

THE POSITION AND PROSPECTS TODAY

INTRODUCTION

In the Foreword and history, we looked at certain aspects of economic thinking in Vietnam, the backgrounds and value systems of the Vietnamese Settlers and Chinese immigrants, and the historical development of commerce in the Delta. We examined the basic pattern of commerce -- rice collection and the distribution of general goods -- and the role the commercial sector played in the development of extensive rice cultivation in the Delta. This pattern of activities, as we have seen, transformed Vietnamese agriculture in the space of less than seventy years, increasing rice production nearly eight times during this period.

Rice production since 1939, however, has failed to reach pre-war highs. Some reasons for this are obvious. World War II seriously disrupted agricultural production and the market structure. And the civil war, which has raged for the last twenty years, has brought continued strife and disruption; agricultural production has never had a chance to recover, and the marketing structure has been forced to adapt to the uncertainty of the times.

Agricultural production has been affected as deteriorating security conditions have forced Vietnamese farmers in many regions to flee to the cities and other more secure areas. Then too, marginal lands have been taken out of production as the supply of labor available to work them has dwindled because of the manpower requirements of the war, shifting labor into work in military bases, transportation, construction, Government and

administration and vegetable growing, as well as into military service.

The commercial sector, likewise, has been adversely affected by the lack of security, and many adjustments have been forced upon the marketing structure. Merchants have been forced to flee the countryside. Rice merchants and collectors fear to travel in many areas. Rice mills in a few areas have been put to the torch, sampans and junks destroyed. And many entrepreneurial ventures have been postponed as many merchants have decided to sit on their capital and wait for better times.

These conditions preclude, while they prevail, the further extension of rice cultivation in the Delta, the traditional pattern of Delta economic growth. Given a cessation of hostilities, and a relatively free commercial environment, it seems probable that pre-war production levels could soon be regained, and much land would be returned to cultivation. However, the old plantation system is gone and this, coupled with advances in agricultural technology, many of which have been embodied in capital inputs such as agricultural machinery and equipment, new seed varieties, chemical fertilizers and insecticides, make a second agricultural revolution in South Vietnam both possible and necessary if pre-war levels of production are to be regained, and the agricultural sector is to grow.

This revolution will substitute intensive capital methods of production for the traditional pattern in which land and labor were almost the only inputs. It need not wait for the future. The challenge is to create it now.

Since the commercial sector played such an important role in bringing about the first transformation, the question arises whether it can make as great a contribution to the second. This question we shall now explore.

To do so, we must first set forth the tasks the commercial sector performed in the past that made it so successful an agent for development; and we must correctly define its present role. Second, we must provide the basis for a detailed understanding of the structure of the present commercial system and the manner in which it functions. This will help the policymaker and administrator to judge the extent that it is already fulfilling its developmental role, and will lay the groundwork for outline specific programs to help channel the entrepreneurial talents and energies of the commercial sector into necessary development tasks.

Past Functions of the Commercial Sector in Promoting Development

The basic task of the commercial sector in the past which enabled it to serve as a catalyst for increased agricultural production was providing goods and services to the Vietnamese peasant as incentives for increased production. The whole system was geared to this task. And holding the stick with the carrot attached was the village merchant; the carrot being the array of general goods kept before the gaze of the Vietnamese peasant as an enticement to greater production, and the stick being the credit structure which always kept the peasant a bit behind the carrot. Achieving maximum production meant careful manipulation of the "stick" by the Chinese merchant; the "carrot" could be neither too far away nor too readily available.

In other words, the first revolution was the result of extensive agriculture, while the new one will have to be brought about by intensive techniques.

The commercial sector can assist in this new revolution by

- 1) Helping to create a demand for new capital inputs;
- 2) Assisting in the dissemination of technical information on the correct ways of using the new inputs;
- 3) Providing the necessary inputs in the proper quantities and qualities;
- 4) Providing goods where they are needed;
- 5) Providing them at reasonable prices and on reasonable credit terms;
- 6) Providing a continual source of information about new farm inputs to merchants and consumers;
- 7) Continuing to respond to new customer demands and changing conditions.

These functions constitute the major criteria against which the commercial system of the Delta should be measured in order to assess its contributions to the developmental mechanisms necessary if an intensive revolution in agriculture is to be achieved. In the chapters that follow, both in this section and in the concluding section, we will apply these criteria systematically to the commercial system as we found it, and have described it with reference to motor distribution, fertilizer distribution, transportation, capital and credit, and competition.

The Chinese merchants provided a market system which connected the demand for Vietnamese products and a supply of manufactured goods with the basic productive force of the country: the Delta peasant. The gains in production which were achieved while the system was in force give some indication of the system's effectiveness.

The market structure changed considerably during the period of economic expansion in the South, and it has continued to change up to the present time. Goods have become available in greater variety. The breakdown in the monopoly position of the Chinese rice merchants, and increased competition in the commercial sector have decreased the cost of goods for the Vietnamese farmer. Likewise, better market information and more available cash have helped the Vietnamese peasant to improve his bargaining position in the economy. Furthermore, specialization of various market functions has increased.

The Present Role of the Commercial Sector in Promoting Agricultural Development

As we have seen, past increases in rice production in South Vietnam have been the result of increases in one factor--land--while employing traditional techniques of cultivation. The commercial sector was extremely successful in providing incentives for the Vietnamese peasants to exploit all the available supplies of this factor. The present situation dictates another approach to increased production, i.e., the application of new capital inputs--fertilizer, insecticides new seed varieties, and agricultural machinery and equipment, plus the new techniques which these new inputs require.

