughout the world is that they tend to be concentrated in a few towns or cities rather than dispersed evenly throughout a country. An understanding of the mechanism which underlies this well-known phenomenon is central to any forecast of the spatial distribution of economic activities and population and an assessment of the policy options facing the government.

The concentration of economic activities derives from the interaction between decreasing costs, transport costs, and demand. If setup costs and fixed costs are large and generate significant scale economies, producers would minimize costs by locating all production in one place to supply the whole market. If the costs of transportation are also significant, producers may wish to locate this production point near the source of demand,

i.e., large centers where the user industries and consumers are located. By so locating, manufacturers can reduce costs, resulting in greater demand, which enables them to exploit more economies of scale and further reduce costs. It is this process of cumulative causation which leads to the expansion of small towns into cities and of cities into great industrial conurbations.

The description given here is a stark and simplified parable. There are many other factors at work which make the real world much richer than the stylized process described. There is the role of geography. Some industries have to locate near their sources of raw material supply. For industries which process primary raw materials, the decision whether to locate near the raw material supply, the market, or somewhere in between will depend on the interaction of fixed costs, the transport costs of raw materials and final products, and the size of the market. Similar considerations often lead to the emergence of great port cities where the port is both a source of raw material supply and also the gateway to the market. Also, there may be a strong element of historical accident in initial location, but once the cumulative process starts, it generates a specific comparative advantage which will induce more and more manufacturers to locate in the same area.

As the size of the market changes, and production and transport costs change, the locational choices may change, leading to multiple centers of economic activity or the displacement of old centers of production by new centers. One, two, or more centers may emerge, but the essential fact is that most nonagricultural activity will tend to be concentrated in a few urban centers while agriculture remains dispersed in the periphery.

While concentration responds to the economies of agglomeration, beyond a point it also generates costs in the form of congestion, pollution, and overcrowding; rising real estate prices and rents; and rising labor costs. Eventually, the location decisions of producers will take all these factors into account, but only after the negative consequences of agglomeration have become evident. That is, market forces may eventually limit the growth of urban centers. However, there are reasons not to be complacent about the self-correcting effects of the market. The process of urban growth results from private decisions which do not take account external diseconomies which generate social costs (e.g., environmental degradation). And when the speed of change is as fast as that envisaged for Viet Nam, investors may be not able to assess the changes in their costs which will result from rapid urban growth. Future scenarios are not well reflected in current market information even in many advanced market systems, much less so in the transitional economies. There is, therefore, an important role for public policies in ensuring a harmonious rural-urban transition.

This is all the more important because even macroeconomic or sectoral policies not directly aimed at spatial outcomes may nevertheless have spatial effects. Hence, conscious policy attention to the spatial distribution of economic activity is essential. In identifying possible policy interventions to influence the rural-urban transition, key issues relate to how they influence the labor, commodity, and capital markets. Viet Nam is already a market economy, not only in the sense that there is a substantial nonstate sector, but also in that the state sector itself is constrained by the market and responds to market signals. In that setting, the key linkages are those which work through market relations.

The labor market is critical, as it will determine the pattern of migration and therefore the rate of growth of urban populations. Although in principle residential movement is subject to administrative control, labor markets have developed, accommodating a significant

shift from state sector to nonstate employment and rural-urban and rural-rural movements of people. However, the national labor market is still quite fragmented (e.g., there are apparently large regional differentials in unskilled wage rates).

Although commodity markets are constrained internally by physical limitations (e.g., affecting transport costs) and by institutional constraints (e.g., remaining controls over market access), there is a high degree of openness to international trade (by 1993 the ratio of foreign trade to GDP already exceeded 50 percent and has grown sharply since). Both urban and rural economies are linked to international markets as suppliers and consumers. The impact of integration into the global economy on the pattern of rural/urban transition must also be addressed.

Capital markets and capital formation are also under strong external influence because of the importance of foreign investment and, to a lesser degree, aid. Financial sector reform is addressing the issue of formal capital markets, and one key aspect of development bank intervention is likely to be in the support of credit institutions. However, little is known of informal capital transactions (which must be considerable) and the possibilities of domestic private investment. Existing data probably underestimate small-scale investment; further work should both seek to establish the level of small-scale investment and explore the factors which influence its amount and direction, as the prospects for accelerated rural development will depend on the emergence of mobilization of rural savings and the development of rural capital markets.

C. Alternative Scenarios of Rural-Urban Transition

Although the rural-urban transition is an inevitable consequence of growth, and growth in urban employment is a means of providing incomes to poor migrants from rural areas, international experience of urbanization has varied. The phenomenon of rapid urbanization has been associated with successful development, although in recent years in many developing countries, it has also been associated with economic stagnation and negative social consequences. Just as the development of urban areas is spurred by a cumulative upward process, so in peripheral areas a cumulative process of stagnation can set in; as the energetic members of the workforce and capital are attracted to the big cities, investment opportunities in the countryside shrink, and the divergence between rural and urban income opportunities accelerates. This scenario is particularly likely if market forces are reinforced by strong "urban bias" in government investment decisions and provision of services.

In a number of countries, the allocation of resources to support over-concentrated patterns of urban growth has been associated with rural stagnation, with the lack of economic opportunities in the countryside pushing rural population to migrate to the cities, where many are recruited to an urban under class. Investment rushes to an urban core, followed by a rush of migrants in search of better jobs, while the peripheral areas are left to stagnate. The incidence of poverty in the periphery is then matched by festering and cramped shanty towns in the ill-prepared urban cores. Crime, stress, pollution, congestion, and overloaded transport and communication systems come to dominate the life of the city, while the vast majority eke out a living in the informal sector.

The result has been unmanageable urban environments and increasing rural and urban poverty. Also, the resulting imbalances in urban and rural development have in many

instances generated constraints on growth, which at the extreme have resulted in a vicious circle of high rates of urban population growth associated with low rates of economic growth.

However, the nexus between the center and the periphery ought not to be seen as necessarily negative. The core and the periphery can also have a symbiotic relationship. Rapid growth of the core can contribute to the development of the periphery through the expanding market for rural products, the spread of improved infrastructure and social services, and the withdrawal of surplus labor from the periphery, all of which would lead to rising prosperity in the rural hinterland. There is therefore a duality to the core-periphery relationship which was evocatively described as "spread" and "backwash" effects by Myrdal (1957) and as "polarization" and "trickle down" by Hirschmann (1958).

