

NATIONAL CENTER FOR SOCIAL AND HUMAN SCIENCES  
INSTITUTE OF ECONOMICS

**VIETNAM'S  
ECONOMIC REFORM:  
RESULTS  
AND PROBLEMS**

Edited by VU TUAN ANH

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RESULTS AND PROBLEMS**

**Edited by VU TUAN ANH**

(A study undertaken by Vietnam's Institute of Economics  
with the financial support of the International Development  
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## PREFACE

*With more than 70 million people Vietnam is the 13<sup>th</sup> most populous country in the world. The country is abundant natural resources and has an excellent allocation for international trade, along major shipping routes. It also has a large labour force, which is younger in age and better educated compared with other countries at a similar level of per capita income. Good workmanship, creativity and a high regard for innovation are inherent in the Vietnamese, and this enables them to quickly absorb scientific and technological advances. So, Vietnam is a country with large natural potential of development.*

*In Vietnam's history, war efforts for safeguarding the country's independence and unity had been consistently pursued until mid-seventies. Many generations of Vietnamese did not have the opportunity to learn and accumulate experience in the economic field. Vietnam's economic model in the past was an imitation of what had been done in big countries. In Northern Vietnam, a model of centrally planed economy was taken from the Soviet Union and other socialist*



*countries, but this model was greatly altered by war circumstances. In Southern Vietnam, an economy with a colonial structure continued to survive with modifications oriented toward more dependence on preferential aid and assistance from the powers participating in the war.*

*After the unification of the country in the year 1975, Vietnam was still one of the poorest countries in the world with per capita GNP of less than US\$200. In this context the country made many tests and trials to find out a path of development suited to her own conditions. In spite of the inherent obstacles created by an underdeveloped and war-ravaged economy, Vietnam engaged in the renewal of her economy and this within the context of a rapidly changing world, and through incessant efforts to this end, a market-oriented economy and a system of new institutions have taken shape. In the course of about two decades since Vietnam was disengaged from an all-out war but later subjected to a trade embargo and having to face no few serious difficulties, it was obvious to see that Vietnam has shown a clear tendency toward economic progresses which would help her to secure a rapid integration with the economic life in the world and in the region. In the economic domain, this has found expression in the considerable increase in production capacity in various branches and areas*

*of activity and in the ever growing trade exchanges between the country and other outside nations. But what is most important is the fundamental change in structure, institutions, policies for development and management mechanisms of the economy.*

*Right from the early 1980s when the first changes in Vietnam's economy began to develop in the production and business establishments "at the grassroots level", i.e. in the localities and at the businesses themselves, political-economic discussions about how to appreciate these changes took place everywhere. Being a research institution on theoretical matters and economic policies, the Institute of Economics has participated in those discussions by way of presenting several research works such as the problems concerning the system of agricultural management, that of State-owned enterprises, macro-economic policies, investment, growth and economic structure policies etc. Since 1992, the Institute of Economics began to carry out a research project entitled "Economic Restructuring in Vietnam". This project was funded by the International Development Research Centre (IDRC) of Canada. The aim of the project is to consider and evaluate all-sidedly the process of economic reform in Vietnam, take a look at the issues arising in the course of economic reform and to foresee the following steps to be taken by the reform. The*

*project is focussed on the changes occurring in the macro-economic policies during the economic reform, namely: the policy toward the public and private economic sectors, the relationship between the State and the economy, the renewal of the system of income resources of the State budget, the switch-over of the managerial apparatus, the establishment of a financial system suited to the market economy, the bases on which to work out a new strategy on industrialization and international economic relations.*

*This book has been written in the framework of the above-said project. It submits an outline report on several results obtained from the preliminary researches made into the questions raised in the project. Through the presentation of the events and data reflecting the historical development of the reform, the authors have focussed their attention on four main aspects of economic policy as follows: a/ Changes in policy toward State and non-State economic sectors and their effects on the prospects of development in these sectors; b/ Changes in policy in the main domains of Vietnam's economy, namely : agriculture, industry, trade and services; c/ The impacts of the implementation of the open-door policy on economic growth and industrialization; d/ The role of the State in the process of economic restructuring and development.*

*It should be remarked that in recent times there have been several publications in which the process of economic reform in Vietnam is presented and commented, written mostly by experts working in international organizations and foreign scholars. Vietnamese scholars have also published several research works on a number of economic policies with the aim of directly putting themselves to the service of policy-making agencies. Motivated by the need to evaluate the economic reform in Vietnam and by the desire to mark a comparative analysis of this economic reform with current changes in other economies in the world, this book is written as a factual statement of what the economic reform in Vietnam is like viewed from the angle of those directly involved in this changed economic life for the sake of foreign readers.*

*The authors of this book thank the Canadian professors Samuel Ho, Keizo Nagatany, Geoffrey Hainsworth, Ashok Kotwal (University of British Columbia), David Nickerson (University of Victoria) for their valuable ideas contributed to them in the course of studying the problem of economic restructuring.*

*The Institute of Economics would take this opportunity to thank the International Development Research Centre of Canada for its financial support. Its thank particularly goes to Dr. Randy Spence, Regional Director of the Southeast*

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# **CHAPTER 1**

## **PROCESS OF ECONOMIC POLICY REFORMS**

### **1.1. THE REFORM PROCESS**

The process of economic policy reforms from 1975 to 1993 may be divided into the following stages :

- From 1976 to 1979 : process of unifying the country and the economy into an integrated whole in accordance with the central planning principles.

- From 1980 to 1986 : experiments on readjustments of economic policies oriented toward trade liberalization.

- From 1986 to now : affirmation of basis orientations for renewal of economic policies.

The following are the main contents and features in the change of policies through the above-mentioned stages:

#### **1.1.1. The period from 1976 to 1979:**

After the war was ended, along with the country's unification in political institutions, the turning of the economies in the two former zones into an integrated whole was actively carried out.

The economic model which had been applied in Northern Vietnam from the 1950s and based on a centrally planned economy, though having gone through many decades of war suffered many alterations, but still bore a number of major specific traits as follow:

- The State determined the direction of all important economic activities in the whole country through a system of production plans and goods distribution based on strict regulations on pricing, interest rate.

- The State and collective economies constituted the foundation of the economy which were largely subsidized in many areas of activity such as investment, credit loans so as to assume major proportions in the national economy. Large-scale private economies were not encouraged for further expansion and constituted the objects of transformation to become finally incorporated into either State or collective economies.

- The market mechanism operated only in small business and household economy, that is to say in a part of the agricultural, handicraft, consumer good retail trading sectors. The majority of capital goods used for production were not permitted to be sold or bought on the market but were distributed according to a planned distributing system under State control.

- The State monopolized foreign trade. Due to historical circumstances, almost all the trade relations of Vietnam were essentially made with the (former) Soviet Union and East-European countries through the instrumentality of

governmental treaties. Foreign trade companies under the control of the State would implement these trade treaties. The profit-and-loss account of foreign trade was entirely covered by the State budget.

- The finance of the State was not cut off from that of State-owned enterprises. The State undertook to cover the losses incurred by State-owned enterprises by means of subsidies and the latter, if they operate at a profit, would have to deliver it to the State budget. The State still subsidized all productive activities through the selling at low prices of raw and other materials, machinery and equipment that it had imported with aid funds and credit loans. For that reason budgetary deficits and foreign debts would have increased along with the country's development of production.

Such economic policies had the advantage of helping the State to realize its economic line aimed at quickly carrying out industrialization and at the same time effecting social policies whose aim was to provide for the vital necessities of the population and to overcome the heavy aftermath left by the war.

However, the economic policy as such did not create a motive force to boost the activity of businesses and individuals. There was no room for private individuals' creativeness and business dynamism in such economic institutions. With a low development standard of the economy but a rather decent distribution ensuring the necessities of life for all members of society, it would lead to a state in which the distribution bore an egalitarian



character and there was no incentive to those persons who would want to make bigger contributions to the country's wealth with their talent or assiduity in work

The reduction of foreign aid in 1979-1980 (which constituted a considerable receipt to the State budget) revealed all the more clearly the weak points and the out-mode practice of existing economic institutions and demanded new suitable solutions for the future.

### **1.1.2. The period from 1980 to 1986:**

The 1976-1980 five year plan was the first medium range economic development plan of the unified Vietnam. With too much optimism in the country's capability of economic development when shifting from war-time to peace-time, the planners set too high objectives for the five-year plan which proved to be not conformed to the reality and unrealizable. Compared with the set targets for 1980, in reality food attained only 69% of its target, coal 52%, electricity 72%, sea-fisheries 40%, cotton fabrics 39%, paper 37% etc.

Against the background of the production targets not being realized, reform ideas commenced to take shape in a number of important economic areas.

At first the businesses and households at the grassroots showed a major concern for declining production and strove their best to boost it up at all cost. The central level, that is the State apparatus, found that it should revise its activities and readjust its policies and institutions. As a result, new forms of operating the economy were tested and implemented and direct interventions by the bureaucracy in

the economic domains were much lessened.

The first change in economic policies was embodied in the conclusions made by the September 1979 Session of the Communist Party of Vietnam Central Committee which said among other things that the policy must take into high consideration business efficiency, loosen the administration's management by the liberation of economic activities, change the priority given to large-scale heavy industry over to small- and medium-sized consumer goods industry and pay adequate heed to the interests of individual workers. These conclusions gave rise to many concrete changes in various aspects of the economy.

In agriculture was widely applied the contractual quota system to every farmer's household which had been already piloted by a number of agricultural cooperatives. In industry, the State authorized the State-owned enterprises to freely operate beyond the assignments of the State plan. Going along with production liberalization, the State maintained monopoly in only a limited number of goods, gave more freedom to the circulation and exchange of commodities and proceeded with two major readjustments of prices (one in October 1981 and another in October 1985) with the aim of narrowing the gap between the State-fixed prices and free market ones. Businesses were authorized to buy and sell raw and other material , machinery and equipment in the free market. In foreign trade, more and more companies operating at locality and branch level were put the list of those entitled to directly export and import goods.

With such changes in policies, many new factors emerged

in the former economic model. These changes first and foremost affected the macroeconomic sphere. The State-owned and collective enterprises which formerly had no self-governing right but only kept contacts with superior State organs on a vertical basis, now developed their horizontal relations, that is to say relations between themselves, and this was based on market requirements, and still had the right to make decisions regarding the part of their activities beyond the assignments of the State plan. The capital goods market has formed and the consumer goods market became more attractive with a big variety of domestic and imported goods catering to the customers tastes and requirements.

Small-sized family and private enterprises quickly developed to meet the need of an ever more expanded economy.

Macroeconomic changes compelled the institutions and instruments to change accordingly. Reforms on prices, wages, fiscal and monetary policies became matters for discussion at policy-making bodies. A number of major readjustments were effected in the direction of trade and price liberation, and reduction of budgetary deficits.

However those readjustments which were not made in the context of an homogenous reform of all the mechanism in charge of operating the whole economy failed to bring about the expected results. Although preliminary changes in economic policies helped the economic activities to overcome the recession taking place in the year 1979-1980 and to secure a relatively high rate of growth, it should be said that the

economy still bore many weak points: the State continued maintaining as in former times its administrative management and its subsidization scheme toward State-owned businesses while it paid very little heed to economic efficiency and ensured no stability for the macro-economic environment (high rate of inflation, readjustment instruments such as taxation, bank credit not employed in due time, etc.).

In its relations with outside countries, the State considered the aid in the form of long-term loans given by the Soviet Union to be a source of financial compensation for its subsidization scheme to business activities. Good exchange relations with the (former) Soviet Union and East-European countries played as always the role as a supplier of raw and other materials and a stable market for the consumption of goods produced and exported by Vietnam to these countries.

Nevertheless the ever growing contradiction between, on the one hand, the requirement to raise the people's living standard and the demand for self-governing right of businesses and, on the other hand, the unsuitable policies and macro-economic institutions, led to the adoption by the State of more homogenous reforms.

### **1.1.3. The period from 1986 to now**

The changes in the theoretical system on the path of Vietnam's development were marked by important conclusions on the system of concepts regarding economic renovation drawn by the sixth National Congress of the CPV

held in December 1986. The following changes in policies were mapped out:

- Confirming the long-term development of the multi-sector economy. This would mean the elimination of all the former discrimination against an equal footing for the private economy in a healthy competitive environment.

- Confirming the important role played by market relations in the boosting of the commodity production.

- Renovating the economic structure by orientating the available resources toward three main objectives : development of agriculture, promotion of consumer goods production, forceful increase in exports of goods and services and expansion of external economic relations.

- Stabilizing the socio-economic environment by means of achieving the following targets : reduction of the inflation rate, budgetary deficits, excess cash expenditure and improvement of people's living standard.

- Putting into practice an open-door policy in the relations with foreign partners.

Although the above mentioned renovative line contains fundamental elements in favor of an effective economic policy, the failure of the reform on prices and wages effected by the end of 1985 seemed to put policy-makers in a very awkward position for the whole period of 1986-1987. All decisions at macro-economic level at this time seemed to bear a short-term character.

From 1988 onward, many changes of strategic

policy-making character patterned on the conclusions of the sixth Party Congress have taken place as cited above and then repeated by the seventh Party Congress (June 1991).

#### **1.1.4. Some main traits of economic reforms :**

Based on the above presented reality of the reform process, and compared with other nations which are engaged in economic reforms and operate a shift from a centrally planned economy to a market one, we could take note that Vietnam should be said to have her particular traits in the reform process.

First, economic reforms have taken place in the process of shifting from war-time to peace time in the nation's history. That changing background has helped economic reforms to take shape and to be gradually put into operation as the result of an indispensable condition arising from inside in two directions, namely from the grassroots upward that is to say from the businesses and from the internal situation of the population, and from the center downward, that is to say from the decisions made by the leaders. This two-way relationship between the "grassroots" and the "center" has admirably contributed to unanimous understanding, perception and response to the needs of readjusting the economic policies where they prove to be not in agreement with the realities and has not led to conflicting ideas and views as well as to too strong "shock" created by too rigid macro-readjusting measures whose effects would be damaging to social stability. A relatively harmonious combination of spontaneous reforms at grassroots level and decisive action of the highest political leadership could be

remarked as one of the unique features of Vietnamese reforms and a reason explaining why the Vietnamese reforms have been attacking the basic foundations of the old socio-economic model but without producing the kind of deep recession which has been taking place in some other former centrally planed economies

Second, the needs for economic reforms have arisen from the economic area itself but not as a consequence of political upheavals. The switch-over from war-time to peace-time has given rise to many explosions in necessities of life and therefrom has required that obstacles in terms of economic institutions should be removed, and then has led to the changes in concept on how to operate the economy and on the establishment of the relationship between the political system and the economy itself. In other words, the reality has "thawed out" the dogmatic theories and is making pressure to shape a new system of more suitable theories and concepts

In Vietnam reform does not mean switch-over from an old model to another existing one taken from another country but it constitutes a real process in which the elements of the old model are to be wiped out and replaced by new elements more suited to Vietnam's circumstances. The Vietnamese call this way of doing things "learning by doing" or to be more exact "to learn by trial and error". It seems that in recent years the Vietnamese decision-making institutions have been strongly influenced by the monetarist concept of macroeconomic stabilization and the scheme of transition from a centrally planed economy to market-oriented one

raised by the WB and IMF experts. But worthy of note was that there isn't any ready reform scenario or general "road map" which designs all contents, phases, steps and alternatives of would be realized reforms . There have been worked out only short-term action plans. Consequently, the reforms have slowly developed and have been continuing for a long period of time. Sometimes they didn't bring about the results as were hoped for. But otherwise, on the whole the outcome of those reforms has proven to be quite in conformity with the capacity of reception of the entire population in the face of the socio economic changes created by the said reforms. This kind of slow reform process seems more psychologically appropriate for the whole population and it could ensure a durable social stabilization.

Third, Vietnam has engaged in making reforms in the context of being isolated both politically and economically. The economic support from outside to the reform process has proven to be small. Aid and credit of the East European and former Soviet Union countries were cut off since these countries began their own "perestroika" (reforms). The powerful international financial institutions like WB, IMF, ADB haven't been providing assistance to Vietnamese reforms except consultation. Aid based on bilateral governmental agreement has been mostly orientated to social purposes. On the contrary, the economic blockade and embargo again Vietnam and the involvement of this country in various political and military conflicts, have compelled this country to consume many resources which should have been used for its economic growth and development. The



non-availability of a secure international environment has been an utter hindrance to the efforts tending toward reforms inside the country. Against such a background, the independence and the traditional national unity which have been preserved along with the reform process constitute no small traits compared with many other reform-making countries in Europe.

## **1.2. CONTENTS OF ECONOMIC POLICY REFORMS AND TRENDS OF ECONOMIC TRANSITION**

The economic policy reforms in the last years have been leading the Vietnamese economy to some main trends in its development. They are identified as the following:

### **1.2.1. Toward a mixed economy:**

#### *1.2.1.1. Structural changes:*

In the Vietnamese economic ideology, the national economy could be divided into several economic sectors on the base of forms of ownership of the means of production. There are some main sectors officially-recognized:

- The State sector based on the public or national ownership.
- The collective sector based on the voluntary contribution of capital of a group of people to set up joint enterprises and using the labor force of the collective's members and their relatives.
- The private sector including various forms of economy like family or household economy, individual economy,

private capitalist economy. The last form involves hiring at a certain number of employees, while the first two are based only on own labor.

- The joint economy of the State sector with other sectors called the State capitalist sector.

Previously, the State and collective sectors were considered as the main bulk of the national economy. The private sector, especially private capitalist economy was not encouraged to develop and was a target of nationalization, collectivization or transformation to State-private joint ventures.

With the present reforms, enterprises of all ownership forms have been treated on an equal footing before the law, and entitled to business autonomy and competition in the market. It's difficult and also not needed to distinguish so many sectors as above mentioned. In fact, different traits of motivation and attitude still exist between the state sector and other non-state ones.

Effected by policy changes in recent years, the economic structure is undergoing some certain changes. In spite of small modification of the structure of national income (value added in the material production), the structure of labor division began to change with increasing numbers of the labor force in the private sector. (See table 1.1.).

The transition process of different sectors under changing policies has been evolving differently. Here we consider more detail on each of them.

**Table 1.1 : Structural changes in economic sectors**

( % total = 100% )

	State sector	Non-state sectors
Gross output of industry		
1976	68.6	31.4
1986	56.3	43.7
1992	70.5	29.5
Labor in the industry		
1976	25.5	74.5
1986	30.0	70.0
1992	32.3	67.5
Retail sales of domestic trade		
1976	36.5	63.5
1986	39.7	60.2
1992	21.9	78.1
Labor in trade and services		
1976	36.5	63.5
1986	39.0	61.0
1992	22.3	77.7

*Source : Statistical data of Vietnam 1976, 1986, 1992.  
Hanoi.*

### *1.2.1.2. The State economy*

The State economy is said to play the key role in the industrialization and to be a tool used by the government to regulate the macro-economy and social policies. Over the past dozens of years, the State economy in Vietnam grew quickly. In 1976 there were about 7000 State-owned enterprises. By the end of 1988 this figure increased to 12,000. Thereby, the State economic sector plays as always a very important role in economic growth. It made up 29% of the national income of material production in 1991. In industry, it produced 69.7% of the output value.

Together with the hand-over of self-governing and self-financial accounting rights to State-owned businesses the State economic sector seems to be rising to the surface of the economy and to become one of the prime objects of discussion among the economic policy-makers. The problem lies in the fact that in the past the State-owned economy took shape and expanded without any calculation about its economic efficiency. As a result, a considerable part of businesses in this sector have met with no small difficulties when State subsidies were cut off (regarding low interest rates of credit loans, low prices of raw and other materials sold by the State to them). According to the data in early 1990, among 12,084 State-run businesses, there was as much as 38% of them operating at a loss. The number of firms suffering losses in their undertaking account for 38% of the total assets value and 33% of the total work force in the State economic sector.

**The reform measures regarding the structuring of the**

State economic sector are as follows.

1) To rearrange this sector by asserting what areas of activity are necessary to remain under the State's control and ownership. The businesses whose duties are to provide public goods and services and necessities of life such as electricity, coal, cement, railways, civil aviation... must be further developed and consolidated. In order to help them to operate well on a self-governing basis, the State reevaluates their assets and then confide them to their care on condition that they should preserve and multiply those assets.

The businesses management apparatus was restructured with the founding of an administrative council and executive managerial board. Cost accounting and book-keeping have been performed at all enterprises and kept under the State's strict control.

Since the end of 1991 all State-owned enterprises have to reorganize their business and have to be re-registered by the court. According to report of the State Planning Committee in December 1992, among 9000 - 9500 existing State enterprises about 70 % would be licensed to further operating as the State-run enterprises. Up to now 50 % of this number have been applying for license.

