

DEVELOPMENT PROBLEMS IN VIET-NAM

A Discussion and Definition of the South Viet-Nam (Mekong Delta) Economic Region

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April 1973

I. INTRODUCTION

The Saigon-centered Mekong Delta economy is implicitly assumed by many to be economically representative of the entire Republic of Viet-Nam. This is not accurate. Failure to fully appreciate this has hindered the economic and political efforts of the United States and the Government of Viet-Nam.

The Delta has historically enjoyed a food surplus, relatively full employment, a high level of monetization and a fairly sophisticated marketing/finance system which extended into the villages. These characteristics are the opposite of the Central Viet-Nam (CVN) economy. The reasons for this can be seen in the evolution and development of the two respective major economic regions of the Republic of Viet-Nam (RVN).

The Delta, or southern economy developed in a manner distinct from any other region of the Viet-Nams. Both the Red River Delta, or northern region, and CVN were settled in the traditional Vietnamese manner and the economies evolved along lines which preserved Vietnamese culture and traditions. The Mekong Delta alone among the three regions had the leaven of Chinese immigration on a significant scale.

In an earlier paper the CVN economic region was discussed in terms of its rudimentary marketing system which was a function of limited money supply and, thus low effective demand. This paper discusses the Saigon-centered Mekong Delta economy's evolution in terms of its basic institution, the marketing/finance system that has been evolving there for perhaps 300 years.

The southern economic region is bounded on the north by the mountains of the Annamite chain (but includes Dalat and Bao Loc) on the east by the China Sea, on the south by the Gulf of Thailand and on the west by Cambodia. It is not unlikely that portions of Cambodia are effectively part of this economic region.

The Mekong Delta was probably first ruled by the Kingdom of Fu Nan, whose capital Oc An, was located near the site of present day Rach Gia. Later various and sundry Khmer (Cambodian) rulers laid claim to the Delta and Champa claimed some northern parts. Ships from Japan, China and the Middle East reportedly visited the area and Fai Fo (present day Hoi An, near Da Nang, in CVN) as long as 4-500 years ago. Early Chinese visitors described the Delta as a vast swamp given to flooding. This was the condition of the area which the first Vietnamese and Chinese settlers found. The Vietnamese undertook construction of drainage projects, including canals; the Chinese to navigate the canals and river. While the Vietnamese grew rice to live the Chinese traded for that rice, using the boats they came in from China to transport that rice back to their food-short original homeland. There they traded for handicrafts and medicines which were not available in the Delta. The importance of this transport role is preserved in the Vietnamese vernacular. The word for Chinese means approximately "men from the boats" and the word for Chinese languages is "boat noise".

The marketing/finance system which evolved in the Mekong Delta was adequate for the economy it served to enjoy a fairly good rate of growth. This is no longer the case because the politically required rate of growth today is much higher and the system has been heavily drained of management skills and capital. Yet, even with these impediments, the demands on the system have increased. These demands exist because the Republic of Viet-Nam must achieve self-sustaining growth if the efforts of the 1960s are to finally succeed. And, relatively efficient market systems are fundamental to self-sustaining growth in non-communist economies.

However, the existing, partially dismantled system does not encourage production expansion in RVN's dominant agriculture sector. Farm gate prices are held down, which holds down production, and consumer prices inflated, which dampens demand. This results from rational, profit maximizing behavior on the part of those who control the system in response to existing incentives. The men who control the system are few enough in number and apparently strong as well as collusive enough for the market to be termed an oligopoly, which implies less than maximum production and distribution efficiency.

II. DEFINITION OF RVN'S MARKETING/FINANCE SYSTEM

RVN's distribution, or marketing/finance system, is defined here as that set of organizational entities which moves commodities from the farm to the consumer and manufactured goods to the farmers. (See Appendix B for definitions and details.) Its basic flow is paddy from the Delta to Saigon. ¹/_{*} Production moves from the paddy producer through a small buyer, or agent, to an intermediate broker and processor,

* For footnotes see Appendix A.

to a large Saigon/Cholon broker and then through retailers to the consumer. These various entities tend to behave as if they are parts of a single, profit maximizing organization. ^{2/} The controlling hub of the system and, apparently, the level at which pricing decisions are made, is the Saigon/Cholon broker. ^{3/} Within the framework of this system the producer is at a distinct disadvantage. ^{4/}

Unless otherwise stated, for the purpose of brevity, the marketing/finance system is discussed as if it were that of a single industry. This is not precise because paddy, the primary or agriculture product, is an input to the rice industry, which is a processing or secondary industry. The distinction is elaborated in a later section, but, for the purposes of the early portions of this paper, the distinction is not critical.