Capital and Credit

Entering the business of supplying commercial inputs and services in Vietnam does not require very much capital. Interviews show that license fees are rarely more than one or two thousand piasters, and capital-short dealers can manage to make a small amount of capital stretch by doing a rapidturnover business. However, dealers with larger amounts of capital have obvious advantages over others. They tend to buy their supplies further up the distribution scale, i.e., from a Saigon/Cholon wholesaler, or even from the importer, rather than from provincial wholesaler-retailers. This allows dealers with larger amounts of capital to reduce intermediate costs between importer and customer, thus raising their profit margins. Capital also provides opportunities for speculation, for example, by permitting an entrepreneur to buy a large stock of merchandise when it is plentiful in Saigon, in the hope that as stocks are worked down, prices will rise. Smaller retailers, on the other hand, must replenish stocks continuously, even when prices are high.

Wholesalers and their relatively large capital stocks play an important role in the rural distribution system. Their capital is a frequent source of credit. Although many respondents said that they would rather deal directly with the importers of the products they sell, or even be able to import on their own account, most said that they bought their supplies from Saigon/Cholon wholesalers because they provide vital services, including credit.

National Bank of Vietnam regulations require that importers make deposits of 20-30% of the cost of goods they wish to import as part of the procedure for obtaining credit for the balance from the commercial banks. This is a measure to restrict speculation in imports, to limit the number of importers, and to restrict bank credits to some degree. Importers have managed to transfer at least part of the burden of this deposit requirement down the line to wholesalers, retailers, and consumers. For example, a farmer who wished to import a tractor may have to make a large deposit with the importer before the importer will order the merchandise. The farmer may even find himself giving credit to the importer if the importer can arrange to use only a part of the farmer's down payment as his deposit at the bank, using the rest for his own purposes until the farmer's goods arrive.

Small retailers in the countryside, and even fairly substantial businessmen, are in approximately the same position as the farmer in the above example. They do not wish to tie up their capital for several months while awaiting the arrival of imported motors or other goods. Further, they do not wish to pay cash and be forced to buy large quantities of a commodity such as fertilizer, which also would have the effect of tying up their limited capital. Thus, they prefer to buy from one or several of the large wholesalers of agricultural inputs in Saigon/Cholon who always have goods on hand, will sell in relatively small quantities, will take care of most of the paperwork, and often will provide short-term credit ranging from a few days to a few months.

Credit from wholesalers in Saigon/Cholon is extended carefully and not automatically, although it is done with a minimum of red tape. Businessmen reported in many cases that their long-standing relationships with the distributor/wholesalers are essential to their credit rating. In contrast, new entrants to business candidly admitted that they would find it difficult to get credit from Saigon/Cholon wholesalers until they had been established for a few years. Dun and Bradstreet ratings in the United States, therefore, have their counterpart in Vietnam.

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. Thus, the wholesalers are seen to be running a counter-cyclical credit policy, easing credit when large stocks are probably leading to price declines or deflation, and tightening credit when goods are scarce. Of course, the objective of the wholesaler/Distributor's policy is not to perform this countercyclical function, but to use credit as a means of moving their stocks, moving away from a creditor position whenever good selling conditions make this possible.

Wholesaling on credit is not exclusively a Saigon/Cholon phenomenon. Many interviews indicated that larger stores in the provincial towns were providing merchandise on credit to district and village distributors, particularly in the fertilizer business. Many provincial stores reported that 20-30% of their business volume was wholesale, and much of this

involves short-term credit. Often repayment is only delayed a week or ten days, until the retailer returns to the wholesaler to pick up another order. Again, in most of these cases, credit is extended to old, well-known customers, as one might expect.

Futher down at the retail level, there is some evidence of limited lines of credit extended by retailers to well-known rural customers. All evidence, however, points to this becoming less common as security conditions have become more tenuous.

It seems in Vietnam that credit is extended more as a means of keeping customers or of moving goods, i.e., a concession, than as a means of making money. Very few people indicated that they wanted to be in a creditor position, while many said that they extended credit in order to keep business and to compete. Cases of default on loans were frequently reported by smaller retailers in district towns, by rice mill owners and rice corporations which traditionally lend to their collectors going to the countryside, and by others. Many dealers said that they no longer gave credit or that they were restricting credit more tightly than before because of bad experiences.

One factor which may make being a creditor quite unattractive is the almost total reluctance to take debt problems to court. There seems to be no recourse to law. Several dealers said that if they had problems of default on debts, they would never take them to court because of the red tape and cost, and because doing so would be bad for their business reputations. The only effective warranty behind commercial debt seems to

be the recognition by the debtor that failure to pay will cut off credit in the future. Naturally, this is only a real deterrent for larger and more established businesses while smaller operations and retail consumers find this discipline less compelling. That is why they get appreciably less credit.

Saigon wholesalers and larger commercial dealers in the provinces are not the only sources of credit to trade in agricultural inputs and services. Since 1958, the Commercial Credit Bank of Vietnam (CCVN) has been developing a system of branches in the provinces. Four CCVN branches function in the Delta (in Soc-Trang, Can-Tho, Long-Xuyen, and Rach-Gia) and at least two other Saigon banks, the Banque France-Chinoise and Vietnam Cong Thuong Ngan Hang, also have Delta branches (in Soc-Trang and My-Tho).

It is fair to say that the CCVN branches in the Delta are more interested in financing the rice trade than in financing local commerce in agricultural inputs and services. In Can-Tho, about 70% of CCVN loans are to large rice dealers, and probably in Soc-Trang and elsewhere in the Delta the situation is very similar. However, the new bank in My-Tho finances a larger percentage of ordinary commercial activity, and the trend may have been moving in this direction before the Tet Offensive dampened the recent commercial prosperity in the Delta. At any rate, the banks do supply an appreciable amount of credit to commercial dealers, and it would be useful and not difficult to find out just how much credit they do supply and what part of total credit, including wholesaler credit, their portion is.