2) With regard to the enterprises that the State deems it is not necessary to keep under its ownership, for instance light industrial factories, the process of privatization will be effected by means of selling the whole business, or selling shares, or renting the business out to collectives and individuals.

It should be recognized the fact that in Vietnam private capitalists are still very few in number and do not possess big financial means. They are not able to buy a big business with their own money. Simultaneously, they are afraid of the unstable business environment. On the other hand, even managers and employees of State-owned enterprises don't feel highly enthusiastic in the privatization of their enterprises because it might damage their current jobs and benefits, especially when their enterprises work well, make profits and they get not bad income.

For those reasons equitizing or renting businesses out is still in the period of experimentation, and in reality it has developed at a rather slow pace, although the government has been deciding to encourage this process since 1990. In June 1992, the government issued the decree on the conducting experimental equitisation of some enterprises. 7 profit-making and medium-scaled enterprises in the light industries like plastic, wood processing, garment have been choose for experiment. Up to the end of 1993 only one enterprise - the Plastic Factory Binhminh in Hochiminh City has been equitised, where 2/3 shares of total capital value of 12 bil. VN dong were sold in credit to employees of the factory and the rest 1/3 shares were sold to public mass. One other enterprise - the Garment Company Legamex - is selling his shares . In other enterprises equitisation process goes slowly.

The faster equitization would be done by a number of state-owned businesses with the participation of foreign investors. Joint ventures with foreign capital for the purpose of transforming the better part of the enterprise or of setting

up a line for production of new items of goods have really turned the businesses in question into joint-stock companies operating on a more efficient and effective basis. The Vietnam Law on Foreign Investment has encouraged this form of joint venture and in practice the majority of foreign investment projects bear the joint venture character in the form of joint-stock companies.

3) With regard to those businesses which the State deems it is not necessary to keep under its ownership, and which are suffering losses in the course of their operation, it would be preferable to close or dissolve them as these businesses prove to be out of date and their products are no longer competitive in the market. About 2500 3000 such enterprises have disbanded up to now. On the assessment of the State Planning Committee, among 9000 9500 existing enterprises, 38 % of them have to be disbanded or merged into other ones. Among centrally managed enterprises, the number of such kind is 20%, but among locally managed enterprises it is about 46%.

The foremost problem the State faces thereby is to create new jobs and to give relief to such workers of those enterprises who become unemployed by the State sector. In some latest years, most of such people transferred to household and individual economies. With relatively small State's relief and loans they could create small business in trade or handicrafts.

Another solution to this matter is to invest in these unproductive establishments for suitable transformation and then to proceed with privatization. But this can not be easily

done as the State is lacking funds for such an undertaking.

### *1.2.1.3. The collective economy*

Based on the theoretical concept explaining that collectivization would be the most reasonable way leading small-scaled producers to larger business without exploitation of labor, the process of formulation of collectives was strengthened to be conducted in every economic branch in the past.

By 1975 there were 17,000 agricultural cooperatives in the North. They had a relative small size. 60% of them had less than 60 hectares of cultivated land and involved less than 100 households-members. 30% of them cultivated 100 to 200 hectares of land and included 100 to 300 households-members. Agricultural cooperatives played a substantial role in production and in rural development in the war time. They were responsible for all production organization in rural communities, mobilized and supplied agricultural products of low prices and human resources for defence and also industrialization. They organized social insurance, education, health care, infrastructure building in locality and even distributed charity funds for some social groups and took care of family planning, health care of women and children. In fact they functioned not as pure economic units but more than that, as socio-economic competent units whose power was stronger than the village's governmental administration.

This model of the agricultural cooperative could solve very well problems of social security and equity in rural



communities, but it had not created economic motivation to peasants. Here was a "vicious circle" of a low developed economy: poor economic output - uniform distribution of income - loss of economic motivation - poor output again.

After 1975 efforts were made to apply the North's pattern of agricultural collectivization in the South. In the middle of 1980s there were established 1,518 agricultural cooperatives with the average size of 312 hectares of cultivated land, 519 households and 1000 workers. There were also organized 9,350 mutual aid teams with the smaller size of only some dozens households. The massive collectivization was not based on the voluntary wish of peasants and the economic affectivity caused negative effects on social life in rural areas. Peasants lost motivation on intensive cultivation and investment. During 1976-1981 food production in general remained stable and didn't exceed 15 million tons annually, so that the State had to import a considerable amount of food for sufficient supply. Various cooperatives collapsed in the Mekong delta.

The contract system widely applied in agricultural cooperatives since the end of 1980 had contrary effects to the cooperative economy. On the one side it stopped immediately the dispersion process of cooperatives, because it reformed distribution system in cooperatives and restored motivation of peasants. On the other side it led to deeper privatization of production and business whose inevitable consequence has been a reduced role of cooperatives in economic and then social life of rural communities, during which households have been possessing more and more business decision-making positions.

In such new circumstances many agricultural cooperatives could not function as economic units. Some of them equitized themselves, others still exist doing a few of economic activities.

Like in agriculture, the collectivization of small-scale producers and traders was carried out in industry, handicraft, trade and other economic activities in the North since the 1960s and in the South after 1975. By 1988, in the whole country there were 32,034 collective units in industry and handicraft involving about 1.2 million workers and producing 23.9% of total industrial output value. There were about 15,000 goods and drug stands of collective stores whose share in the total retail value of commerce was more than 20%.

Compared with the collective sector in agriculture, which played the absolute primary role in this branch, the collective sector in industry and other branches possessed only a secondary position in the so called "two-store economic structure" where State enterprises with their advantages in capital, technical equipment, skilled labor and material supply possessed a leading position. The collective units mainly acted as intermediaries for state enterprises by producing simple items, spare parts in industry or acting as retail agents in trade and services. They used to exist and to extend their business under state subsidy policy. A part of subsidies was received directly in forms of credit with low interest rate and raw materials with low prices. The other part was granted indirectly through benefits from realization of contracts signed with state enterprises .

The policy changes before 1989 had not any negative effects yet to the growth of the collective economy, because the state subsidy system had not been lifted and it guaranteed a stable supply of raw and other materials at the State's fixed low prices, and guaranteed consumers of the output of cooperatives. Moreover, market liberalization encouraged cooperatives to diversify their production assortment, and many of them could make big profit by selling products made from materials of the State's low price to the free market for higher prices.

With the cutting down of State's subsidies for State and collective enterprises (by low interest loans and low price materials) and putting all businesses into free competition in the market in 1989, the collective economy has significantly depleted. Various cooperatives had have to be eliminated or privatized. Compared with the most prosperous year 1987, by 1991 the number of collective industrial units has decreased by 70.7% , the number of collective workers has decreased by 72.3 % and output value manufactured by this sector has decreased by 70%. The proportion of output of the collective sector to total industrial output value has decreased from 27.1% to 6.8%.

The similar situation has happened with the collective economy in trade, services and other branches. During 1986-1991 the ratio of retail goods and service value of cooperatives to that of the whole trade branch has decreased from 14.6% to only 1.8%.

So, after many years of expanding its activities in most economic branches, the collective sector has currently fallen

into crisis. The most part of its economic resources is transferred to the private economy. Previous collective small-scale producers have returned to become private small entrepreneurs or hired workers. In spite of the State's statement on its important role in the long-term development of the socialism-oriented economy, this sector still has been stagnating and searching for a realistic way to develop.

#### *1.2.1.4. The private economy*

*a/ In the countryside* where the inhabitants make up 80% of the country's total population, the process of privatization is going on rapidly. On the new policy the household is considered to be a self-governing economic unit, this role having been solely performed by the agricultural cooperative in the past. This change has given rise to a series of major socio-economic transformations in rural areas. New relations concerning the use and location of land have taken shape according to which land is to be apportioned to farmer households for a long period of time (wet paddy land usually distributed by village power to farmers for 15-20 years, forestry land for 50-70 years depending on the kind of cultivated trees). The role of organizing the labor and deciding on business undertaking which formerly belonged to the cooperative is now transferred to every farmer's household. The buying and selling practice between the farmer's households on the one hand and the cooperative and state-run businesses on the other no longer bears an administrative character on a vertical basis but is now effected on an horizontal basis and based on market

principles, that is to say on an equal footing between partners. Except in high mountainous areas, the household economy in almost rural areas has been developed. This is expressed at least in the growth of agricultural production.

**Table 1.2 : Annual average output of agriculture**

	1976-80	1981-88	1989-92
Production of food crops (mill. tons in paddy equivalent)	13.3	17.6	22.2
Yield of paddy (tons/ha)	2.02	2.66	3.20
Production of food per capita (kg/year)	254	294	330

*Source : General Statistical Office, 1993.*

Rapid changes have also occurred in the domain of labor division, trade structure, forms of economic branches and services in rural areas to say nothing of emigration, transfer of labor, income differentiation. These things are very conspicuous in the areas adjacent to towns and cities and in the plains as well.

Thus, instead of the type of economy formerly centered around the agricultural cooperative area, in the countryside at present economic activities cover many individuals, households, collectives with the households playing the

essential part.

In spite of those progressive outputs the rural household economy is facing not few problems and challenges of future development.

Firstly, as a whole, rural economy in Vietnam remains agricultural, in which crop cultivation plays the principal role. Agriculture turns out about 75% product value and absorbs 80 % of labor force. Crafts and non-agricultural services are not popular activities of a wide number of households. While rural population increases quite fast with the rate about 2.5%, the scale of cultivation is strictly limited by available land. For each household with 4-5 members there is in average of only around 0.5 hectare of cultivated land. Thus the contradiction between supply and demand concerning rural labor still become worse. The part-time unemployment has wide currency among the rural population.

Secondly, the material and technical foundations in rural areas are still little developed. Construction of infrastructural projects was realized in the past mostly by the cooperative's concentrated fund and labor. Separate households are not able to extend this kind of construction, while local authorities lack budget and technical staff for encouragement of these works. In spite of larger State's investment in infrastructure (main roads, electricity net, irrigation systems), the backward state of infrastructure in most localities is a significant obstacle to rural development.

Thirdly, for transferring from wage workers in agricultural

cooperatives to self-governing producers, most people in rural areas lack necessary technological knowledge, marketing experiences, financial and technical means. Former cooperatives had advantages in providing technical services, material and financial advances to their members. Some of them could successfully extend non-food-crop cultivation, breeding and non-agricultural industries and services creating new jobs and income for their members. The fast decline of agricultural cooperatives created a gap in those kinds of supply in rural communities. The results of a survey on 4000 rural households in 5 provinces conducted by the General Statistical Office in the year 1989 showed that income of households doing plain agricultural production accounted for only 77.9% of income of those households doing various business and 54.5% of those households doing specialized non-agricultural business.

A series of measures has been made in order to support rural households to develop agricultural and forestry production, to diversify economic business and to generate income. The Bank of agricultural development provides credits with low interest rates to households. In many localities there were established peasant's revolving funds managed by social associations of communities. New collective units of production or trade and services have been created on a voluntary basis in order to concentrate financial and human resources of groups of people. The government has worked out a special development program of job creation. Thus, how to develop quickly more than 10 million households in rural areas still is one of the key questions of

development strategy.

*b/ In non-agricultural branches, a series of policies advocating the development of the private economy has been issued.*

At present there are no legal restrictions whatsoever concerning the founding and promotion of private businesses, irrespective of the scale of undertaking or of the number of hired labor and the latter are free to make use of their respective assets and profits after due payments of taxes. The only exception is that the State does not encourage private individuals to operate in the economic domains related to the national defence and social security such as weapons, explosives, mass media, overseas shipping, air communication.

In the above-said domains, the private individuals who want to engage in business undertaking must have a special authorization from the government (according to the law on private businesses promulgated on January 2, 1991).

With these policy changes to the private business, economic activities of the private sector became dynamic and are growing fast. There are two kinds of businesses to be distinguished : a/ private companies (or enterprises) which are registered by the governmental administration and have juridical personal right ; b/ familial (household) and individual businesses which usually are small-scale and belong to the informal economy.

Up to the end of 1993, there are 4212 licensed private enterprises with total capital valued at 2217 billion



vietnamese Dong (US\$ 210 mil.). Most of the private enterprises have been established and are operating in the biggest urban centers. There are 1796 enterprises operating in industry, 389 in construction, 27 in agriculture, 12 in forestry, 58 in transportation, 1804 in trade, 82 in housing and public services, 33 in scientific research. According to these statistical data, the average scale of one enterprise is still small. The average invested capital per enterprise is 98 mill.vietnamese Dong (US\$ 8,900) accounted in the whole country. The total property per enterprise is valued 526 mill.vietnamese Dong (US\$ 48,000). Among the number of 4212 enterprises there are 731 enterprises (17.3%) owning less than 50 mil vietnamese Dong of capital (US\$ 5,000), 1141 enterprises (27%) owning up 50 to 100 mill. vietnamese Dong (US\$ 5,000-10,000), 949 enterprises (22.5%) owning up 100 to 200 mill. vietnamese Dong (US\$ 10,000 - 20,000), 821 enterprises (19.5%) owning up 200 to 500 mill. vietnamese Dong (US\$ 20,000 - 50,000), 283 enterprises (6.7%) owning up 500 to 1000 mill. vietnamese Dong (US\$ 50,000 - 100,000), 96 enterprises (2.3%) owning up 1 to 1.5 bill. vietnamese Dong (US\$ 100,000 - 150,000), 41 enterprises (0.97%) owning up 1.5 to 2 bill. vietnamese Dong (US\$ 150,000 - 200,000) and 180 enterprises (4.3%) owning more than 2 bill. vietnamese Dong (US\$ 200,000).

Value of properties owned by these registered private enterprises consists 3.4% of ones owned by all non-state businesses.

In recent years, private businesses have rapidly expanded in the domain of trade and service. In 1985 the number of

private traders stood at 636,800 persons and in 1991, as many as 891,900 were registered as such. The proportion of the private sector in the retail sales of trade increased from 41.2% in 1985 to 73.1% in 1991.

In industrial production, private enterprises have not yet operated on a stable basis. This is clearly evidenced by the following figures: in 1986 there were altogether 565 private enterprises; in 1988 only 318 operated; in 1989 they increased in number to reach the 1284 mark; in 1990 this number decreased to be only 770; and in 1993, as mentioned, it increased to 1796.

However, the number of households engaged in small industries and handicrafts have continually developed their activities and their number increased accordingly. In 1988 there were only 318,557 units of this kind and in 1990 as many as 376,930 units were registered.

According to a field survey of 1008 businesses in five provinces (among them 80 % are private) conducted in 1991 by the Ministry of Labor - Invalids - Social Affairs, the following figures were made available.

In both urban and rural areas, about 60% of private businesses were founded from 1988 to now. The average number of laborers working in a private business in urban centers was 13.7 persons, of whom 11.4 were hired workers. They produced annually a value added of 12,600 US dollars. Family-based businesses have a smaller scale; on an average

4.8 persons work in such a business, of whom 3.7 persons are unpaid household members. The value added recorded per annum is about 3,600 US dollars.

Half of private businesses in three major cities, namely Hanoi, Hochiminh City and Haiphong, have been founded with each an average capital investment of over 6,300 US dollars, while nearly one half of family-based businesses have operated with assets each valued at less than 900 US dollars. In the countryside, private businesses are much less in size compared with those in urban centers.

These data show a not very big gap yet between a so called private business (company) and a family-based business (household and individual economy).

If private industrial businesses do not gain a rapid development, it is due to some causes.

First and foremost this is an unstable macro-economic environment (high inflation rate, unsteady money circulation, restricted credit, unstable pricing). Investment in trade and service in this environment would be more effective and it needed only a certain amount of capital, especially fixed capital not as much as to invest in the production.

Secondly, the encouraging measures of the State is still limited in the legal area. Due to limits of financial resources banks did not to be able to give loans to private enterprises with a long-term period. The most of private enterprises operate based on their owned capital. The number of those which borrow loans from bank for business purposes is

limited. According the survey of 300 private enterprises conducted by the Central Institute of Economic Management in 1991, only 8% enterprises in Hanoi and 18% enterprises in Hochiminh City have got bank credit. On the other hand, the collapse of credit cooperative system in 1990 caused by swindles of some private businessmen and lack of State control on the financial market and bankruptcy of some dozens private enterprises in Hanoi, Hochiminh City were a bad reputation of private economic sector in the its beginning booms.

Thirdly, another factor limiting the private sector's development is the competition of foreign goods imported officially and unlawfully (smuggling). Imported goods have gained a competitive advantage in the internal market through their better quality and lower price compared with domestic goods based on backward technologies and equipments. In 1992-1993 a severe control against smuggling and a readjustment of tax on imported items have been implemented. These measures have begun positively to effect the development of domestic production.

The family economy, though having low productivity, has rapidly expanded as it offers good possibilities for creating jobs and providing a decent income to the poor people. It produces with the raw materials abundantly available in the locality and sells its goods and services right on the local market (60-80%) and moreover it requires a little capital investment. It seems that it can ensure an immediate subsistence for the population rather than to provide ways and means for the latter to get rich and have a stable future.

In the long-term future the native private productive entrepreneur may be a dynamic engine of economic growth in Vietnam, but up to now they have not been a very strong force.

The Vietnamese economy is still at a low level of development. Annual GDP per capita is around 200 U.S.dollars. The savings of the population are not low and the number of persons who can save big capital is limited. According to some Vietnamese economists the value of savings of the population could be estimated at around 1 billion U.S. dollars, of which 400 million are reserved in gold and foreign currency, 300 million in vietnamese currency, the rest in real estate. In order to make people confident when providing capital to private business, the State has to build a supportive business environment, including improvement of macroeconomic policies, establishment of a more appropriate legal and regulatory framework, improvement of financial and banking systems and also provision of necessary infrastructure and services. Those works will certainly not be conducted overnight.

#### *1.2.1.5. The State-private joint economy :*

In the centrally planned economy, economic units have mostly vertical relations with their administrative organizations. Their horizontal economic relations were not developed because almost buying-selling operations were planned before-hand.

In the mixed economy, horizontal relations between enterprises become the main ones. In order to obtain the

highest effects it is necessary to destroy isolation of enterprise, of economic sectors. The state-private, the state-cooperative and the state-cooperative-private corporation should become one of the basic formula of organization production and business units in the diversified economy.

In the reform practice, the State has been encouraging joint-ventures of State enterprises with businesses of other ownership forms and seeing them as an effective tool of the State's regulation to the economy of non-State sectors. In 1988, the decree of the government on the joint business and economic integration accepted officially and stimulated diversification of domestic joint-ventures . At the same time the law on foreign investment defined the joint-venture as one of three main forms of business organization.

Although the joint business is a wide-spread feature in the current economy and in the economic policy it was called as a separate economic sector (the State capitalist sector), in the practice usually it's considered by policy-making authorities as a form of business organization and getting not enough attention. Nowadays, it's difficult to assess the scale and level of the integration between State and private economy. Effects of this integration on the State and on the private one are poorly studied and recognized. However, even this kind of business will be the main in the future mixed economy.

### **1.2.2. Switch-over to the market economy:**

The process of switching to the market economy from a

centrally planned economy in Vietnam has gone through the following changes in policies:

*1.2.2.1. The changed roles of plan and market:*

In the countries involved in a centralized planning economy it is of general conception that the market could not guarantee a sound distribution of resources and wealth in society and could not either regulate in a fair way the process of economic development, therefore the State has to shoulder the mission of calculating and organizing optimal plans for that distribution, starting by the distribution of production resources and ending with the distribution of consumer goods and services to each individual. Given the fact that the State directly engages in making investment for development and defines by regulations nearly all economic activities, the market and the private sector play a secondary role in the economy and the function of regulation does not need to become a primary function of the State.

The State realizes its overall intervention in the national economy through a system of centralized planning. In Vietnam, this system took shape right in the 1960s and was expanded during the war years. It contained two specific traits:

First, almost all the activities of the State and collective economic sectors were carried out according to the orders and instructions given from above, i.e. from State authorities through a system of directive targets. These targets would go into details about what goods should be manufactured, what output to be achieved and indicate where the producers would

get the supply of the materials needed for their production and what business establishments the producers should sell their goods. The State organs were held responsible for the allocation of funds to be invested in new constructions, and in the renovation of machines and equipment for enterprises. They would fix the prices for the products made, determine the number of personnel working in each State-owned enterprise, the level of wages and salaries they got and even see to the arrangement of the board of management of the enterprise. The enterprises would have the responsibility of fulfilling the production targets assigned to them within the scheduled time, with strict economization of outlays. The greater part of profits obtained by the enterprise from production would be delivered to the State budget. In case of any loss incurred, they would receive financial aid from the State to make up for it. In short, the State became a huge corporation monopolizing the supply of main materials and securing the sole right to trade in almost all the commodities. The State-owned enterprises would perform the sole duty of producing what were ordered by the State, thus having no right whatsoever in terms of financial autonomy and organizational self-mastery.

