

A STUDY OF COMMERCIAL DISTRIBUTION OF AGRICULTURAL INPUTS  
IN THE MEKONG DELTA OF VIETNAM

1968

P R E F A C E

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The following summarized study and analysis of the commercial distribution system in the Mekong Delta of Vietnam was made by a research team from the Simulmatics Corporation of Cambridge, Massachusetts under contract to the Joint Economic Office of the United States Mission to Vietnam, during the first half of 1968.

The sections included in this presentation represent an analysis of the factors which have shaped, and which are at work shaping, the commercial distribution system for agricultural inputs in the Vietnamese Mekong Delta.

Not included in this presentation are the sections written by the Simulmatics group entitled "Motor Distribution in the Delta", "The Fertilizer Market Today", and "The Transportation System in the Delta of South Vietnam." Nor have we included the translations of the extensive interviews (see METHODOLOGY at end of study) on which the study was based. The missing sections and the interviews are available for review -- or retention if of significance to the requestor's interests -- in limited numbers from the Economic Development Branch, Joint Economic Office, U.S. Mission to Vietnam, Saigon.

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## S U M M A R Y

The commercial system for distributing goods and services that support agricultural activities in the Southern Delta of Vietnam, and that link agriculture to the economy as a whole, is remified and extensive. It reaches into most province towns and beyond, supplying agricultural machinery, fertilizer, seeds and insecticides to the farmer, while it collects his produce and brings him general goods. By providing needed capital and credit, it supports him between harvests and induces him to participate in the monetary rather than the barter economy.

This system has played and plays today a large role in economic development.

It is flexible and resilient, responsive to changes in demand and to technological development. It is highly competitive. Low capital requirements, freedom of entry and entrepreneurial drive have offset tendencies toward monopoly, whether ethnic or economic. Prices and rates are flexible and responsive to demand. Profit margins and earnings tend to be low -- probably too low for participants to be able to play a full role in development. Yet the system is strong. It recovered rapidly from the disruptions and damage of the NLF uprising in February of 1968, and it was largely unaffected during the May attacks. There is evidence, however, that entrepreneurial activity is damped because of insecurity and uncertainty about the future.

The system is not so innovative as it is responsive. While it does function to some degree as a means for spreading new technology, products and practices to the agricultural sector, it could do more. Government programs for agricultural development, moreover, have not taken full advantage of those commercial development potentialities, in particular the extensive and effective contacts with individual merchants and suppliers of transportation -- as well as with ultimate users. Given better protection from excessive competition -- for example, the backhauling of fertilizer -- participants in the system might be more willing to use advertising and to improve services as a means of increasing the total market for new products, while increasing their own share in it. Simplification of government procedures for importation and licensing the sale of new products would also speed up the system.

Historically, agriculture in the Delta developed extensively, as plantation owners and peasants used plentiful labor to open up and work new land, under the spur of economic opportunities (wider world markets for rice) and technical possibilities (the development of canals, drainage, and irrigation in the past century).

Today, however, owing to the disruptions of war and dislocations of labor supplies, production of rice has dwindled, milling of rice has diversified, and former extensive potentialities have dimmed. The future for recovery and expansion of agricultural production and commerce will apparently come from an intensive revolution, in which new technology and improved machinery and methods will be deployed.

The performance of the agricultural sector in the first half of 1968, and before, offers prospects that this intensive revolution can be furthered even while war and disruption continue.

The commercial system can play a powerful role in fostering this intensive developmental revolution in several ways. The research reported here indicates that the commercial sector has done much to help create the demand for new capital inputs, by informing potential users of their existence and their contribution to productivity and profit, and showing them how to use them. The system has provided these inputs in sufficient quantities and qualities to further development markedly. The system has provided goods where there has been substantial demand for them, although larger agricultural implements are not now stocked by dealers in all province or district towns. Prices and credit terms have been reasonable, and have not seriously interfered with widespread distribution and applications of new technology. The system has provided much information to merchants and potential consumers -- more via collaboration between manufacturers' representatives and merchants than by joint governmental and commercial efforts. The system has demonstrated continuing responsiveness to new customer demands and changing economic, political, and even military conditions as well.

These surveys indicate that better use could be made of capital and credit to foster development and growth. Capital and credit tend to be under-used, sometimes because of customary unwillingness of borrowers to use credit, and sometimes because of the administrative difficulties

posed by the available sources, including government banks. Government credit, now ramifying into the provinces, is providing support, and promises to do more. (Similarly, more flexible and convenient procedures and systems could have helped distribution of fertilizer.) Government price and distribution policies have at times interfered with the effective distribution of insecticides, by stocking insufficient goods at artificially low prices, and thus removing incentive from private suppliers to carry adequate stocks at economic rates.

Assuming that the Government of Vietnam wants economic and social development, it is nevertheless true that preferences for government action and unwillingness to support apparent ethnic or economic monopoly militate against adoption of a policy of maximum support to the commercial sector as an agency for production and development. Nevertheless it appears wasteful and costly to set up direct government support systems that parallel existing commercial systems. And our surveys indicate that there is a considerable influx of ethnic Vietnamese into agricultural commerce and transportation; many such Vietnamese display initiative and flexibility, sometimes in joint ventures.

The commercial sector can provide a multiplier effect for government efforts; government can do much to improve economic incentives for the commercial sector (for example, by helping the commercial firm to cope with economic uncertainty and risk in the introduction of the larger and more costly kinds of agricultural machinery). Such a joint development program could make more powerful and efficient contribution to the intensive revolution than either acting separately.

It would appear most advantageous if the Government of Vietnam and USAID were to examine carefully and to exploit the potentialities of joint use of commercial and governmental resources to carry out programs of development.

## FORWARD

Since 1954, economic development programs in South Vietnam have favored a direct approach to development by improving government agricultural services, creating agricultural cooperatives, building facilities such as warehouses, providing sources of non-commercial credit, investing in agro-industries, and supplying agricultural advisers. Little attention has been given to, or contact made with the extensive system of small merchants and bazaar commerce, which reaches down to every village and is the natural economic unit to the millions of peasant-farmers whose productive efforts are essential to development. A direct institutional approach to development assistance tends to ignore the role the commercial sector has played in the economic development of Vietnam in the past, and can play in the future at relatively little cost.

The prime purpose of this study is to examine ways of using the commercial sector to promote agricultural development. The study describes the development of the presentday system of commerce in the South, in order clearly to set forth its structure and function, and the part the commercial sector has played in the past development of Vietnam.