It is interesting to note in the interviews with businessmen, and especially with motor dealers, that bank loans are often accorded against stocks of inventory held in bank warehouses. In these cases, inventories and stocks are used as collateral and do not tie up large amounts of the dealer's capital. This is not unlike the system which frequently prevailed credit (that is a percentage--40--50--60%) from the banks against stocks of rice which he holds in warehouses and sets aside for sale to the Government. The presence of the rice in the warehouses and an agreement to sell it at a certain price or under certain conditions to the Government usually has been necessary before the banks would grant these loans, and this has made the negotiation of agreements between rice dealers and the Government particularly important in terms of the granting of bank credits.

Collateral, therefore, remains a central feature of bank credit operations in the provinces. Without property or inventories to pledge as collateral, loans are generally not available. However, merchants with good reputations can get some bank credit without collateral by getting guarantors who will put up the collateral for their loans for a few (say 10% of the loans). This is a function often performed by compradores linked to or trusted by the banks.

The role of banks in provincial commerce is an interesting and growing one, but one which has not been adequately studied. Certainly, the history of banking as a facilitator of development in 19th-century America should encourage Vietnam to look into the possibility of expanding and liberalizing their banking system to perform a corresponding

developmental function. As noted above, there may already be a tendency for provincial banking to expand, but so far this provincial banking has been closely controlled from Saigon. This is the opposite of the American experience, where local banks resisted rather successfully most centralized efforts to control them, and although this led to abuses which should be moderated in Vietnam in this day and age, it did permit a decentralized, non-directed, and essentially democratic development of unrivalled proportions in the United States.

One or two commercial dealers mentioned the use of notes from other established businesses as a form of near-money. Obligations to pay by one rice merchant, for example, were transferred to third parties. This is related to banking functions and it would be interesting to probe further to see if this practice is at all widespread.

Other studies in the Delta have indicated that huia, traditional Vietnamese/Chinese round-robin credit clubs, are a source of appreciable amounts of commercial credit in the region. This did not come through strongly in the interviews associated with this study of commercial distribution, perhaps because no specific questions were asked about huia, although banks and supplier credit were mentioned in the interviews.

Credit from relatives and from friends is mentioned often in the interviews. It may be that huia are considered by respondents to fit into this category of credit. It is difficult to estimate the percentage of credit which is essentially informal family credit. Some estimates are that

this may make up 50% of total credit in rural Vietnam, and certainly it is extremely important as a source of consumption credit, and credit to farmers. Personal relationships serve the same function as credit relationship which collateral performs for bank loans, or credit ratings perform in the more formal credit world. Our informants indicate that a lender assumes that a member of his own family will repay a debt, and the obligation to do so with family and friends is understandably stronger than with more business associates.

COMPETITION

A rough survey conducted in June of 1967, revealed that there are numerous private dealers providing a wide range of agricultural inputs and services in the provinces of the Mekong Delta. For example, Dinh-Tuong Province (My-Tho) provincial records showed 91 rice mills, 27 tool and hardware dealers, 24 motor and pump stores, and 13 fertilizer, seed and insecticide outlets. Phong-Dinh Province (Can-Tho) records showed 58 rice mills, 24 hardware dealers, 19 motor outlets, and 8 fertilizer selling points which also sell seed and insecticide in most cases. In Ba-Xuyen Province there were 76 rice mills, 13 tool and hardware dealers, 8 motor dealers, and 7 fertilizer outlets, with at least 4 of the latter also selling seed and insecticides. On the face of it, therefore, there is every reason to believe that vigorous competition in the supply of agricultural inputs and services exists in the Delta.

Interviews taken in connection with this study, beginning in January of 1968, confirm the statistical impression that there exists a highly competitive market in agricultural inputs and services in the Delta. Small motors are a case in point. The number of shops selling Kohler, Briggs and Stratton, and a few other less familiar makes of gasoline engines, has muchroomed since 1962. Stores selling these motors are spreading out beyond the province towns to the districts and villages. According to dealers, repair facilities are available in villages and hamlets, and only major mechanical problems require that the informal service shops in the villages bring a damaged motor to a major town or to the original dealers.

Dealers in My-Tho, Can-Tho, and Soc-Trang all said that they were facing increased competition from dealers selling motors in the more rural areas. Some of the province-level dealers are maintaining their sales by selling more motors wholesale to their more rural competitors, but others were finding their sales at retail seriously diminished and their profits, as well as their profit margins, reduced.

The competitive nature of the motor business in the Mekong Delta is accentuated by the ease of entry into the field. In almost all cases, license charges for entering the business seem to be minimal (a thousand piasters perhaps), although it may be that illegal charges push costs of entry up to some degree. Since most often people entering the motor business are shopkeepers who are simply adding another line, the capital costs of entering probably are limited in most cases to inventory costs, since no new shop facility is required.

Motor dealers in the provinces have a variety of choices when it comes to purchasing motors for retail resale. Wholesaling takes place even as far down as the district level (see the Phong-Phu interviews) where dealers reported supplying even smaller shops in the villages. Dealers in the districts, however, may make wholesale purchases either from several large stores in the province towns or from a variety of wholesaler/distributors in Saigon/Cholon, or directly from importers. Many motor dealers reported in the interviews that they purchased motors wholesale from whichever distributor in Saigon/Cholon offered them the best price, indicating that a degree of price competition exists.