The rural-urban transition will inevitably lead to the concentration of industry and many services in a few core areas while agriculture and other primary activities remain dispersed in the periphery. This process of core-periphery formation will be accelerated in Viet Nam because of the choice of three focal economic zones where infrastructure and other facilities are being developed on a priority basis to attract both domestic and foreign investment. It is a strategy which has proved quite successful in other countries of Asia and the rest of the world.

The consequences of this core-periphery formation process will vary, depending on whether high urban growth is associated with continued improvements in rural incomes, or whether it is associated with rural stagnation. Rural stagnation not only creates problems for rural areas, but makes urban development more difficult to manage, as the rural poor are forced to flock to the cities as a survival strategy. A more virtuous scenario is one where accelerated urban growth is linked to expansion in rural economic opportunities. Strategic government interventions can play a role in pacing the polarization, promoting multiple polarization to maintain regional balances, and nurturing the transition in a manner which enhances the "spread" effects of the process while minimizing the "backwash" effects.

This more desirable growth path would be one in which the rural-urban transition emerges from a more balanced growth process, whereby rural and small town development takes place at a sufficient, lively pace as to avoid a big push of rural migration to the large cities, and where the pattern of urban development is such as to avoid an undue concentration of resources on urban development. Industrial cores would be dispersed in several urban centers, where housing and other urban infrastructure would be developed to absorb the influx of migrants through low-cost solutions, and strong "spread" effects would allow the peripheral areas to grow, thereby minimizing the pressures of rural-urban migration.

There would be migration, so that the population of the large cities would grow at higher rates than the rural population, but that would be the result of the pull of expanding urban job opportunities rather than the push of rural immiserization. Under this virtuous scenario, urban growth might be somewhat lower, but also with less urban inequality, than under the "urban bias" scenario. Nevertheless, large investments would still be required in urban infrastructure; the objective would be to make this investment as cost-efficient as possible and part of a larger investment program in which the urban development process is geared to stimulating, rather than draining, rural development.

There is the potential for both scenarios in Viet Nam's current situation. The government commitment to concentrate on three focal economic zones, two of which already

have large urban concentrations (Ho Chi Minh City and Hanoi); the emphasis in the draft Public Investment Programme on investment in capital-intensive industrial projects; and the necessity of undertaking large investments in urban infrastructure to redress existing inadequacies, carry with it the potential for unbalanced urban growth. Moreover, the stress in existing projections on a strategy for capital mobilization which places a large emphasis on foreign investment and large-scale state enterprise investment could reinforce such tendencies.

However, there are also certain features of Vietnam which suggest that there are reasonable prospects for achieving a virtuous process of rural-urban transition:

- With its long coastline and two areas having a dense population (the Red River Delta and the Mekong Delta), the underlying geography (and history) does not provide the conditions which would give rise to one growth pole, resulting in a single megalopolis (such as Mexico City or Manila).
- While the growth in the industrial and service industries has been much higher than that of agriculture, the growth of the agricultural sector has been robust since 1989: at over 4 percent per annum, with some areas high enough to generate labor scarcities and local wages higher than that for unskilled labor in the major urban areas.
- Although the evidence is not conclusive, official data suggests that an explosion in the urban growth rate has not yet happened.
- In some parts of country, there has been a lively growth in rural industry, and the potential for further development of rural nonagricultural activities is high.

III. Empirical Evidence on Rural-Urban Transition in Viet Nam

A. The Pace of Urban Population Growth

The available evidence is somewhat confusing regarding the current pace of urban population growth, ranging from official data which suggest that there is very little movement to the cities, to unofficial estimates that as many as 700,000 people are migrating to urban areas each year. It seems likely that the official statistics underestimate urban population growth; one government source has suggested that the actual rate of growth has been around 4 percent per annum.² The data published by the General Statistical Office (Government of Viet Nam 1994a) registers virtually no urbanization at all. Indeed the proportion

²It should be noted that even a stable proportion of the urban population would imply some rural-urban migration, as fertility rates have fallen faster in urban areas than in the countryside. In fact, in 1989, the crude birth rate in urban areas was 24.1 compared to 33.6 in rural areas, with the corresponding crude death rates at 5.1 and 7.9, suggesting a significant difference in the urban and rural natural rates of population increase (Government of Viet Nam 1994a). The intercensal demographic survey of 1994 indicates that the differences in fertility persist (Government of Viet Nam 1995a).

of the population residing in urban areas is recorded as having fallen from 20.4 percent in 1990 to 19.9 percent in 1994. These data are based on registered residential status (Government of Viet Nam 1995b) and may undercount de facto migration.³

The country is still predominantly rural.⁴ In 1994, of the estimated 72.5 million population, less than one fifth (14.1 million) was estimated to reside in urban areas. Of the total estimated active labor force in 1993 of 32.7 million, 23.9 million (73 percent) were engaged in agriculture and forestry, and a little more than one tenth in industry. There are some 10 million agricultural households. Viet Nam is therefore at the early stage of its rural-urban transition, and data on the impact of urbanization to date will give only limited guidance on the nature and magnitude of the problems which may emerge as the process of change gathers pace.

Viet Nam has a demographic advantage over many countries which have entered a process of accelerated urbanization, as the indications are that its demographic transition is more advanced than is typical of countries at comparable income levels. The population growth rate is characteristic of the middle stage of demographic transition, with mortality rates having fallen to low levels, and fertility rates beginning to decline significantly. The 1989 population census indicated that fertility rates had declined for some decades. The crude birth rate (CBR) decreased from 45 per thousand (1955-1959), to 38 per thousand (1970-1974), and then to 31 per thousand (1985-1989). Most recent estimates (Government of Viet Nam 1995a) suggest that in 1993-94 the CBR had fallen to 25.3. Evidence from the Intercensal Survey suggests that declining fertility reflects a widespread adoption of family planning. While distinct regional differences in fertility persist, with much higher rates in the highland areas than in the delta and urban areas, a substantial decline in fertility is recorded for all regions. In the *1994 Statistical Yearbook* population growth in 1993 was estimated at 2.2 percent ("natural growth rate"), but when recent declines in fertility are taken into account that estimate is likely to be reduced. For medium-term projections, a growth rate of around 2.0 percent per annum seems reasonable, and in light of recent downward movements in fertility, a faster decline in population growth rates could be possible. A decline in the overall population growth will greatly lessen the pressure of population movement to the cities.