This study of the far-reaching distribution system for agricultural inputs and services in the Delta is based on first-hand field research carried out by researchers from the Simulmatics Corporation, under the direction of the Development Branch of the Joint US AID/Embassy Economic Division. Given the interests of the Development Branch, it has been built around questions relating to the potential of the commercial

distribution system to promote agricultural modernization and development. These questions about development have been indirect in many cases, but the answers paint a unique picture of the development potential of agricultural commerce in the Delta of Vietnam. It is a picture which has not been drawn before, and in revealing at least part of the character and operation of rural commerce in the Delta it indicates important development avenues which have not been adequately explored.

This study does not deal with commerce in the Delta in great detail. It is not a comprehensive study. Given the security conditions prevailing while data were being gathered, it could not be. But we believe it adequately reveals a number of interesting and useful facts about rural economics in Vietnam which have previously been ignored or even denied.

Development economics since World War II has avoided the question of the role of rural commerce in development. Arguments in development economics have raged around the question of the public versus the private sector as a development mechanism. This argument is not yet over. In Vietnam, many intellectuals will argue strongly in favor of a major role for public sector industries, despite some costly experiences in this area which make others doubt the economic virtues of such a policy. Even in the agriculture field, there are those who prefer Government efforts, Government purchasing, sales through agricultural services, and the creation and use of cooperatives, to the use of private commercial channels as a development mechanism. Indeed, the fact that before this

study was undertaken there existed almost no descriptive data on the workings of the rural commercial system, underscores the fact that few people have considered this network a potential development mechanism.

The agricultural development versus industrial development argument has also been a major one in development economics since World War II. Like the question of private versus public investment, it also leaves the role of commercial activity in the background. In Vietnam, for example, it is often said that the commercial sector is "relatively developed," and that therefore attention should be focused on industry or agriculture or both, rather than on commercial development. But such reasoning artificially segregates development into agricultural and industrial sectors which obviously do not exist apart from one another, nor without all-important commercial units.

Agricultural commerce is as much a part of agriculture in Vietnam as the farmer himself, and it could be argued that commercial opportunities to sell rice internationally led to the opening of much of the Delta to agriculture. In most areas, Delta development in the late Nineteenth and early Twentieth centuries was not the progression of a subsistence economy toward a market economy, but the conscious opening and development of whole new region to supply the export market.

It is not surprising, then, that post-World War II development literature generally has not considered the possibilities of encouraging the private commercial sector to expand its role to promote agricultural production

and modernization. Specific commercial areas have been studied extensively in other countries, e.g. private credit, marketing of some particular crops, etc., but these studies by and large have been narrow in their scope. They have asked "how the farmer can get more credit" without seeing credit in its economic relationship to other rural commercial problems. The big question, that is, how the commercial sector can be encouraged to throw its full weight of capital and know-how into supporting development programs, has not been adequately explored.

This study was undertaken with the idea in mind that the commercial distribution system in Vietnam could be assisted to perform a greater if not a vital role in agricultural development. This is based on the strong probability that in the future increases in production in Vietnamese agriculture will come much more from capital inputs, e.g. fertilizer or pesticides, than in the past.

Historically, in the Delta of Vietnam, increases in production of rice have been achieved by expansion of the surface cultivated and a corresponding input of labor. Relatively little fertilizer or other capital inputs were used, the capital requirements being essentially what was needed to hire labor to clear and drain the new land.

The major recent change in Vietnamese agriculture has been the result of the war and war-induced shrinkage of manpower resources and land availabilities. Before the war, agriculture could expand easily, with increments of manpower and land simply being added to productive assets

already in production. This was similar to the situation in Thailand and in other countries of Southeast Asia, where now access to markets made it economically feasible to open easily accessible new land by employing readily available labor. (Capital did, however play an important role as large plantation owners in rice growing required considerable capital and attempted to mechanize their operations, indicating that even with relatively abundant labor the use of capital and more intensive methods was profitable.) Small farmers without the wherewithal to capitalize their operations, did participate in agricultural expansion by contributing their labor to land clearance and cultivation.

In the pre-war situation, commerce in agricultural inputs in the Delta was relatively limited. The commercial system purchased and collected rice rather efficiently and delivered it to Saigon for export. Large plantations, which did use equipment and other inputs in some cases, tended to make their purchases in Saigon. Smaller farmers purchased little apart from elementary consumer goods such as cloth and some hardware. No real suppliers of agricultural inputs developed in the Delta.

The recent situation is much different from that which prevailed until the departure of the French. Since 1954, and more strikingly since about 1957 or 1958, stores selling agricultural inputs and providing services to small farmers have been developing in the Delta. This is simply the commercial reaction to a change in economic conditions which has given many small farmers both the interest and the ability to buy

agricultural inputs. The small farmer in the Delta is not able to travel to Saigon to make purchases, as did many of the larger plantation owners of the pre-war period. Therefore, this more modest farmer depends on the services of commercial intermediaries to a much greater extent, and the services which he needs have developed as a result of market forces. As a reaction to new demands, the commercial sector has expanded its operations from small general goods businesses, hardware and cloth, and rice marketing, which were common before, into a diversified commerce in fertilizer, insecticides, motors, pumps, machinery, and transport services.

The Government has done little if anything to promote this healthy development. Commercial dealers are quick to note that Government farm programs have helped to create the market for insecticides, motors, and fertilizer, among other things, but they report that the Government has done almost nothing with them directly to encourage them to expand sales of goods and services needed for agricultural development. For example, although dealers mentioned that the agricultural services cooperated with visiting manufacturers' representatives in putting on demonstrations of small cultivators and pumps, no dealers were working closely with provincial agricultural services on a day-to-day basis. Local dealers were not being encouraged to group together to perform demonstrations which would promote the sale of agricultural inputs.

Government instructional material promoting agricultural modernization was generally not being made available to them for use with their customers.

The assumption that the commercial distribution system in Vietnam is a development mechanism which has been underutilized and unappreciated runs counter to several assumptions and prejudices which are widely held in Vietnam. Many cultures, Western and Eastern, have outlooks similar to that of Vietnam in the area of economic ideology. The Chinese hierarchy of si, nong, cong, thuong (scholar, farmer, laborer, businessman), which is a major factor influencing Vietnamese attitudes toward commerce and the commercial community, is not greatly different from the Indian conception of brahmin, warrior, businessman, laborer, or from the Platonic hierarchy. The battles of the third estates of Europe against the nobility and the church similarly are part of a pattern of the efforts of administrative, military, or honorific hierarchies (usually closely related) to control and limit the role of groups whose power derives essentially from the importance and profits of commercial functions.