Generally the Saigon/Cholon broker uses his access to bank credit and indigenous capital pools, including his own funds, to obtain most of the large volume of liquidity necessary for the system to operate during peak periods. He advances the funds to his provincial associates and sends them periodic market reports. The broker-associates, through their own agents and through independent buyers in their areas (to whom they are effectively local monoposonists), acquire crops, using the funds from the broker cum financier to pay the farmers. The provincial broker-associates of the Saigon/Cholon brokers also have access to credit but the volume is reported to be inadequate to fund the entire system year round.

In the next step the paddy is milled in province and transported to Saigon, usually by barge. Usually the mills and the barges belong to or are controlled by members of the broker-centered marketing/finance system. This is not always the situation since a large number of mills and alternative means of transport exist. There is an apparent element of competition at this level.

Upon arrival in Saigon/Cholon the rice must be sold to a rice dealer. At this point market imperfection is significant because the dealers are either the brokers or are dependent on the brokers for financing. Storage is also controlled by the brokers. The rice is sold then to retailers, over whom the broker also exerts a high degree of financial control, or influence. The broker makes sales to retailers by advancing them the goods for promise of payment at a later date. The retailer then sells the goods, using the sales proceeds to pay the brokers.

The existing marketing/finance system is undergoing a period of change, the causes and nature of which are discussed below. The control

points of the system are coming under competitive pressure and, except for market information and access to foreign exchange (i.e., inputs and consumer goods) the intensity of control is declining. An example of this trend is access to large volumes of credit. The importance of production credit from the marketing/finance system is diminishing as alternative production credit sources develop and expand. The broker's role of financier is still the means by which the system itself is financed but production is no longer dependent on him as a credit source. But the control of market information and access to foreign exchange are closely held and remain strong tools of control.

Large brokers, through intermediaries, are generally conceded to control significant percentages of imports. The tool used to control the intermediaries is financing, but family and ethnic ties are of great importance. With growing use of imported technology, and with Viet-Nam's high consumption of imported consumer goods, the hold on imports through access to foreign exchange has become a critical hold. Through obtaining or financing GVN issued import licenses, the broker has a major role in the system.

There are 10-12 individuals or firms who control rice distribution to retailers. This could effectively control the system alone, which is unnecessary because of the control of market information. About the same number of people still control the system, although the intensity of their control is debatable. Relative to the producer's access to market information, the system has a fast, efficient communications network of telecom and courier services. The latest market information is passed on at least daily from the broker to his associates in the Delta. These associates, usually provincial "cereal merchants associations", deal with specific, protected buying areas. Thus, the farmer faces a relatively well-informed, local monoposonist when he sells. 5/

Dealer supplied production credit still plays an important role in obtaining the farmers crop at a time of year favorable to the buyer. This role, though still important, is less so than before due to increased production and income stemming from greater use of improved technology (e.g., improved rice varieties, fertilizers, pesticides, water pumps, etc.) as well as alternative credit source development and expansion (a greater volume of family and hui credit, Village Self-Development loans, Agricultural Development Bank loans and Rural Bank System lending). The farmer still can sell his future crop for current consumption, but this is playing a decreasingly important role. 6/

Transportation and processing formerly were heavily controlled. This is no longer the case for, although the system still plays an important role in this function, alternatives have developed. However, the storage part of the processing function remains under the system's control, at least in urban areas. 7/

III. EVOLUTION OF THE MARKETING/FINANCE SYSTEM

The objective of this section is to describe the existing agricultural marketing/finance system in RVN and discuss its evolution. To detect historical trends, primary focus is on the impact a series of events has had on the control exercised over the system by a relatively few individuals. The relevant events were: the Great Depression; World War II and the Indo-China War up to partition of Viet-Nam; and the warfare of the mid-1960's.

Paralleling these events has been the gradual emergence of the South Vietnamese of the Mekong Delta as a competitor for the political and-bureaucratic power which exercise significant impact on the marketing/finance system. These two power sources formerly were almost exclusively held by the French and, later, North and Central Vietnamese, although the Chinese influenced whoever held power. The French and their successors allied with elements of the commercial and financial sectors to maximize profits through restricting trade to levels they considered optimal and limiting entry to the market. Although not basically an economic phenomenon, the development of a southern political and bureaucratic power base has had, and is having a profound impact on the functioning of the system.