One consequence of data weaknesses is a good deal of uncertainty regarding urban growth projections. The government has assumed that the pace of urbanization will accelerate and has projected urban growth at 5 percent for 1995-2000 and at 5.5 percent for 2000-2010. The Urban Sector Strategy Study took the government projections as representing a "high growth scenario", and also used a "lower growth scenario" based on extrapolation of their estimates of existing trends; these projections are 2.5 percent growth per annum for 1993-

³The Viet Nam Urban Sector Strategy Study (Asian Development Bank 1995a) reported an estimate of almost 200,000 unregistered immigrants in Ho Chi Minh for the period 1986-1994. Unregistered migration of that magnitude would result in annual urban growth rates of just above 3 percent (as compared with just over 2 percent). The existence of this phenomenon was confirmed by the recent experience of Ho Chi Minh, which experienced higher than expected enrollment of children for the current schoolyear. Also, some temporary migrants seeking employment will eventually become residents.

⁴Alternative definitions might result in a significantly higher figure. The Urban Sector Strategy Study noted that the Vietnamese definition of urban residence did not conform with international practice, as rural areas within cities and municipalities were excluded from the urban totals; the study team estimated that using the more inclusive definition, about 8 percent more of the population resided in urban areas (resulting in a total of 28.1 percent).

2000 and 4.0 percent for 2000-2010. The differences between these two scenarios are not trivial, the lower projection resulting in an increase in urban population to 29 percent in 2000 and 35 percent in 2010, compared to the government projection of 34 percent and 48 percent respectively. In absolute terms, the difference would be an urban population between 35 and 47 million in 2010.

Differences in projections of this magnitude reflect more than a statistical quirk; they suggest that there is a basic lack of certainty and agreement regarding the speed of the rural-urban transition in Viet Nam, based upon whether expectations are derived from the apparently slow pace of transition in recent years, or from the likely impact of the accelerated process of "industrialization and modernization" which government has adopted as its overarching development objectives. This wide range in projections also suggests a significant range within which outcomes might be influenced by policy choices and government interventions.

B. Patterns of Rural-Urban Linkage

As the process of industrialization under market conditions gathered momentum only during the 1990s, the usefulness of empirical data on the likely trajectory of rural-urban linkages is limited. Nevertheless, there is some merit in examining the degree to which existing data throws light on the process of transition.

Migration data generated in the Viet Nam Living Standard Survey (Government of Viet Nam 1994b) shows that 75 percent of all migration from rural areas has been to other rural areas, and even 60 percent of migrants from urban areas has gone to rural areas (Table 1). A cross tabulation of migrants by origin and destination, classified in terms of seven macro regions in the country, reveals that 60 percent or more of migration has occurred within regions, much of the balance having occurred between neighboring regions (Table 2). The only exception to this pattern is a large migration from the Central Highland Region (Region V) to the Red River Delta (Region II), much further to the north. The Red River Delta is potentially an economic core area, and has also attracted large inflows of migrants from the contiguous Northern Mountainous Region (Region I). However, there has been relatively little reported migration into the South Eastern Region (Region VI), clearly the principal core area in the country today, except from the adjoining provinces of the Mekong Delta Region (Region VII).

While these migration patterns do not suggest that a strong core-periphery formation process was at work up to 1993, the data are consistent with significant beginnings of accelerated urbanization. Twenty-five percent of rural migrants has moved to urban areas and 40 percent of urban migrants has moved to other urban areas. Probably much of this is accounted for by movements to Ho Chi Minh City and Hanoi from within their own regions and adjoining provinces, with the two main urban core areas already exerting gravity pulls on their contiguous areas, though not yet on the whole country.⁵

While the migration data is inconclusive, there is other evidence to suggest that a distinct core area is emerging around Ho Chi Minh City and the corridor to Vung Tau in

⁵The migration evidence is therefore somewhat ambiguous on the center-periphery type migration question, especially because the Viet Nam Living Standard Survey data only give cumulative estimates of all past migrations taken together, going back over a long period.

TABLE 1
Latest Migration by Area Before Last Migration and Current Area

Area Before Latest Migration	Current Area		Total
	Rural	Urban	
Rural	75.81	24.19	100.00
	64.45	47.98	60.16
Urban	60.30	39.70	100.00
	30.91	46.75	35.71
Foreign Country	61.32	38.68	100.00
	3.64	5.27	4.13
Total	69.68	30.32	100.00
	100.00	100.00	100.00

Source: Government of Viet Nam (1994b).

TABLE 2
Latest Migration by Region Before Latest Migration and Current Region

Region Before Latest Migration	Current Region							Total
	1	2	3	4	5	6	7	
1	53.91	31.51	7.55	1.74	0.69	4.25	0.35	100.00
	63.89	28.25	11.87	2.80	4.91	5.08	0.38	19.58
2	22.98	56.60	5.23	3.17	0.60	8.49	2.92	100.00
	27.57	51.36	8.32	5.18	4.29	10.27	3.23	19.82
3	3.70	9.78	59.85	11.26	3.11	9.19	3.11	100.00
	2.57	5.14	55.12	10.64	12.88	6.43	2.00	11.47
4	1.45	4.35	11.35	59.76	9.89	10.55	2.64	100.00
	1.13	2.57	11.73	63.45	46.01	8.30	1.90	12.88
5	3.45	22.41	7.47	21.84	28.16	8.05	8.62	100.00
	0.62	3.04	1.77	5.32	30.06	1.45	1.43	2.96
6	2.23	4.46	3.41	8.66	0.13	59.32	21.78	100.00
	1.75	2.65	3.55	9.24	0.61	46.89	15.78	12.95
7	0.31	1.05	0.52	0.94	0.10	18.57	78.49	100.00
	0.31	0.78	0.68	1.26	0.61	18.36	71.10	16.20
Foreign Country	8.64	32.92	20.99	6.17	0.41	12.76	18.11	100.00
	2.16	6.23	6.96	2.10	0.61	3.22	4.18	4.13
Total	16.52	21.84	12.46	12.14	2.77	16.39	17.88	100.00
	100.00	100.00	100.00	100.00	99.98	100.00	100.00	100.00

Source: Government of Viet Nam (1994b).