Growing out of the si, nong, cong, thuong heritage in Vietnam, there are a series of myths which investigation proves rather quickly to be false. Vietnamese official often assume, for example, that business is a Chinese monopoly. Investigation proves, however, that in many fields, and particularly in new ones such as the supply of motor pumps, Vietnamese businessmen are playing a very significant role. Also, the use of the word monopoly, i.e. "a Chinese monopoly," implies collusive and exploitative pricing policies which do not seem to exist. Most evidence indicates that entry into almost all fields of agricultural commerce in Vietnam is surprisingly free, meaning that there are few monopolistic impediments to competition.

The traditional hierarchic value system (si, nong, cong, thuong) also leads to the assumption in Vietnam that the Government (read si) should protect farmers and others against the commercial community. This attitude, held often by Vietnamese intellectuals, is not unfamiliar among intellectuals elsewhere. It fits closely with the supposition that commerce is organized monopolistically.

That a large portion of commerce in Vietnam has been carried on by Chinese and other foreigners in the past is an established fact. Most Vietnamese realize, however, that in other countries similar minority concentration in commercial activity is not unusual. Parsees in India, Jews in pre-industrial Europe, and Chinese elsewhere in Southeast Asia are similar cases in point. However, the inter-relationship between racial prejudices and the si, nong, cong, thuong hierarchy tends to be a reinforcing one.

Interestingly, si, nong, cong, thuong also tends to link up with tendencies in Marxist thinking. A preference for a planned economy, that is, one guided, and directed by si rather than by market forces is quite central even to moderate socialist (although not modern socialist) thought. At the same time, certain elements of non-liberal French economics of the school of Colbert would tend to confirm si in their role as directors, and perhaps even overlords of economic activity. It is not unfair to point out then that much recent overlay on traditional Vietnamese attitudes toward commercial development has supported rather than contradicted traditional thinking. In contrast, however, recent economic pressures, the wider markets of the colonial era, and the changes brought about by the economic forces active since the war have given the commercial community a more

important role than ever before, despite ideological preferences which might have inhibited this development.

The full utilization of the commercial sector as a development mechanism depends on Vietnamese accepting a development strategy and program which will override most of the prejudices and uneconomic thinking outlined above. The role of the si in development should be to use all the tools available to the nation to promote its strength and modernization. Fear of growing strength and prosperity in the commercial sector will lead to Governmental policies which will retard rather than promote growth.

## A HISTORY OF COMMERCE IN THE DELTA

### SUMMARY

The present-day system of commerce in the Delta region of South Vietnam is the product of a history of colonization, the development of Vietnamese and Chinese social values, attitudes, and institutions, and of a system of producing and distributing goods that arose in consequence of the industrial revolution and French colonialism. The Delta was settled over the years by the Vietnamese "march to the South," and a long historical movement of Chinese settlers who dominated the Trans-Bassac. Both ethnic types brought with them values and attitudes that resulted in Chinese dominance over commerce, as the Vietnamese, swayed by Confucian values, became landowners and professional persons, or peasants. A traditional system arose built on rice collection and the distribution of general goods, in which the Chinese merchant played the key role. Under this system the Chinese merchants induced the Vietnamese peasant to exchange his agricultural surplus for goods and services supplied by village merchants or traders. Under the impetus of the trade opportunities offered by the industrial revolution -- the demand for Asian raw materials and markets for European products -- the Chinese merchants commercialized rice production and linked the Vietnamese peasant with a growing commercial economy. During the French colonial period came a tremendous impetus to the extension of rice production, using available labor to open up new land. Chinese merchants now served in a comprador system to extract rice and other raw materials from the peasants, using credit and provision of goods and services as carrot

and stick. The village merchant could no longer play the key role in a system so extensive. The great Chinese rice merchants and millers emerged as the keys to the pre-World War II system. As a consequence of that war, however, the central Chinese merchant lost their dominant position. The last of the great Chinese mills closed in 1956. Rice production, owing both to the disruptions of World War II and the revolutions and insurgencies that followed, never attained the output or the dominance it enjoyed during the colonial war. Insofar as rice production and milling revived in the Delta in this period, the revival was due to the emergence of a large number of small mills in the hands of Vietnamese.

These developments left a legacy of a commercial system, however, which underlies and profoundly influences commercial institution and activities in the Delta today. In this system, the earlier Chinese dominance over commerce is being balanced by greater participation of ethnic Vietnamese, as well as by assimilation of many Chinese.

#### Early Chinese Commercial Contacts with Vietnam

The roots of the present-day system of commerce in the Delta region of South Vietnam reach back into the early history of the region. There is evidence that Chinese merchants entered Tongking in Northern Vietnam as early as three centuries before the Christian Era. <sup>1/</sup>

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1/ Wang Gungwu, A Short History of the Nan Yang Chinese (Brought round to Malaya Series No. 13; Singapore: Eastern University Press Ltd.), 1959.

By the end of the first century A.D., the Chinese plough and other iron agricultural implements were being distributed in Vietnam and in return, rice was being shipped from Vietnam to China. 2/

However, during this time, the Mekong Delta region was still largely uninhabited. The rulers of the area, first the kings of the state of Funan, and later Khmers, were too concerned with other activities to bother to exploit the riches of the region, and for a while the Delta served mainly as a hiding place for pirates. 3/

The main development of the Delta awaited two independent but simultaneous sets of historical circumstances, which combined to produce the foundation for the present situation, namely: the Vietnamese "march to the South," which had been underway since the early years of the Ly Dynasty (1010 - 1235 A.D.), but which reached its climax during the later Ly Dynasty; and a wave of Chinese immigration into the Delta, particularly the lower provinces which began during the twilight years of the Ming Dynasty in China (1368 - 1644).

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2/ N.A. Simoniya, Overseas Chinese in Southeast Asia, A Russian Study (Data Paper No. 45, Southeast Asia Program; Ithaca, N.Y.: Cornell University, Southeast Asia Program, December, 1961), 151 p.

3/ Willmott, op. cit., p. 4.

The Settlement of the Delta: Two Currents -- The Vietnamese "March to the South," and Chinese Settlement of the Lower Delta.

Motivated partly by pressures on the land, and partly by political factors, the Vietnamese had been expanding southward since about 1,000 A.D. The Ly and Tran Dynasties had combined a policy of warfare against the kingdom of Champa with a program of colonization of the newly gained territories. Mandarins and nobles had been sending "vagabonds" and landless peasants to the South long before the final conquests of Champa by Le Thanh Ton around 1471. 4/ Under the Nguyen rule in the South, Vietnamese expansion gained new momentum. Phu Yen was conquered in 1611, and the Vietnamese seized Binh Thuan in 1693. At the end of the seventeenth century. Vietnamese had settled in the delta of the Dong Nai River, and by the beginning of eighteenth century they had reached the banks of the Tien Giang River (the Mekong). 5/

The Chinese immigration was a result of the political disturbances in China following the fall of the Ming Dynasty in 1644. Following the Manchu conquest and the establishment of the Ching Dynasty, supporters of the Ming continued to resist Manchu rule for nearly fifty years. The rebels were gradually driven to southern China, where they established secret military and political organizations in order to continue their fight against the Ching and restore the Ming. In 1689 when the Manchu

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4/ Joseph Buttinger, The Smaller Dragon: A Political history of Vietnam (New York: Frederick A. Prager, 1958), p. 160.