Before the Chinese arrived in South Viet-Nam there was only the most rudimentary marketing system. Viet-Nam's leaders had practiced a conscious policy of economic stagnation in order to maintain the status quo. Even when the Vietnamese expanded their territory it was done in a traditionally organized group. Settlement was undertaken by groups of large families who shared the common, traditional, non-commercial beliefs of the traditional culture:

"Wherever they settled there was Viet-Nam because Viet-Nam, as a totality and continuity of human existence, was the Vietnamese village. Nourished by a provincial economy that no territorial expansion or dynastic policy was able to overcome, the local feudal and bureaucratic powers continued to produce human misery and social disorder." 8/

It was the aim of these powers to preserve the existing social order. Innovation as well as commercial activity were viewed as destabilizing and therefore socially taboo. This left an economic vacuum to be filled.

When the Chinese arrived in South Viet-Nam they found that there was a supply of food and a demand for manufactured goods but limited means of exchange. 9/ They also found there was no place for them

in the Vietnamese social order and thus had little chance of owning land. These socially marginal immigrants developed a system to provide the means of exchange based primarily on their ships, the only method available to transport large volumes.

The bulk of Chinese settlement occurred along waterways. The farmers produced rice which they 10/ traded to the Chinese, in exchange for medicines and handicrafts.

The system which evolved played a critical role in the region's development, providing virtually all the services necessary to move commodities from the farmer to the final consumer in exchange for manufactured goods. With an outlet for surplus production and a source of desired commodities, the farmer had reason to increase production. While production could be expanded this system was dynamic and produced positive results. 11/

When the Europeans arrived they found trade in the hands of the Chinese. Even before the French occupation of Cholon, "The Great Market Place", had become the transportation and trade center of the area, replacing Fai Fo in Central Viet-Nam. Rather than make the heavy, time consuming investments necessary to build their own marketing/finance system, the Europeans utilized that of the Chinese to distribute their goods and to purchase local production. 12/

The Chinese, finding a supply of goods from the European traders with which goods from China generally could not compete, also took advantage of the situation. Using market information, access to inputs and credit, as well as control of transportation and brokerage facilities to control agricultural distribution, and being virtually given control of manufactured goods distribution, the Chinese developed an ethnic monopoly, controlled by Cantonese and Tieu-Chau. 13/ Their control was extended through acquiring processing facilities. 14/

During the late 19th and early 20th centuries, the European traders expanded their use of the Chinese by bringing them into foreign firms and banks as compradors, a term which roughly means, intermediary. The compradors actually did the firms' domestic business, particularly with regard to credit. 15/

The firm, through the comprador, consigned imported goods to the large Cholon merchants. 16/ Credit in the form of these goods was passed from the merchant through the system to the farmer. For the goods the farmer guaranteed the crop at a time to be specified by the buyer. This was almost invariably at the buyer's market which accompanies harvest.

Astute political judgment, exhibited by support of Prince Nguyen Anh (Emperor Gia-Long) in taking the throne and in allying with the French during the 18th and 19th centuries, gained the Chinese a favored status in trade and exploitation of natural resources, particularly in the Delta. The growing French alliance with the Chinese during colonization extended Chinese economic and political influence. 18/ During the first 60 years of French colonization the Chinese developed an ethnic monopoly not only over the distribution of imported goods but in an integrated cycle over the entire range of rice marketing activities from farm gate to consumer. 19/ This control as well as Chinese political influence (through their French partners and employers) indicates a powerful ethnic monopoly. 20/

By 1929 the Delta trade had grown large. New land was being opened for production in the Delta and there was an accompanying influx of workers. The system virtually collapsed in 1929 when the Great Depression brought on a depressed rice price and a compression of credit. Many of the merchants were overextended. When world market price fell so low they could not pay for goods they held on credit at the same time credit was restricted, the overextended merchants collapsed. This situation was further complicated by collapse of the rubber industry. The flow of Chinese immigrants was reversed for three years during the early 1930's as broken merchants and others left Viet-Nam. The Chinese ethnic monopoly still had control of the transportation apparatus but the emergence of the railroad and trucking as alternative sources of transport cut into that control. 21/ Further, local sources of credit emerged with the development of a Vietnamese bourgeoisie, based on the acquired wealth which stemmed from rice plantations and the accompanying money lending system. 22/

World War II and the Indo-China War both caused serious harm to the agricultural sector and its marketing/finance system, with little time in between for recovery. 23/ Rice production has never reached pre-WWII levels, and the marketing structure has changed markedly. 24/

Rice price rose during the war but supply was limited by non-economic forces. With no supply the larger rice mills closed and a number of small mills, some owned by Vietnamese, opened in the provinces. 25/

As the first Indo-China War drew to a close the surviving members of the system began to exert their economic power by manipulating prices and raising transportation charges. 26/ The syndicate of rice brokers and millers exerted great influence over both paddy and wholesale rice prices. The brokers all paid identical prices to farmers and each had

his own protected purchasing area. But there was some Vietnamese competition at this level. Wholesale prices were controlled by brokers maintaining identical prices. The results were low farm prices and high consumer prices. ^{27/} However, the war period saw the weakening of the hold on transportation as large numbers of junks and sampans were destroyed. Finally, by 1956, the last Cholon rice mill closed. ^{28/}