The advantage derived from that planning system lay in the State's capacity of concentrating all the human and material resources of the country on the implementation of several its key objectives. This advantage found its fullest expression in the war-time period and even in a certain period of intensified industrialization.

The greatest disadvantage of that planning system lay in the fact that there was not any motive force inspiring



collectives and individuals to greater efforts in their economic activities. In the centralized planning system, national interests were considered to be the motive force to ensure all the balances in planning. But the national interests didn't coincide at all times with individual ones, thereby becoming just a wishful thinking on the part of the leading bodies. On the other hand, in the centralized planning system, the responsibility of decision-making authorities and individuals wasn't closely bound to the consequences of their decisions. This led to the fact that managers and workers didn't pay concern for the success or failure of their respective undertakings. The said planning system didn't create a suitable environment for promoting the creative initiative of the masses and the competitive spirit among collectives and individuals.

Second, the planning system and cost accounting were based on predetermined quotas. Prices, wage and salary, rates of exchange were calculated on the basis of several surveys and reports of enterprises.

The advantage of this planning system lay in ensuring stability of prices and social welfare for workers and employees. But this was also its disadvantage. As the system was aimed at maintaining stability in the price and wage fixing system, people would show reluctance to change and regulate prices and wages because this would create complicated questions and require much time for it. Thus, prices and wages didn't reflect the supply and demand relationship on the market, thereby not playing the role of regulating production. Moreover, a planning system worked

out to the smallest detail would cause much hindrance to the economic mobility and make it react not lively enough to the rapid changes in supply and demand. It would result in the non-satisfaction of the needs of consumption of the population and in the scarcity and shortage of goods and services on the market.

The process of economic reform must start from the planning link. The loosening of legally issued plans and the tendency to provide more rights for businesses to operate freely without having to obey legal orders and introductions would lead to a fundamental change in economic planning and to an acceptance and expansion of market relations. From 1987 onward, the State made an official decision to shift State-owned enterprises to those which would be held responsible for the results of their undertakings. It redefined the right to intervene in business activities by its various managerial levels and altered planning system (Decision No. 217 HDBT dated November 14, 1987 of the Council of Ministers).

The State has considerably minimized its intervention in the business activities carried out by production establishments. The State management with regard to the economy consists in the elaboration of the system of laws and regulations and in the making of macro-economic policies. The State would decide on the problems of strategic character and assume the responsibility of ensuring a balanced development of the whole economy. Businesses and private individuals have the right to self-mastery in making decisions on their own undertaking. With the State loosening its intervention in

business activities, the planning system has shifted from the character of directive orders to the indicative one. If formerly planned targets were assigned vertically from the central level down to the local one and to every enterprise, now business are authorized to work out their own production plans based on the targets bearing only an indicative or suggestive character laid down by the central planning bodies and they devise a proper scheme for their operation based on the market supply and demand relationship. The abolition of the State planning system was accompanied by the reduction and final abolition of State subsidies to businesses through the allocation of funds for investment in capital construction and loan of liquid asset with preferential treatment conditions, through the sale by State organs of low-price materials and the compensation for the losses incurred. Since 1989, all the businesses have operated according to the market mechanism. The budget of State-owned enterprises was separated from the State budget and businesses become self-supporting financially.

Collective-managed enterprises have ceased operating as such from the mid-1980s. They are no longer supplied with low-price materials for the input into their undertaking and are not bound to sell their goods to the addresses listed by State organs as in former times. As regards the population, the distribution of necessities of life (food, foodstuffs, cloth) in fixed quantities and at low prices was also abolished in 1985. Thus, the business establishments and the inhabitants have been shifted from the supply and exchange system according to a State planning system to the free market relationship.

### *1.2.2.2. Price reform:*

Transition to the market economy started in Vietnam even with the price reform. Ideas on abolition of the large gap between the State fixed price system and free market prices have led to several price reforms in 1981, 1985, 1987 and finally 1989.

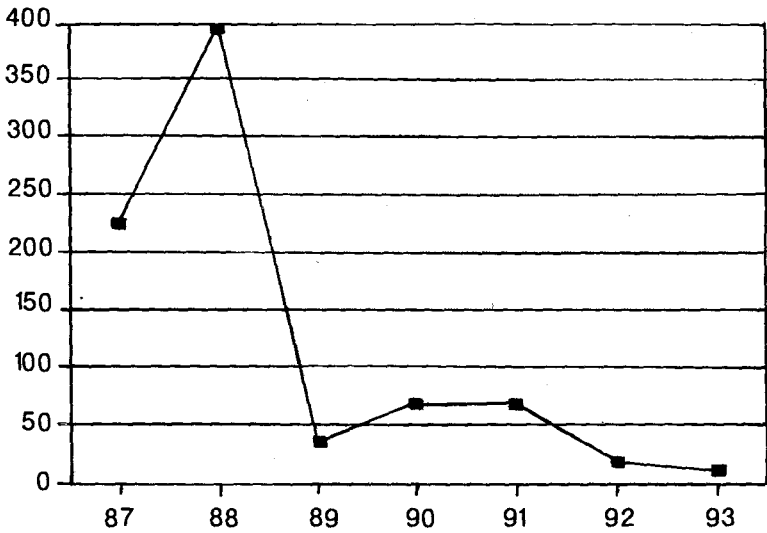
Prices have been no longer fixed by the State since 1989 except in the case of several items such as electricity, coal and cement used for major construction projects of the State. As from 1991 onward, only the price of electricity has been fixed by the State.

Domestic market prices have got closer to world market prices in spite of the fact that Vietnam's economy has suffered serious impacts on its prices from the Gulf crisis and from the disintegration of the CMEA in 1990-1991.

The decentralization of the price decision-making process and introduction of the market price system have been improving the balance of total demand and supply in the national economy and between its regions, encouraging the fast extension of commodity production and external economic exchange. However, the system of price management shifted from the extreme of total State-monopolized control to the counter extreme of absolutely free establishment and changes without any State's intervention. A weak adjustment to price of some main goods like rice and gold have been realized through State specialized trade enterprises and the system of national reserves. Therefore some failures of the market price mechanism, like a big range of fluctuation, and an unfavorable

Figure 1.1.

ANNUAL INFLATION RATE  
(PER CENT)



tendency of price change of agricultural products against industrial goods, etc. are not overcome (See figure 1.1).

### *1.2.2.3. Reform of finance :*

In circumstances of elimination of external aid, a big share of budget expenditures distributed for social purposes ( health care, education ), defence , subsidizing production through low price of imported materials and equipment, etc., the State budget deficit increased and inflation boomed since the end of the 1970s. Therefore, the reform of the financial system in recent time put stabilization on the first priority level. The price-wage-finance reform in 1985 was the first idea of a comprehensive financial alteration orientated to decreasing the State budget deficit and inflation rate. The contents of this reform were the following :

- Cutting down the subsidies allocated by the State to enterprises through a low-price input of raw and other materials;

- A switch-over of commodities buying and selling from right prices fixed by the central government to a system of prices agreed upon between sellers and buyers;

- A reform of the wage system in the direction of eliminating the rations distribution according to fixed quantities of food and other necessities (called for short system of ration tickets and coupons) and a shift to free market. This aimed at raising the incomes of State workers and employees to such a level as it would compensate their losses caused by inflation in the past years;

- Readjustment of revenue and expenditure policy of the State budget so as to reduce step by step excess of expenditures and consequently curb inflation.

It should be recognized that owing to the shortcomings in the drawing up of the reform, the disunity of implementation and the inadequacy of means and ways, the reform as envisaged above could not bring about the desired results. More than that, it engendered a galloping inflationary spiral which made prices go up without restraint. As a consequence, the living standard of the population sharply declined, especially wage earners. Natural calamities caused successive crop failures in agricultural production in 1987 which rendered more precarious still the socio-economic situation and lowered considerably the national income. To my way of thinking, the only but very positive element brought about by this reform was the eradication of the system of budget subsidies by the State to the businesses which must be compelled to make themselves operate at a profit and become dynamic in finding best ways and means to secure profitability for their undertakings, and this, for their own survival. The efforts made so far by the businesses have helped restore the declining industrial production, push ahead trade and services in and effort to rapidly adapt to the market economy.

Since 1988-1989, the national financial policy has been renovated in the direction of actively mobilizing personal savings in the country, of reorganizing the taxation system so as to secure more receipts to the State budget, of separating the national finance from that of businesses in the

State economic sector and of cutting down a number of areas of spending by the State in order to reduce budgetary deficits.

**Table 1.3. Balance of the State budget**  
(mill. Dong)

Year	Revenue	Expenditure	Deficit
1976	9178	9413	235
1977	9043	9179	136
1978	9824	10099	- 275
1979	11033	11545	- 512
1980	11882	12003	- 121
1981	22787	26915	- 4 128
1982	56638	61233	- 4 595
1983	75044	77999	- 2 955
1984	111398	115448	- 4 050
1985(1)	25341	34610	- 9 269
1986	97912	120800	- 22 888
1987	425778	514937	- 89 159
1988	2126368	2839719	- 713 351
1989	4970854	6671171	- 1700317
1990	8109000	9285000	- 1176000
1991(2)	10613000	12081000	- 1468000
1992(3)	18970000	22815000	- 3845000

(1) New money (the money was changed in 1985).

(2) From 1991 does not include foreign loans.

(3) Estimated.

*Sources : General Statistical Office 1993.*



The foremost problem is to increase physical amounts of the **State revenue** and to change its structure.

**Table 1.4. Structure of revenue in State budget**  
(percent, total revenue = 100)

	Total	Domestic sources			Foreign sources
		From state enterprises	Industrial & trade tax	Agricult. tax	
1976	55.2	44.0	4.7	2.5	44.8
1977	65.5	53.6	5.0	2.5	34.5
1978	68.0	55.1	4.5	2.9	32.0
1979	59.2	47.4	4.3	2.6	40.8
1980	61.1	41.7	7.0	3.7	38.1
1981	77.5	60.2	8.9	2.7	22.5
1982	71.2	53.1	7.9	4.4	28.8
1983	78.4	55.7	12.2	4.2	21.6
1984	86.3	61.1	11.2	3.9	13.7
1985	74.9	58.0	7.7	2.7	25.1
1986	85.5	61.7	8.5	3.2	14.5
1987	89.8	66.9	8.9	2.9	10.2
1988	82.7	55.5	8.6	6.4	17.2
1989	78.4	48.1	8.6	6.2	21.6
1990	77.1	53.5	8.2	3.7	22.9
1991	95.0	69.2	8.9	6.7	5.0
1992	97.0	68.3	8.7	6.6	3.0

*Sources : General Statistical Office 1993.*

Before 1989 *taxes* were collected in the non-state economies. Two main kinds of tax are the agricultural tax based on quantity and quality of used land and the industrial and trade tax based on turnover of the activities of collective and private businesses. For the state sector the most part of profit and a part of turnover (depreciation fund) were withdrawn into the State budget.

The taxation reform has been conducted as the first and main step of the whole financial reform. One of it's economically most important tasks is to eliminate the administrative supply-withdrawal system of state enterprise finances and to build a new acceptable tax system used for every business. New tax laws have been promulgated and included the following kinds of tax :

- Agricultural tax collected only in agricultural cultivation. There is on going discussion in the National Assembly on the new draft law of the agricultural tax, in which the current agricultural tax would be broken up into two forms : land tax and agricultural turnover tax.

- Turnover tax .
- Profit tax.
- Special commodity tax (on cigarettes, alcohol products).
- Import-Export tax.
- Tax on using and exploiting natural resources.
- Tax on housing and land use.
- Personal income tax.

Despite a slight increase in the latest years, tax revenue

still remains extremely low (only a little more than 4.5% of GDP) compared with other countries in the world. There are still a lot of demerits of the current tax system which have to be continuously overcome.

Firstly, the theoretical basis of taxation including its major principles like equity (horizontal and vertical), incidence, structure, effects on production outputs, on consumption and savings, on behavior of people's life, etc. has not been clearly defined. There are different demands on the taxation system raised by different groups of people who are responsible for taxation policy and financial policy making, such as members of the National Assembly, governmental financiers and local administrators. And there isn't a common criterion yet.

Secondly, as a result of lack of a theoretical basis, the current tax system doesn't take in all possible subjects and sources of taxation, some kinds of tax are not enough reasonable. The typical case is the turnover tax which based on the repeated taxation of product value. The value added tax is now discussed as a possibility, along with conditions for its implementation.

Thirdly, effects of the current tax system on economic outputs, and social consequences, were not enough investigated during its preparation, so that it needed frequent readjustment. That created an unfavourable environment for business, saving and consumption behavior of people.

Another problem is to adjust *State expenditures* in order, on one hand, to cut down the budget deficit, and on the other hand, to create a more reasonable structure of public expenses.

Since 1989, the structure of current expenditures has been fundamentally changed. Subsidies for State-owned enterprises

and other forms of State subsidies for production and exports-imports have been significantly cut off. The State's economic investment outlays are also decreased, notwithstanding higher requirements for improvement of infrastructure and enlargement of the "key" industries .

The share of funding for health care and education remained as before, but it can not satisfy increasing demand due to the high growth rate of population. Hence, it may be well-grounded to estimate that those expenses would be increased.

**Table 1.5. Structure of expenditures in State budget**  
(Per cent, Total current expenditure = 100)

	<u>1985</u>	<u>1988</u>	<u>1989</u>	<u>1991</u>
Wage and salaries	3.6	11.8	25.6	20.2
Subsidies	38.4	37.5	-	-
Food procurement	34.2	22.4	-	-
Production	2.0	2.3	-	-
Exports	2.1	12.8	-	-
Interest	1.1	1.2	14.0	12.2
Other	56.9	49.5	60.4	67.6
Working capital for SOEs	7.3	4.0	2.5	-
Administrative Expenses	4.4	1.4	1.3	2.4
Medical and social benefits	2.5	2.2	2.5	4.3
Education and scholarship	4.3	1.7	1.6	3.9
Operation and maintenance	7.7	3.7	4.9	4.3
Residual	30.7	36.5	47.6	52.7

*Sources : Ministry of Finance 1993.*

The wage reform conducted in the State sector since 1993 will certainly increase budget expenditures because it is suggested to include, fully or partly, housing expenses, health insurance fees, old-age pension insurance fees, education expenses and others, which were previously subsidized directly.

It seems that the structure of budget expenditures will be more significantly changed in some future years. It's uncertain yet how the Vietnamese decision-making authorities will choose priorities among economic investment and welfare .

The further problem of the State finance is to cut down *budget overspending*. During the period of 1986-1989 the rate of budget deficit was not less than 5 % of GDP. This deficit was generally financed by the two measures - emission of new paper money and borrowing. The first occupied a great part, therefore high inflation was strengthened. The borrowing measures covered about 40 % of the deficit only. High attention wasn't paid to domestic sources. The main part of borrowed funds was from external sources, especially from the former Soviet Union.

In 1989 Vietnam's external debt reached about 3.4 bill.U.S.dollars in convertible currency and 10.5 bill. transferable roubles to the CMEA area. Large amounts of external debt in convertible currencies were contracted in the post-war period of 1976-1979, mostly to imports of food, fuel and needed materials and spare parts for reconstruction. The most of external debt is medium and long-term, only 1.1 bill.U.S.dollars are short-term. In the last time with the

increased exports Vietnam could wipe off a part of short loans and interest, so that up to now the total amounts of external debt remains at 13.5 bill. U.S.dollars. In comparison with the annual export turnover Vietnam is of among countries having heavy external debt, though its absolute sum is not big.

Since 1990, the State minimized the circulation of new paper money for financing the budget deficit. It circulated State treasury bonds for borrowing from domestic sources. Thanks to the increase in exports and also the cutting off of external loans, the debt/export ration has been reduced significantly and Vietnam could be clearing a part of urgent debts.

In the coming period Vietnam intends to seek more opportunities for borrowing, but at the same time the State control over external loans and debt clearing must be strengthened. On the other hand, measures orientated to consolidating the activities of the State budget, and to reducing non-urgent and unreasonable expenses, have to be implemented in order to restore the budget balance and hence to stabilize the economic and social environment.

The fourth problem of the financial reform is *restructuring the national financial apparatus and management*. Vietnam's financial system operates with two tiers - central and local. At the local level there are three jurisdictions - provincial, district and village (in the countryside) or quarter (in urban areas). In total, fiscal operations are carried out by the central government, 53 provincial, more than 450 district and thousands of village (quarter) jurisdictions.

In the war-time and in the centrally planned system, financial decision-making power was strictly concentrated at the central level. Current policy reforms with decentralization and liberalization tendencies have strengthened the decentralized tendency of the financial system too. There is a certain competition between local jurisdictions and central government for control and distribution of budget revenue. The clear division of fiscal responsibility has not been determined. The rules of fiscal operations are still very lax, so that every jurisdiction and every competent persons can modify them.

It should be necessary to solve problem of the balance between, on the one hand - decentralization which stimulates flexibility and dynamism of local jurisdictions, and on the other hand - the need to establish one "strong" central State which obtains enough financial power for encouraging and regulating development.

A draft of the public finance law is currently being worked out. It should include orientations and resolutions for restructuring the whole financial management apparatus.

#### *1.2.2.4. Reform of the banking system :*

Until 1988 there were 3 State-owned banks in Vietnam :

- The Central State Bank : played both the roles of the central emission bank and the commercial bank. It provided supervision on money circulation (including the emission of money), receipt of deposit and supply of short-term loans, and services of payment.

- The Bank of Investment and Development: was

responsible for provision of financial means for long-term public projects.

- The Bank of Foreign Trade: provided loans and payment services for all international economic activities, including foreign currency exchange.

Because the net of the Central Bank extends only to district level, a big number (about 7500) of rural credit cooperatives usually of small size (in the frame of one village) were established to collect the savings of the population and to provide small loans to peasants.

This banking system and monetary policy were subordinated to the requests of national plan targets. The government paid little attention to the monetary balance. Long-term credits granted by the Bank of Investment and Development were planned by the Ministry of Finance, while the cash plan was separately worked out for receipt and payment operations by the Central Bank.

Since 1988 the reform of the banking system was initiated and the Decree on commercial banks and credit cooperatives was passed by the prime-minister on 1 October 1990 as the juridical base. The banking system has been restricted, divided into two categories: the Central State Bank and commercial banks. The latter have gained a rapid development. At first in addition to the two commercial banks that were already existing, two new ones were established :

- The Industrial and Commercial Bank,
- The Agricultural Development Bank .



These four state-owned banks have got primary funds from the State budget, but they have a duty to operate on a commercial basis.

Dozens of share holding banks were established in urban centers like Hanoi, Haiphong, Hochiminh City, etc. Some of them were based mainly on participation of State units, others on a mixture of State and private units, while others are entirely private.

At the end of 1990 the first joint-venture bank in Vietnam was established by Indonesian and Vietnam banks. Nowadays around 20 foreign and joint ventures banks are operating in main cities of Vietnam. In total about 50 domestic and foreign banks have been registered and are operating in Vietnam.

In 1989-1990 there was an epidemic of establishment of urban credit cooperatives. More than 300 such cooperatives operated already in the beginning of the year 1990 and controlled deposits of 400 billion VN Dong, equal to 100 mil. U.S. dollars. In competition with the State saving offices, with saving mobilization conducted by private entrepreneurs and with each other, many of them attracted deposits by offering very high interest rates (up to 12-15 % per month). Moreover they operated like pyramid schemes. In the summer of 1990 a number of them went bankrupt and this led to the collapse not only of almost the whole system of credit cooperatives but also more than 2000 small businesses. Through this bankruptcy the form of credit cooperative and private bank has got a very poor reputation for depositors.

Thus, as a result of the banking reform, the commercial banking system changed very fast and become composed of trade and development investment banks, foreign banks' branches, joint-venture banks, share holding banks, credit organizations and financial companies. All the banks are now operating on a business and self-managing basis, thus gradually eliminating the system of state subsidization which helped apply low-interest-rate credits and putting into practice an interest rate relatively higher than the rate of inflation. The foreign currencies market also commences to take shape.

*1.2.2.5. Reform of monetary policy and counter-inflation measures:*

In early 1989, the monthly inflation rate was about 5 - 6%. To overcome this prolonged inflation illness of economy, since the March firstly the interest rate was raised to 9 % and became positive. It attracted strongly savings of population and businesses, therefore bank deposits increased in some times. Parallel with the sudden raising of interest rates , the State carried out a strict control of the expansion of bank credits and letting of state-owned businesses to remunerate their personnel in accordance with the results of their undertakings and other means. As results of those measures the galloping inflation was cut down. Although the danger of soaring inflation may recur at any time, it is quite obvious that from April 1989 to now, the rate of inflation in general has not risen at a quick pace as in the past. That is quite encouraging for the process of making reforms. (See the figure 1.1: Price Index).