TABLE 3
Reason for First Migration by Birth Area

Reason	Birth Area			Total
	Rural	Urban	Foreign Country	
Economic	84.79	14.77	0.44	100.00
	20.56	15.55	6.41	19.45
Disaster and War	87.77	11.21	1.02	100.00
	36.35	20.15	29.64	33.21
Family	69.92	27.98	2.10	100.00
	31.09	54.00	56.41	35.66
Others	82.39	16.30	1.31	100.00
	12.00	10.30	11.54	11.68
Total	80.20	18.48	1.33	100.00
	100.00	100.00	100.00	100.00

Source: Government of Viet Nam (1994b).

the South Eastern region, and possibly also around Hanoi and the Hanoi–Haiphong corridor in the Red River region. The prospects for a third core area emerging around Da Nang in the Central Coastal Region seem more uncertain. In the South Eastern region the share of manufacturing in GDP is already as high as 25 percent. It is only half that or less in all other regions except the Red River delta, where it is around 14 percent (Table 4). Per capita GDP in the South East is about double the national average at D5,275 (1994).⁶ In every other region it is below the national average. Moreover, GDP is growing at 11 percent in this region as compared to 7 percent or less in most other regions.⁷ Agriculture does not appear to be especially dynamic in the South East. Only a third of the cropped area is irrigated compared to the national average of 46 percent, and the paddy yield is 2.4 tons per hectare compared to the national average of over 3 tons. The per capita value of agricultural output among farm households is a little higher than the national average. However, the rental value of agricultural land is below average. It follows that there is not too much population pressure on land in the region. The fairly high population density of the region is mainly a reflection of the concentration of population in Ho Chi Minh City and along the corridor to Vung Tau.

⁶Note that in Table 4, the per capita GDP estimate in every province is higher than the per capita income estimated by adding up reported per capita expenditures and savings. The latter, in turn, is much higher than the per capita income directly reported in the Living Standard Survey. The Survey's introductory note indicates that there is significant underreporting of income in the survey.

⁷The reported growth rate for the Central Highlands is 8 percent in the Living Standard Survey. However, the reported paddy yield of 4.2 tons for this region is clearly inaccurate and distorts other derivative estimates for this region.

TABLE 4
Selected Indicators of Core-Periphery Formation

Indicator	Whole Country	I Northern Mountain	II Red River Delta	III North Central	IV Central Coast	V Central Highland	VI South East	VII Mekong Delta
Population (million)	74	12.6	14.3	9.8	7.7	3.1	9.3	16.1
Population per sq. km	223	122	1,142	192	170	56	397	406
Manufacturing/GDP (%)	15.7	8.0	14.2	9.9	12.4	5.2	24.9	9.0
Irrigation Cover (%) ^a	46.4	30.3	90.0	50.3	56.9	2.3	33.3	41.5
Paddy Yield (mt/ha)	3.1	2.9	3.8	3.0	2.9	4.2	2.4	3.1
Per Capita Agricultural Output (D 000) ^b	909	770	922	650	633	897	1,041	1,332
Land Rental (D 000/ha)	1,654	1,246	1,636	985	5,862	468	1,137	3,248
Per Capita Expenditure (D 000, 1993)	1,227	917	1,124	873	1,275	1,100	1,880	1,382
Per Capita Saving (D 000, 1993)	359	125	314	74	185	76	1,390	291
Per Capita Income (D 000, 1993) ^c	1,586	1,042	1,438	947	1,460	1,176	3,270	1,673
Per Capita GDP (D 000, 1993)	2,379	1,794	2,193	1,589	1,788	1,605	5,725	2,074
GDP Growth (%) ^d	7.9	6.6	7.2	5.9	5.0	8.0	11.5	6.7
Ratio of Per Capita Income Rural: Urban	0.18	0.16	0.14	0.29	0.61	0.18	0.45	0.18

^aIrrigated area as percentage of cropped area.

^bBased on data for 3,980 farm households.

^cEstimated as the sum of rows 8 and 9.

^dAverage annual growth for the period 1991-1994.

Sources: Government of Viet Nam (1994b), Nguyen Van Quy (1996).

An economic core is clearly emerging along this corridor. However, its periphery seems to be confined at present to the South East region itself and the adjoining provinces of the Mekong Delta region. The latter is one of the country's most dynamic agricultural regions. It has paddy yields of over 3 tons per hectare and the highest per capita value of agricultural output in the country.⁸ The return to land is also reflected in the rental value of land, which is also the highest in the country. The region is growing at an average rate of 6.7 percent, and per capita GDP is the highest after the South East and the Red River Delta.

The Red River Delta is the second largest region after the Mekong Delta in terms of population, with over 14 million people. It has the second highest manufacturing share of GDP after the South East at 14 percent and has received large in-migrations from the Northern Mountain region as well as the North Central Coastal region. The region's population density is the highest in the country (1142 per sq. km), about three times that of the South East and the Mekong Delta. Ninety percent of the region's cropped area is irrigated, the highest in the country and more than double that of the Mekong Delta. Paddy yield at 3.8 tons per hectare is the highest in the country.⁹ Per capita GDP is higher than in the Mekong Delta and the growth rate is second only to that of the South East. However, the Red River Delta region also has one of the largest concentrations of people in poverty in the country because of the high population density. In this region, more than anywhere else, it is urgent to draw labor into nonagricultural activities in order to reduce the intense pressure of population on land. However, it is not clear that a self-sustaining growth process, based on positive linkages between center and periphery, has as yet been established in the region.

There is not much evidence as yet of an integrated core-periphery economy developing around the Quang Nam–Da Nang–Quang Ngai focal area in the central part of the country. The share of manufacturing in GDP is only slightly lower here than in the Red River Delta and irrigation in the region is the second highest in the country. Yet yields, per capita output in agriculture, and per capita GDP are all lower than the national average. Migration to the Central Coastal region from the contiguous North Central Coastal region seems to have been quite limited. The linkage to the Central Highland region also seems to be limited.

The economy of Viet Nam can therefore be viewed, from the perspective of core-periphery formation, as consisting of three subeconomies. A well-integrated, dynamic, and rapidly growing economy in the South, a potentially powerful core-periphery economy centered around the Hanoi-Haiphong corridor in the north which is yet to be consolidated, and the three regions along the central spine of the country which do not yet appear to have been drawn into a core-periphery relationship with the focal economic area around Da Nang. Also, conditions are ripe for strong core-periphery linkages to develop between urban and rural areas within individual regions. Typically, urban incomes are about two to five times rural incomes within each region. This provides a strong incentive for rural workers to move to urban areas in search of better incomes.

⁸This is barring the reported rental value of almost VND 6,000 for the Central Coastal region. This is completely out of line with the rental data for the rest of the country and is probably incorrect.

⁹This excludes the reported yield for the Central Highlands, which is probably inaccurate.

Such interregional or intraregional migration refers to the polarization aspect of core-periphery systems. The analytical framework outlined at the outset also referred to the "spread effects" of such systems, the "trickle down" of benefits from the core to the periphery. What is the evidence? The data in Table 5 show that the production of rural handicrafts was growing at the rate of around 8 percent per annum. However this average is pulled up by the very rapid growth of rural handicrafts in the South East region. Growth of handicrafts was quite robust in the adjoining regions at 5.6 percent and 8.1 percent respectively. In the rest of the country, rural handicrafts have been growing at less than 4 percent.