If retailers have the capital, they clearly prefer to order motors directly from the importers to avoid the distributors' markup. However, the distributors provide the 30% down payment on import licenses, which most small provincial dealers do not want to tie up for several months until the merchandise arrives. They also carry stocks and even out the market, which would probably be more erratic without them.

Competition in the seed business is also quite vigorous. Whereas in the United States it might be normal for seed merchants to take a markup of at least 100% to cover spoilage, etc, profits of around 10% are mentioned in the interviews with Vietnamese dealers. Little or no rice seed is sold through retail outlets because it is sold or bartered between farmers, or purchased or exchanged with the Government's Agricultural Service. Naturally, this restricts the possibility of developing rice seed sales on a commercial basis. The seed which is sold commercially is vegetable seed, sometimes imported, but often lent out by local merchants to trusted farmers who sell it back at an agreed price. Given the above, it is probably true that the commercial seed market in Vietnam provides only a very small percentage of the seed used.

Taking this limitation of the market into consideration, it is still true that the commercial seed business has been expanding rapidly, as a result of the recent growth of vegetable production. For example, in Soc-Trang, one dealer pointed out that in January of 1968 there were five seed outlets in the city, whereas in 1966 he had been the only one. Such easy entry into the business indicates a high degree of competition.

It is also noteworthy that seed sales have been taken on as a sideline in many stores which sell fertilizer and other products. Since seeds are being sold in very small quantities (even by the tablespoon in many cases), there is no appreciable capital requirement which might keep people from entering the business. This also ensures competition.

On the wholesaling side, as in the case of small motors, seed dealers indicate that they shop for imported seed from a number of importers and distributors in Saigon/Cholon. This again confirms the impression of rather comprehensive competition at the wholesale as well as at the retail level.

The fertilizer business is also competitive by all evidence. There are indications that competition forced the dealers themselves to absorb a good part of the price hike between 1966 and 1967, in the form of lower profit margins per bag sold. By all accounts, profit margins on fertilizer sales were very low.

During 1967, competition in the fertilizer business was also enhanced by the practice of backhauling fertilizer. Trucks and barges delivering rice and other relatively bulky products to Saigon picked up a load of fertilizer for the return run. This led to a proliferation of fertilizer outlets as small boat owners and others took on a few bags of fertilizer to sell with other goods or even to peddle from sampans along the canals.

As in the case of seeds, much fertilizer seems to be bought in very small quantities (by the kilo) for use on vegetables. This gives small

retail outlets a chance to sell with a considerable margin, since the purchasers of only a kilo or two of fertilizer usually choose not to travel far to make their purchases. In contrast, retailers testified that as soon as farmers sought to buy more than five or six bags, they became aware of the price advantage in going to town and purchasing from larger dealers.

In the larger towns, almost all the dealers complained about the low profit margins and severe competition in fertilizer marketing. In some areas, the Farmers' Union (CVT) was, by all testimony, selling fertilizer at very low prices, which provided for almost no profit. Commercial dealers had to compete with this sort of outlet as well as among themselves.

As in the case of other merchandise, most smaller dealers continued to buy from distributors in Saigon/Cholon rather than from the Agricultural Development Bank (ADB) itself, although direct purchase from the ADB was possible on a cash basis. Small retailers bought from distributors because distributors, like the central organization of the CVT in Saigon, are willing to extend certain amounts of credit to retailers, whereas the ADB required cash payment. Still, the number of wholesale dealers in the market and the testimony of the provincial dealers that they seek the best bargain among these wholesalers, indicates that the wholesale/distributor's control of credit does not preclude competition, and probably does not allow exploitation of the credit-short provincial merchants.

Insecticides are a fourth key agricultural input widely sold in Vietnam.

However, it is difficult to judge the competitive situation in this area because all interviews reveal the market to be vastly underprovisioned. One dealer in My-Tho, for example, reported that he always ordered ten times what he needed from the Government's Plant Protection Service, but never received anything like the quantities which he could sell, and then often only when it was too late. Other dealers reported that pesticide was so scarce that there was a black market in imports from Cambodia, and that insecticides were being cut and diluted by unscrupulous merchants.

The main problem seems to be that the Government has been selling insecticide in limited, inadequate quantities at a subsidized price, the subsidy sometimes being as high as 50% or more. Because of this subsidy, companies like Shell or My Tox, which import privately to meet commercial demand, were forced to market products at considerably more than the Government price set by the Plant Protection Service. Farmers naturally preferred the subsidized materials, and failed to understand the reason for the difference between the price of insecticide provided by the Government and that provided through unsubsidized imports. They often imputed the difference to exploitative pricing. It may be imagined, therefore, that merchants were tempted either to dilute high-cost commercial insecticides so that price-wise they would appear competitive, or to stay in the business only by handling materials they could obtain from the Government.

Interviews with commercial firms supplying two key agricultural services to the Delta--rice marketing and milling, and transportation--also indicated that economic competition exists and is in fact rather fierce.

In Soc-Trang, Can-Tho, and My-Tho, businessmen reported that there were six transportation companies. These companies often provided brokerage services between individual truck owners and merchants wishing to move goods to and from Saigon, although some of the companies owned their own trucks as well. Every one agreed that this was a competitive situation, although the demand for transportation services, particularly in the lower Delta, is such that profit margins may remain fairly good. Interestingly, many businessmen said that it was a great advantage to own your own means of transportation, indicating that cost reductions from such vertical integration were a significant competitive advantage. For example, rice collectors (ramasseurs) who do not own their own means of transportation have a much more difficult time making money. In contrast, in My-Tho several merchants cited competition in the transport business as keeping transport costs down, so it may be that at least in this area nearer to Saigon the advantages of vertical integration of businesses to include their own trucking capacity may be less important than in the Trans-Bassac region. In either case, it is clear that competitive market forces are operating in this industry, keeping costs down in the relatively secure areas near Saigon, and increasing the attraction of investment in transportation equipment in the Trans-Bassac area, where transport costs tend to be relatively high.