At the same time with raising interest rate of bank deposits, the exchange rate was liberalized and depended of situations on the currency free market. Up to the March 1989 the exchange rates of the Vietnamese Dong had been devalued a number of times, but never caught up with inflation. Moreover, there were distinguished three official dollar exchange rates (for external trade, for inward remittances by Vietnamese living abroad, for non-commercial transactions such as tourism, remittances of foreigners) and two ruble exchange rates ( the transferable ruble used for trade with CMEA countries, the clearing ruble for non- commercial transactions). On March 1989 the three mentioned dollar exchange rates were unified and the rate applied to international trade was devaluated de facto from VND 900/ US\$ in 1988 to VND 4500/US\$ in 1989. The average exchange rate for transferable ruble was adjusted proportionately. Such changes strengthened the incentives for exports and imports greatly. They created also the fluent transferability between Vietnamese Dong and foreign currency inside country and brought down inflationary expectations of the general public, so that contributed to better price stability in the following time. The foreign currency market began to be established informally in two areas - among economic units and among population. Since 1992 the State opened officially two foreign currency auction markets in Hanoi and Hochiminh City which operate weekly and involve many economic units. The exchange rate connects tightly with inflation rate and demand-supply relation on market. The State intervenes in currency and

gold market through buying-selling operations of banks and some State specialized precious metal trade companies. This way of intervention has been effecting positively to regulation of gold price and exchange rate in 1992.

In this context, it's useful to note that in parallel with successes against inflation, regrettable mistakes were committed for lack of theoretical foundation and practical experiences in monetary policy-making. By now the State Central Bank acknowledges that Vietnam still hasn't a suitable monetary policy yet. Such problems as establishment and management of monetary market, determination of needed volume of paper money, demand and supply balance on monetary market, etc aren't resolved. As inevitable consequences of those, counter-inflation measures have given rise to declining production, employment redundancies which constitute the problems remaining to be urgently solved at present. In addition, the very high rate of interest in the beginning of 1989 had turned inflation into a shortage of circulating money in some periods.

In order to regulate inflation rate, the State keeps the right to define the interest rate of the State bank. It influences negatively on money business of the commercial bank system, because the interest rate can not be varied in dependence of money demand-supply relations.

The discussion on impacts of current money policy on export ability and competitiveness of Vietnamese goods in domestic market and problem of devaluation of Vietnamese currency is still going.

#### *1.2.2.6. Reform of the legal system:*

The system of legislation has undergone a gradual renewal to keep abreast of the market economy. There have been promulgated a series of legal documents such as laws on private businesses, on share holding companies, on foreign investment ,on banks and credit cooperatives and others relating to business activities in accordance with the principal spirit of the right of all citizens to do business reaffirmed in the 1992 Constitution of the country. These laws on business have created a legal basis for all economic activities in accordance with the market mechanism.

In the next few years, the State is going to continue to perfect the existing legal system and at the same time to issue new legal documents to fill gaps.

The land law is just amended and expanded in order to make it better suited to the conditions of market economy.

The civil code which is an important part of the legal system is currently being drafted.

To properly resolve labor relations and the benefits, rights and duties of economic units, owners of enterprises and employees, the labor code is being drafted too and will be adopted by the National Assembly at the end of 1993.

The law on State enterprises determining the legal positions and relations of these enterprises has been drafted some years ago, but not promulgated. In the near future it will be discussed and adopted.

The Ministry of Justice is paying more attention to studies

on the establishment of an economic jurisdiction agency, which should replace the existing economic arbitration agency, with the main task of attempting to reconcile disputes before they are brought to a law court. There are going to be organized several other essential institutions such as an auction agency, quality inspection department and legal consulting offices. Some foreign law consulting firms have begun to open branches in Vietnam.

Reforming the legal system is a complicated process . It combines two parallel matters : perfecting the law legal system and restructuring the administrative and justice system; both concern the entire political, economical and social systems from the central down to the *grassroots* level. Hence it should be done with thorough preparation and in successive steps.

#### *1.2.2.7. Reorganization of the economic management apparatus:*

The apparatus of economic management is now in the process of reorganization and betterment. The 1992 amended Constitution brings the operation of all organizations of the leading Party within the State law framework. Even such highest executive and legislative bodies as the government, the national assembly are being transformed in accordance with the provisions of this new Constitution. The National Assembly obtains more authority.

The administrations at all levels assuming the function of

State management have been subjected to necessary rearrangements with their staff cut down to the minimum but required to do work more efficiently still. The organs in charge of management of production or service branches must be reduced in number.

In the coming years the government planned to continue reforms in administrative apparatus in accordance with requirements of building a suitable juridical State.

### **1.2.3. Renewal of the industrialization and external economic policies**

The shifting of the development strategy from giving priority to the development of heavy industry to concentrating most resources on the promotion of agriculture, the production of goods for consumption and for export has brought about considerable changes in economic structure and given rise to a rather high growth in production. The total food output increased from 18.4 million tons in 1986 to 21.5 million tons in the year 1989 and more in the next years which made Vietnam change her status from a food-importing to a food-exporting country with an annual rice export of over 1.5 million tons. Although industrial production has suffered a temporary decline due to both internal and external reasons, it has also made a no small progress in the production of more varieties of goods and in the improvement of the quality of products, especially those for consumption. A higher growth in industrial production is being recorded since 1991 to now.

As a part of the economic policy reform, Vietnam has also undertaken decisive measures towards an outward orientation of economic policy. The open-door policy in trade relations with the world and regional markets has been effected through trade liberalization and export promotion by abolition of most import and export quotas, reduction or even exemption of tax, encouragement of the importation of raw and other materials necessary to production of goods indispensable to the people's life, to say nothing of exhortation to make non-commercial imports. The government has allowed a large economic unit engaged directly in international trade and negotiation with foreign counterparts. This has contributed a great deal to creating a big volume of goods available for exports and on the domestic market and restricting the rise in prices of commodities.

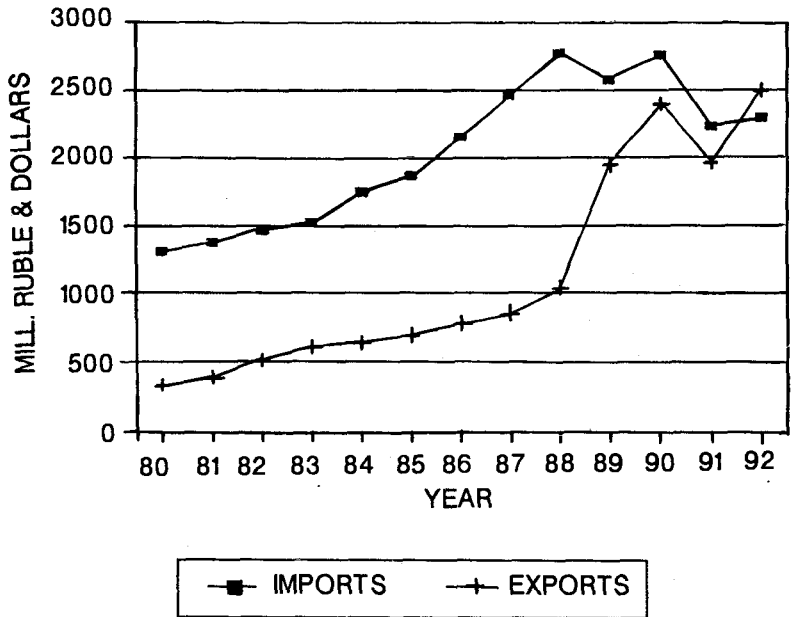
A change for the better is obtained in terms of international commerce. It should be recalled here that in the years 1986-1988, the deficit in trade balance was about 1.3 - 1.6 billion US dollars per annum. This figure had been gradually cut down in the years from 1989 and has been annulled in 1992. This is made possible thanks to the rapidly increased value of exports. (See figure 1.2)

The change of trading partners was a big shock for Vietnam's economy whose consequence could not be overcome overnight. In former times, trading with the countries lying within the rouble area occupied a proportion much bigger than



Figure 1.2.

### VALUE OF EXPORTS & IMPORTS



with the remaining part of the world. In 1986 Vietnam's exports value was 439 million rubles and 350 million US dollars. In 1990 the corresponding figures were 1111.5 million rubles and 1292.5 million US dollars. The disintegration of the Council of Mutual Economic Assistance (CMEA) has deprived Vietnam of an important export market. For that reason in 1991 Vietnam could only export 80 million rubles worth of goods. The increased exports effected toward the convertible area (reaching as many as 1890 million US dollars in 1991) could in no way compensate for the losses caused by that shock. Reverse processes have been also shown in the import trade of Vietnam with those two groups of partners. In 1986 Vietnam's imports from the rouble area countries were 1660 million rubles and 496 US dollars. The corresponding figures in 1991 were only 290 million rubles and 1950 million US dollars. After 1991 there is no more trade based on the rouble accounting.

These radical shifts in the direction of Vietnamese trade was confirmed with the increasing domination of Asian markets. In 1992, 79.4% of exports went to Asian countries and 77.5 % of imports came from those areas. At the same time, Western Europe was the market for 9.7% Vietnam's exports and supplied 14.9% of imported value. The former rouble area bought 8.6 % of Vietnamese exports and sold 4.9 % of imports. Among Asian countries, Singapore, Japan and Hongkong are playing the role of leading trade partners. The

share of these countries in the total export and import values of Vietnam are following (%): Singapore - 26.7 and 33.7, Japan - 20.0 and 7.8, Hongkong - 17.0 and 11.8.

In spite of the reorientation of trade, Vietnam is still hoping to extend trade relations with the former Soviet Union and Eastern Europe countries, because it is its familiar market for which a lot of Vietnamese production capacity have been arranged and can supply more than 1 billion US dollars of industrial and agricultural goods annually.

Along with diversification and expansion of foreign trade relations, the attraction of foreign investments has been considered to be an important reform policy. In December 1987 the new Law on foreign investment was promulgated. It is considerably more liberal than the previous foreign investment decree of 1977 in a number of aspects, such as wider range of activities permitted, fewer restrictions in ownership of foreign investors, lower tax rates and longer tax holiday, etc. In comparison with the similar laws of neighboring countries, it seems having a certain attraction.

Since the promulgation of this law up to the end of 1993, there are 836 investment projects with total registered capital of 7456.4 mill. US dollars licensed in Vietnam. There are more than 500 foreign companies from 42 countries and territories taking part on the investment in Vietnam. Realized capital consists about 30% of registered capital volume. (See table 1.6)

**Table 1.6 : Foreign investment in Vietnam  
( up to end of 1993)**

	1988	1989	1990	1991	1992	1993	1988-93
Registered capital							
(US\$ mil.)	366	539	596	1288	1939	2728.4	7456.4
Realized capital							
(US\$ mil.)	239	366	349	513	471	146	2084

*Source : State Committee for Cooperation and Investment, 1994.*

It could be said that the number of projects and volume of capital have continued to rise year after year. In 1992 alone, Vietnam granted licenses to about 200 projects to the value of 2.5 billion U.S.dollars, an increase by two times compared to the total capital granted in 1991 and equalling in value all the investments during the four years 1988, 1989, 1990 and 1991. The registered capital in 1993 increased 40% in comparison with 1992.

The average scale of a project was enlarged year by year. It was 3.5 mill. US dollars in 1988-1990, increased to 7.5 mill US dollars in 1991, 7.6 mill. US dollars in 1992 and 9.9 mill. US dollars in 1993. Small projects (less than 5 mill. US dollars) are winning a vantage position in the total number of projects (73%), but occupying only 12% of total registered capital.

The structure of foreign investment has been significantly

changed year by year. In the period 1988-1990, oil exploitation and hotel building were the field that involved foreign investment (32.2% and 20.6% of total capital). Since 1991 industry has been becoming more attractive field. (See Table 1.7).

**Table 1.7 : Structure of foreign investment  
by sectors**

	Number of projects	%	Registered capital (mill \$)	%
Total	836	100	7456.4	100
- Industry	454	54.3	3037	40.7
- Oil, gas	26	3.1	1237	16.6
- Agric., fishery	94	11.3	577	7.7
- Transport, post	22	2.6	446	6.0
- Hotel, tourism	104	12.5	1533	20.6
- Services	101	12.0	410	5.5
- Finance, banking	13	1.6	156	2.1
- Other	22	2.6	60.4	0.8

*Sources : State Committee for Cooperation and Investment,  
1994.*

It is quite obvious that many projects have the positive effects on socio-economic development. Up to now the enterprises with foreign capital have been creating more

than 45,000 jobs for the population. During last 6 years, they have produced goods and services valued 780 mill. US dollars. They have been increasing the volume of exports. Alone in 1993, exported goods and services from these enterprises were 170 mill. US dollars. The productive capacity of many domestic enterprises has been rehabilitated and increased. The quality of the system of infrastructural facilities has been improved significantly.

Although the Law on foreign investment has been considered to be rather attractive for foreigners, it is still not sufficient to attract many foreign investors because of the low standard of Vietnam's infrastructural facilities and lack of proper legal documents, of bureaucratism of the competent authorities. These hindrances will be surely overcome soon and it is expected that foreign investment will give a big push to Vietnam's economic growth in the next few years.

## CHAPTER 2

# ECONOMIC GROWTH IN THE REFORM PROCESS

The process of economic reforms unfolding successively in the 80's has created many changes in all domains of social life. Some positive effects have been recorded such as giving an impulse to economic growth and restructuring, but no few complexities would have the propensity to give rise to negative socio-economic consequences. Their causes were derived from both objective and subjective shortcomings and defects in the course of elaboration and implementation of reform policies.

With a view to realizing the effects of the economic policy reform on the growth rate, we resort to a comparative study of the growth rates concerning the two main targets namely: a/ national income (NI) which finds its full expression in the material production system (MPS) of statistics so far universally used in Vietnam up to now; b/ gross domestic products (GDP) which is mainly indicative of the system of national accounts of UN statistics and subjected to calculations and shifts during recent years in Vietnam. Both

targets have reflected the value newly created within one year of the national economy but owing to their dependence on different theoretical concepts of the origins of value and income distribution, they would differ in their sphere of implications.

The national income encompasses the value added only in material production branches while the GDP comprises the value added in all economic activities irrespective of material products or services. If we have to make use of both targets, it is because in Vietnam's statistics prior to 1986 there were not any data on GDP. In the following analysis, it is also necessary to carry out a comparative study of different stages in which different economic policies were applied.

## 2.1. THE GROWTH RATE OF NATIONAL INCOME

Figure 2.1 reflects the indexes of national income growths of the whole economy and of the most important fields namely industry and agriculture (1976 = 100 %).

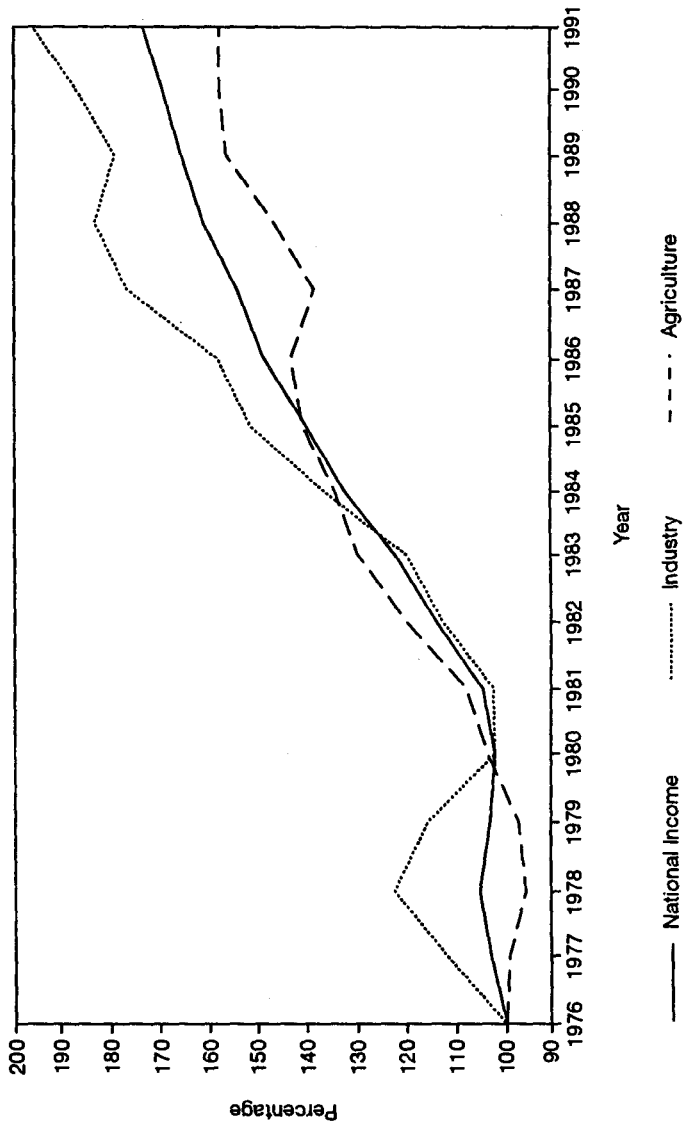
The following remarks might be given as an expression of the process of growth in the past:

1/ In general *the economy underwent some growth although its rate was not so high*. If the population growth was to be counted which was also rather high, the economic growth was just enough to compensate for the still-low needs of consumption of the population. Generally speaking, in the whole course of 15 years from 1976 to 1991, the national income had an average increase of 3.8% per annum; while the population growth was somewhat over 2% a year.

In consideration of the NI structure, both agriculture and



**Figure 2.1. : GROWTH INDICES OF NATIONAL INCOME**  
 (in percentage; 1976 = 100; in constant prices)



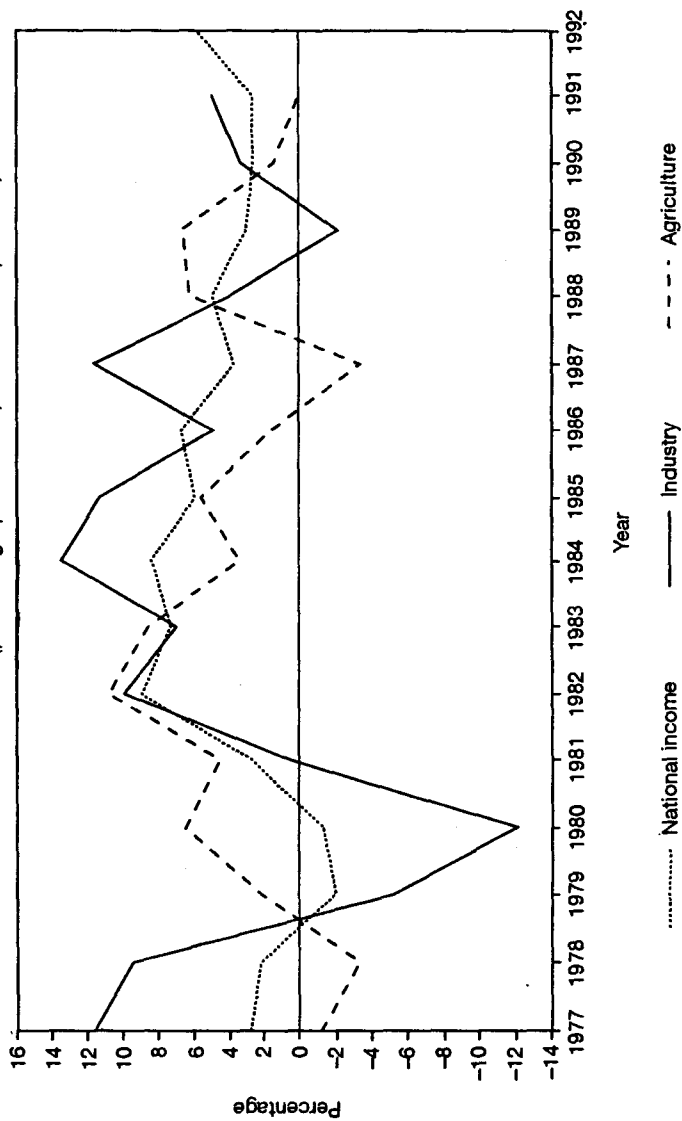
industry played an important role. Vietnam was and still is an agricultural country with a higher percentage of agricultural production in the NI than for industrial production. These percentages did not vary much. In 1976 industry accounted for 26 % and agriculture 50%; in 1991 their corresponding figures were respectively 23% and 48 %. So it could be said that 1 % of growth in agriculture doubly influenced the whole national income in comparison with 1% of growth in industry.

2/ The economic growth was not stable. There were periods of crisis: 1979-1980, 1986 and 1989-1990. It seemed that there had been a growth cycle in the sine-form diagram with a 4-5 year frequency rate that people might suppose to be a certain natural law or a "predestined fate" of the economy. The growth rate during the first years of the five-year plan periods usually rose gradually and reached its climax, then strongly decreased in the end (see Fig.2.2.). Therefore, if the causes were to be carefully analyzed, this phenomenon might be explained as follows.