TABLE 5
Selected Indicators of Spread Effects

Indicator	Whole Country	I Northern Mountain	II Red River Delta	III North Central	IV Central Coast	V Central Highland	VI South East	VII Mekong Delta
Growth of Rural Handicrafts (%) ^a	7.8	3.9	3.7	3.7	3.2	5.6	18.2	8.1
Literacy Rate (%) ^b	87	86	92	91	85	64	90	82
Morbidity (%) ^c	33.8	38.7	38.8	39.4	22.2	11.6	36.1	30.3

^aAnnual average growth for the period 1990-1994.

^bLiterate persons as a proportion of population aged 10 and over.

^cProportion of population reporting illness during the 12-month period preceding the survey.

Sources: Government of Viet Nam (1994b), Nguyen Van Quy (1996).

The first period of accelerated growth primarily benefited the South East, particularly as the preponderance of initial foreign investments was there. As growth accelerated, the Hanoi-Haiphong corridor increasingly benefited, as indicated by the rising proportion of new investments located there. In fact, in 1994 Ha Noi overtook Ho Chi Minh as the favored location for foreign investment, as measured by the total value of newly licensed projects in that year (although Ho Chi Minh City remained the clear leader in terms of accumulated total of licensed projects). There is also evidence that in the fast growing economy, the structure of rural production is changing quite fast. Quy (1996) cites some recent data to show that the share of nonagriculture as a whole in total rural output has been rising quite rapidly, up from 20 percent in 1990 to about 35 percent at present.

In summary, it seems that a dynamic path of core-periphery formation has been established in the two contiguous regions of the South East and the Mekong Delta, centered around the Ho Chi Minh City-Dong Hai-Vung Tau focal economic zone. In the North, the Red River Delta remains under considerable demographic stress. In the early period of Doi Moi the Hanoi-Haiphong-Quang Ngai focal area had not firmly established itself as the core of an integrated subregional economy of the North, with enough momentum and sufficient "spread effects" to energize nonagricultural growth in the periphery and take the pressure of population off the land. But this picture could look different when more

recent data becomes available. The process of core-periphery formation is even weaker in the three central regions and the Quang Nam–Da Nang–Quang Ngai focal economic area. Meanwhile, the rural urban income differentials are quite wide now and could easily trigger large-scale rural-urban migration.

IV. A Regional Focus for Viet Nam's Development Strategy

To make the promotion of rural-urban linkages operational, general concepts will need to be translated into specific programs, adjusted to the economic potential and needs of the differing regions. In order to make such a program manageable, it would be wise in the medium term to focus on selected areas, rather than attempt to cover the whole country. A strategy of strengthening rural-urban linkages is most likely to succeed if over the medium term, there is a concentration on rural areas of reasonably high potential. This may also be an effective poverty alleviation strategy, as there are poor in all rural areas, and more poverty alleviation is likely to be achieved by disposing resources in areas with good development in the earlier stages, moving on to the more difficult areas as national income rises and more resources become available.

The government has established a spatial focus for its development program by concentrating attention on the development of three focal economic zones: in the north, center, and south of the country.¹⁰ While it makes sense for a poor country to concentrate investment in order to reap economies from agglomeration, concentration on main urban centers, combined with a tendency in official plans to emphasize larger scale investments by the state and by foreign investors, carries with it the risk of excessively unbalanced and unequal development, in which eventually the pace of development could be constrained by a lagging rural sector.

Although the Living Standard Survey correctly identified the Northern Uplands and North Central Regions as having particularly high poverty incidence, the absolute numbers of poor in the two densely populated deltas are also large. Choices must be made regarding which poor are targeted in the first instance. Given the scarce resources at Viet Nam's disposal, it might make good sense to alleviate poverty, at least in part, by supporting growth in areas where there are concentrations of poor people but which have a reasonable medium-term growth potential. It would be highly desirable to hit two birds with one stone, by focusing on those low-income groups who, with some help, could raise their own incomes rapidly, thus achieving both growth and poverty alleviation. This may include encouraging the potential for highly dynamic small-scale development among those who are not so poor and in provinces which have already demonstrated growth potential. Thus a possible regional focus for an accelerated rural development strategy which would both support high growth and achieve a reasonably wide diffusion of benefits in the specific circumstances of Viet Nam would be to target the "middle sectors": the viable and growing small business sector, rural areas which have already demonstrated good development

¹⁰Building on this spatial approach, the Bank's Country Operational Strategy Study for Viet Nam identified the development zones around the focal economic areas and the transport corridors linking these zones (Asian Development Bank 1995b). These are shown in the map on page 16.

VIET NAM GROWTH ZONES, INDICATIVE TRANSPORT CORRIDORS, AND DEVELOPMENT ZONES



- Growth Zone
 - Development Zone
 - National Capital
 - Provincial Capital
 - Transport Corridor
 - Main Road
 - Railway
 - River
 - Provincial Boundary
 - International Boundary
- (Boundaries not necessarily authoritative)

potential, and areas which can be provided with reasonable access to the main growth centers with relative ease—a strategy to promote linkages between the three focal development zones and their immediate hinterlands. Interventions which might further this objective are outlined below.

A. Strategic Interventions in Three Regions

One possible program might address the requirement for rural industrialization in the Red River Delta and the Upland provinces adjacent to Hanoi to promote rural industry. In many parts of that area, there is already a well-established tradition of craft production and high levels of literacy, and many villages already have some of the infrastructure necessary for further development of rural industry. There is no spare agricultural land, agriculture is already highly intensive, and population densities are very high. Ha Noi provides a growing market for some products, and the development of Ha Noi–Hai Phong as an industrial and commercial center should create growing possibilities for labor-intensive rural industry producing for international markets.

A program in the Mekong Delta and selected agricultural areas of the South East might aim to raise agricultural output and incomes through increasing irrigation and areas under cultivation, raising rice yields, developing horticulture and aquaculture to serve the Ho Chi Minh City market, improving agricultural processing, and reducing the transport costs of agricultural products. The Mekong Delta is less densely populated and less intensively farmed than the Red River Delta at present, and should be capable of producing a growing food surplus to feed the growing Ho Chi Minh conurbation and to supply national and international markets. At the same time, given the particular dynamism of the Ho Chi Minh growth pole, the development of ancillary rural industries feeding into that economy would also have prospects of success.