Rice marketing is an area where people have tended to assume some sort of monopoly control. This may be because of some novel uses of the economic term "monopoly". For one thing, "monopoly of the rice trade" in Vietnam has been attributed to the Chinese, indicating monopoly

conditions in the economic sense, but a racial monopoly, the existence of which is in itself questionable, judging by recent interviews. A second problem may be the tendency of those in Government to assume that there is a "monopoly" in the rice trade because large numbers of rice merchants can unite to present a more or less coherent position in negotiations with the Government concerning an official price for rice. This is, again, to misunderstand the nature of monopoly in its economic sense. In most countries of the world, the fact that farmers or merchants could all agree on a high price for the sale of their products to the Government would be taken as a matter of course, but in Vietnam, with its overlay of mandarin distrust and racial antipathy toward merchant groups, such a situation seems to portend monopoly.

The fact that there are 91 rice mills in Dinh-Luong Province, 58 in Phong-Dinh, and 76 in Ba-Xuyen indicates that monopolistic collusion in the rice market is at best unlikely. Of course, often several of these rice mills are owned or rented by one rice corporation, but even a control of a considerable agglomeration of mills would not imply monopolistic powers in a single company.

There is some indication that rice milling prices may, in fact, be set by rice mill owners. However, mill owners testified that they are forced to let customers use warehouse facilities or to provide other services without charge in order to attract clientele.

In the purchase of rice, in all the provinces many large rice companies participate. They all use roughly the same system, hiring independent businessmen (ramasseurs) to go into rural areas to purchase rice.

The companies lend money to the men. In Soc-Trang, a local rice merchant estimated that there might be more than 1,000 such ramasseurs. In addition, however, if a farmer wishes to provide his own transportation, he may deliver his own rice to the mill and avoid dealing with the middlemen. More and more farmers are doing this, and this may account for as much as 40% of rice sales to mills in some areas. Clearly, this heightens the competitive character of rice marketing, greatly limiting the margin which the ramasseurs can demand for their services. On the other hand, local ramasseurs who use their own capital sometimes buy farmers' crops before the harvest by providing them with credit during the season. However, this practice seems to be declining, due to the uncertainties of the war. It is not entirely clear that this loss of credit source is to the advantage of the farmer, although it may maintain his bargaining power to wait for competitive prices from ramasseurs later.

POLICY IMPLICATIONS

There is a ramified and sophisticated commercial network that could be used more effectively than it has been so far, to promote agricultural development. That the system is ramified can be proved simply by looking at a listing of the commercial establishments in the provinces. Invariably, such a list will show fertilizer, gasoline motor, insecticide, seed, and general goods dealers, and often there will be a profusion of such outlets rather than merely one or two names.

That this network is not being fully exploited as a development mechanism can also be proven simply in the provinces. Although commercial dealers in the provinces will acknowledge their debt to several Government programs which have increased farmer awareness of such inputs as fertilizer and machinery, very few of the dealers themselves have any contact with the extension agencies of the Government. No one is actively working with the merchants so that they can more effectively influence the farmers whom they see every day. This is the gist of the problem. Government assistance programs to agriculture are apparently bypassing or undervaluing the multiplier effects which could be achieved were the Government services to establish closer relationships with commercial dealers who are in day-to-day contact with a far greater number of farmers than Government agents can ever contact.

In "The Position and Prospects today" above, seven ways in which

the commercial sector could assist in a productive revolution in Vietnam were outlined. Although in several of these areas the commercial sector by itself is clearly making considerable progress, interviews indicate that very little effort is being made by the Government or by USAID to supplement these private efforts and to encourage them further. This, however, is a broad conclusion to draw, and should be discussed in some detail with reference to each of the seven ways.

I. Greatening demand for new agricultural inputs.

In this area, evidence from interviews indicates on the one hand that Government agencies have been quite active in a number of fields. For example, merchants acknowledge their debt to Government agents for spreading among farmers a knowledge of fertilizer, insecticides, and some kinds of machinery. On the other hand, there is no indication that the Government has taken a creative role in encouraging merchants to supplement Governmental programs through their own private advertising. This could be useful in promoting agricultural modernization. Demonstrations, which are already held with Government assistance, surely could be better organized, and Government funds might be made available to private dealers for promotional activity related to specific areas of agricultural modernization.

Also Saigon/Cholon merchants, agents, and even foreign suppliers could be specifically encouraged to press the sales of their products in Vietnamese markets if it were judged that their greater commercial availability would be developmental.

2. Disseminating technical information through commercial outlets of agricultural inputs.

The South Vietnamese Government, assisted by USAID,

has an extensive program to develop technical brochures on agricultural improvement. However, in the provinces and villages where this information is needed, it is often difficult to come by. Usually it gets into farmers' hands only when Government agricultural cadres visit a rural area, or when farmers visit the offices of Government cadres. There is no indication from our interviews, or from visits to many stores and outlets in the countryside, that any technical information relating to farming is available at any of the commercial outlets which are the constant links between farmers and the modern world.