The ups and downs of the economy were the effects of crises which would occur without any law and begin with the effect caused by external agents. Naturally it should not be forgotten that a low-developed economy always contains in it many sources of disequilibrium which could explode when a certain agent pushes them to the surface of the economy.

The 1979-1980 crisis took place as a result of a series of causes. Subjectively speaking, the shortcomings and defects of the central planning mechanism and state subsidy-based system which had long existed, were strongly decreasing the

**Figure 2.2.: GROWTH RATES OF NATIONAL INCOME, 1977 - 92**  
(percentage per annum; 1976 = 100 per cent)



productivity and effectiveness of economic activities. Worthy of note were the effects of agriculture. Successive natural calamities occurred in 1977, 1978 and 1979 which were no small factors contributing to weakening the production in rural areas. However, the sudden cut-down of the sources of foreign aid constituted certainly the direct agent engendering a serious decline, first and foremost in industry and consequently in the whole economy of Vietnam, which was a war-ravaged one for many decades on end and whose dependence upon the raw and other materials as well as consumer goods from foreign countries was clear

The second crisis in 1986 was due first and foremost to the failure of the Price-Wage-Money reform initiated in the end of 1985 which we have mentioned above.

A series of measures to make suitable reforms to adapt economic activities to the needs of the market and improve the monetary-financial environment were taken and effectively implemented in early 1989. The interest rates of the banks were raised and exceeded the index of inflation. Nearly all the goods and services were effected according to market prices (except electric energy, petrol and oil and transport freight still put under State price control). Rates of foreign currency exchange and prices of precious stones, gold and silver were allowed to float on the market. The State-owned businesses had their finance cut from the State budget, that is to say, they were held fully responsible for their undertakings and for their profit-and-loss account without any subsidies from the State. Restrictions by the State of the external relations by businesses with foreign

countries have been considerably reduced to the advantage of the latter.

Once the above measures were put into effect, the inflationary spiral was cut down immediately and this would make the Vietnamese currency stable , because a great quantity of money lying idle among the population was right away deposited in different saving banks. The businesses , both state and private owned, did not apply for credit loans as they had done formerly under the subsidy-based mechanism, because they had then to pay too high an interest rate. A reverse situation was observed on the market concerning demand and supply. From the status of a serious shortage of goods, there were enough necessities of life abundantly displayed on market stands, because the buyers did not hurry to buy as the prices were not so low as they had been in former times under State control. As the inflation was somewhat curbed to the advantage of purchasers, there was less tendency to speculation and hoarding of goods.

Nevertheless, the macroeconomic adjustment measures done in a "shock" manner engendered a third crisis in production, especially in the domain of industry and construction. The raising of prices to compensate for the input spending plus the high rate of interest exceeding the index of inflation made various enterprises face a strong shortage of circulating funds and the cost price of products rise enormously. In the meantime, the State's open-door policy did not see to the protection measures of home industry against foreign competition. Foreign goods were on display everywhere in shops and market stalls with prices

much lower than home-made ones , to say nothing of their much higher quality.

So the successes in curbing inflation and improving the financial and monetary situation had to pay their price resulting in the temporary decline in production and a higher rate of unemployment. The value of industrial output including both State and private suffered a steep decline. In 1989, the index of industrial output showed a decrease by 3.3% of which State sector reduced it's output by 2.5% and the collective and private sector by 4.3%. It should be noted that in 1990 the State enterprises could recover and expand its production, attaining then a growth rate of 9.6% but the collective and private ones still lagged behind with a decrease of 2.3% . For that reason, the total value of industrial production increased only by 4.5% in 1990.

The collapse of the (former) Soviet Union and the East European countries dealt no small blow to many Vietnamese enterprises which had been so far engaged in producing goods to cater for the needs in export to these markets. Not until 1991 could a number of Vietnamese industrial branches regain their stability and growth. However, the industrial growth has chiefly refereed to several products with low processing standards such as petrol, electronic assembly lines, etc.

Thus, the economic policy reforms have had a direct dual effect on growth and development. According to no law of development experience reforms would likely break off the stability of growth, especially when "shock therapies" were resorted to, but it would also compel the economic structure

to change accordingly so as it adapt to the new mechanism. In Vietnam, both aspects had happened but they bore no clear features and stood at a level which seemed to be not so acute as those which occurred in the East-European countries and the (former) Soviet Union, because the reforms in Vietnam, as above said, has borne the character of a "trial-and-error" process.

3/ The average annual growth rates of the economy in various five-year plans have been clearly indicated in official statistical data made available by the General Statistics office of Vietnam. These targets were often used by many people to make a comparative study of the achievements made in period covering each five-year plan.

**Table 2.1 : Annually average growth rate  
of some main indicators (per cent)**

	1976-80	1981-85	1986-90	1991
Average population	2.33	2.26	2.0	2.1
Gross social output	1.4	7.3	4.8	3.2
National income	0.4	6.4	3.9	2.5
Gross domestic product	-	-	-	-
Gross industrial output	0.6	9.5	5.9	5.3
Gross agricultural output	1.9	5.3	3.6	-0.1
Exports	11.0	15.6	28.0	-8.1
Imports	6.4	7.2	8.2	-8.1

*Source : Statistical data of Vietnam 1976 -1990,  
1986-1991. Hanoi, 1991, 1992.*

If these figures were to be taken into account for a comparative study, we would find out a phenomenon which seemed to be paradoxical with regard to economic reforms : With the exception of foreign trade, all the figures for production growth in the latter half of the decade were inferior to those in the former half. For instance, the value added of the material production (NI) increased on an average by 6.4% in the period from 1981 to 1985 but only by 3.9% in the period from 1986 to 1990. Until 1991, this figure stood at 2.5% only. It would seem that economic policy reforms were conducive to a considerable reduction in economic growth.

This phenomenon could be explained as follows. When making use of average annual growth rates, the figures of the year taken as the basis of the whole period bore a great significance. In reality, attention must be given to the fact that 1980 was the year in which the economy was at the bottom of the 1979-1980 crisis, thereby all economic figures attained being very low. For that reason, when taking 1980 as the basis year for calculating the average rate of growth of the period 1981-1985, the rate obtained therefrom would be relatively high.

In the comparative study of the annual growth rates, we hold the opinion that the figures in figure 2.2 (which shows the annual rate of NI and of industrial agricultural production) reflect more accurately the direct effects of policies on the economy. The lower growth rate of the 1986-1991 period had originated from both the reforms of policies (1989) and from the external causes of crop failure (1987) and of the



disintegration of the Soviet Union and East European countries (1990-1991).

This was in fact a remarkable result succeed in maintaining such a growth rate against a background of exterior political changes and interior upheavals. In spite of all that, when examining the rates of increase in the GDP in below, we see more clearly that material production did not constitute the primary sector underlying the growth rate that the economic reforms have brought about.

4/ Commonly speaking, in the two domains mostly influencing the growth rate of the national income in the material production of an industrializing country, it should be said that agriculture constitutes so far a domain much less stable because of its dependence on climatic conditions. Industry could secure a regular increase if there would be no big change in institutions, policies or economic and technological relations with external partners.

Figure 2.2 shows the realities in Vietnam in the period ranging from 1976 to now, the amplitude of fluctuation of industrial production growth rates was much bigger than that of agriculture. Industry with rather high growth rates in the years 1981-1985 and its decrease in growth rates in the years 1989-1990 as presented above, had suffered from the frequent changes in policies. In the first case, the policies loosened the restraints imposed by the central planning system toward the management at micro level and encouraged privately-owned small production. This helped spontaneously boost up production while no remarkable changes were obtained from the management structure at

macro-economic level. In the second case, the vigorous shift in macro-economic policies from the system of State budget subsidies to the market mechanism had compelled the enterprises to re-orientate and restructure their activities and organization.

As for agriculture (forestry and fishery included) the change in policies seemed to exert a clearer effect upon the growth rates in the first several years after the promulgation of agriculture-related policies. Then the rate of growth diminished and even stopped short. Generally speaking, the effects of natural elements on the ups and downs in this domain has remained as always decisive and vigorous.

## **2. 2. THE GROWTH RATE OF GDP**

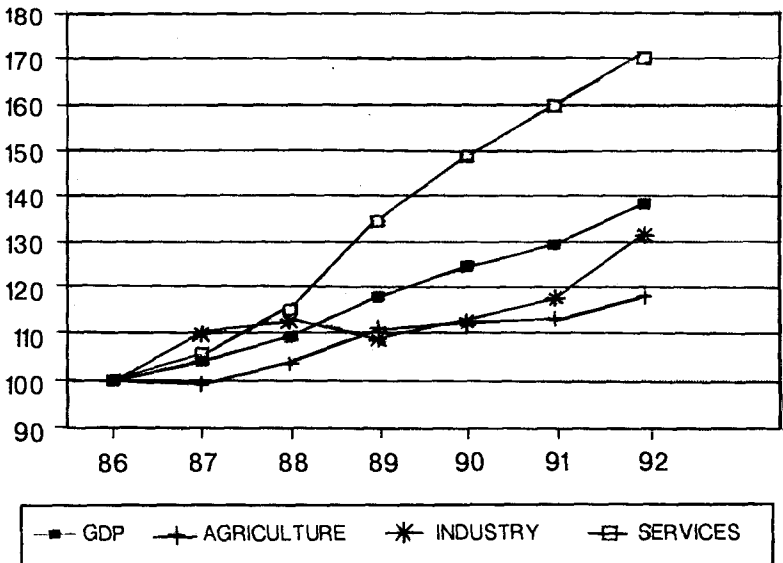
The figures on GDP have been only calculated since 1986. For that reason we could not make a comparative analysis of the growth rates of this period with the preceding one. Although there are still varying opinions about the degree of accuracy of the calculated figures so far made public, what is important is that, to a definite extent, an international comparative analysis as well as structural study of all the economic activities could be carried on.

The GDP growth rates of Vietnam's economy in the 1986-1991 period compared with other developing countries were generally not so low, in average 5.2% per annum. (See figure 2.3 )

If compared with the figures of the national income from material production whose analysis was made in the above part, we would see that, viewed from the angle of absolute

Figure 2.3.

INDEX OF GDP  
(1986 = 100%)



figures, the GDP would surpass the NI by about 30 - 40%, as for relative figures, it should be acknowledged that in the past few years the GDP has always had a quicker rate of increase vis-a-vis the NI.

**Table 2.2 : Comparison of annual growth rates of GDP and NI ( per cent )**

	1987	1988	1989	1990	1991	Average 1986-91
Gross Domestic Products	3.9	5.1	8.0	5.1	4.2	5.2
National Income	2.7	4.2	3.8	3.7	2.5	3.4

*Source : Vietnam economy 1986-1991 based on the system of national accounts. Statistical Publishing house. Hanoi. 1992. p. 43.*

The uneven development of absolute figures is quite understandable because the two above series were based on different theoretical concepts, and for that reason, implied different domains. Compared with the NI, GDP would encompass the value added of the non-material sector. The growth rate of GDP surpassed that of NI which meant that the non-material sector increased with a rate higher than that of the domain of material production.

The reforms of economic policies in past years have exerted a strong and clear-cut effect which found expression

in the explosive development of trade and services. This was reflected in the norms of increased GDP and in the latter's structural change. Figure 2.3 indicates the comparison of growth indices of GDP in the whole economy and in the domains of industry, agriculture and services. What stands out in relief here is that the rate of growth of services increased at the highest level from 1988 onward and this domain raised the index of GDP to a high level while agriculture and industry, which have been the basis production branches, in general could not develop so rapidly from 1986 to now. Viewed from a wider extent, the average rate of increase of the non-material sector reached 9.9% whereas the material production sector increased on an average 2.8%.

**Table 2.3 : Comparison of annual growth rates  
of GDP and value added in the two material  
and non-material sectors (in percent)**

	1987	1988	1989	1990	1991	Average 1986-91
Gross Domestic Products	3.9	5.1	8.0	5.4	2.0	5.2
Material Sector	3.2	3.4	3.2	2.0	2.1	2.8
Non-Material Sector	5.6	8.9	17.7	10.4	7.0	9.9

*Source : op.cit. p. 46.*

The high and continual growth rate of the service branch has "dimmed" a great deal the effects of the unstable

character and the vigorous ups and downs of material productive domains with regard to the common results of the entire economy which found expression in the increased figures for GDP. It could be appreciated that the "explosion" of the service branch was the most outstanding result of economic reform in the past period of time. In view of statistical data, that was the part which gave rise to the rather high common growth of GDP (*See figures 2.4 and 2.5*)

In reality this constitutes the most seething field of development which has attracted and drawn in the majority of new economic sources which were either mobilized or transferred from other production fields. This was also a "buffer sector" which would lessen the effects of the shocks on working people and the majority of the strata of the population in towns and cities and even a part of the rural inhabitants. When industrial enterprises were operating at a loss, factories closed down or temporarily stopped working, the wage-earners could earn to support their own life and that of their families for only one-third or half of a month, and many youths of working age lost or did not find jobs in productive sectors, service and trade business in whatever forms and at whatever scale have become a means of relief and a temporary support for them. The wealth of a part of the population has been derived from the undertakings in this field whether they were legal or not. It seems that in Vietnam at present has taken shape a law-bearing character of the preliminary development of the free market economy namely mercantilism although it might last only for a short

Figure 2.4.

GDP GROWTH RATE  
(%, IN PRICE OF 1989)

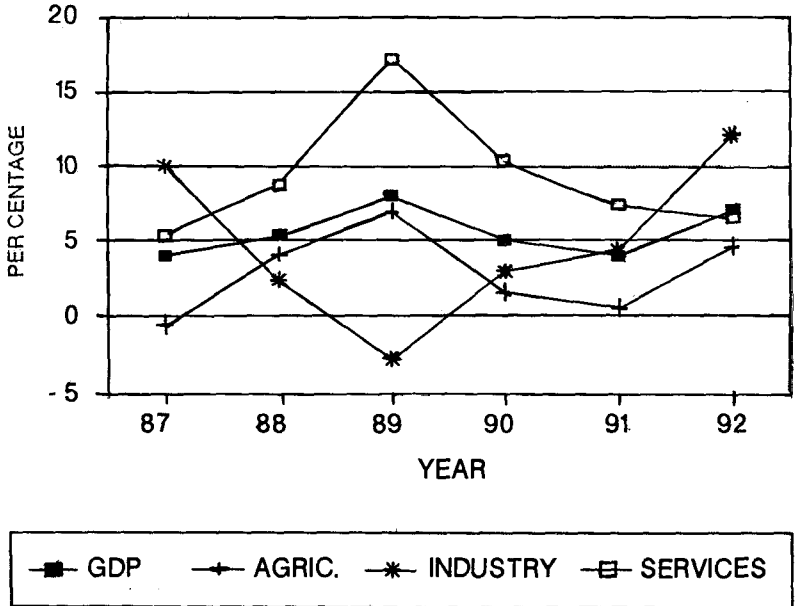
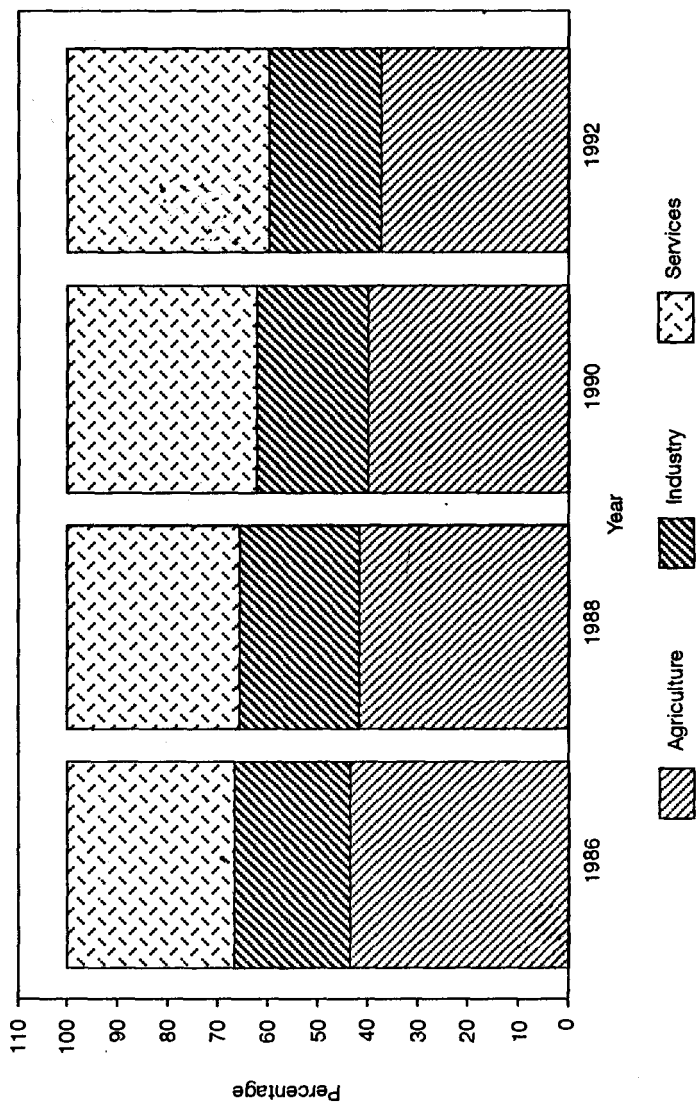


Figure 2.5. :

# GDP STRUCTURE

(in percentage)





period of time.

The economic situation in the year 1992 causes an increase in optimism about the future. GDP has increased by 8.1%, net material products (national income) has increased by 5.2%. The food crop has secured the highest output so far 24 million tons of paddy, an increase by 9.2% compared with the crop in 1991. The industrial production has increased by 14.5%. Exports have reached 2.5 billion U.S.dollars, an increase by 16% compared with 1991 thanks to the ever growing exports of crude oil, rice, rubber, coffee, sea products... Both commodity and currency markets are relatively stable. The price index shows an annual rise of 17.5 (compared with 67% in 1991).

The difficulties still encountered at present and in the immediate future which may hinder to some extent the economic growth in Vietnam are shortage of electricity in Southern provinces, especially in Hochiminh city, insufficient markets for export of traditional goods: agricultural produce, garments, handicraft and art articles..., low purchasing power of the majority of the rural population, budgetary deficit, shortage of jobs etc.

However in sum, it could be said that Vietnam's economy has undergone a change for the better under the impacts of economic policy reforms. Though the growth rate is not yet quite as stable as wished for and there have arisen no few hindrances to the process of economic growth, the stabilization of the life for the overwhelming majority of the population, the results of the stabilization process of the macro-economic environment, and the changes in the

business system have forecasted a bright prospect for Vietnam's economic growth, and for this country's ever growing and ever closer economic ties with the countries in the Southeast Asian region in particular and with the world economy in general.

## CHAPTER 3

# INDUSTRY IN THE PROCESS OF ECONOMIC RESTRUCTURING

### 3.1. AN OUTLINE OF THE STATE OF INDUSTRY IN THE PROCESS OF ECONOMIC RESTRUCTURING

#### 3.1.1. Outline

In the process of restructuring the national economy, shifting it from one of centralized planning to one of a market nature, Vietnam's industry has confronted and overcome many fatal trials, and is now gradually reforming itself and becoming stable.

In analyzing its real state and trend of development, the following observations can be drawn about Vietnam's industry:

a) Industry has made up a low proportion in the GDP and remained unstable. It has been represented by the following figures; 24.17% in 1986; 24.89% in 1987; 22.38% in 1988; 23.71% in 1990; 23.66% in 1991; 27.5% in 1992 and has been estimated to be 25.4% in 1993.

b) Growth rates haven't been regular. They increased in the years 1984 (13.15%); 1988(14.30%); 1990 (3.1%); 1991 (10.4%) and in 1992 (15.3%). they decreased in the years 1981 (-10%) ;1986 (-6.1%) and in 1989 (-3.37%).