The government has also committed itself to the development of a third economic zone in Quang Nam–Da Nang–Quang Ngai area. This represents a spatial strategy which seeks to develop the central coast, so that the development of the country should not be entirely focused on the two more highly developed areas to the North and South of the country. However, the development of the focal economic zone in the center of the country is more problematic, less obviously extrapolating established patterns of urban growth. Although Da Nang is the fourth largest city in Viet Nam, it has less than half a million urban populace and has not yet attracted foreign investors in numbers to suggest that it is about to become a key center. Meanwhile, Quang Ngai has a population of just over 100,000 and is not even among Viet Nam's top 40 towns.

One strategic issue which therefore needs to be explored is the conditions under which the Quang Nam–Da Nang–Quang Ngai area could become a meaningful growth pole, to stimulate development in the central coastal regions and to provide an alternative development pole to the two major centers.

Public investment will have to play a particularly critical role in the central regions and the Quang Nam–Da Nang–Quang Ngai focal area, where the potential is more problematic. Though the area is yet to pick up the momentum of growth, it has longer term economic possibilities because of its strategic location. Highway No.1, connecting the Northern and Southern parts of the country, is being restored. There is also a bold scheme under the Greater Mekong Subregional Program to build a transnational highway from the

eastern seaboard of this area, through Lao PDR, all the way to Bangkok and beyond. To complete the link, the region will also have to be provided with an improved deep water port. Once these projects are implemented, the focal economic area located at the crossing of these two major transport corridors would re-emerge as a great commercial hub, as it used to be in the distant past. It could then draw all the contiguous regions into its periphery, providing them with convenient outlets not only to the national market but also to the rest of the world.

Recent reports suggest that the Central Highlands is a favored destination for rural-rural migration. Development of the Central Highlands could be linked to the Quang Nam–Da Nang–Quang Ngai focal area through improved access to high potential areas (provincial and local roads), to provide support for high-value crop development (credit and extension), and for tourists. Roads are particularly important in the highland areas, as the option of water transport is not available (water transport is an important transport mode in the Mekong Delta). However, as the development of the Central Highlands will involve in-migration, expanding commercial land use, and encroaching of previously unexploited forest lands, there will be a need to include a strong environmental component in programming.

B. Urban Development

The pattern of urban development may influence rural growth. For example, how is rural development likely to be influenced by the number and location of urban growth poles? As noted above, in the 1996-2000 Five-Year Plan, the government is basically seeking to reinforce the existing pattern of urban growth, two of the focal economic zones being the existing areas of greatest urban development. However, over the longer term, other options for urban development may be available. Some strategic aspects of urban development include:

(i) *The Primacy of Ho Chi Minh City*

The availability of resources needed to spread the benefits of growth spatially will depend on the efficiency with which resources are applied to meet the needs of urban development. Therefore, another aspect of successful rural-urban transition which requires continuing attention is the development of urban centers, particularly Ho Chi Minh.

Critical aspects of the urbanization of Viet Nam over the coming generations are already inherent in existing trends. Ho Chi Minh and neighboring areas (e.g., Vung Tau port) will be a major center for commercial and industrial development. It will aspire to be one of the strategic urban growth poles of Southeast Asia. Not only is this virtually inevitable given existing trends, but it is also desirable; a dynamic and fast growing commercial center will make a crucial contribution to the growth of the Viet Nam economy. As the focal point for commercial links with the rest of Southeast Asia and the world, the character and pace of its development will be strongly influenced by foreign investment.

The growth of Ho Chi Minh City will be fed by the in-migration of large numbers of Vietnamese and foreign business people and professionals. There is already some indication that Vietnamese migration into the city will have a bi-model character: the city will not only attract unskilled workers with only basic education, but will also act as a mag-

net for the highly educated, who can take advantage of the most sophisticated job opportunities that the development of the city will generate (Center for Population and Human Resource Studies 1995).

The development of Ho Chi Minh City into a metropolis of more than five million will require major infrastructural investment. As its international role will demand a high level of services and a cosmopolitan urban environment, it would be unrealistic to believe that high levels of investment will not be required. It may also be unrealistic to expect that a high proportion of infrastructure can be financed privately. At the moment, there are high expectations on the potential of build-operate-transfer arrangements which have yet to be realized.

Government will have to steer between two dangers: underinvestment in infrastructure choking off the desired commercial development of the area on one hand; and on the other, demands of a fast growing and (relatively) high-income urban area unduly preempting scarce resources, holding back the development of other areas. In particular, the pressures will be to provide for Ho Chi Minh as an urban area with income levels—and therefore service requirements—out of line with the development of the rest of the country. That is, the availability of resources for development elsewhere will be influenced by the effectiveness with which solutions are found to meet the infrastructural needs of Ho Chi Minh City.

This suggests the need for careful programming of urban infrastructure and the search for imaginative solutions to potential problems before they arise (e.g., transport modes to minimize urban congestion and land and credit policies which encourage household investment in low-cost housing).

The Urban Sector Strategy Study identified many of the issues to be faced in handling large city development and pointed toward some possible solutions. It also indicated how far the institutional structure and knowledge base were from that required to implement an effective urban strategy.

The pace of change in Ho Chi Minh and Ha Noi is already dramatically changing the character of the urban environment. High-rise development, funded by foreign investment, sprawling small-scale construction by the domestic private sector, and booming spending on motorized transport are changing the face of Vietnamese cities. This raises concerns that the future path for urban development is being set and options being closed without proper consideration of the possible choices.

With limited resources available, support is required for innovative solutions to Ho Chi Minh's development requirements, in light of some of the options identified in the Urban Sector Strategy Study, with special attention being given to building urban management capacity in Ho Chi Minh. While over the longer term the Northern growth pole will generate the same sort of requirements as Ho Chi Minh, for the coming few years they will be less demanding.

(ii) *The Promotion of Multifocal Rural-Urban Development*

To develop a pattern of linked rural-urban development, it will also be necessary for the national government to give attention to the development of a hierarchy of urban centers. A number of second and third level towns might develop as significant urban centers, e.g., Hue, Can Tho, Bien Hoa, and Nha Trang, all having more than a 200,000 population. These can serve as centers to stimulate rural development in their hinterlands. Insofar

as an initiative to promote smaller scale rural development implies interventions at the local level and may involve activities cutting across the range of responsibilities of government ministries, it would be productive to include an emphasis on interventions at the provincial level.

The organization of the government into the national, provincial, district, and commune authorities is not easy to interpret.¹¹ Often the structure has an appearance of being highly centralized, which might be expected from a country which had a period of central planning. However, observations on the ground suggest that there has always been a high level of local initiative, particularly in the maintenance of local infrastructure and the promotion of local initiatives. Perhaps Viet Nam's long history of guerrilla warfare was important in creating a tradition of local initiative which has been more effective than the limited experiments with central planning.