5/ Dong-Ho, Khai-Quan Ve Tinh-Cach Dac-Thu Van-Hoc Mien Nam (Saigon: Saigon University Faculty of Letters, 1964),

emperor, Kwang Hsi, journeyed to the southern provinces, the loyal supporters of the Ming abandoned their last hopes and began to emigrate to the countries of the "Nan Yang," the South China Sea. First to leave were the generals with their troops and the former Ming Officials; they were later followed by successive waves of emigrants whose motivations gradually became more economic than political.

The first mass migration of Chinese to South Vietnam occurred in 1679, when a Cantonese general of the defeated Ming forces, General Yang Yen Di, arrived in Da Nang with 3,000 troops and fifty warships. General Yang presented himself and his followers, who also included many scholars and former high-ranking officials under the Ming Dynasty, to Hien Vuong, the emperor of the ruling Nguyen Dynasty. At that time, General Yang's troops and warships represented a considerable force, and the emperor was reluctant to have them settle near his capital. So, instead, he directed General Yang and his followers to the south in order to remove the military threat which they represented and, at the same time, to use them to expand his territories. The Chinese leaders were given high-ranking titles and granted many favors and gifts, including land in Bien Hoa and My Tho. In these two locations the Chinese immigrants set up communities, cultivated the land, and began to trade with Dutch, Japanese and Malayan ships.

Another group of Chinese refugees fleeing from the Manchus arrived in Viet-Nam at roughly this same period, but rather than submit to the Nguyen emperor, they sailed deep to the south to the Gulf of Siam and landed in the territory of the Khmers. This group was led by Mac Cuu,

a former resident of Lui Chau District of Canton Province. Mac Cuu and his followers settled themselves in the area around the present-day boundary between Vietnam and Cambodia. Seeing that foreigners frequently came to this area to trade, they established a number of gambling casinos in order to raise funds to establish seven refugee villages. These villages later grew into a prosperous commercial center which was given the name Ha Tien. The Chinese settlers under Mac Cuu's leadership developed the land, cultivated the trade with foreign merchants, and set up their own government. By the beginning of the eighteenth century, they had established a prosperous and well-governed state. At the height of its power, the Mac family governed an area stretching from Kompong-Som to present-day Vung Tau, comprising almost the entire coastline of modern Cambodia and much of South Vietnam. <sup>6/</sup>

Ha Tien soon became caught up in the almost continuous fighting between Cambodia and Siam, so in 1708 Mac Cuu sent a delegation to Nguyen Phu Chu, the Vietnamese emperor, and submitted his territories, which included Phu Quoc Island, to the Vietnamese emperor. In return, Mac Cuu was given the title of governor over all the southern territories and was allowed to maintain almost complete autonomy in all military, economic and social affairs; he had only to bring tribute every three years to the Vietnamese capital.

In effect, the southern provinces remained a separate Chinese state until well into the eighteenth century. When the Vietnamese migrants arrived

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6/ Willmott, op. cit., p. 6.

at the left bank of the Hau Giang River (the Bassac) at the beginning of the eighteenth century, their advance was blocked for nearly fifty years by the presence of the other group of settlers on the right bank of the river. It was not until the coming of the French that the lower provinces were fully incorporated into Vietnamese society.

The economic and social patterns which developed in the Delta, and which have survived up to the present, reflect the two fundamentally different patterns of settlement of the region. From the Mekong River up to the east, the culture is strictly Vietnamese; however, in the southern provinces -- Soc Trang, Bac Lieu, Ca Mau, Kien Giang, Vinh Long and Phong Dinh -- the economic and social patterns, and even the language, bear deep Chinese influences. <sup>7/</sup>

#### The Development of Vietnamese Economic Values

In the pattern of Vietnamese settlement there were forces at work which contributed to the early Chinese dominance of commerce in the South. As they pressed southwards, the Vietnamese always came in large groups, or rather groups of large families. In all of their activities -- the draining of swamps, the clearing of jungles, the construction of dams and waterways for the fields and bamboo walls for the settlements -- they maintained the same form of social organization as they had lived under the North. <sup>8/</sup> Since they settled in groups, their beliefs, habits and ways of life remained unchanged; the further they went from the lands of their ancestors, the more tenaciously they clung to their traditional <sup>9/</sup> ways of life.

<sup>7/</sup> Dong-Ho, op. cit., pp. 20-21

<sup>8/</sup> Buttinger, op. cit., p. 173

<sup>9/</sup> Ibid.

Yet within this traditional way of life, there were forces which tended to prevent all economic and social development beyond a point which the system had long since reached. The basic unit of social and political control in Vietnam had always been the village, a unit which was independent economically, socially, and to some extent politically, from the rest of the state. At the apex of the social structure were the great landowners and the local mandarins, who had always been opposed to national institutions not subject to local control. However, economic activities that were not rooted in the villages or provinces under their control also posed a threat to their positions. As Buttinger describes the situation:

"Any kind of economic activity, such as small manufacture and trade, encountered the hostility of the great landowners and money-lending mandarins if it originated or developed beyond the spheres where their power was supreme. Such activities, they knew, could only strengthen the central authority of the state, in addition to creating a class of rice merchants and urban centers of political power that would be difficult to rule or exploit by local mandarins and lords. Their privileges and powers were obviously more secure if the existing economic order remained unchanged." 10/

Within the established social order itself, however, upward mobility for individual Vietnamese was not ruled out. Rather, it was directed and channeled into socially accepted paths, following the traditional Confucian scale of values: intellect, scholar, farmer, artisan, merchant.

10/ Buttinger, op. cit., p. 171.

The traditional way of life was able to survive due to a combination of the wellbeing of all the upper class families, with an adequate level of living for the peasant masses. 11/

This survival along with a static economy, endured even after the Delta was settled. The Vietnamese peasant residing in the fertile area of Cochin China soon grew accustomed to an environment which provided him with the essentials of life with relatively little effort. Easy going Cambodian economic influences were also important in such areas as Vinh-Binh, Soc Trang, Can Tho, and Rach Gia. Values which might have led to greater economic efforts, such as respect for hard work and thrift, could not develop, since thrift served no positive function and work for its own sake seemed meaningless.