This situation could be improved upon easily. Already many private companies such as Shell distribute advanced and interesting technical information about insecticides through their dealerships. There is no reason why the Government, aided by USAID, cannot prepare similar information specifically for distribution through the many commercial outlets in the Delta. Instead of trying to distribute this information to the commercial dealers through the provincial agricultural services, which are not designed to serve as post offices, it might be possible to deliver these materials more simply through the mails (most large towns still have mail service). In any case, there is little doubt that commercial dealers could be easily persuaded to supplement Government extension efforts through the distribution of technical information from their shops and stores.

As in the case of demand creation, what is achieved by greater use of the commercial system in the distribution of information is a multiplier effect on Government efforts. Fully comprehensive official efforts to reach the farmers almost exclusively through Government agencies would

require the hiring and training of an enormous agricultural officialdom. Using commercial channels more effectively, as is done elsewhere, can reduce the need for great numbers of officials, lower the costs of agricultural development, and can, in fact, enlist the resources of a relatively wealthy section of the Vietnamese community in this developmental endeavor.

3. Providing the necessary inputs in the proper quantities and qualities.

Stories of shortages (quantitative problems) and of adulteration of materials (quality problems) are common in Vietnam. The quantitative problem is the most common, however, and probably the most serious. For example, during 1966, adequate quantities of fertilizer simply were not available in the provinces because the Government and the importers could not agree on a price which would take into account the effects of devaluation on the value of fertilizer which merchants had ordered at a low price, but which they were forced to pay for at a much higher price owing to devaluation. Similarly, insecticides have been in short supply for years because the Government has been selling small quantities at a low price, which prevents merchants from selling their insecticides at a price which will meet their costs. The result is that merchants do not stock insecticides in large quantities because they can only move them when Government supplies are sold out. Alternatively, in some areas they have been adulterating their insecticides so that they can meet the subsidized Government prices.

The above problems lead to the conclusion that price controls and similar efforts to restrict the market system in agricultural inputs need to be reviewed carefully and probably eliminated. Idealistic efforts, ostensibly designed to benefit farmers by keeping the costs of their inputs artificially low, tend to have the same bad effects as efforts to keep the prices of farm produce artificially low. In the one case, farmers do not get their inputs, while in the other farmers do not produce enough to feed the cities. In other words, artificially low prices lead to quantitative shortages of the underpriced item (there does not seem to be a backward sloping supply curve in Vietnamese agriculture at this time).

On the positive side, if the Government is interested in increasing the amount of fertilizer or other agricultural inputs available to farmers, it is not entirely inconsistent if they provide some subsidies in a well-through-out way. For example, subsidies on fertilizer have thrown a great weight on the national budget, and efforts to limit them have tended to cut off fertilizer distribution at crucial periods. Fertilizer and similar volume products, therefore, are probably dangerous to encourage through subsidies. On the other hand, a subsidy in the form of a profitability guarantee to importers on their imports of tractors or similar agricultural implements might be useful and inexpensive. Importers then would lay out their capital to import products which the Government regards as useful, and the Government would simply help to defray the costs of marketing if they should prove to be unexpectedly high.

We believe that much more thinking needs to be done about ways to encourage importers and foreign suppliers to push sales of agricultural inputs in the Vietnamese markets. This again is a way of multiplying the Government's efforts in these fields by lining up the assistance of the merchant community. Although in such areas as insecticides and fertilizer USAID has been trying to increase the role of private producers and merchants, evidence of this commitment at the commercial level in the form of contacts with suppliers, agents, wholesalers, and retailers is not extensive. Only the Japanese seem to be pursuing the development of their commercial outlets and contacts with any commendable zeal. With the enormous resources in staff and funds which the United States has committed to Vietnam, it is incredible that our contacts and understanding of the Vietnamese internal market in the agricultural inputs area is so weak and unproductive.

4. Providing goods where they are needed.

Interviews in the rural Delta indicate that there are very few if any areas where farmers do not have access to commercial facilities. This is not to say that commercial facilities are everywhere ideal or even adequate. However, evidence points to a rapid spreading of service and sales outlets for small motors, for example, and to the availability of fertilizer and other inputs of common use at the district town and village level.

One point that should be made is that there is no need or reason to have retail outlets selling, for example, heavy machinery, in every

village or even every provincial town. It is normal that volume buyers of fertilizer should go to the larger towns to make their purchases, while smaller purchasers pay a somewhat higher unit price for a smaller volume at the village level. Large tractor sales may never justify a dealership in Ca Mau to serve that province, but a Delta dealership at Can Tho is in the process of being expanded, and smaller dealerships at Long Xuyen and Soc Trang are probably a reasonable expectation as mechanization of agriculture in the lower Delta progresses.

Commercial channels in the Delta are probably much more ramified and all-encompassing than any conceivable network of government outlets which might seek to expand the commercial system. It is common, for example, to see cargo motor launches leaving Can Tho for Vi Thanh, serving not only these two cities which are Government controlled, but also much intervening canal which is not. Travelling fertilizer salesman of this water-going type are widely reported as well. Inferentially, this makes it appear that Governmental where these are not now available are probably either based on misinformation as to what is available, or doomed to be grossly uneconomic. The contention by some farmers that they have to travel fifteen or twenty kilometers to buy a small motor should not be taken to mean ipso facto that commercial outlets are insufficient. It may simply mean that the market in his area is not large enough to sustain an outlet, and this certainly should be no reason for Government to invest in such a facility.