**Table 3.1 : Growth rates of industry 1989 - 1993**  
(In percent)

Year	Total Industry	State Sector			Non- State Sector
		Total	Centrally managed	Locally managed	
1989	3.3	2.5	5.9	-3.5	-4.3
1990	3.1	6.1	15.3	8.9	-0.7
1991	10.4	11.8	15.5	4.2	7.4
1992	15.3	19.5	21.5	14.9	6.0
1993 *	9 - 10	9.5 - 12	10 - 12	9.4 - 12	7 - 9

\* *Estimated data.*

*Source: General Statistic Office.*

From 1991 onwards industry has recorded an annual growth rate of over 10%. It was estimated that this growth rate would be on average during the three years 1991-1993

about 11.5%. this is the highest growth rate of the industrial branch from 1975 up to now (0.6% in the years 1976 -1980); 9.5% in the years 1981-1985; 5.9% in the years 1985-1990). This growth rate has been made possible due to the mobilization of new forces in production as a result of big capital investments made in a number of branches in the preceding years such as oil and gas, cement ,electricity, paper... On the other hand, this growth is the out come of the shift and adaptation to the market economy by different industrial establishments. Differing from the previous periods of time, the growth has been equally recorded in both centrally- and locally-run industries as well as in both state and non-state industries.

c) Industry is being step by step restructured in line with demands of the market economy. The restructuring is as follows :

- The state-run sector is being gradually reformed so as to cut down State businesses both in size and scope of operation and operate them on the basis of profit and market principles

- Non-State, especially private, businesses are encouraged by the State which also supports and provides them with a favourable environment for development.

The portions of state sector in total output of industrial branch were 67.8% in 1990; 58.5% in 1991 and 71.1% in 1992.

- The structure of industrial production is changed to make industry operate more energetically and effectively, develop more business lines and employ more local workers

and natural resources which are Vietnam's competitive edges. Consumer goods and food-processing industries are developing vigorously along this line.

- A uniform market for commodities and industrial services has taken shape throughout the country and is developing step by step. Almost all industrial goods are freely traded in the market at market prices. The labour market has come into existence and is developing properly in the private sector.

- The State has abolished and is continuing to abolish uneconomic restrictions, strives to step by step create a favourable environment and conditions for businesses to develop. Regardless of their forms of ownership, they are all equal in the market and before the law.

Aside from its great efforts and encouraging results, Vietnam's industry, however, has the following shortcomings and limits as it shifts into the market mechanism:

a) Its growth rate is not stable. The growth is mainly fueled by the increase of capital investment and labour, not by the increase of productivity and the decrease of material inputs.

b) A complete system of markets as required by the market economy is yet to be formed. Busy as they are, most of the markets for industries are now concentrated in big urban centres while overlooked in the rural areas which cover 78% of the country's population and 75% of its labour force. The labour market is non-existent in the State sector and still at a very low level in the non-State sector. The

monetary-financial market has been taken shape slowly and weakly.

c) The market for commodities and industrial services is not really competitive. The State-run sector still holds a large monopoly in the market. Market competitiveness is not yet used as a main tool for restructuring industry.

d) The practice of "underground economy" and illegal businesses is very serious. Corruption, smuggling and faking are on the rise, threatening to disrupt industrial production and causing losses worth thousands of billions of dong

### **3.1.2. State of the State-run industrial sector**

3.1.2.1. The number of State-run business increased sharply from 7,000 in 1976 to 12,084 in 1990. Of this number, 3,020 were businesses in industries, (666 central and 2,354 local), employing 743,900 workers.

The State maintains complete control of all key industries which are of strategic significance or require big investment and high technology including cement (100%), metallurgy (100%), oil and gas (100% domestically), electricity (99.9%), coal (98.24%) and basic chemicals (79.5%).

In consumergoods production, the State also controls nearly 100% of medicine, almost 100% of knitwear, 85% of paper, 75% of garment and 70% of bicycles.

Generally speaking, State-run industries have not been able to ensure their own reproduction. Their annual growth are mainly due to the increases in capital and manpower.

Up to 1990, their average annual contribution to the

State budget covered only one third of their expenditure.

3.1.2.2. State industrial business tend to decrease in number, from 3,157 in 1987 down to 3,092 in 1988, 3,020 in 1989 ; 2,672 in 1990 ; 2,512 in 1991 and 2,271 in 1993.

3.1.2.3. In the process of restructuring and changes, many centrally run businesses in the State sector have step by step adapted themselves to the new situation, surviving difficulties and trials, and now are developing steadily. However, almost all locally-run businesses of this sector, especially those run by precinct and district governments, are in deep financial shortage. Many have filed for bankruptcy or are waiting to be merged. At present, about 25% of the centrally-run businesses, 60-70% of provincially run and 80-90% of the district run are on the brink of bankruptcy.

The most intractable contradictions of the State industries in the main have not been solved. Their permanent problems are still low productivity, poor quality and low efficiency. Besides, they are burdened by the state of irresponsibility and backwardness in technologies and the lack of motivation which remain to be solved at both macro and micro levels.

3.1.2.4. The basic characteristics of the State industrial businesses can be summed up as follows :

The majority of state-owned enterprises are small in size and rather scattered. There are 16.34% of enterprises with each a work-force of over 3,000 and an invested capital of over 5,000 million dong, 37.2% of enterprises with each



work-force varying from 500 to 3000 and an invested capital from 1000 milion to 5000 milion dong and 46.46% of enterprises with each work-force more than 500 and an invested capital less than 1000 milion dong.

- While the State-run economy is, in general, low in productivity, quality and efficiency, with an annual surplus (interest/working capital) of 4.8%, that rate of the State industries is only 4.6%. Their equipment and machinery are obsolete, often from 15-25 years old of which 70% are over 20 years old. Only 30% of State industrial business are automated at a low level. Most of them do not have equipment essential for the precision and quality of their finished products. Their level of energy and material consumption is two times as much as the world's average. Of all the products turned out by the State economy only 15% are of export quality, 56% of the quality for home consumption, and the rest (29%) of too poor quality for sale

- Their existence and development mainly depend on the State subsidies. Despite their unprofitability, many of them refuse to be closed and still want the State to subsidize their existence.

- They are insensitive to market signals such as demand and supply, competition, profits, prices and interests rates.

- They have no real owner (as the saying goes, "it that's owned by the state is owned by nobody").

-Workers have lost all motivation.

- They lack skillful managers who are fit for the market system and ready to take risks.

- They are a lucratively place for the power-abusers and the privileged to steal State property and money.

### **3.1.3. State of the collective industrial sector**

3.1.3.1 In recent years, affected by the change of the economy to a market mechanism and the collapse of the political system in the former Soviet Union and Eastern Europe, the collective industrial sector has declined and shrunk.

The number of handicraft cooperatives decreased from 32,034 in 1988 to 21,091 in 1989, 13,086 in 1990 and 9,660 in 1991 and 8,829 in 1992. Their production capacity also decreased by 36.1% in 1989 and again by 47.8% in 1991. Their share in the total production of the whole industrial sector, by 1982 price, was 23.9% in 1988, 15.8% in 1989, 13.7% in 1990, and 6.8% in 1991 and 4.2% in 1992.

The collapse of most of the industrial cooperatives was either in the form of bankruptcy or change into privately run or family businesses or share cooperatives, operating on the principles of voluntarism and self-responsibility. they have legal status and are owned by members who voluntarily put in their capital. Cooperatives of this type are not yet many in number, however, they have operated effectively, able to attract idle money from the population, create jobs and social wealth and increase incomes for co-op members.

3.1.3.2. The recession, shrinking and collapse of enterprises in the collective industrial sector are due to causes relating to their ownership, management and distribution, the most overwhelming one being the artificial

process in which they were formed. Most of the cooperatives in fact came into being by forced collectivization and lived off the financial support from the budget of the centrally planned economy. Their most fundamental principles such as voluntarism, mutual benefits and democratic management were thus seriously violated.

#### **3.1.4. State of the private industrial sector**

The share of the private industrial sector in national industry was 27.2% in 1989, 23.3% in 1990, 26.7% in 1991 and 24.7 in 1992.

After the promulgation by the state of the law on private enterprises and the law on companies, private businesses joint-stock companies and limited liability companies have been encouraged to develop vigorously. The number of these businesses and companies operating in different industries are the followings: 318 in 1989; 1284 in 1990; 700 in 1991 and 959 in 1992. There have been so far no clear cut production and business orientations for the most of private businesses; many companies are now at the stage of trying to gain knowledge of market tendencies and seek to sound out the best way of getting involved in production and business, thereby doing their business not in conformity with the items. They have registered in the license and sometimes making their business transactions in a soundabout way for their survival. The funds mobilized for production are not adequate to the real needs and this would result in the fact that in 1992, 959 private businesses operating in indifferent industries could only attain 1.3% of the total output value of the whole branch.

Individual small industrial and handicraft households have strongly developed both in number and in sphere of action. This economic sector comprised 318,557 establishments and employed 793,000 labourers in 1989, 33,337 establishments and 836,000 labourers in 1990; 376,930 establishments and 900,000 in 1991; 446,771 establishments and 952,000 labourers in 1992. The traditional production establishments in connection with export and cottage industry have been step by step restored and have still gained a strong development. The funds used in capital construction of the private economic sector (mainly composed of commerce, service and industry) have increased with every passing day: 5430 billion dong in 1991, 7582 billion dong in 1992. According to the survey made by the State - Statistic Office in 1992, these invested funds were 428.2 billion dong in Hai Phong; 329.9 billion dong in Can Tho; 473.3 billion dong in An Giang; 241.4 billion dong in Quang Nam - Da Nang; 264.8 billion dong in Bac Thai; 260.9 billion dong in Vinh Phu; 155.2 billion dong in Hoa Binh; 450.8 billion dong in Ninh Binh; 144.3 billion dong in Khanh Hoa...

Generally speaking, the private industrial sector is geared to engage in light industries for export, require little investment, yield high profits and quickly return capital. This sector, is on the one hand, positively and correctly enlivening the country's economic activities but, on the other, betraying many shortcomings such as evading licensing, cheating, and evading or miscomputing taxes, producing fake goods, and smuggling. Not a small number of private enterprises have deliberately violated laws or run illegal businesses.

A major complex felt by many private business people is

that they are still regarded as exploiters and their economic sector is still treated as bastard with the State economy being the son and the collective economy, the adopted. In deed, compared with the State economy, the private is suffering from numerous disadvantages.

### **3.2. MAJOR REFORMS IN INDUSTRY - THE WEAK AND STRONG POINTS**

3.2.1. The process of renovation of the Vietnamese economy was launched by the Communist Party of Vietnam at its 6<sup>th</sup> Congress in 1986. However, many of the questions being addressed by the renovation had been approached as early as the 6th plenum of the Party Central Committee (4<sup>th</sup> Congress) in 1979, especially in the field of industry.

To clearly understand the background and content of the reforms in industry, we should take a look at the whole process of its renovation.

3.2.2. The 4<sup>th</sup> Party Congress in late 1976 decided on a model for economic development and management in Vietnam in the 1976-1980 period, which indeed was basically the model adopted by the 3rd Party Congress in 1960 and applied in North Vietnam since then. This mode has the following fundamental characteristics :

a- To develop a homogeneous economy, comprised of State and collective economic sectors, of which the State sector is the dominating one, controlling virtually all relations and domains of the economy.

b- All economic activities are centrally planned. In deed, this is a denial of the roles of the market, prices and money. The State pays for all the input and decides the output and all the prices and places of consumption. The enterprises thus do only the producing. How they will sell their products have been preplanned by planning offices at all levels.

c - The economy is developed in closed way with a view to replacing all imports.

d- Egalitarianism is exercised in the distribution of income.

Realities of the 1976-1979 period proved that this moles is unfeasible.

The post 1979 period saw major socio-economic changes in Vietnam. The economy was shifted from war to peace time. There was a population boom and a sharp increase in the people's consumption, while foreign aid was drastically cut or continued as loans. Also, international division of labour and world economic integration had become inevitable for all countries. Such a situation spelled out the need for corresponding changes in the development approach and the managerial model. But regrettably, these changes never happened. They were restrained by a reigning stagnation and conservatism in perception as well as in economic policies. In deed, contradictions had already emerged between the theoretical system for a centrally planned economy on the one hand and the reality of the country's economic life, which had undergone profound and fundamental changes, on the other. However, the latter was

not yet strong enough to negate the former. Yet, a number of localities and enterprises went out of their way to try new forms of business, more market-oriented and also more self-interested. They did this in spite of the restrictions imposed by existing policies which were out-dated and ignored the objective requirements of the country's economic development.

Nonetheless, life still went on its own way, only in this case it would run into more obstacles. In fact, in 1979, as the whole economy was knee-deep in stagnation and recession, hundreds of industrial enterprises ran out of materials and capital and had to temporarily halt their monthly salaries.

And as Vietnam went into Cambodia in 1979, many countries canceled their aid to Vietnam. That same year a Sino-Vietnamese border war also broke out.

To encourage the initiative of the businesses and enterprises, and also to unravel the difficulties of the economy now faced with an unfavourable situation at home and abroad, the 6th Plenum of the Party Central Committee (4th Congress) in September, 1979 decided to broaden the autonomy of the businesses and enterprises and scale back the central planning system. As a result, the number of state-ordered quotas went down, prices of production inputs and outputs were adjusted, as were prices of whole scale and retail goods.

The resolution of this plenum laid the foundation for and actually started the changes in the economic approach and

policies of the ensuing periods. For the first time, the autonomy of businesses and the self-interests of the working people were actually respected; the question of economic efficiency was also properly approached and regarded as a norm for a model of development and a new managerial mechanism.

In order for the system of State regulated pricing to gradually approach the international market's pricing, price reform was chosen as the curtain-raiser for other reforms. It was started in mid 1981 with a two-phased price adjustment aimed at bringing domestic prices up close to international prices. On May 29, 1981 the Government issued Decision 202-CP, increasing retail prices (except for nine rationed items) by 10-15 times and at the same time starting to index salaries to the price hikes. Wholesale prices were adjusted first in October 1981 and again in October 1992. As a result, wholesale prices were increased by 7-10 times compared with the old prices which had remained for more than 20 years.

To accelerate industrial production, in January 1981 the Government issued Decisions 25-CP and 26-CP. Under Decision 25-CP, the industrial enterprises were allowed to work on three plans at the same time. The first (plan A) was the State assigned, for which the State would provide all needed materials, set the prices and designate markets. The second (Plan B) and third (Plan C) were worked out and catered by the enterprises themselves. In fact, the implementation of plans B and C allowed the State-run industrial enterprises to approach the market and enabled



them to adjust their production to the market's demands and prices.

With Decision 26-CP on wages and bonuses in the contractual system, the Government began to require State enterprises and their workers to pay more attention to productivity, quality and efficiency which in turn were to be appreciated by the market. Here, the working people's self interests were regarded as a motive for them to improve their performance.

Also in 1980, the Government began to broaden the right to engage activities in export-import business, allowing export producers at services and localities to step by step seek their won supplies of materials and equipment for production. This decision was in fact a push, touching off and encouraging latent export potentials.

3.2.3. The deregulation of and, subsequently, the boom in production of the 1980-1982 period had the plus of initially clearing the obstacles and deadlocks created by the central planning mechanism, thus accelerating the development of the whole economy in general and industry in particular. However, there were problems as well. Many State-run industrial enterprises in fact simply ignored their Plan A and just took care of their Plans B and C. Others stopped work and went in for trade, competing against one another in import and export, causing price fevers and hence disorders in both production and circulation. After the 1982 price adjustment, even as the new government-set wholesale prices had been raised by 7-10 times compared with the old, they were still over the free market prices, so low that

materials would soon be drained from government stocks and as a result, many industrial enterprises failed to purchase materials for their production in a "five right's" manner as regulated by the State : right prices, right place, right time, right quantity and right quality. Industrial production was thus set back to the state of 1979.

In face of this situation, the Government took a series of measures aimed at righting import and export activities (Instruction 01-BCT of the Party Politburo) and restoring order in the circulation and distribution of goods (Resolution of the 3rd Plenum of the Party Central Committee, 1982). Wholesale prices for agricultural and industrial materials and retail prices for industrial goods were again fixed at much lower than the market level. The role of the centralized planning was again promoted while approaches in favour of market mechanism and market-set pricing were again criticized.

In essence, these measures were in favour of a return to the old mechanism which they held as still correct

The Vietnamese economy in general and its industry in particular during the 1983-1984 period were caught between the devil and the deep sea. Also for this reason, the measures taken by the government in this period were half-hearted, hesitant and irresolute.

The "rein-in" measures were not accepted in the economic life, which again refused to be tamed. On the contrary, it continued to accept activities of "fence-jumping" enterprises which were trying to break away from the restrictions of the

outdated policies of the centrally planning system.

As the pro-old mechanism approaches were fighting for acceptance and the reform approaches were being criticized, the perspectives for industry became gloomier.

Production was bogged down in stagnation; consumption was so low that enterprises could not retract capital for material, fuel and spare parts. Super-inflation made a worker's monthly salary barely enough to sustain him in one week. Meanwhile, in agriculture, production was low due to successive floods and droughts. This pushed the economy further into recession. In 1984, the budget deficit increased by 38% of the state budget. The amount of money in circulation increased by 70% compared with 1981, increasing at a rate of 90 compared with the previous years

3.2.4. In the hope of checking the recession and reviving the financial and monetary system, the Government chose to resume reforms. In fact, this choice had been perceived and prepared since mid-1984 and was first implemented in September 1985. The aim to do away with state subsidization. The basic approach for the price - wages - money reform in 1985 was:

- To abolish state subsidization, change from the dual-price to the uniform price system. Pricing would be based on the value of goods and money's buying power. However, pricing was still controlled by the State. The Government-set wholesale prices were to increase by 9-10 times compared with the prices set in January 1st 1982. Retail prices were also to increase by 5-7 times compared with the prices of 1981. In

general, all prices set in 1985 were 10 times the prices set in 1981 or 100 times the prices in 1980

- To abolish the system of wages subsidized in kind and apply a new system in which wages were step by step monetized. The starting salary was set at 220 dong/month with a view to providing each worker a minimum of 2,200 calories a day. Compared with the starting monthly salary set in the 1960's, the new salary was almost a hundred times higher.

- To change bank notes, devalued by 10 times, to meet the demand for cash in circulation, then sky rocketing due to the price and wage reforms.

As of 1986, data proving the failure of the 1985 drive of reform process had accumulated. The economy in general and its industry in particular, after the reform, had landed in a more serious recession.

Compared with 1985, prices increased by 570 %, money in circulation by 7.4 times, and debt by 8 times. Industrial production slowed down to a virtual halt. Goods circulation was in a state of disorder. Prices, budget deficit, overbalanced credit and inflation all jumped at an unprecedented rate. The new wages and prices were immediately neutralized by the super-inflation of 20% a month on the average.

Now, looking back with a reformed economic approach, we can recognize two main errors in the theoretical approaches which served as the basis for the 1985 reform drive:

- The State set prices can not be market prices. The

continued existence of the dual-price system, one set by the State and the other by the free market, provided a fertile soil for the revival of the old dual-price system. And because of inflation, the scarcity of materials, and the speculation by State-owned trading monopolies, the gap between these two prices became ever greater, compelling the State to return to its old regime of subsidies and rations.

- The subsidies in terms of credits were maintained for even State-owned businesses were operating at a loss. The interest rate for these credits were also only one tenth of the inflation rate. All this became an overburden for the State budget, leading to record deficits in budget and credits, and an unprecedented pumping of cash into circulation.

Vietnamese people had, by 1985, lived for some 30 years in a subsidized economy which in turn had left deep imprints in the thinking and action of government officials, state-owned business directors and, in fact, all working people. The habits created by life and work in the system of subsidies had become the greatest obstacle that the 1985 reform could not overcome. Hesitancy, indecision and differences had existed not only in the planning of the reform but also in the discussion and decision of how to implement it. On one side of the differences were those who wished to maintain the economic model of centralized planning and, on the other, those who wanted to get rid of that model and reform but had not been able to envision clearly that the ultimate goal of their reform would be to step by step change the economy to a market economy. At that juncture, even those who were for reform were still allergic to any notions

of the market economy or multi-sector economy, private economy or open economy, etc.

3.2 5. The period from 1986-1988 was one of gradually overcoming the aftermath of the 1985 reform and at the same time trying to find out a right path for reform. In December 1986, the Communist Party of Vietnam held its 6th Congress and decided to break completely with the old thinking of economic development and management model. From the Congress's forum, the Party called for renovation and, in fact, was the initiator of the renovation process in Vietnam

The 6<sup>th</sup> Party Congress adopted fundamental approaches which have served as basis for the renovation of the entire national economy. They were :

- The recognition of the multi-sector structure in the economy.

- The recognition that the economy operates according to a market mechanism.

The national economy should be open and integrated into the regional and world economy, changed from one for import replacement production to one for export-oriented production.

The new economic approaches and thinking adopted by the 6<sup>th</sup> Party Congress have the guiding role for continuing economic reforms. Subsequently, the National Assembly and Government have taken steps to institutionalize them into laws and sub-laws such as the law on foreign investment, the law on private businesses, the law on companies and stock

companies, the decrees on banking and accounting, the law on import-export taxes, and the regulation on foreign exchange management. The Government has also taken long and relatively fundamental stride toward creating favourable conditions for the gradual formation of a mixed market economy in Vietnam.