Some aspects of the government delivery system are apparently quite centralized. This is thought to be the case in relation to health and education services (Asian Development Bank 1996b). However, in other areas there is a good deal of decentralized authority. In fiscal management, although regulations imply a centralized financial system, there are important sources of tax revenue and fees in relation to which local authorities have considerable *de facto* control. Financial relations between the central and local authorities are apparently subject to *ad hoc* bargaining, although reforms in the fiscal system aim to tighten central control. Also, provincial authorities own large numbers of state-owned enterprises (SOEs), which seem to operate with a high degree of autonomy vis-a-vis the national authorities.

There is also some ambiguity as regards the chain of command to which provincial-level staff are subject. They are subject to dual authority (in Viet Nam terms, officials are "horizontally" responsible to the provincial authorities and "vertically" to national ministries in Hanoi). However, there seems to be relatively little movement of staff between provinces and the national government, except at the high political level, so that provincial officials make their careers within their provinces and are, of course, in direct contact with political leadership at the provincial level.

Available evidence indicates that while there are significant differences between rural and urban areas, or among provinces, in the delivery of social services, the education and health outcomes do not vary dramatically. Thus, the literacy rate for the 10+ age groups in rural and urban areas is about 85 percent and 94 percent, respectively. There are also differences in literacy across different regions (Table 5). Similarly, indicators of morbidity show that 39 percent of the population was reported sick in the previous 12 months in rural areas, compared to 33 percent in urban areas. The ratio ranges between 33 percent and 36 percent in most provinces.¹² It is not clear if the delivery of education and health services in rural areas should be taken as indicators of "spread effects" in Viet Nam. More likely, they may simply reflect the high priority attached to these services by the government. However, the availability of these services in rural areas could moderate the incentive to migrate

¹¹The Country Economic Memorandum prepared by the World Bank (1996) as a background document for the 1996 Consultative Group meeting sheds a good deal of light on issues of provincial and local level finance. The report prepared by the UNDP (1996) also addresses issues of provincial and local level capacity.

¹²The exceptionally low morbidity rates in the Central Coastal Region and the Central Highland Region could also reflect failure to report illness since there is a high incidence of self-treatment.

to urban areas if they are combined with increasing income opportunities in rural nonagricultural activities.

The implication of the discussion above is that provincial-level programs could be mounted in selected groups of provinces, along with a continuing involvement in promoting smaller urban centers.

V. Implications for Sectoral Strategies and Investment Policy

What then are the strategic policy interventions which will be necessary to promote a harmonious path of rural-urban transition?

A. Agricultural Growth

The rural-urban transition will be influenced by the rate of agricultural growth. While agriculture will continue to grow at lower rates than industry and services, the pressure to move from rural areas will vary depending on trends in agricultural growth. Successful growth should be based upon both rising rural incomes and a steady migration of workers to the cities. Continued agricultural growth of over 4 percent per annum would make a crucial contribution to overall growth and a smooth rural-urban transition for a number of reasons.

There are a number of critical linkages between productivity improvements in agriculture and the development of the urban sector during the transitional process.

A fast growing urban and industrial workforce must be fed (the progress of the Vietnamese economy since 1989 has been supported by the ready availability of food, a result of buoyant agricultural production). A critical factor which distinguishes the period of fast growth in the decade of the 1990s from the period of economic crisis in the 1980s was the transformation of the food supply situation. As late as 1988, Viet Nam was faced with a severe food crisis, requiring imports of staples and resulting in near-famine conditions in parts of the country. It is striking that from being a net importer of rice, Viet Nam exported 1.6 million tons of rice in 1990 and since 1992 has maintained rice exports in the range of 1.5-2.0 million tons per year. In 1996 total rice exports exceeded 3 million tons. It needs to be noted in this context that sustaining the growth of agricultural production and exports, especially rice, is quite sensitive to the terms of trade between agriculture and industry. As the collapse of rice prices following the bumper winter-spring harvest of 1997 has shown, adverse terms of trade can have a strong negative effect on both production and exports.

For some time, it will be necessary for the agricultural sector to also make a significant contribution to export earnings. Since 1989, rice exports have made an important contribution to foreign exchange earnings. Tree (industrial) crops and aquaculture have also generated significant and growing foreign exchange earnings. If agricultural growth is sustained in line with recent trends, then there will be a growing export surplus.¹³ In order

¹³As domestic demand for food is likely to grow only slightly faster than population growth rates, at growth rates of 4 to 5 percent about half of the increase in agricultural output will need to be sold abroad; as exports are currently a good deal less than half of agricultural production, that would mean that agricultural exports could continue to grow at high rates.

to export, it will be necessary to improve quality and develop off-farm processing. So the growth of agricultural exports is also likely to support the growth of off-farm rural incomes.

As labor moves to urban areas the point will be reached where growth in agricultural productivity will be necessary to release workers to move to urban areas, without a loss of agricultural output (which might result in increases in food costs and therefore real wages costs). Moreover, agriculture has its contribution to make to the overall growth in GDP. Although rural output grows at a slower rate than urban output, agriculture may still be relatively efficient in using scarce resources (e.g., capital and foreign exchange), and proper priority for rural investment will contribute to an effective overall growth performance. Thus growth in rural productivity provides foreign exchange earnings and food supplies, directly and indirectly sustaining urban growth, while ensuring that the gap between rural and urban income opportunities does not widen so dramatically as to provoke unmanageable migration to the urban areas.

Agricultural production is also an important determinant of nonfarm rural incomes and in rural services, processing, and local construction. Agriculture growth will stimulate the growth of agricultural processing activities, which will in turn improve agricultural incomes. For example, the rapid growth in paddy production has increased the quantity of rice milling activity, and improvements in rice milling, particularly through the expansion of small-scale rice mills, has dramatically improved the quality of the rice Viet Nam exports. As much of this development will be small-scale and local, it requires support from effective public policies (e.g., liberalized rice markets) and investments in rural infrastructure (e.g., local roads), rather than public investment in processing facilities.

Average growth in agriculture of 4 to 5 percent would sustain a somewhat higher growth in rural incomes since high rates of agricultural growth would be associated with increasingly sophisticated rural services, and the income elasticity of demand for these services is typically greater than 1. Maintaining agricultural growth at recent levels could therefore accommodate a growth in rural per capita income of more than 3 percent per annum. This would contribute significantly in moderating the "push" factor in rural-urban migration.