#### The Background of the Chinese Immigrants

Contrast this situation with the one from which the Chinese immigrants came. The Chinese settlers in Vietnam were almost entirely from the two southern provinces of Kwangtung and Fukien, barren and unproductive areas, susceptible to drought and other natural calamities, which had long required of their inhabitants qualities of industry and thrift, and rewarded them with little surplus over the level of bare subsistence. In such a grimly Malthusian settling, characteristics that may have arisen from necessity through the centuries came, in time, to be cultural imperatives. 12/ Hence, on leaving their homeland, the Chinese immigrants to Vietnam from these southern provinces carried with them

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11/ Ibid., p. 172

12/ G. William Skinner, Chinese Society in Thailand: An Analytical History (Ithaca, N.Y.: Cornell University Press, 1957, 1962), p. 92.

a value system which stressed the necessity of limiting consumption in the present in order to assure survival in the future. For the Chinese, protracted labor in the interests of the future, sacrificing enjoyment in the present for future economic betterment, became a value in itself.

The motivations of the Chinese immigrants also were very important in determining the role he was to play in Vietnamese society. Although the Confucian value system placed the merchant at the bottom of the occupational rankings, circumstances in China during the eighteenth and nineteenth centuries served to mitigate this social stigma. The development of foreign trade in South China was influential in helping to lend a mercantile, money conscious, and slightly urbanized distinctiveness to the subculture of that region. <sup>13/</sup> Wealth from trade, gained through hard work and saved through frugal living was as effective in achieving cultural objectives as was the same wealth gained through agriculture. It enabled the family to hire tutors to help their children pass the examinations in order to gain entrance into officialdom. If this method failed, degrees and official titles, opening the doors to the gentry class, could often be purchased.

The opening of the treaty ports of southern China provided the setting grounds for commercial activities of all sorts. Famine following in the wake of a series of natural disruptions and social disturbances arising from revolutions and rebellions provided a constant stream of

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13/ Skinner, op. cit., p. 94

peasants from the countryside to the cities. Here they gained experience as clerks, laborers, dock workers, artisans; tradesmen and middlemen -- training superior to that of any people in Southeast Asia at the time. Their motivations for leaving their native villages were almost completely economic. Poverty forced them to leave their ancestral graves, but always with the hope to return after wealth and success had been achieved elsewhere. Thus, there grew up in the coastal cities of southern China a class of people that was willing to work anywhere good wages could be obtained. With the coming of the Western colonial powers, and the subsequent development of trade and commerce throughout Southeast Asia, this increasingly meant the countries of the "Nan Yang," the South China Sea. <sup>14/</sup>

Immigrating to the "Nan Yang" provided many young men with a source of new experience, and the wish for adventure in many cases provided a stronger motivation than economic factors. Consequently, the immigration process was selective not only with regard to age and sex; it seems quite probable that a disproportionate number of the more venturesome young men from South China were included among the emigrants. <sup>15/</sup>

Cultural and environmental historical circumstances, then, succeeded in producing in the Chinese in Vietnam motivations and values which helped them to achieve a dominant position in the economic sphere in the Delta. They brought with them cultural values that stressed the importance of hard work, thrift, and mutual assistance. They came to Vietnam primarily for economic reasons; they were motivated not to establish a new home,

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14/ Skinner, op. cit., p. 95.

15/ Ibid.

but to gain financial success so they could return to their homeland. This meant that they were ready to engage in any activity that proved lucrative, and to work long and hard to achieve success. In addition, in many cases they brought with them commercial skills and an urban outlook gained in the treaty ports of southern China.

In contrast the Vietnamese peasant in the South valued present consumption and the employment of life more highly than frugality and future security. Indeed, the benevolent environment of the Delta made it unnecessary to provide for the future. The basic requirements of life could always be obtained with a minimum of effort.

Furthermore, upward mobility for the Vietnamese continued to follow the traditional Confucian scale of values, i.e. intellectual, farmer, artisan, merchant. Lacking the disruptive forces of famine, flood, revolution and war, and the economic stimulus of the treaty ports which affected the motivations and values of the Chinese peasant, the Vietnamese maintained their orientation toward agriculture on one hand, and the upper class pursuits -- at first officialdom, and later law medicine and teaching -- on the other. The whole field of commerce was thus left, uncontested, to the early Chinese immigrants.

#### Chinese Commercial Activities Prior to the Coming of the French

Largely because of the basic cultural differences between the Chinese immigrants and the Vietnamese settlers in the South, occupational specialization developed at a very early period. And during this early period, the Chinese settlers set out to develop the indigenous commerce in the Delta.

Commercial activities during the period prior to the French takeover were at first nothing more than an extension of the "Nan Yang" trade which has been going on between southern China and the countries of the South China Sea since the early years of the Sung Dynasty in China. Chinese junks would sail once a year from China, carrying such things as ores for the manufacture of weapons, silk, agricultural tools, iron products, Chinese medicines and a variety of Chinese handicrafts; they would rely upon the favorable winds to carry their cargoes of Vietnamese produce -- rice, sugar, copra, spices and woods -- back to China.

At this time, Vietnamese markets had not yet developed, and all dealings between Vietnamese and Chinese took place on the merchants' ships which were used as shops. Consequently, the Chinese trader was called "Ong Chu Tau," meaning "the master of the ship" by the Vietnamese. Even today, the word "tau", "ship," is used to designate the Chinese and things Chinese.

By the end of the eighteenth century, the Chinese had developed prosperous trading centers in Bien Hoa and Cholon, as well as in Ha Tien. Nguyen Anh, known later as the Emperor Gia Long, in his struggles against the Tay Son used to Chinese to exploit the country's resources and to obtain for himself Western weapons from the Portuguese. Chinese merchants brought from China the copper, lead, iron and sulphur needed to manufacture weapons. These were bartered for corresponding values of local produce. After national unification was achieved, Emperor Gia Long rewarded the Chinese by establishing favorable trade regulations which encouraged Chinese to come to Vietnam to

do business. He also permitted the Chinese immigrants to organize into different communities for purposes of self-administration. With their privileged status, coupled with the favorable climate for trade brought about by the industrial revolution in Europe, the development in communications, including the invention of the steamship, and the opening of the Suez Canal, the Chinese economic position in Viet-Nam shifted to an emphasis on domestic trade, and rapidly developed.

In 1778, Cholon was founded, when the inhabitants of the previous Chinese community in Bien Hoa moved to the present site of Cholon to escape the ravages of the Tay Son Rebellion. And even though Cholon was sacked in 1782 by the Tay Son and a large number of its inhabitants killed, it rapidly recovered to become the major commercial center of the South.