In 1958 the GVN imposed price controls on "average" quality rice and transportation costs increased due to check points, etc. At the existing level of technology, the agricultural sector apparently was at or near full employment because short-run price response was estimated to be very low in the production area. ^{29/} However, during the early 1960's demand for rice appeared to be price responsive in the short-run. The market was reportedly restrained by GVN regulations. ^{30/} The significant response by consumers to changes in price can be explained by their holding several day's rice supply. This responsiveness has been documented in studies which investigated price movements, production diversification and marketing costs. In the short-run demand was price responsive because people would draw down reserves and use substitute commodities rather than pay higher prices. However, as time passed and stocks were replenished demand elasticity decreased, probably because of taste factors, which kept per capita consumption constant as long as price did not vary greatly. ^{31/}

During this period the intensity of the hold on and importance of the transportation function was reduced. Demand for transportation decreased because milled rice grew as a percentage of Saigon deliveries. ^{32/} Paddy was traditionally transported by canal to Saigon/Cholon for milling. But with increasing Delta mill capacity (about 2,000 mills in 1962) the amount converted to milled rice increased, reducing transport volume and increasing the ratio of commodity value to weight and bulk. In addition, the war reduced the canal traffic thereby increasing the costs of that means of transport. Kilometers of road and number of trucks increased over the period by more than 50% each, increasing the supply of road transport which became more competitive as a result while canal, or water transport, became less competitive. ^{33/}

There was a dichotomy between wholesale and retail price behavior that indicated market imperfections still existed. Retail price behavior was explainable by market forces, but wholesale prices varied relatively erratically. ^{34/}

The reduction in domestic rice availability which accompanied the interdiction efforts of the mid-1960's and the subsidized import of U.S. rice had considerable impact on the marketing/finance system. ^{35/} As the war spread total production decreased. The enemy interdicted

transportation routes causing Saigon deliveries to decrease. The marketing/finance system was cut off from its supply and the basic movement of the system interrupted. Rice imports and GVN controls further disrupted the system.

Into the 1960's water remained the primary means of transport and the large millers maintained their own barge fleets. Saigon/Cholon still was the center of the system. Large merchants also owned or controlled milling and storage facilities, national inventories and credit. Even after the Diem period the system was characterized by lack of competition. ^{36/}

As interdiction of traditional transport modes occurred the rising costs of transportation made it possible for other modes to compete, e.g., trilateralas with small sampans and trucks with junks and barges.

Monetization of the economy increased rapidly as a result of increasing production. This helped increase the availability of indigenous credit. ^{37/} In 1967 the Agricultural Development Bank set up a reasonably effective, alternative source of production credit, and the later introduction of the Rural Banking System and Village Self-Development loans reduced the marketing/finance system's hold on producers. The Viet-Cong physically cut off some areas from the economy and in other areas taxed so heavily that farmers had no incentive to produce much beyond subsistence. Then in areas to which the enemy's freedom of movement decreased, the introduction of new technology in the form of improved rice varieties, water pumps, fertilizer, chemicals, etc., led to surpluses which eroded the intensity of the hold over the system exercised by the "tsars". ^{38/}

By the late 1960's the imperfections in the agricultural marketing/finance system apparently were much lower than those of the 1920's. The imperfections had apparently been reduced as more mills, alternative credit sources, competing transport modes and technology were more evident. However, as late as 1969 the brokerage level consisted of 11 merchants. ^{39/} Each, through associated "cereal merchants associations", had their own buying areas which were evidently not violated. ^{40/} Prices were set in Cholon and transmitted to the provinces along with other market data. ^{41/} The oligopolists maintained control by controlling market information, inputs (through access to foreign exchange) brokerage and distribution. ^{42/}

A process initiated by the 1954 partitioning had been going on during this period which caused the system to internally alter direction. The area south of the partition had not developed a large secondary production base, depending on North Vietnamese industry and imports for its manufactured goods. In 1954 then, the Mekong Delta and the southern portion of CVN were without any real industrial base. Prices for manufactured

items became such that even inefficient production units were competitive, given the protective tariff erected by the paternalistic, perhaps collusively allied government. Where domestic production was not feasible, imports were, and the access to foreign exchange and therefore the ability to buy abroad gained in importance. In either case profit margins were evidently attractive because large investments were made, particularly in the import function.

