

**INVESTMENT AND AGRICULTURAL  
DEVELOPMENT IN DEVELOPING  
COUNTRIES: THE CASE OF VIETNAM**

By

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## ABSTRACT

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The standard policy prescription to enhance the productivity of agriculture in a developing country like Vietnam is first to encourage the investment of farmers in their human and social capital and then to change the governmental institutions to facilitate the farmers' investment. This thesis, therefore, analyzes the investment of farmers in their health, education, and social relationships in the context of Vietnam's recent agrarian transition. Using the tools of regression analysis, the author has tried to measure the rate of return of investment in health, education, and social relationship of farmers on their income. Additionally, to measure the effect of local government policy on the performance of agricultural firms at the provincial level, the thesis applies current techniques to estimate the relationship between output of agricultural firms and performance of local government. As in other low developed countries, the rate of return of investment in education is quite extreme and the rate of investment in health is small. The effect of investment in social capital of farmers on their income is quite complex due to the complication of the term social capital. Moreover, the effect of quality of local institutions on performance of agricultural firms at the provincial level is not quite statistically significant. The relationship is similar with other research findings worldwide when researchers want to measure the effect of quality of institution on the performance of firms.

The way in which investment activities was assigned to agricultural households in the first stage of transition – in particular, the rights of farmers to invest privately in their land – was clearly crucial both for improving living standards of farmers and the performance of economic development. However, the heavy reliance on physical investment has raised a concern about horizontal investment – which it leads to an unstable increase of agricultural productivity. Vertical investment with focal point on technology, skills, and ability of

farmers, and quality health farmers is needed for a modern development of agriculture in developing countries. Evidently, in Vietnam, horizontal investment did help to develop agriculture in the past, while now this way of investment is binding the room of further development of agriculture. This thesis has first tried to see if such concerns are borne out by the evidence on how investment in health, education, and social capital affect farmers' income under the new rural development program introduced by Vietnam since 2000. This was arguably the most crucial task in the country's transformation to a market-based agriculture after abandoning the inefficient collective system. Individual households had to be assigned the rights to invest on their own land. The author has used a model of household income to analyze the effect of investment in health and education on their rights of investment on their own land, expressed by their income. The results are quite similar with the picture that many commentators have painted so far.

The contributions of the thesis could be accounted mainly two folds. *Firstly*, this is the first time that the relationship between investment in human and social capital and income of agricultural households in Vietnam has been analyzed comprehensively. There are lots of researches on the relationship between education and income and analysis the effect of health insurance program on Vietnam households or poor households, but there is hardly to find a research to analyze the effect of investment in education, health on households' income, especially agricultural households. *Secondly*, analyzing the effect of investment in social capital from micro to macro level could be seen as my thesis's second contribution. Investment in social capital at micro level includes time allocation for bonding, bridging relationships among farmers and their money to organize party where farmers enhance their relationship; at macro level includes the changing of local government policy in privatization incentive, human resource development or state own enterprises priority policy. The empirical results for micro level shows that investment in social capital has contributed partly positively to agricultural households' income, while at macro level the

effect of investment in social capital is quite complex. The complex outcome of empirical results is due to the complicated definition of social capital. Social capital cannot define itself in one definition. Social capital is a multi-faceted definition. Therefore, it is hardly to capture its effects to agricultural households' income.

## **DEDICATION**

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This thesis is dedicated to my grandfather in heaven, Khuy. My memories of your invaluable love and affection, tolerance, confidence and belief in me are truly appreciated. I love and miss you with all my heart.

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