As Cholon and other commercial centers in the South developed, more manufactured goods, locally produced as well as imported, became available for trade. These goods were distributed throughout the Delta by itinerant merchants who could easily travel along the numerous canals and rivers of the region in their junks and sampans. Goods were exchanged right on the boat itself, which would be moored at a spot on the river which was convenient to the inhabitants of the region. Besides serving as a store, the merchant's boat was his floating home.

When an area proved to be particularly productive for trade, the merchant would settle there on a more permanent basis. A warehouse and perhaps a small store would be built on the bank of the river. And often the Chinese merchant would take a Vietnamese wife who would share the responsibilities

of managing the store and who would manage the relations with the local people. In this way, many of the smaller commercial centers throughout the Delta region developed.

#### Commerce During the Colonial Era

With the coming of the French, a tremendous impetus was given to the development of Chinese commercial networks in Vietnam. Being unfamiliar with the language and local marketing conditions, and lacking contacts with the native population and local retail traders, the French found it expedient to adopt the comprador system which had already proved itself effective in China. The intermediary trade -- all the transactions between the peasants and the French companies -- was left completely to the Chinese.

The comprador system made it possible for the French companies to gain substantial profits with a minimum amount of concern over petty details. These "petty details" were the responsibility of the comprador and included proving the firm with information about the local market, advising it on quantity and types of goods to be imported, managing financial transactions, managing the employees of the firm (who were often Chinese), as well as advising the company in all its relationships with local middlemen.

In distributing their goods, the French companies which had direct access to European manufacturers and exclusive franchises for the importation of a great number of articles, utilized the existing distribution networks which had been developed by the Chinese prior to the colonial era. The French companies operating in the South consigned their goods to Chinese

wholesalers and retailers in Cholon, who undertook the task of distributing the goods to the general population via the established networks. Japanese companies and some American companies follow a similar pattern today. This system worked to the mutual advantage of both groups. The French were able to move large quantities of imported goods, gaining high profits with little effort on their part; the merchants, on the other hand, were also able to gain very acceptable profit margins without large capital outlays. The French import firm provided the source of most goods, and it was the Chinese merchant who formed the vital link between the French importer and the Vietnamese consumer.

Yet the distribution of imported merchandise was only one side of the coin; on the other side was the whole range of collection activities -- purchasing the raw materials and local output from the Vietnamese peasants, transporting them to the warehouses of the wholesale collectors in Cholon, and reselling them to the large import-export companies. The important thing to recognize is that both activities -- distribution and collection -- were part of an integrated cycle. At all levels in the system, individual merchants were involved in both activities. At the lowest level was the village storekeeper. Basically, his task was to collect the local produce from the peasant, providing him in return with manufactured and processed goods. Above the shopkeeper were the wholesale and semi-wholesale distributors and buyers, and at the apex of the system were the large wholesale dealers in Cholon, who would consign the raw materials and local produce to the export firms and receive, in return, the manufactured and imported goods which they would pump back down into the system.

A more detailed examination of the two main commodities with which the traditional system of collection and distribution was concerned -- rice and general goods (general goods being that conglomerate of articles commonly used by the peasant and obtainable in the village general store) -- will enable us more clearly to understand the workings of the system and the interactions of its component parts.

The Extension and Commercialization of Rice Cultivation:

For nearly two hundred years before the coming of the French, merchants in the South had been exchanging Chinese handicrafts and general goods with the Vietnamese peasants for their extra output of rice, copra, sugar cane and other agricultural produce. And through the activities of the merchant, the Vietnamese peasant was led slowly away from his completely self-sufficient way of life to a point where at least a small amount of his energies was directed toward producing an exchangeable surplus. This was the first step in bringing the Vietnamese peasant into the commercial economy.

It was not until after the French takeover of Cochinchina in 1864, however, that the full-scale commercialization of rice production began. Only two years after they conquered the South, the French began an ambitious program of digging irrigation canals and clearing waterways throughout the Mekong Delta. These were, however, a continuation and expansion of earlier significant Vietnamese reclamation projects undertaken by the Hue Government, and were in large part planned by Vietnamese engineers. From 1866 to 1938, 250,000,000 cubic meters of earth were

moved in the canal digging projects, and the amount of cultivated land was extended nearly eight times. 16/

The activities of the Chinese merchants during this early period were fairly uniform and unspecialized: they would barter their assortment of Chinese medicines and general goods for the excess agricultural produce of the Vietnamese peasant. This produce would then be transported to Cholon in the merchant's junk or sampan, where it would be exchanged for a new supply of merchandise, and this merchandise would, in turn, be carried back to the countryside to be exchanged for more agricultural produce.

The following table show the expansion of the total area of cultivated land in the Delta, the amount of rice exported, and the population of Cochin China for the period between 1968 and 1937.

TABLE I

Land Area Under Cultivation, Rice Exports, and Population in Cochin China --

1968 - 1937 17/

	<u>1868</u>	<u>1880</u>	<u>1900</u>	<u>1937</u>	<u>% Increase 1868- 1937</u>
Area Cultivated (in hectares)	380,000 <u>18/</u>	522,000	1,175,000	2,200,000	421%
Rice Exports from Saigon (in tons)		284,000	747,000	1,548,000	545%
Population of Cochin China		1,679,000	2,937,000	4,484,000	267%

16/ Phan Khoang, Vietnam Phap Thuoc Su (Saigon: pp. 412-413)

17/ Luong Nhi Ky, The Chinese in Vietnam: A Study of Vietnamese-Chinese Relations, 1862-1961 (Unpublished Ph.D. Dissertation; Ann Arbor, Michigan: University of Michigan, 1962), p. 86.

18/ Phan Khoang, op. cit., p. 428

The largely Chinese merchant group followed the French in the progressive unfolding of the French economic empire in Vietnam. While the Government developed the infrastructure of roads, canals, and irrigation ditches throughout the South, the merchants were largely responsible for the commercial revolution which subsequently occurred; it was they who brought the self-sufficient and complacent Southern peasant out of his traditional pattern of existence and into the commercial economy. They were the commercial link between the smaller farmer and the city, while the larger plantation owners tended to bypass the merchants to deal with Saigon directly.

A relatively simple system such as this demanded little specialization. All of the essential activities could be carried out by the individual merchant or, at most, by the merchant and his Vietnamese wife. The merchant owned his own boat, his own store and his own warehouse. In most cases, he was the single link between the peasant who was responsible for the produce to China to be exchanged for Chinese handicrafts and products.

The arrival of the Europeans produced certain changes in the Chinese economic position. Chinese handicrafts were unable to compete with Europeans products and, as a result, the traditional trading relationship between China and the rest of the countries of Southeast Asia was disrupted. As a result, Chinese capital and energies were directed to the sphere of domestic trade, and in this area the Chinese were able to consolidate their position. Consequently, by the time the French arrived in Vietnam, the Chinese merchants had already established the foundations for ramified

trade networks throughout the area of Cochinchina.