During the mid-1960's, with the introduction of foreign troops in large numbers and the resulting demand for services, another area of investment opened up. In the words of one service industry entrepreneur, the profit margins were: "Very, very unbelievable". This diverted funds from more traditional investments into real estate, construction, laundries, bars, brothels, taxis, etc. There were valid alternative investment opportunities which competed with the agricultural marketing/finance system for capital.

The increasing competition in transportation, processing, storage and credit was a disincentive to further investment in the marketing/finance system. Other disincentives were the introduction of government price controls in the late 1950's, decreased availability of domestic rice, increasing cost of rural operation, and rice imports used to dampen rice price increases.

When imports were expanded under the stabilization program in the mid-1960's, the commercial and financial "tsars" who controlled the import system found a home. They still had the key elements in the agricultural marketing/finance system under their control (i.e., market information, inputs and brokerage); there were still some investments in secondary production; but there were huge profits to be made in services and imports. Imports had the added value of providing a channel for export of funds through over-invoicing, etc. Access to foreign exchange was limited by licensing. Further, the expertise needed to operate an import business was not available except for those who were already in the system.

Also during this period the Vietnamese diet underwent significant change. Urban dwellers, with rising living standards partially switched to commodities other than rice. The production diversification of the early 1960's gained impetus in the latter part of the decade. Originally not all the new production went on the economy. Vegetable production, for example, grew very quickly but a large portion was sold to U.S. forces. The Dalat, Hue, My-Tho, Tan-An areas reportedly expanded production over pre-U.S. intervention production for sale to the U.S. Army Purchasing Agency Viet-Nam (USAPAV). But USAPAV standards caused some to be rejected and enter local markets. In some instances, this "overflow" drove prices

down. ^{43/} Production went up considerably in response to the predictable U.S. demand. Dalat, the traditional vegetable production area, led in this due to the large USAPAV procurement station at nearby Cam-Ly. This left Saigon, Cholon, Gia-Dinh and Bien-Hoa at least partially without their traditional production source. The production area around My-Tho, Tan-An, Phu Cuong and Gia-Dinh increased considerably in response to metropolitan demand. Then U.S. procurement declined sharply as troop levels dropped. As production was diverted to local markets to be consumed along with imported items such as condensed milk, citrus fruits, etc., diets changed to take advantage of the alternatives. This caused demand for rice to become more price responsive and decreased the leeway for manipulation.

Between 1939 and 1971 the horizons of those who controlled the agricultural marketing/finance system expanded greatly. Rather than operate within the narrow range of the traditional system, they rationally expanded to new areas. Whereas they originally were virtually absolute masters of commerce and finance, they chose to expand their wealth rather than intensify their power. Thus, although still forces to be reckoned with, and not always benevolent forces, they are no longer "tsars" but, to maintain the allegory, grand-dukes and princes of commerce and finance. ^{44/} Because they have strong holds on certain key control points (market information, brokerage and access to foreign exchange) such terms as "formidable" might be applied. Rather than debate adjectives it is suggested that the agricultural marketing/finance system of Viet-Nam evolved to provide a vital service which ethnic Vietnamese of the pre-colonial Mekong Delta did not play for themselves. It filled that vacuum if not always with admirable efficiency, at least functionally. It became an ethnic monopoly because there was little or no challenge, and an oligopoly when challenge first evolved. Under these conditions the heads of the system behaved in an economically rational manner, minimizing cost and overhead, maximizing profits and moving to alternative investments as opportunities were discovered which met time tested investment criteria. This system played a critical role in the development of Viet-Nam but perhaps a role not always characterized by social consciousness (unless one wishes to consider the society of an ethnic minority). Still, it was consistently an economically rational role.

The trend away from market imperfection has been hindered by institutional and policy obstacles. Currently the government's import licensing and refusal to distribute market information are the greatest obstacles to an efficient resource allocation and distribution system.

FOOTNOTES

- 1/ Robequain, Charles, (Translation by Isabel A. Ward), The Economic Development of French Indo-China, London: Oxford University Press, 1944, reissued under the auspices of the International Secretariat, Institute of Pacific Relations, through University Microfilms, Ann Arbor, Michigan, 1971, P. 308. Also see Pierre Gourou, Land Utilization in French Indochina, Paris: Centre d'Etudes de Politique Etrangere, 1945, P. 314.

Marketing/finance systems for other commodities in Viet-Nam are almost identical, and subordinate, to that of rice. For descriptions of these see: S. B. Young, "The Role of Middlemen in the Vietnamese Marine Fishing Industry (Rach-Gia, Vung-Tau, Saigon); unpublished paper for the U.S. Embassy's Minister-Counselor for Economic Affairs, dated June 11, 1971; Arthur L. Kobler, "Trip Report - Dalat, 5-13 December. Comments on the Production and Distribution of Vegetables", unpublished paper for the Chief, Joint U.S. Embassy/USAID Economic Office, dated December 30, 1970; H. T. K. Bien, et. al., "A Report on the Marketing of Vegetable Crops", Working Paper No. 1, Joint Development Group, Saigon: 1967; and "Viet-Nam Beef Cattle Development Project", Government of the Republic of Viet-Nam, Ministry of Land Reform, Agriculture and Fishery Development, and the Agricultural Development Bank of Viet-Nam, April 1971.