3.2.6. To support industrial reforms, especially these in the State-owned industries, from October 1987 to early 1990, the Government on four occasions adjusted industrial wholesale prices. By 1990, Vietnam had basically accomplished the targets of price reforms. Prices were now set by the market standard on the basis of demand and supply. Earlier, in mid-1987, the Government stopped rationing essential commodities and dropped all subsidies. In March 1989, the Government started tackling inflation, considering it the top priority on its agenda. The purpose was to stabilize the macro-economic environment. Financial and monetary quick-fixes were applied with a view to controlling demands, especially the demand for capital of the state-owned businesses, and tightly restricting budget expenditures.

3.2.7. Proceeding from the successful experiences of the businesses allowed to experiment with self-financing since 1982, such as the Chien Thang fishing enterprise (Vung Tau - Con Dao), the Thanh Cong Textile Mill (Ministry of Light Industry), SEAPRODEX (Ministry of Aquatic Products), on Nov. 14, 1987 the government issued Decision 217-HDBT. The main points of this decision were as follow :

- To gradually abolish the monopoly and privileges of the

state-owned businesses, and place them on an equal footing with the businesses of the other economic sectors.

To define that State-run businesses were also real business entities in the market; return to them their right to business autonomy, self-management and their own capital. They were to operate on the principle of "profit and loss".

To clearly define the behaviours of the government and the businesses. The government was to concentrate on creating the environment, support and encourage, and regulate and supervise the operations of the businesses in light of promulgated laws and policies. The government's influence would be mostly indirect, through planning and macro-economic policies.

To encourage businesses to tap all potentials for production; judge the businesses' performance by their productivity, quality and efficiency.

Proceeding from the above approaches, Decision 217-HDBT contains provisions for reforming planning work; setting prices of materials by market standard and allowing businesses the control of input and output pricing; withdrawing State control in pricing (except for petroleum, paddies, steel and iron, and fertilizers); establishing a relation of equality between businesses and state-run banks; setting up two banking systems, State and commercial; applying flexible interest rates to accommodate inflation; and abolishing all the subsidization through pricing and capital provision.

As they have been given the autonomy in business,



management and financing, about one third of the State businesses have operated more dynamically; linking their production with the market, diversifying their item lines, and applying scientific and technological advances to production in order to improve quality, reduce costs and ensure profits.

3.2.8. In execution, Decision 217-HDBT exposed the following problems:

3.2.8.1. On the part of businesses :

- Most of the State businesses were slow to change to adapt themselves to the new business environment and mechanism. They were still under the spell of the thinking and acting habits of the old centralized mechanism of State subsidies.

- Many State-run businesses simply cared about their new autonomy while ignoring their duties and responsibilities toward the State and society. They seriously violated the financial disciplines for businesses, deliberately carried out illegal business transactions, engaged in smuggling and corruption and produced phony goods.

3.2.8.2. On the part of the State :

-While being the owner, the State relaxed its control and supervision of its businesses.

- It was not resolute in its efforts to abolish subsidization through capital provision. It continued to grant credits to businesses at preferential interest rates much lower than the inflation rate. The settlement of losing State businesses was slow and inconsistent.

- It did not make timely amendments to provisions of Decision 217-HDBT which had been proved inappropriate, such as provisions on profit accounting, or on maximum salaries and bonuses for directors, etc.

- It did not adopt laws needed for a market economy, such as laws on businesses, taxation and bankruptcy, civil code, law on private ownership, and law on environment protection.

3.2.9. The Government's program for continued reforms of the State economic sector in 1992 and 1993 was deployed in the following directions :

3.2.9.1. Reclassify, rearrange and reestablish State businesses which met the conditions as provided for in the Government's Decision 388-HDBT, Memorandum 34-CT and Decision 156-HDBT. Those which failed to meet these conditions would be dealt with in line with the government's Decisions 315-HDBT, 316-HDBT, and 330-HDBT.

As the data of State-Statistic Office, to June ,1st -1993 there were 5381 state enterprises reestablished, 1827 industrial enterprises were in the number. These state enterprises have been managed by the district.

3.2.9.2. Experiment with equitization on a number of State-run businesses. To the end of the March, 1993 the Legamex company, the Sea - transport Company, and Binh Minh enterprise were allowed to experiment with equitization.

At present, the experiment is running into troubles as both the directors and the workers and labourers appear to be reluctant because suitable environments on the side of socio-economy, law have not been established yet.

3.2.9.3. Experiment with the model of managing councils at some large-scale industrial businesses with good prospects for development. However, this work is still on paper, not yet started in practice.

### **3.3. SOME APPROACHES FOR CONTINUED REFORMS OF INDUSTRY**

#### **3.3.1. General comments**

To support and create the bases for continued reforms of industry, the government should clarify some basic approaches which will provide the guide for efforts to develop a market economy in Vietnam. In our opinion, these approaches are as follows :

3.3.1.1. The market economy which is in the making and developing in Vietnam is a mixed one. It develops on the mixed basis of State ownership, private ownership, and shared ownership of the State and home and overseas individuals. An objective requirement of the market economy toward all forms of ownership is to clearly define and confirm who owns what assets and capitals to be used in economic development. There is no common and undefined ownership nor equal ownership for all people.

3.3.1.2. The market economy in Vietnam is regulated by both the market mechanism and the State. Both play the role of distributing and regulating all the resources for the economy. Any overpricing or underpricing by either of them will not bring about a desired growth and development for the

economy. This is a lesson that has been internationalized for countries now shifting to a market economy. However, how to clearly define the scope and boundary of the State and the market in the distribution of the national resources and the regulation of the economy is a complicated question that not every government can successfully tackle.

3.3.1.3. To help the market operate effectively, the creation of necessary conditions for it should continue. These conditions are :

All commodities (including manpower domestic and foreign currencies) are to be freely traded on and distributed mainly by the market at uniformed market price which by itself must reflect the supply - demand relation in each commodity.

- A competitive and healthy market is to be the main tool for organizing economic activities.

- A true and complete market system is to be created.

- State, cooperative and private businesses are to be all treated on an equal footing and play the same market game, i.e working to turn out optimal profits, ready to take risks and losses.

- Inflation is to be kept at a low level.

3.3.1.4. the State is to be the decisive factor in the development of a fast-growing model for the market economy in Vietnam.

To shorten the process of developing a modern market

economy, the State should return to the market the functions that it can perform better and concentrate on functions that the market cannot. To achieve stabilization, development, efficiency and fairness, the State should focus on creating stability for the macro-economic environment, building the infrastructure, investing in the human factor through education, health care, and technological development, solving social issues and protecting the ecological environment. Most of the business activities should be left for the private sector. As shown by the experience of all economically successful countries, in order to quickly develop the economy and create more jobs, great attention must be paid to creating a stable and safe environment for businesses; private ownership must be considered the main engine for economic development; the competitive and open market must be used to organize business transactions in such a way as to yield optimal profits for the owners; and a government with strong financial resources and competence must be in place to perform its functions.

3.3.1.5. Any economy will consist of a State sector and a private sector, and have the simultaneous processes of nationalization and privatization. The success of every country in economic development depends on the appropriate disposition of these sectors and processes. Any violation of this appropriateness will lead the economy to a state of stagnation or slow development, even crisis. Taking steps to privatize the economy and sell State companies is now an international practice already accepted in many countries. Vietnam is not to be an exception.

### **3.3.2. To continue reforms of economic sectors in industry**

#### *3.3.2.1. In the State sector :*

3.3.2.1.1. First, we are of the view that the State sector should develop only in those services and at those times that it can best perform its role as the "midwife" for the birth and highly efficient development of other economic sectors. Of the state businesses, only those in businesses and fields that the other sectors are not capable of or unwilling to invest in, or those which are netting huge extra profits, should be continued in order to ensure the State the necessary economic resources to help it maintain its capacity in guiding, managing and regulating on the macro-economic level and carry out its socio economic, cultural, and environmental policies. The rest of the State-run businesses (about 50% of the existing total) should be resolutely rearranged along the line of gradual privatization in forms such as rent, sub-contracting, bidding and partial or wholesale to individuals, or equitized or simply declared bankrupt and closed. In this direction, a boundary will gradually establish itself clearly and appropriately between State and private economic sectors. In its transition to a multi-sector economy, is it right for our country that the State economic sector provide guidance and encouragement, cooperate with and at the same time, compete against the other sectors.

3.3.2.1.2. The first phase of the reforms of the State economic sector, whose main content is to establish the autonomy for businesses has ended. Although it brought about encouraging initial results, it failed to create a

qualitative change in the operation of the State sector, hence the base for this sector to get itself out of crisis.

3.3.2.1.3. All State businesses which are for profits should operate on the market principles and respect the market's rules.

3.3.2.1.4. A State business should be treated as an independent business entity having legal personality and operating by the laws. The State will manage, supervise and regulate its activities through laws and macro-economic policies. The government should mainly use macro-economic tools to regulate the operations of the State businesses and should lessen, and eventually stop regulating them by memorandums, decisions, resolutions and administrative orders.

3.3.2.1.5. The State should soon develop and complete a legal system in order to define the game rule for businesses. Of special importance are the laws on business, ownership rights, corporation, bankruptcy, civil code, taxes, banking, insurance, accounting and environmental protection.

3.3.2.1.6. Trial equitization and establishment of managing councils are the right things to do during reform. The government should step up this work. While opinions on this question differ greatly and seem to have reached deadlock, the results of the trials will be the objective arbitrator for it. The government also should create a favourable socio-economic and legal environment for the trial of equitization.

3.3.2.1.7. In conformity with the changes in reality, the

number of State businesses with 100% of their capital provided by the State will be reduced. Only a small number remain but will be obliged to meet the demand for public goods of the entire society, economy and population. These businesses will be non-profit and may operate at a loss. The State therefore should have policies to support and subsidize them.

### *3.3.2.2. In the private sector :*

3.3.2.2.1 It can be ascertained that whether the Vietnamese economy will develop dynamically, efficiently and at a high speed depends on the development of the private economic sector. The Government therefore should win the confidence of the private investors and create favourable conditions for them to invest in businesses. The licensed private businesses should be protected by the State's laws and policies, treated as equal with others before laws and properly respected in society. Private ownership should be regarded as the main engine for economic development.

3.3.2.2.2. In line with the above approach private investment should be encouraged in all fields of the State sector, (except for security and defence). Private investors should also be encouraged to put their money in any localities they deem as best for them.

3.3.2.2.3. Private investors should be encouraged by tax exemption or reduction or easy credits, etc., to put money in labour-intensive production.

3.3.2.2.4. Policies on tax, credit and labour always have direct impact on the development of private businesses,



especially their revenue and financial status and their decision on continued investment. There remain in these policies many inappropriate points which should be changed. Only on that basis, will private investors feel comfortable to invest in medium and long terms production.

3.3.2.2.5. Book-keeping should be done in a uniform and persistent way in order to effectively manage business activities of the private sector.

3.3.2.2.6. State management of the private sector should be strengthened through the granting of business licenses, control and supervision in line with promulgated laws and orders to minimize the acts of violation such as illegal business, tax evasion, cheating and speculation.

3.3.2.2.7. The State should be help in the training of private businesses so that they can acquire the necessary knowledge of business, be able to manage their enterprises and have a good grasp of laws. It should also create favourable conditions for private businesses to inquire into the world and regional markets and the foreign experience in managing and conducting small and medium sized businesses.

### 3.3.2.3. *In the collective economy (Cooperatives)*

3.3.2.3.1. First, we should reconfirm that the existence and development of this sector is necessary and in conformity with the natural development of an economy, that it has an objective existence. We can not take the past errors in the development and management of cooperatives as reason for denying or rejecting it.

3.3.2.3.2. For it to assume the role and tasks assigned by the economy, this sector must be reformed fundamentally and completely, including its relations of ownership, management, and application of scientific and technological progress. This sector should be made of qualitatively renewed cooperatives, those which come into existence and develop at the request of business and production, and are based on the private ownership of voluntary members. These cooperatives operate on principle of voluntarism and responsibility, have legal personality and bear all losses and profits.

3.3.2.3.3. Stock-cooperatives will be the main components of the collective sector in all fields of the economy. This should be the starting point for the reform of cooperatives. However, it is not the unique nor magic cure for all the existing diseases of this sector. It should be coupled with the State's efforts in solving all questions relating to policies on investment support, credit, tax, and the application of scientific and technological advances.

## CHAPTER 4

# REFORMS IN AGRICULTURE

So far, Vietnam is still in its initial steps of development, in which changes in agricultural production have played an important role. Agriculture has proved that it not only has a direct impact on the country's daily economic life but also will exert a decisive influence on its long-term development. This explains why agriculture has been a permanent concern of the Vietnamese government, and why the government has focused its reform efforts first on agriculture.

Any leap forward of an economy requires first of all a corresponding change in the economic practice of agriculture. And the success or failure of an economy has its roots in the changes in this traditional field of production. As agricultural reforms in Vietnam have shown, they not only have their own characteristics but share features with reforms in other fields of the economy as well. Therefore, it is necessary to study the main reforms in Vietnam's agriculture so as to understand its broader on-going economic reforms.

#### 4.1. AGRICULTURE BEFORE ECONOMIC REFORMS

Before dwelling on reforms in Vietnam's agriculture in the eighties, however, we would like to point out a number of main features of the Vietnamese agriculture and the basis of its current profound reforms

4.1.1. Industrialization had been going on for 20 years before the 1980's. However, due to the war and the inappropriateness of the industrialization policy itself, which was domestically oriented, industrialization has produced few results. Worse, it has left serious consequences to the over-all development of the economy. In a nutshell, industrialization had failed to change either the traditional nature of the economy or its slow pace of development. In fact, the economy remained an agricultural one. The following data are a clear indicator.

##### Ratio of agriculture in the economy (%)

	1976	1977	1978	1979	1980	1981
Total agricultural output in the economy	39.0	37.0	35.2	36.8	39.8	40.4
Agricultural output value in GDP	50.2	48.3	45.7	47.4	51.1	52.1
Mouth-to-feed in agriculture	64.6	67.1	69.3	71.3	71.4	71.8
Investment in capital construction in agriculture	20.0	23.7	22.7	20.1	19.0	20.5

*Sources : Statistical Survey 1990.*

*Note* : Data provided in this paper are taken from the Statistical Survey 1990 and the State of Agriculture, countryside and Peasants in Vietnam in 1976-1990

As shown in the data of the above table, in the first 20 years of industrialization, most of the country's population were still working in agriculture. The economy in the whole country essentially depended on agriculture, which remained the main source of living.

The data below illustrate the country's agricultural production in the period after national reunification (1976)

	1976	1977	1978	1979	1980
<b>Food output (million tons)</b>	13.4	12.6	12.2	13.9	14.4
- Rice in which (million tons)	11.8	11.6	10.6	10.0	10.3
<b>Per-capita food</b>					
<b>distribution (kg)</b>	274.4	240.6	238.5	266.5	268.2
- Rice in which	250.1	209.7	190.4	216.5	215.8
<b>Food import (1000 tons)</b>	903	1,567	1,994	2,244	1,274
<b>Rice productivity (100 kg/ha)</b>	22.3	19.4	17.9	20.7	20.8
<b>Rice acreage (million ha)</b>	5.29	5.46	5.46	5.48	5.6
<b>Buffaloes (1000 heads)</b>	2,256.5	2,289.7	2,327.7	2,293.0	2,313.0
- Oxen (1000 heads)	1,595.2	1,655.7	1,646.0	1,628.1	1,664.0
- Pigs (1000 heads)	8,958.1	8,739.2	8,838.9	9,348.0	10,001.2

As shown by data on its main production lines, agriculture of this period was marked by stagnation. It failed to solve the country's food problem, the base of all other economic activities. Given that level of development, the economy

levels could not rise above the first of the five standard levels of development. Besides, it failed to prepare itself for the stage of real development.

As regards the labour-land relationship, an indicator of the development level of agriculture, the period prior to the agriculture collectivization in the North saw an equilibrium. Although there were untapped lands, agriculture had in fact exhausted its capacity in view of the old mode of production. The tapping of idle land then required large investments and also a new mode of economic activities. In the early 1960's, per-capita rice area in the Red River delta ranged from 1,200 - 1,500 square metres. Now, this rate has dropped to less than 1,000 square metres. In provinces such as Thai Binh, Hai Hung and Nam Ha, it is just from 600 - 800 square metres.

Given such a low availability of land and in the context that rice cultivation remained the only production line, agriculture alone could not employ all the labour force in the countryside. It is estimated that about one million labour hands are currently unemployed. However, thank to the mode of contractual production, all farmers now have at least a piece of land big or small to work on. Therefore, unemployment in agriculture exists mostly as a potential. In my view, this is the basic and most important form of unemployment in the countryside. An average peasant household of five members, including two work hands are usually allotted 4,000 square metres of arable land. Working on this plot, the two work hands and the other members of the household spend approximately one month to start a crop and another one week or ten days to harvest it.

Even for two crops, they will spend only three months of the year on the field. Barring another two months for their other businesses, farm hands therefore have enough work for only five months of a year. In the remaining seven months, they are unemployed in the true sense of the word, i.e., they have no income-generating work to do. Data in the above table show that over 70% of the rural households are wholly in agriculture. Only really 30% are semi-agricultural. However, non-farming jobs of these households are often in short supply. Given a population of 21,600,000 agricultural work hands, these percentages mean that no less than 15,000,000 are totally employed in farming. In other words, these 15 million work hands face potential unemployment representing 50-60% of the workforce put in another way between seven and eight million people are totally unemployed.

This state of underemployment led to a low level of income in the countryside. According to a 1989 survey of the economy conducted in the five provinces of Hoang Lien Son, Ha Nam Ninh, Binh Dinh, Darlac and Hau Giang, the income levels of the 6,457 rural households surveyed are as follows :

- Per-capita income of over 40,000 dong/month :	8.06%
- Per-capita income of 30,000 - 40,000 dong/month :	10.34%
- Per-capita income of 20,000 - 30,000 dong/month :	26.54%
- Per-capita income of 10,000 - 20,000 dong/month :	45.62%
- Per-capita income of under 10,000 dong/month :	9.44%

With the poverty line set at 20,317 dong/month/person in

1989, over 60% of the rural households fell below this line. The rest- those with incomes of over 40,000 dong/month were closed as well-off. However, in the final analysis the well-off too, were living in poverty since the official poverty level just enough to buy 13.5 - 14 kg of rice, 0.4 kg of meat, 0.94 kg of fish, 3.5 kg of vegetables and 0.15 kg of sugar. This amount of food would translate into 1,500 - 1,800 calories a day, way below the base level of 2,200 - 3,000 calories. Life in the country was thus very poor. Also, since incomes were too low, agriculture could hardly produce any surplus. Consumption level was very low, too.

The labour-land relationship was further strained. Beside industrialization, other non-farming businesses failed to attract labour from agriculture. The labour land ratio was not lowered but, on the contrary, tended to grow at a picked-up pace as more and more work hands were discharged from failing industrial enterprises, public offices and the army. It can be said that a new demographic cycle was taking place in the country, which was characterized by an abnormal increase of population, further aggravating the potential unemployment in the countryside.

4.1.2. Above is an outline of the main features of Vietnam's agriculture in the period after national reunification when the whole country embarked on industrialization and socialist transformation. Now let us look into the causes of the stagnation in agricultural production and its low level of development. As we know, development does not start from industrialization, which by itself is only the central stage of the whole process of development. Although the start of



development varies from one country to another due to their different natural and historical circumstances, for an agricultural economy, the start must be, first of all, the movement in agricultural production since it affects the mode of life of the biggest group of population. In Vietnam during the 70's, the mode of rural economy was mainly collective plus some a few state-run socialist enterprises.

Although the State then considered industrialization its central task, it paid constant attention to agriculture, considering it the "forefront" and the base for industrialization. For two decades, the State invested considerable amounts of capital in building the infrastructure, of agriculture. First of all, irrigational works, training cadres, introducing technical advances, especially new seed varieties, new breeds of animals and chemical fertilizers and pesticides, and taking initial steps in mechanizing agriculture. Technically speaking, agriculture production made significant progress in this period. The State also paid attention to diversifying agricultural production, trying to change the mono-culture of the past. However, progress in general was not visible. Although a remarkable movement was set in motion, the considerable efforts to shift the countryside to a new mode of production so as to heighten productivity and achieve a high surplus, or in other words, to create a qualitative development in the most backward sector of the economy i.e agriculture, had been mostly unsuccessful. By the end of the 1970's, agriculture had fallen into a state of stagnation and crises. The introduction of new rice strains, irrigation, chemical fertilizers, mechanization as well as the inclusion of industrial crops and live-stock breeding in

agriculture had in fact brought about no significant changes to the peasants' income. Their take-home amount of rice decreased while the GDP and GNP of the agricultural sector either remained static or declined due to the quick growth of the rural population

The causes of stagnation in agriculture were not to be found and accounted for in the State's investments and efforts to improve its technical aspects. Rather they are the result of model of production itself. About collectivization, a mode which existed for over 20 years in agricultural production, we have done a separate research pointing to the contradiction between its nature and the practical needs for agricultural development (1).

