

Land in Transition: Reform and Poverty in Rural Vietnam

Vietnam's rural land reforms have led to gains in both equity and efficiency, despite greater landlessness and some losers

The most important nonlabor asset in any developing rural economy is land. The institutions determining how land is used are thus at the core of efforts to fight poverty. In the 1980s and 1990s Vietnam undertook truly major reforms of the laws and regulations governing agricultural land. Before that, farming had been collectivized, but Vietnam (like China) came to realize that this system was not performing well. The cooperatives and collectives were dismantled, and the land assigned to individual households under contracts with the government. This system clearly had better incentives, and agricultural output rose accordingly. Further pro-market reforms to agrarian institutions followed, including introduction of a market in land-use rights.

The reform process faced a potentially major threat. The central government had to rely heavily on decentralized implementation of the reforms, raising concerns about capture by local commune elites whose interests were not well served by the center's aims. Were these concerns justified?

In a new book Ravallion and van de Walle use econometric models of both household consumption and local cadre behavior to assess the distribution of the consumption impacts of the administrative land allocation achieved at decollectivization. The actual allocation is assessed relative to counterfactual allocations, including the one that would have maximized aggregate consumption and been the competitive market allocation.

Their results are not consistent with an unjust land allocation stemming from the power of local cadres to capture the process. But the observed allocation differed significantly from what would have been expected from a competitive privatization at market-clearing prices—the outcome

was more equitable. This suggests an effort by the authorities to protect the poorest and reduce overall inequality at the expense of aggregate consumption. The solution entailed a trade-off between equity and efficiency, indicating that both objectives were valued positively.

In 1993 a new land law attempted to foster free transactions in land-use rights, leading to much debate. Some believed that this reform would allow a closer approximation to the efficient allocation, but at the expense of equity. The prospect of renewed class differentiation—the reemergence of a rural proletariat—has fueled debate about the wisdom of Vietnam's efforts at liberalizing land markets.

One long-standing view is that even from an equal starting point the market mechanism will generate excess inequality. Against that view, the same features that helped ensure an equitable allocation at decollectivization will moderate any unequalizing forces generated by the emerging market economy. And the fact that other policy reforms, including more open external policies, were creating new opportunities for diversification and growth is clearly relevant to the outcomes of these reforms.

Ravallion and van de Walle's research for Vietnam finds that after the legal reforms land was reallocated in a way that attenuated the inefficiencies of the initial administrative assignment of land. Households that started with an inefficiently small amount of land tended to increase their holdings over time, while those starting with an inefficiently large amount tended to decrease their holdings. The adjustment was not rapid; in the aggregate only a third of the initial proportionate gap between the actual and the efficient allocation was eliminated within five years. Some local governments continued to intervene, but it appears that the market mechanism did start to take hold.

Did these efficiency gains from introducing land markets come at a cost to the poor? A higher incidence of

landlessness would not be a surprising finding. Many farmers will benefit from the new opportunities to use their limited wealth in other ways, including spending on consumer durables and housing. But there will also be losers. Welfare losses can occur for the previously landless, who receive lower wages than without the reform, and for farmers who lost other benefits previously provided by the cooperatives.

Ravallion and van de Walle's analysis of the survey data for Vietnam—spanning a decade after legal reforms to introduce markets in land-use rights—confirms the expected rise in the rate of landlessness among the poor. But the authors find little sign that rising landlessness has undermined the gains to the poor from the relatively equitable assignment of land-use rights at decollectivization. On the whole, rising rural landlessness appears to have been a positive factor in Vietnam's process of poverty reduction. Farm households are taking up new opportunities, notably in the labor market.

Starting from a relatively equitable allocation of land, the introduction of free exchange did not end in peril and poverty for the rural population, though (as in any major policy reform) there are both losers and gainers. Vietnam's experience also reminds us that the efficiency gains from reform do not happen overnight and may well take many years to be realized. But gains can be expected, including for the poor.

Martin Ravallion and Dominique van de Walle. 2008. Land in Transition: Reform and Poverty in Rural Vietnam. New York: Palgrave Macmillan; Washington, DC: World Bank.