The marketing/finance system for production and inputs in Central Viet-Nam is like that of the larger, Saigon centered system and is dependent on that system. The various CVN economic sub-centers do have distinct marketing/finance systems but, for RVN as a whole, the center is Saigon. In the interest of brevity it is assumed that these economies act only as an arm of the Saigon system. For a discussion of the CVN economy see my "DEVELOPMENT PROBLEMS IN VIET-NAM: A Discussion and Definition of the Central Viet-Nam Region", March 1973.

- 2/ Young, op.cit., Kobler, op.cit., Bien, et. al., op. cit. and Charles G. Billo, "Some Historical Perspective and Comment on the Production and Marketing of Rice in the Mekong Delta", unpublished paper for the DEPCORDS IV CTZ, dated September, 1969.
- 3/ Billo, op.cit. Also see Wildman Agricultural Research, Inc., "Economic and Engineering Study, Grain Storage and Marketing, Viet-Nam," Toledo, Ohio: March, 1970.
- 4/ Robequain, op.cit., P. 171. Also see Simulmatics Corporation, "A Study of Commercial Distribution of Agricultural Inputs in the Mekong Delta of Viet-Nam, 1968," Cambridge, Massachusetts, 1968; Gerald C. Hickey, Village In Viet-Nam. New Haven, Connecticut: Yale University Press, 1946; J. D. Montgomery, Cases In Viet-Nam Administration, Saigon: Michigan State University Viet-Nam Advisory Group, 1961; and Billo, op.cit.

- 5/ Billo, op.cit. There are reports of increasing competition between various groups in the Chinese community, particularly Cantonese, Fukienese and Tieu-Chau merchants, but these reports cannot be confirmed. If, as this writer tends to believe, the reports are true, there should be increased paddy price competition. It will take time and effort for this hypothesis to be tested.
- 6/ Young, Airgram A-90, Attachment, "My-Thuan Village after 11 years". For a more in depth study see "Land Reform in Viet-Nam", Stanford Research Institute, Saigon: A.I.D.
- 7/ Reports indicate Delta farmers are increasing their storage capacities. This could somewhat offset the importance of controlled urban storage.
- 8/ Joseph Buttinger, The Small Dragon, New York: Frederick A. Praeger, 1958, P. 171-5.
- 9/ There were several waves of immigration but most have taken place since 1500.
- 10/ Robequain, op.cit., P. 33, 38, 39, 106 and 112. According to Robequain: "Before the French occupation, waterways were the chief transportation routes" and "...the Chinese were the master of all river navigation on Cochin China's (the Mekong Delta) waterways. The center of this activity is at Cholon, where the big buyers, manufacturers and exporters work closely together in a maze of overlapping interests very hard to disentangle." At the time, communication was a function of transportation. So, since the Chinese also controlled communication through transportation, they of course controlled market information. Also see Simulmatics, op.cit., and "Viet-Nam Transportation Study", Transportation Consultants, Inc., June, 1966, P. 2-3.
- 11/ In Viet-Nam prior to about the time of independence (1954) to increase production meant to bring more land into cultivation according to Robequain, op.cit., Buttinger, op.cit. and Simulmatics, op.cit.
- 12/ According to Buttinger, op.cit., PP. 203-12, the European trading incursions of the 1600's, mainly in the North, failed because the Vietnamese lacked commercial readiness, and the leaders of incursions in the 1700's and 1800's were ready to take advantage of anything which would lower capital risks. This attitude made the discovery of an existing distribution system not only palatable to them but desirable.
- 13/ Robequain, op.cit., P. 34, 38-9 and 309. For further discussion also see: Simulmatics, op.cit., P. 39; and Roy Jumper and Nguyen Thi Hue, Notes on the Political and Administrative History of Viet-Nam, Saigon: Michigan State University Vietn-Nam Advisory Group, June 1962, P. 64.