#### The Role of the Village Merchant

The key to this commercial transition lay in incentives that the merchant offered to the peasant -- the wide assortment of general goods found in the rural shop, the credit and the services he provided. In many cases, the merchant represented the sole link between the Vietnamese peasant and the outside world. For the economy itself, the merchant's village shop was the link between the monetized and nonmonetized sectors. The goods, the credit and the services which the merchant offered provided the incentive to the peasant to produce for the market rather than solely for his own and his family's immediate needs. Moreover, the Chinese merchant played other roles in rural Vietnamese society, that made him an indispensable part of it and gave him the leverage he needed to link the peasant to the commercial economy. He would, for example, provide medicine and medical advice to the less sophisticated peasant; and in other ways give advice, counsel and assistance to the peasant in coping with his daily difficulties.

#### The Role of the Rice-Merchants Above the Village: The System Develops

In early stages of commercial development, the individual merchant could perform all of the tasks involved in marketing local produce and distributing manufactured commodities. But as the domestic and foreign market expanded, and as agricultural production became more commercialized, marketing and distribution activities also became more complex. This was due to the nature of agricultural production itself. As production became more commercialized, it was not accompanied by any significant concentration; it remained small-scale and scattered. And, since the introduction of foreign capital into Vietnam produced a requirement for large-scale sales,

a huge army of business intermediaries was required to handle the distribution of the imported commodities and the collection of the agricultural output. Consequently, above the level of the village merchant, there developed a ramified network of buyers whose responsibility it was to buy up the rice from the countryside, transport it to major commercial centers such as Soc Trang, Bac Lieu and Can Tho, and eventually to Cholon, and sell it to the large millers-exporters. Likewise, it was their task to distribute the imported commodities from Cholon to the general population.

At the heart of this system were the large rice merchants who were located in the major commercial centers and ports -- Cholon, Phnom Penh, and Hai Phong. These would draw the paddy up through their network of agents and sell it to the large miller-exporters. In turn, they would buy wholesale lots of general goods and imported commodities which they would pump back down the system to the peasant producers in the countryside. Generally, these merchants worked with their own funds and had considerable amounts of capital at their disposal, including large fleets of junks, the number of which in Cochin China alone was estimated at nearly 3,000. <sup>19/</sup>

Up until just shortly before the Second World War, all the milling of paddy for export was carried out in Cholon. Because the Chinese rice merchants were organized into syndicates, the millers and exporters were unable to purchase paddy through any means but the large Cholon merchant. <sup>20/</sup> And since the rice merchants also held a monopoly on the jute rice-sacks which they imported from India, it was difficult for the Vietnamese producer to attempt to carry his grain to the miller in Cholon or any other large town. <sup>21/</sup>

The large merchants in Cholon did not themselves purchase paddy directly from the countryside. Instead, they had agents placed at various commercial centers throughout the Delta who would direct the activities of various subagents and, ultimately, the ramasseurs, the general store owners in the villages. Agents would generally handle transactions of 10,000 gia (a gia is a Vietnamese measure equal to forty liters) and above; below them were their accountants who would handle quantities between 5,000 and 10,000 gia, sub-accountants handling consignments of 500 to 5,000 gia, and the ramasseurs handling quantities below 500 gia. <sup>22/</sup>

In many cases, the agents were also wholesale or semiwholesale dealers in general goods. These they would receive from the large Cholon merchants on credit. The agents, in turn, would pass the general goods downwards, through their sub-agents, to the village stores throughout their area. Again, cash would not be required. The agents would not require payment from the village merchant until the following harvest, and then payment would be made in paddy, not cash. For the credit extended to him by the Cholon merchant, the agent would also be obligated to provide paddy rather than cash. And finally, at the village level, the merchant, for all his merchandise and services, would provide credit throughout the year, always being careful never to exceed the peasant's ability to repay, and never reducing the balance to a point where the relationship would be threatened.

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19/ Victor Purcell, The Chinese in Southeast Asia (London: Oxford University Press, Second Edition, 1965).

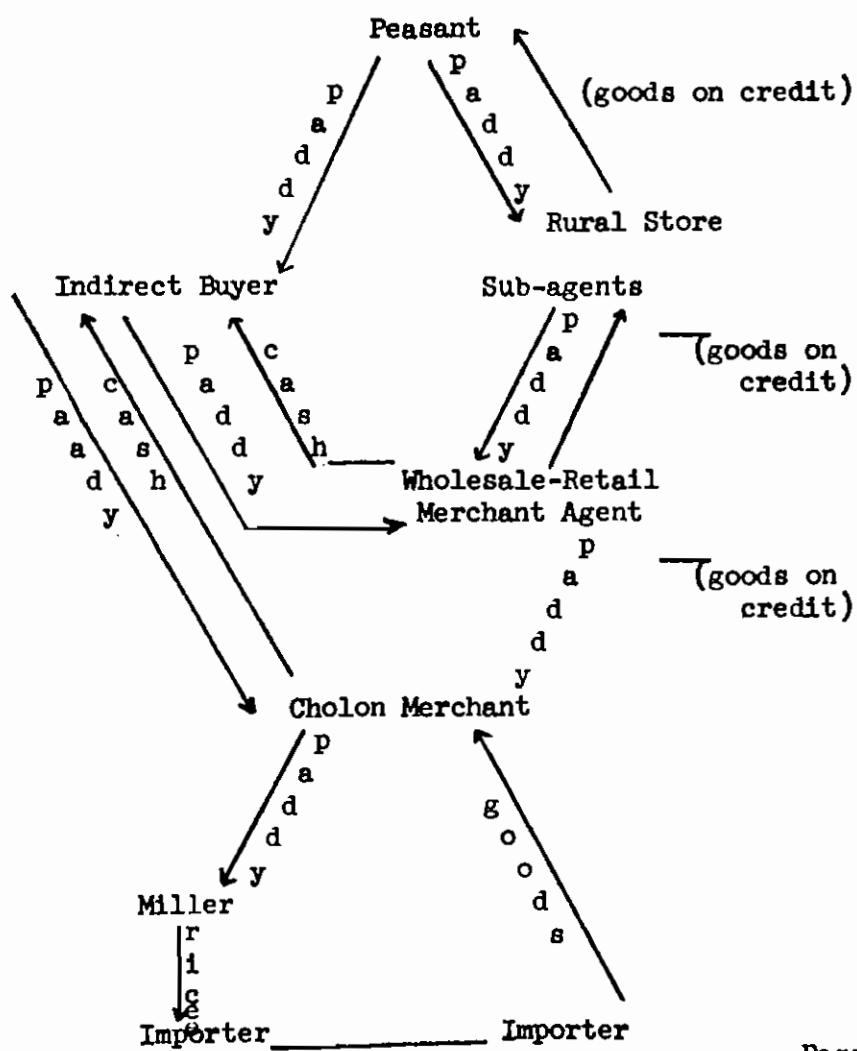
20/ Ibid.