With the impact of reforms steadily permeating economic life, market forces have taken deep root in the rural economy. Farmers are now experienced in making production decisions in response to market opportunities. The impact of the reforms is to be observed in all aspects of rural economic life. The development of the household farming unit as the core of rural production has profoundly changed the nature of the rural economic system. The growth of the private trading and transport system has resulted in a more competitive, innovative, and lower-cost rural trading system.

In general terms, it can be hypothesized that to sustain future growth, the government will have to deliver a good mix of incentives; continued institutional reform (e.g., better marketing, improved credit institutions, more secure land tenure); and public investments. The specific interventions required will vary from area to area. Available data suggest that infrastructural investment (including extension and improvements in the irrigation system) may be particularly required in the Mekong Delta, while throughout the country, improvements in power availability and the system of all weather roads should be high on the agenda.

B. Rural Industrialization

Although much industrial activity requires an urban location, some activities can be located in rural areas, easing the need for investments in urban infrastructure and providing additional income opportunities for the rural labor force, thereby reducing the burden of both household and social costs of migration. Therefore, special measures need to be taken to encourage a rural migration of industry to moderate the need for urban migration of workers. This seems specially important in the Red River Delta, where demographic pressures are the strongest, although it also applies to the other regions. The government recognizes the importance of rural industries in this context, focusing especially on industries linked to agriculture (Government of Viet Nam 1996).

Industries such as food and export processing are undoubtedly of great importance, as argued in the previous section. But their growth is ultimately limited by the growth of agriculture. Traditional crafts, already well-established in many areas, can also play their part. Expansion of and improvements in traditional production of consumer goods and building materials, particularly through the development of new markets, could help sustain the rural economy. Such activities are well developed, for example, in parts of the Red River Delta, where whole villages specialize in particular lines of activity, such as furniture making, pottery, and textiles. Rural industrialization can also go much further, involving new industries which may have nothing to do with agriculture. There is a great potential for new industrial activities linked to modern urban industrial development both for the domestic market and for export. This has been the experience of successful rural industrialization in several Asian countries (Breman and Mundle 1991). Giant firms in the advanced Asian countries have depended on low-cost ancillary suppliers in rural areas to successfully compete in global markets.

The particular requirement for the promotion of rural industry is sound infrastructure: good roads, communications, power, water, etc., which make it feasible for producers to operate efficiently and cost effectively from rural areas rather than from a congested urban core. Rural industrialization will succeed only when producers find it preferable to locate in rural areas without artificial props and subsidies. Given good infrastructure and lower wage and real estate costs, producers may find it more profitable to locate in rural areas.

What this infrastructure support entails is a public investment strategy which gives sufficient attention to rural areas with high potential. This is in line with government policy. The government recognizes that the focal economic zones can successfully attract private capital, both domestic and foreign, provided that their infrastructure is adequate to make these zones efficient production bases. Beyond that, the government has decided to direct public investment to other areas which are less likely to attract private capital. Accordingly, 30 percent of public investment routed through local budgets will be reserved for cities and provinces in the focal economic zones. The rest will be directed to other areas (Government of Viet Nam 1996). It is not clear to what extent investment through local budgets will cover roads, communications, and power, in addition to water supply and sanitation. There are complex issues involved here, relating to revenue and expenditure assignments to different levels of government under the new Budget Law, which cannot be addressed in this general paper. But it is quite clear that the provision of good infrastructure and social services in the rural areas will be the ultimate determinants of successful rural-urban transition in Viet Nam.

C. Investment and the Rural-Urban Transition

The development of an alternative strategy for rural-urban transition requires that the Public Investment Program be made consistent with the specific regional strategies outlined above. It also requires that proper account be taken of small-scale investment and its future potential.

The government's investment strategy outlined for the new 1996-2000 Five-Year Plan places emphasis on a leading role for state investment through government and state enterprise investment, with foreign investment making an important contribution (Government of Viet Nam 1996). It is envisaged that much of this contribution would take the form of investments in joint ventures with state enterprise partners. Insofar as the growth process is led by the state sector and by foreign investment, there would probably be tendencies for growth to concentrate in a few locations. This tendency of larger-scale investments to concentrate is evident in relation to foreign investment proposals. At the beginning of the decade these were heavily concentrated in Ho Chi Minh and have now shifted to more of a balance between Ho Chi Minh and the Ha Noi-Hai Phong zone.

However, the limited role projected for the domestic private sector in government targets reflects the inadequate statistical coverage of domestic private investment. The possible undercounting of private sector investment could feed a tendency by government to neglect the potential for growth in smaller-scale economic activity. For example, in the Five-Year Plan (Government of Viet Nam 1996) the estimates for private investment are purely notional. It therefore appears that the main thrust of investment for the 1996-2000 period will be government investment, large-scale SOE projects, and foreign investment. It is quite easy to adopt such targets when the available data provides little information about smaller-scale private investment. The potential may be quite different than is implied by this emphasis on state and foreign investment in the Five-Year Plan, as small-scale investment probably plays a much bigger role in the development of Viet Nam than official accounts recognize.

The GDP data suggest that the investment rate has accelerated from 15 percent of GDP in 1991 to 27 percent in 1995; the same data suggest that domestic savings rose from 10 percent to 17 percent of GDP, and net foreign investment from 5 percent to 10 percent. However, available data probably underestimates nonstate domestic investment and the domestic savings effort. Growth in agriculture, for example, of over 4 percent per annum since 1991, would hardly have been possible without substantial investment by agricultural households, which is not adequately reflected in existing data. The high rates of largely private agriculture growth must have involved substantial household investments both in on-farm improvements and in local processing. Also, the teeming urban activity involving small-scale construction, improvement, commercial ventures, etc., which can be readily observed in recent years in urban centers, is not adequately recorded. In a context in which so much of the attention of economic observers has been concentrated on foreign investment and the policy dialogue has focused on such matters as state enterprise reform, the importance and economic potential of small-scale investment, in particular in supporting the process of rural transformation, seems to have been underestimated.

Existing investment projections for the private sector and the spatial distribution of public investment will have to be reviewed along the lines indicated above in order to re-establish priorities which are consistent with harmonious rural-urban transition.

Finally, judgment will be required about the existing or potential comparative advantage of the three focal economic zones and their hinterlands, both for the home market as well as for exports. The characteristics of the three zones vary in relation to existing economic activities, land-labor ratios, and their natural resource base. Analysis of potential constraints which might limit the realization of the potential comparative advantage can provide insights into the required government interventions. However, it should also be noted that detailed characteristics of a dynamic process of small-scale industrial growth are inherently difficult to predict, as they will depend on local-level innovation and responses to market opportunities.

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