- 14/ Robequain, op.cit., P. 34.
- 15/ Credit was, and is, extended on the basis of personal reputation. The most reliable sources of this information have historically been Chinese organizations. This implies the bulk of the credit went to the Chinese, an implication which empirical research indicates is true.
- 16/ Robequain, op.cit., P. 34. Simulmatics, op.cit., P. 38.
- 17/ Simulmatics, op.cit., P. 31. Also see: Robequain, op.cit., P. 38, Jumper and Nguyen, op.cit., P. 63-4; and Buttinger, op.cit., P. 235.
- 18/ Robequain, op.cit., P. 37-8; Jumper and Nguyen, op.cit., P. 121, 137-8; Simulmatics, op.cit., P. 32. Buttinger, op.cit., P. 430, states the chief French investors were large banks that held the bulk of government securities. Thus, the potential political power of the compradors can be seen.
- 19/ Simulmatics, op.cit., P. 34-42 and Robequain, op.cit., P. 309. It should be kept in mind that while the rice marketing/finance system was and still is heavily Chinese, its ethnic character does not carry to the system of other commodities. More and more Vietnamese have entered the rice system and also, become the dominant ethnic group in other marketing/finance systems, using the same practices of trade restraints and profit maximizing as the Chinese.
- 20/ Technically the system might be termed oligopolistic, with different elements within the Overseas Chinese Community competing with each other (specifically Cantonese, Fukienese and Tieu-Chau). However, the degree of collusion was apparently very great at the time discussed, and outside the Chinese community the system behaved as a monopolist.
- 21/ Robequain, op.cit., PP. 43 and 276.
- 22/ Robequain, op.cit., P. 86.
- 23/ Jumper and Nguyen, op.cit., PP. 131-2, and Simulmatics, op.cit., P. 47.
- 24/ Simulmatics, op.cit., P. 47. The 1938 crop year was the greatest in Viet-Nam's history in terms of export.
- 25/ Ibid., P. 44.
- 26/ Stelly, R. An Economic Study of Agrarian Problems in Indo-China (Ph.D. Thesis Louisiana State University, Baton Rouge, Louisiana, May, 1956) in Allen J. Harris, An Economic Analysis of Rice Prices in the Republic of Viet-Nam, Fargo, North Dakota: North Dakota State University, P. 9.

- 27/ Ibid., PP. 10, 11 and 12, and Montgomery, op.cit.
- 28/ Simulmatics, op.cit., PP. 45-6. Several mills have re-opened since 1956.
- 29/ Hendry, op.cit. While supply under conditions where production is a function of land cultivated, might be totally inelastic in the short-run, in the long-run it could be highly elastic. Hickey, op.cit., indicates a relationship between the level of farm income and supply, with low income farmers not producing commercially. This could imply that a significant rise in rice prices would cause the farmer to reduce his own consumption; not an unlikely occurrence given a highly elastic short-run demand for rice. (See the 1960 study on My-Thuan Village by the Michigan State University Viet Nam Advisory Group.) Under these circumstances the inelastic supply was perhaps as much a function of decisions of the price setting mechanism as it was of land available for cultivation and lack of technical innovation. The introduction of technology and diversification of production altered the situation in the 1960's. Not only has supply of rice increased but the supply of substitutes as well. See Harris, op.cit., and Arthur Smithies, "The Economy of Viet Nam: Wartime Policies and Postwar Possibilities", unpublished paper for Simulmatics Corporation, Saigon, 1967, PP. 55-6.
- 30/ Stroup, R. H., Rural Income Survey, 1964, U.S. Operations Mission to Viet Nam. Also see Smithies, op.cit., for a brief discussion of the impact of controls.
- 31/ Harris, op.cit., PP. 17-18.
- 32/ Harris, op.cit., P. 96. In crop year 1963-4, the peak of post WWII production, milled rice equalled 65-75% of Saigon deliveries. Paddy deliveries declined during the 1960's until they are now effectively zero. Also see Transportation Consultants, op.cit., P. 3.
- 33/ In Viet-Nam, when paddy is converted to milled rice it loses 40-60% of its weight and bulk.
- 34/ Wholesale price changes could be explained by conventional market forces but retail prices indicated a market situation opposite to that indicated by wholesale prices and in conflict with that described by known market forces. According to Harris, op.cit., the marketing/finance system "... probably had considerable control over prices...". It was also reported by Simulmatics, op.cit., as well as Harris, that supply became increasingly elastic over the 1958-1965 period.
- Simulmatics, op.cit., gives further insight into this on page 54: "It was also reported on several occasions that Saigon/Cholon distributors accorded credit more easily when they had large stocks which they were

trying to move. When stocks of goods were scarce, however, wholesalers restricted credit and tried to move the limited stock of goods for cash." Harris, op.cit., found that retail prices were highly responsive to market forces but wholesale prices were not, and "(w)hen this condition is accentuated by poor information services the problem is compounded." Even under the conditions of war which became very evident during this period, Harris felt that the transportation, milling and distribution control probably had significant impact on price changes. Also see Smithies, op.cit., "Economic Problems of Vietnamization", Institute for Defense Analyses, Saigon, August 1970.