5. Providing inputs at reasonable prices and on reasonable credit terms

Our interviews indicate that by and large prices of most farm inputs are determined in Vietnam on a relatively competitive basis (for prices which are not set by the Government), and reflect rather accurately supply and demand in the market place. From an economist's point of view, therefore, it is fair to assume that these prices are reasonable. In the specific case of small motors, we know that prices vary according to supply and demand conditions, as we would expect. When large stocks are available in Saigon, wholesalers move these stocks by offering credit sales; and small wholesalers and retailers from the provinces seek to buy at these times in order to get the best prices. Similar conditions prevail in the retail market. However, we also are told that a buyer will also evaluate the service offered by a dealer when he buys an engine, that he has model preferences, and that these factors as well as price affect sales.

We may also conclude that at least so far as Government pricing policies do not preclude competitive pricing, some give and take is a part of fertilizer pricing. Again, we have reports of dealers with large stocks granting credit, and of rebates for volume purchasing, both of which indicate competition in setting prices.

More generally, we have heard during all our interviews that entering the retailing business in most areas of commerce is not difficult. This implies that when profits rise because scarcity permits high profit margins, many new dealers can and do shift into the business (for example, motor pumps or vegetable seeds, which are expanding rapidly lately).

probably eventually bringing supply more nearly into balance with demand, and pushing prices down or stabilizing them. This is a commercial system very similar to the one described by Adam Smith.

This very obvious ease of entry leads to a second conclusion which is somewhat contradictory. This conclusion is that there is a good chance that Vietnamese commercial business is so competitive that capital investment in certain desirable forms of commercial activity is being discouraged. This should be looked into. For example, a motor dealer is discouraged from investing in a motor business and in developing modern service arrangements, if almost anyone can come into the modern service arrangements, if almost anyone can come into the business afterward and force prices back to a marginal level. Were licensing of competitive sellers more carefully limited, on the other hand, he might be tempted to reinvest his capital in the motor business rather than shifting to one where his money can buy him a position more secure from competition. There is a tendency in Viet-Nam to regard the low profit margins as an unmitigated good. This probably is not altogether sound. The regulation of dealerships and the control of unbridled competition, e.g. in the backhauling of fertilizer, is practiced in the United States often by the large producers in the interest of their franchised dealers who have to bear certain costs which backhaulers would not have to face. This should be borne in mind in developing countries like Viet-Nam, and merchants in these countries should not be measured against a stricter standard of competition than is practicable elsewhere.

The second part of this conclusion deals with credit. Interviews indicate that private commercial credit still plays an important role in rural commerce in Vietnam, although its quantity is probably diminishing as a result of insecurity.

At the present juncture, with consumption at a high level, and serious inflation a constant threat, it is probably not altogether bad that traditional consumer and wholesaler credit should be contracting somewhat in the rural areas. However, in the long run, it certainly should be the objective of the Government to expand the amount of productive credit available to farmers.

One problem in this area is immediately apparent. It is the fact that little Governmental attention is being devoted to expanding desirable credit-granting facilities through the use of traditional credit channels. Rather, efforts in this regard are most often channeled through Government or semi-Government agencies. This effort to by-pass instead of improve and modernize traditional credit sources has not been very successful, either during earlier times when French efforts in a similar vein ended in failure, or at present when repeated infusions of Government capital seem to be necessary to bolster flagging non-private credit channels.

This is not to say that Government has achieved nothing in the credit field. To the contrary, the establishment of the Credit Commercial Bank, with branches in several provincial cities, has greatly improved local commerce, because this effort was specifically oriented (as others are not) to working through the established commercial system. Unfortunately, the favorable lessons from this one case of a booming success have not been well learned and applied.

Rather than building on this principle and expanding private commercial banking so that it can gradually develop a more complete gamut of services in rural areas, special efforts to provide cheap credit on non-commercial terms have tended to receive priority attention.

Interviews also indicate that credit from large wholesalers to provincial dealers plays an important role in product innovation and rapid development of volume business in the provinces. Apparently, willingness to extend credit, for example, for Japanese diesel engines, will lead dealers in the provinces to take such merchandise, more or less on consignment. If the Government agricultural agencies wish to encourage the introduction of new materials in the countryside it might be well for them to consider working through this sort of wholesaler-consignment system. In this way, again, Government involvement and costs can be minimized through the astute use of the established distribution channels.

6. Providing a continual source of information about new farm inputs to merchants and consumers

In some cases, the commercial system already seems to function well in getting information on new farm inputs to the provinces and to the farmers. However, as has been noted above, Government efforts could be improved to work through the commercial system, and to use its network to communicate information which it wishes to pass along to farmers. It must be born in mind that the commercial network lives and works for profit, and that information will move most easily through it if profit possibilities are emphasized.

Advertising is an industry which perhaps deserves more attention in Vietnam. While the Government may wish/^{to} limit wild advertising claims to protect farmers, it also has a strong interest in promoting the development of this industry insofar as it relates to the promotion of agricultural modernization. Some advertising, for example, of small motors, has been very successful. In the fertilizer area, however, it may be that the nature of the USAID/Government program has militated against companies themselves promoting their own particular brands of fertilizer and developing a specific interest in the Vietnamese market. In the long run, experience in Vietnam seems to indicate that the best way of informing provincial dealers and farmers about new products is to have a supplier keenly interested in promoting his sales. Means of interesting suppliers in the Vietnamese market should be explored more thoroughly and red tape in this area cut.

7. Continuing to respond to new customer demands and changing conditions.

Interviews and recent events indicate that despite repeated blows and dislocations, rural commerce in Vietnam is flexible in meeting new conditions and problems. Whereas over the past several years increased labor costs in loading and unloading and relative insecurity on the canal , as well as other factors, had caused a shift from traditional barge transport to trucking in the Delta, the post-TET period showed that merchants retained the flexibility and the nerve to switch back when conditions demanded it. New conditions have continually required merchants to

develop new means of adjusting to the commercial environment, and all signs indicate that this flexibility remains.