21/ Ibid.

22/ Purcell, op. cit., p. 196

In addition to the agents and sub-agents of the Cholon rice merchants, there were also other merchants dealing in rice who were not obligated to sell to any particular wholesale buyer. These merchants used their own capital to purchase paddy from the farmers, and since they had received no credit from the Cholon merchants or their agents, they were free to sell to whoever offered the highest price. More often than not, these independent buyers were wholesale merchants dealing in general goods.

The following diagram shows the flow of rice, general goods, and credit between the direct producer, the peasant in the Delta, and the Chinese wholesale merchants in Cholon.



The relationships encompassed by this system, at all levels -- between Cholon merchant and agent, agent and sub-agent, sub-agent and village merchant, village merchant and farmer -- generally were of long standing and were held together by a strand of mutual trust developed during the term of the relationship. At the lowest level -- between the shopkeeper and the peasant -- the trust relationship was the weakest, and although the village merchant was always careful to maintain a facade of trust in his customers, he seldom failed to exact a higher profit rate as compensation for the greater risks his business required.

From the period after the French takeover of Cochin China up until the eve of the Second World War, the face of the Vietnamese economy underwent almost a complete transformation. The industrial revolution in the West stimulated the demand for Southeast Asian products and the French supplied the capital necessary to finance the development of Vietnam. The Chinese supplied the entrepreneurial skills and energy that made the economic transformation of South Vietnam possible.

For sixty years after the French takeover of the South, the Chinese in Vietnam maintained a complete monopoly over the gamut of rice marketing activities, including the collection of paddy from the Vietnamese farmer, transportation, credit milling, and export. In 1878, a Chinese businessman built the first modern rice husking factory in Cholon, which had the capacity to mill over 300 tons of paddy per day. By the time of the First World War, there were eleven rice mills in Cholon capable of producing over 5,000 tons of rice daily, and in the period of prosperity after the War, the Chinese rice merchants in Vietnam enjoyed a golden era.

Working day and night, Cholon's rice mills, numbering sixty-nine by this time, were able to produce 8,090 tons of white rice per day. During this period, Chinese immigration soared to new heights and Chinese merchants, utilizing the wealth gained through the rice trade, expanded into other areas of commerce, and solidified their place in the Vietnamese economy.

The economic crises of 1929, however, dealt a severe blow to the Chinese rice monopoly. During times of economic stability, the Chinese rice merchants had been able to extract large profits from the rice trade by buying up the peasant's output in advance of the harvest, giving in exchange goods on credit throughout the year. However, the nature of these activities, pursued with limited capital and large amounts of credit on trust, made the Chinese merchants highly vulnerable to price movements, and when the depression reached Vietnam, bringing in its wake falling prices for rice as well as other commodities, large numbers of Chinese merchants were forced into bankruptcy and fled the country. In Saigon and Cholon, where more than half the licensed traders were Chinese, the proportion of traders declaring bankruptcy from 1927 to 1931 was three-quarters Chinese.<sup>23/</sup> While not fatal, the depression nevertheless was a serious blow to the Chinese rice merchants. The effect was a weakening of the Chinese monopoly position in collecting and milling, with independent Chinese and Vietnamese merchants and French companies getting a larger share of the economic pie.

By 1936, the situation had again improved, and fifty four rice mills were functioning in Cholon. However, of these, sixteen were small mills owned by Vietnamese and two larger mills were owned by French companies.

23/ Luong Nhi Ky, op. cit., p. 91

With the Chinese milling monopoly broken, a large number of smaller mills were soon constructed throughout the Delta area, and these increasingly were owned and operated by Vietnamese rather than Chinese.

By 1939, rice production had again revived and exports reached a record high. But already, the structure of the rice marketing system had changed noticeably from the predepression patterns: of the 260 rice mills of all sizes found throughout the South, approximately 200 were smaller mills located in the provinces, and a good share of these, particularly the ones in the upper Delta region, were owned and operated by Vietnamese.

When the war in the Pacific broke out and Japanese troops invaded Vietnam, Chinese commerce suffered a second major setback. The trade upon which so many of the Chinese immigrants depended for a livelihood ground to a standstill and the internal commerce of the country stagnated. Gone, too, was the colonial order which had provided the Chinese with a privileged economic status.

#### Changes in the Commercial Sector Since World War II

When the war finally drew to a close in 1945, rice was in urgent demand everywhere; the rice price increased dramatically, but due to the shortage of the supply, the larger mills were not able to operate efficiently, and were forced to close. In their place, there developed a plethora of smaller mills in the provinces, most of which were owned by Vietnamese.

The following table summarizes the changes that occurred in the number of rice mills in South Vietnam from 1878 to 1956.

TABLE II  
The Growth of Rice Mills in South Vietnam -- 1878-1956 <sup>27/</sup>

<u>Year</u>	<u>Number of Mills in Saigon-Cholon</u>	<u>Number of Mills in the Southern Provinces</u>	<u>Daily Capacity Tons</u>
1878	1		300
1914-18	11		5,000
1920's	69 (11 large mills, 13 medium and 45 small mills)		8,090
1936	54 (16 small Viet- namese-owned mills and 2 large French mills)		
1939	60	200	12,000
1945	79	334	
1951	40		1500-2000
1952	41 (31 Chinese owned, 7 Vietnamese, 2 French owned)	191 (145 Vietnamese & 44 Chinese)	
1956	Cholon Mills Closed		

The civil war further weakened the monopoly position of the Cholon rice merchants. Insecurity in the country-side forced the Chinese merchants in the villages to flee to the larger urban areas, and their activities in the countryside have only partly been taken over by Vietnamese entrepreneurs. Furthermore, destruction of junks and sampans,

<sup>27/</sup> Chang Wen-Lo, "Yueh-Nan, Kao-Mien, Lia-Kuo Hua-Chiao ChingChi," Overseas Chinese Economy in Vietnam, Cambodia and Laos (Taiwan: Overseas Publishing Company, 1956, pp. 58-60.

from the period of Viet Minh up to the present, caused radical changes in transportation in the Delta, and considerably weakened Chinese control over water transportation. And finally, difficulties in transporting paddy from the countryside forced many rice mills to curtail their operations. The last of the great Cholon mills were closed in 1956, thus marking the end of one period in the economic development of the South.