- 35/ For a brief discussion of the problem see Smithies, Ibid.
- 36/ Smithies: "The Economy of Viet-Nam: Wartime Policies and Postwar Possibilities", P. 29, and "The Translation to Economic Development in Viet-Nam", Institute for Defense Analyses, Viet-Nam Development Studies Working Paper No. 3, Arlington, Va.: April 1971, P. 45-6. Wildman, op.cit., PP. 64-129. Transportation Consultants, op.cit.
- 37/ Young, "My-Thuan Village", op.cit., P. 2.
- 38/ Ibid.
- 39/ Billo, op.cit., P. 4.
- 40/ Ibid.
- 41/ Ibid.
- 42/ See Young, classified memorandum, for discussion of the supplementary use of political control.
- 43/ This was particularly true in Hue, where, during 1969 USAPAV, working in close association with CORDS found declines in local vegetable prices of up to 20% and an active local market for excess produce.
- 44/ Ethnically, the rice marketing/finance system is Chinese and Chinese tend to have a poor public image in Viet-Nam. Lest this be construed as further castigation it should be emphasized that no other commodity has an ethnic minority in control. Actually Vietnamese control the system in other commodities and do so in a much more absolute fashion. See Young, "The Role of Middlemen...", and Kobler op.cit., for discussion. As a rule Vietnamese tend to operate very much like the Chinese, restricting trade and maximizing profits but with a closer watch on political power and intensity of control than innovative alternative investments.

DEFINITIONS

The marketing process is composed of seven steps: 1) change of title; 2) market information; 3) financing; 4) grades and standards; 5) transportation; 6) storage; and 7) risk taking. Sometimes processing is considered part of the process. This appendix discusses the Vietnamese agricultural marketing/finance system in the stated terms to identify points of control.

The system is termed the "marketing/finance" system to emphasize the importance of finance. Most of the other functions are important but the system's "cement" has been finance.

1. Title change: the point at which the marketing system gains control of the commodity from the producer. In Viet-Nam this point is normally referred to as the "farm gate". At this point the farmer usually faces a local monoposonist, i.e., a buying agent of the collusive oligopoly which controls the marketing/finance system.

2. Market information: demand and supply data for a specific commodity at a given point in time. For the purpose of this study its major components are price and transportation data.

3. Financing of the system: the function of supplying funds and/or goods to the system. This may be done either as an equity investor or as a supplier of credit. Historically this has been a major source of production finance. The marketing/finance system's agent would obtain the farmer's agreement to harvest the crop at a time specified by the agent (invariably during the buyers market at mid-harvest). Production credit, although part of the financing function, is a distinct sub-function and should not be considered as a mere extension of marketing system finance. It was and is conducted on different terms, in a different context and with a different objective.

Another sub-function is supply of inputs. In the interest of brevity, this study defines inputs as all manufactured goods, whether intermediate, capital or consumer goods. It is assumed all inputs originate in Saigon/Cholon, the usual port of entry and the center of manufacturing in what is now the Republic of Viet-Nam.

4. Grades and standards: the function of grades and standards is only tangentially relevant to the study because it is evidently ignored by the system.

5. Transportation: the function of moving people and goods. Historically this has also been the means of communication. Formerly transportation was strictly by broker-owned, water borne means. Now there are competitors and alternative means of transport.

6. Storage: the function of holding goods prior to sale. In the country side this is split up among producers, transporters and processors, but in urban areas it is controlled by brokers. In this study it is considered to be a part of processing (see below).

7. Risk taking: this function is composed of brokerage, wholesaling and retailing.

Brokerage is the process of buying from producers and selling to retailers. It is the key to the Vietnamese agricultural marketing/finance system. The Vietnamese broker is generally the financier of the system and the price determiner. He combines the brokerage and wholesaling functions.

Retailing is the function of distributing commodities to final consumers. In Viet-Nam the retailer is often an agent of the broker.

Some students of marketing include processing as a function of the marketing system. To do so is appropriate in the Vietnamese marketing/finance system because it is an integral step in bringing production from the farm (paddy) to the consumer (for purchase as rice). This study treats processing as a function of the system and defines it as the function of upgrading the quality and value of the product by application of labor and technology. In this study it can generally be interpreted as milling and includes the storage function as a matter of convenience in exposition.

It is also helpful to define market imperfections and indigenous credit sources. Market imperfections as used here indicates a state where entry and/or information distribution are restricted and where a few firms or individuals can significantly effect market conditions. In this paper indigenous credit sources indicates credit from traditional, non-dealer sources, e.g., huis, families, and landlords.