Flexibility, like other things, does not come without a price tag. It has meant, in Vietnam, a great preference for liquidity and fast capital turnover operations. Capital investment, for example in labor-saving machinery for loading and unloading barges, would involve a commitment over the long haul which merchants have so far refused to undertake.. Thus commerce has been slow in adjusting to the situation of labor stringency which has manifested itself over the last three or four years. In the long run, this is a tendency which may have to be countered by financial inducements as well as technical help.

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Is economic and social development what the
Vietnamese Government is seeking?

The conclusions listed above are not the only ones concerning the commercial system in Vietnam that might be drawn from our interviews. Underlying each of these conclusions and suggestions is the assumption that the Vietnamese Government wants economic and social development, and should be willing to use the commercial system as it exists indigenously in Vietnam to achieve these objectives. However, our interviews also indicate that the commercial system is still disproportionately manned by Vietnamese of Chinese descent (Chinese, as the man in the street would say simply.) Although ethnic Vietnamese are clearly taking a greater and greater hand in commerce, particularly in new areas like the sale of gasoline motors, there is no assurance that ethnic Vietnamese will

ever completely "take over" the system. If this consideration leads the Vietnamese Government to believe that it cannot use the commercial system more fully to develop and modernize rural Vietnam, the authors of this paper would not be astonished.

Clearly, however, we would think that this was a serious miscalculation on the part of the Vietnamese Government, and we would doubt the ability of the Government to reach anything like the rate of achievement which we believe is possible through an imaginative program of working more closely with the commercial networks.

As we have indicated all through these conclusions, a greater effort on the part of the Government to induce the commercial dealers to play a more deliberate role in modernization would yield important dividends. It would have a multiplier effect on present Government efforts, and thus produce as great gains, and probably much greater ones than would come by deploying huge augmentations of government funds and personnel. Collaboration with the commercial sector would tend to promote a better balanced and healthier economic structure, profiting from the flexibility and resilience of combined governmental and private institutions and resources.

In addition to the "Chinese problem", which might lead the Vietnamese Government to overrule or disagree with the conclusions of our research, there is also the problem of a commitment to "Socialist" development among many Vietnamese. Simply stated, this seems to imply a preference for Government as opposed to private action, and a belief that Government activity more nearly guarantees a "social" result. Our interviews

indicated that Government efforts to replace private efforts with public ones were usually not conspicuously successful. They tended to be costly and, of course, it is the people who pay the cost of government. Certainly, in the area of small agricultural commerce, it seems clear to us that Government ownership of facilities poses enormous problems and should be squarely ruled out. Countries which have for fifty years experimented with various forms of non-private agricultural commerce have begun recently to give up this costly experiment in "Socialism", and countries like Vietnam might well profit by their example.

Finally, our main conclusion is simple. The private commercial system dealing with agricultural inputs ~~inputs~~ in the Delta of Vietnam is flexible and strong. It probably could play an even greater role in promoting agricultural development if only the Government USAID would look at its possibilities creatively and seek to realize them. There is a mechanism--the private commercial system; and a problem--the development of rural agriculture. The role of Government should be to help the mechanism deal with the problem. Efforts to develop a parallel government mechanism to deal with the same problem probably are wasteful and unrealistic. Efforts to mesh government efforts with the ongoing commercial activities, taking full advantage of its incentives, talents, and resources, would seem to provide the most efficient and powerful means of achieving developmental goals.

METHODOLOGY OF STUDY

The interviews on which this report is based were conducted with the owners and managers of business concerns primarily in the fields of motor, fertilizer and seed distribution, transportation, "general goods", and banking. Firms were interviewed in the Saigon/Cholon area; in My-Tho, Can-Tho, and the adjoining district towns of Phung-Phu, Phung-Hiep, and Cai-Rang, and in Soc-Trang and the adjoining district towns of Thanh-Phu, Thanh-Tri, and Bai-Xau.

The interviews were conducted by three teams, each consisting of one Vietnamese and one American. The interviews were conducted in Vietnamese, with the Vietnamese providing the detailed questioning on specific points, and the American providing the broad outline of the interview. The interviews were loosely structured to cover the points discussed in this report. It was felt that the informal, conversational atmosphere produced the best results in terms of candor, and also allowed the interviewee to discuss those subjects in which he had the greatest interest and knowledge. Each interview was tape recorded and a verbatim transcript was translated into English.

The interview method of information gathering was felt to be an appropriate tool for a study of this nature. The areas of interest, with few exceptions, were not considered by the interviewees to be sensitive. The history of the store, the introduction of products, and the economic problems of the store, were areas in which most owners seemed to enjoy discussion. Only when the discussion turned to politics, corruption, or profits did a majority of the interviewees avoid direct response.

Not only were the areas of investigation not sensitive, but respondents were amenable to direct interviewing. Most store owners are secure in their positions in the community, and did not feel threatened by this type of interview, as an "average peasant" might.

The presence of an American was generally felt to be beneficial. His presence gave a certain importance to the interview. Many businessmen, especially in the district towns, looked upon the interview as an important event, devoting an hour or two of their time to it. When the Vietnamese interviewers interviewed alone, they did not get the same reception. Many of the owners seemed to welcome the opportunity to discuss economic problems directly with an American, and those who wished to comment on politics or corruption also enjoyed the opportunity to present their ideas directly to an American.

In general, politically sensitive questions were not asked or pursued unless the owner voluntarily raised the issues; and those issues, as well as profits and corruption, were left until the end of the interview whenever possible.