In this paper, we only wish to emphasize that the abolition and collectivization of the traditional peasant economy had in fact, imposed on it a mode which was economically opposed to the conditions for production of agricultural commodities. As a result, economic motives ceased to exist for agricultural production which by now had become a bureaucratized economy based on the supply in kind. In other words, agriculture was set in a uneconomic mode. Peasants in this economic model practically had no other interest than to maintain their own basic existence. Their dream for a comfortable and well-off life having been frustrated they began to feel disenchanting. In addition, as the war ended, the patriotism that had been a driving force for peasants to engage

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(1) See " Problems of the collectivization in Vietnam's agriculture". Social Science Publishing House, Hanoi - 1991.

in non-profit activities also ceased to function as before. This was the chief cause of the crisis in the collective sector of the northern economy. In the South, given an already existing commodity economy, farmers refused to accept this mode. Statistics on the number of cooperatives and production established there created a distorted image of the success of collectivization drive. In essence, success was only nominal. Farmers in reality continued their own way.

As agricultural policies of the 70's were designed to promote the production of food, the failure to solve food problem, in fact, undermined them. To get out of stagnation and crisis, it had become necessary to adopt reforms so as to shift the economy to an appropriate model. It can be said that the agricultural reform which was started in the early 1980's was not a chancy outcome but the inevitable result of the movements in agricultural production in the previous years.

## **4.2. CONTENTS, PROCESS AND RESULTS OF REFORMS IN AGRICULTURE**

4.2.1 The successive reforms effected since the early 1980's have pulled down the mode of public economy and put in its place an entirely new mode for the economic life of Vietnam.

Officially, the start of the national economic reform lay in the resolution of the 6th Congress of the Communist Party of Vietnam in 1986, which decided to shift the national economy to a commodity one. However, reforms in agriculture, which served as the curtain-raiser for the nation-wide economic reform, had begun much earlier.

In the earliest stage, in response to the uneconomic mode of collective production and also to save themselves, many cooperatives began to contract farming works to peasant households. This, of course, ran counter to the collective mode, and even eroded it. At times, it was criticized (2). The practice then was mostly carried out in a covert way, hence the name "illicit contract". There was a wide controversy about it. But then it actually played a decisive role in restoring agricultural production and proved so efficient that in early 1980, it was recognized by the Secretariat of the Communist Party of Vietnam in its Instruction 100. This instruction could be considered the first legal document for the economic revolution in Vietnam's agriculture. In 1967, Instruction 100 called for contracting end-products to individuals, laborers or groups of laborers. But in reality, the contract was one with the peasant households. The problem was although the merits of contractual work had become irrefutable, fears, still existed that the old private economy would re-emerge and go against the collective economy. Contract, as defined by the construction, would return to peasant households only part of their right to do business, but had not touched the base of the collective economy. The households were allotted a certain amount of land and provided with certain services needed to produce the amounts of rice that they had promised to deliver to their cooperatives. Cooperatives still maintained control part of the works in the farming process.

However, the main works were now done by the

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(2) In 1967, contractual work has widely applied in Vinh Phu province but was criticized as a tendency to revive private economy

households. Peasants also enjoyed certain autonomy in business. They were free to put in more investments and apply the farming techniques they deemed most suitable to their crops in order to increase productivity and produce a surplus. In other words, peasants now were the masters of their own farming business, working to maximize their surplus. In the five years from 1981 to 1985, this model proved a major engine driving the country's agricultural production, helping it out of the stagnation and crisis of the 1979-1980 period.

<u>Year</u>	<u>1976</u>	<u>1979</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
-Gross output of agriculture ( bill. d 1982 price)	65.3	65.8	73.8	82.2	85.0	89.4	91.72
- Food output (mill. tons)	13.5	13.9	15.0	16.8	17.0	17.8	18.2
-Yearly rice productivity (100kg/ha)	22.3	20.7	22.0	25.2	26.3	27.3	27.8
- Monthly per-capita food production (kg)	274.4	266.5	272.8	299.6	296.4	302.9	304.0

Increase in food output led to the decrease in food import which in 1985 was down to 603 tons from 2,244,000 tons in 1979. This was as remarkable achievement for agriculture under Instruction 100.

As the instruction created a breakthrough in the search

for a substitute for the collective model, the later, remained nevertheless the main model in agricultural production. Meanwhile, the peasant household economy had not taken firm roots. It was still in the fledgling stage and exists only in the peasants' efforts to increase their investments so as to maximize their surpluses. However, the surplus would be neutralized once the contract quota increased. The peasants' extra efforts would also be annulled. If they still tried to produce as much as they were contracted to, so the real mode of production remained essentially of form collective in spite of a change

For its part, to strengthen its position in practical life, the collective economy tended to claim and control all sources of net-income. Besides, as cooperative were in essence state-run, aside from production it was obliged to provide social securities in the countryside. In other words, it not only had to produce to meet the need of its own community and procure to the State in the forms of tax and under-priced seles but also to attend to the community's social needs.

In fact, as agricultural production regained its strength, cooperatives increased peasants' contract quotas considerably. These increases ate into the peasants' surpluses, discouraging them from doing their best. Besides, to cover social expenses, cooperatives began to set up more funds, some having up to 22 different ones.

In this situation, the actual income peasants gained from their contracts fell to barely around 20% of what they have actually reaped in the field. In other words, it collective or contractual, the peasants could claim only a small part of their

total production. Compared with the 70's, their real income has increased marginally, even though the situation has changed greatly.

Again the peasants receded. They returned their contract lands to cooperatives, keeping back only just enough to produce for their own consumption. In worse cases, they refused to remit their contract quotas or underpaid them. At first, only those who failed to fulfill their contract quotas would do so. Later, this practice spread even to those who surpassed their contracts, spawning such a bitter conflict that a sizable number of cooperatives resorted to force to compel the households to pay their contract quotas. Ironically this was a replay of the past in which landlords, now cooperatives, drove tillers, now peasant households, around to squeeze them out of their little products, a scene that had been buried in the country's democratic revolution. It was this conflict that once again pushed agriculture back into stagnation in the mid-1980s. The situation of agricultural production in the 1984-1987 was recorded in the table below :

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
- Number of agricultural households (1000)	8,102	8,315	8,431	8,652
- Mouth-to-feed in agriculture (mill.)	40.4	41.2	41.8	42.7
- Workforce in agriculture (mill.)	17.0	17.5	18	18.5

- Food output (mill. tons)	17.8	18.2	18.4	17.5
- Per capita food production (kg)	302	304	300	280
- Live stock breeding				
+ Buffaloes (1000 head)	2549.2	2590.2	2657.6	2752.7
+ Oxen (1000 heads)	2418	2597.6	2783.5	2979.1
+ Pigs (mill. heads)	11.2	11.8	11.8	12.0
- Live weight pig (1000 tons)	715.6	748.6	833.2	898.7

But this time, stagnation was not as serious and critical as one in the in late 1970's, since part of the process of agricultural production had been delegated to the peasants. Especially, agricultural occupations such as live-stock breeding and gardening were now fully in the hand of peasant households. The stagnation and recession thus hit only rice culture and the areas still controlled by cooperatives while the other lines of agricultural production continued to increase.

This proved that any further pursuance of the contractual system as provided for in Instruction 100, which in essence was to maintain the collective economy, would hamper the continued development of agriculture.

To solve this crisis, in April 1988, the Political Bureau of the Communist Party of Vietnam Central Committee adopted Resolution 10 whose main content was to replace the system of



end-product contract to individuals of groups of labourers with a system of "package contract" to peasant households.

Package contract here means :

1) To allot land on long term to peasant households under unchanged contract quotas.

2) To abolish the work-point system and replace it with a system of payment under which peasants will pay for the farming services they get from cooperatives and their land sent in cash or in kind;

3) Peasant households will control five of the eight jobs in the farming process and take full responsibility for the whole production on the land allotted them

This change of the contract system took place two years after the 6th Congress of the Communist Party of Vietnam (1986), which had resolved to shift the national economy to a multi-sector commodity one. After that, the 6th plenum of the Party Central Committee (6<sup>th</sup> Congress) also adopted a resolution defining the peasant household as an autonomous economic unit. Put together, these three resolutions provide systematic view of the revolutionary changes which shifted Vietnam's agriculture from a command economy to a commodity economy. Resolution 10 specially provides for the decentralization and abolition of the bureaucratic and in kind relations between peasants and their cooperatives. The shift to the commodity economy and the abolition of bureaucratic subsidization and centralized planning have led to changes in

the relations between the State and cooperatives, hence also the relations between the State and the peasants themselves. These relations are now market relations in principle. The peasants' and cooperatives' only obligation to the State now is to pay agricultural tax and they no longer have to remit most of their produce to the State.

This, in fact, is a great step toward decentralizing and liberalizing peasants' economic activities. The restoration of the peasant economy, making peasant households an autonomous economic unit, is the most profound decision in this economic revolution. While collectivization abolished the peasants' private economy, and the contractual system based on Decision 100 first loosened the rein on peasants' farming business and soon afterward tightened it, this restoration spells out the end of the collective economy. This is why we call it an economic revolution. In reality, cooperatives as they were known in the past now only exist in form and have been forced to change to service bodies. Some cooperatives have been totally dismantled, unlike in most places where managing boards are allowed to remain. However, legally speaking, the contract relation continue to exist between cooperatives and farmers. And this again is putting constraints to the full liberalization of agriculture and its complete shift to a full commodity economy. In short, though the current revolution in agricultural production has fulfilled its main tasks, is far from being concluded.

The restoration of private economy in agriculture and the

gradual dismantlement of the collectives, themselves a revolution in agriculture, have brought about a new development for agriculture.

	1988	1989	1990
- Gross output of agriculture (billion dong)	100 5	108	90.6
- Food output (1000 tons)	19583.1	21515.6	21488
- Per-capita food production (kg)	307.9	332.2	324.6
- Food import (1000 tons)	715.2	282	-
- Food export (1000 tons)	1402	1852	308
- Live stock breeding			
+Buffaloes (1000 heads)	2806.8	2871.3	2854.1
+Oxen (1000 heads)	3126.6	3201.7	3120.9
+Pigs (1000 heads)	11642.6	12217.3	12260.5
+Live weight pigs (1000 tons)	896.6	957	1007.9

*Source : Situation of Agriculture, Countryside and Peasants in 1976-1991 period, Hanoi - 1992.*

The revolution has helped bring agriculture to a decisive turning point : From chronically short of food the whole country has become a rice exporter, selling over 2 million tons of food a year. More importantly , with the food problem solved, agriculture now has a firm base to effect structural changes. There has also emerged a basis for a laege -scale re-division of labour in the whole economy.

4.2.2. We have reviewed the causes, the unfolding and results of the agricultural reform in the 80's. Now we shall

present an overview of its main contents and come up with a few suggestions for it to be continued

First of all, the reform has affected the base of the whole economic system. We can label it the "new land reform" in the Vietnamese countryside. It is one of the three most profound changes which have taken place in Vietnam in the past five decades, the other two being the national democratic revolution and the socialist revolution. These changes all have economic implication, being revolutionary changes in the ownership relation. In the land reform in the 50's the landlords' ownership of land passed to the hand of the tillers. The feudal economic regime was toppled and in its place was the private peasant economy. The socialist transformation, which began in the North in the 60's and in the South in the late 70's and the early 80's, was in essence a socialist land reform whose main purpose was to change the land ownership from private peasants to collectives which, in fact, were semi-state-run economic units. The transformation brought about a basic change in the mode of economic activities. From being private with a tendency to become a commodity economy, the economy was shifted to the collective form operating under command and organized in a bureaucratic way. In other words, the collectivization of land replaced the private and market system with a semi-state and command one. The reforms which have been to change the ownership, including land ownership, from collective back to private hands.

Constitutionally speaking, the land is owned by the entire people. But economically speaking, this means an incomplete

private ownership of land. As individual peasant households now are defined as autonomous economic units, for agricultural activities to take place, they must be assigned land to work on. It is this very nature of the assignment that decides to whom the land belongs. Besides, there have been other legal documents which stipulate that the peasants can re-assign or pass down their right to work on the land they are allotted under contract. In reality, land reassignment has been going on for some time at which is approaching the price of land under the system of capitalist ownership.

The land reform therefore can be seen as a distribution of land to farmers. In addition, the fact that land assignment is now possible provides the prerequisite conditions for a deep-rooted change in the economy :the chang to a commodity economy.

However, as contracts still bind peasants to their cooperatives and land still officially remains a property of the entire people, re-assignment in fact is hard to transact and the peasants' real control of their assigned land is limited. What matters here is not only the extent of their control but its substance as well. The land relation, as provided for in Resolution 10 in which the state is the sole owner, is in essence that in the countryside prior to the pre-national democratic revolution period . Under Resolution 10 , land is distributed in 3 or 2 rounds. In the first round, distribution is to provide peasants with enough land to till for their basic needs. In the second round, more land is given to families who can farm more . The third round is for bidding. It is understood that in this kind of land

distribution, the plots distributed in the second and third rounds are for commodity production. Let's look at the ratio of land really distributed in these three rounds: Surveys done at four provinces in 1990 by the statistical service show the following:

Province	Hoang Lien Son	Ha Nam Ninh	Binh Dinh	Dac Lac
First round	82.16	87.71	98.23	98.11
Second round	6.5	64.5	1.76	1.48
Third round (bidding)	1.52	0.37	0.08	1.48

The data above show that most of the land is distributed in the first round while that in the second and third rounds is not significant. Put aside for bidding are often waste lands or water areas or areas which are difficult for cultivation and require intensive investment. Also, the plots for distribution in the second round are often those reserved for the new-returnees such as demobilized army men. In the long run, land of this category will become land distributed in the first round. So the distribution of land in such a manner is in essence an egalitarian practice aimed at providing the rural population with enough food.

Besides, the distribution is not done once and for all, but in cycles of 10-15 years. If it had been done otherwise, all the land

in the countryside would have belonged to the peasants, and the distribution would be the repeat of the land reform in the national democratic revolution . However, with the distribution to be renewed every 10-15 years, it assumes a different nature. that of periodic egalitarian distribution. The system of public land of communal character is thus re-established in the countryside. The public land now belongs to two tiers of ownership, the state at the higher level and the communes and villages at the lower. Here, land is nominally property of the entire people, but to get to the peasants users, it must go through the distributing hand of the communes and villages. In other words, communes and villages are the intermediat owners of the land. As they have already been reestablished as administrative units, they have the full right to allot lands to residents living in a given village or commune. Residents of one village or commune will not take part in the land distribution in another village or commune ,nor can the land of one village or commune be distributed to the residents of another village or commune. Likewise ,land assignment can be done only within a given commune or village. In short, distribution of land under Resolution 10 while failing to retain the system of collective ownership but has also not set up the base for a private agricultural economy. It revived the system of public land which already existed before 1945. The reform itself therefore is a step backward from the one in the national democratic revolution. It only provides an immediate stability of life in the countryside while in the long run, it will tie peasants to their periodically-renewed land contract and force them to movement of agriculture toward becoming a commodity

economy. In other words, reforms based on contract relations while liberating peasants from the uneconomic collective relations, have set agriculture back to its obsolete form.

Secondly, the reforms of agriculture in the 1980's have indeed dissolved the collective economy and installed in its place a private one. Even as cooperatives continue to exist in the countryside, they no longer have the characters of a collective economy. The contract relation as mentioned above is in fact one of periodically renewed distribution. If this type of distribution is to be dropped and replaced by the once-and-for-all distribution, then the contract relation itself will cease to exist. As cooperatives collect contract quotas, tax and irrigation service fees, they function as state organizations. If they no longer junction as part of the collective economy. Their operational funds, provided by the peasants, will in fact be used as capital for a few to run businesses for their own profits.

The recognition of peasant households as autonomous economic units in essence is an acknowledgement of the private economy and reestablishment of peasants' private businesses. Despite the continued bondage of the periodically renewed egalitarian distribution of land, the peasants' economy at present is characteristically different from that of the hired tillers in the past. On the one hand, the present economic standards are much higher. The peasants' economic activities are controlled by the general activities of the market. On the other, the peasants now have a broad freedom in their farming activities and businesses. Noticeably, after the peasants' business autonomy was



restored, their capital and stock of farming equipment have increased while those of the cooperatives have decreased significantly. Surveys done in 1988, 1989 and 1990 in Nam Giang and Hai Van communes in Ha Nam Ninh, Dong Duong and Nguyen Xa communes in Thai Binh, and Tam Son and Dinh Bang communes in Ha Bac province yield the following data about privatization (in percentage)

Tools	Ownership	
	Collective	Private
1. Working buffaloes and oxen	-	100
2. Motor machines	10	90
3. Machine tools	7	93
4. Transport means	6	94

The table above show that most of the main production tools have belonged to peasants. Worthy of note is this process of privatization coincides with a process of polarization, in which a number of households begin to outperform others in business. However, this polarization is also a diversification of the economic sectors. At the lower end now are hired labourers, professional or semi professional. At the opposite are competent business people whose capabilities reach outside agriculture. They begin to hire labour and do business in the capitalist manner. The polarization is at its budding stage, but it embodies the nature of the changes in the rural economy.

Along with the privatization and the polarization a process of cooperation takes place among the new entrepreneurs

Thirdly, along with the dissolution of the collective economy, the abolition of the command economy, the liberalization of economic activities and the restoration of private business on large scale is the process of changing the economy to a commodity one. It can be said that the changes in the managerial mechanism, and the role of the state as well as in the forms of production and business are different aspects of a profound and comprehensive economic revolution. Only with such approach one can get a thorough view of the vibrations of the whole economic machine and the inevitable break downs in the efforts to chart out a path for the economy.

#### **4.3 PROBLEMS TO BE SOLVED**

The extensive reforms of the 80's have returned to the peasants their own private economy. They constituted a decisive turning point in the process of liberalization of rural economic activities, leading to the formation of a rural market. However, the rural economic life has barely got on the track of development, how it will develop remains to be seen. The achievements of the 80's are only enough to restore agriculture from a period of recession and exhaustion. The development of rural economy not only concern the sustainment of the peasants' living but it also is of decisive importance to shift most of the rural population into non-agricultural areas of production and make agricultural production one of commodity

and for trade. The appearance of commodity economy has broken down the structure of traditional agriculture. Yet without outside intervention, this is bound to be a long-drawn process. What is of decisive importance now rests with the State's policies and strategy toward agriculture and rural economic development.

Although the household-based private economy has been re-established, the following factors concerning economic policies have not yet been resolved thoroughly and are hampering the shift of the rural economy to a market and developed one.

1. Collective economic relations continue to exist in the current contract system. They are putting hinderance to the on-going process of cooperation in the countryside. In addition, it is these very relations which are placing upon peasants the burden of covering all social expenses within their communes and villages. Beside taxes paid to the state, the peasants in fact are obliged to make many other payments to funds set up within the framework of their old cooperatives, which eat up a large part of their incomes and exhaust them. Therefore, a complete abolition of the contract system and what is now the formal existence of collective economy and a complete switch to a system of cooperation between individual autonomous peasant households have become urgent.

2. As the private peasant economy is reestablished, a new land relation is bound to come up. The reestablishment of the peasant economy and market relations require a complete change in the land relation. Land as a national property can and should belong to the entire people under the State

management. However, as a means of production, providing the basis for agricultural activities, land will inevitably come under the control of market relations. In other words, land must become an object of assignment and trade, a commodity. Only in that condition, can it be used appropriately and effectively. Once it operates in the market mechanism, it will automatically become a property owned by peasants, or at least, the peasants will have an established right to its use. In other words, the state will own the land while peasants have the full right to use it. Only then can we have the accommodation of land being a state-owned property and at the same time meeting the needs of the process of shifting the economy to a commodity and developed one.

Up to 1992, food production of the whole country had reached 24.5 million tons. This is a good indicator showing that food production has begun to surpass the domestic need. It is also from this mark, a new economic process has started to really take shape : agriculture is changing from an autarchic production to a commodity and developed one in the countryside. In rice culture, this process is composed of the following main features :

1.a. Industrialize all post-harvest processes.

1.b. Change from high-yield low-quality rice varieties to varieties of high commercial values.

1.c. Change the technical processes of rice growing and upgrade the marketing techniques of food trade.

2. Diversify agriculture and make it include more non-food production lines of high commercial values and efficiency; pay

more attention to live-stock breeding, marine products and tropical specialties, especially vegetables and fruits .

3. Invest in building rural infrastructure, first of all roads, electricity, irrigational works and land preservation and protection.

4. Draw peasants from doing only farming work to non-farming works.

5. Strengthen the monetary and credit relations in the countryside.

Above is an outline of the economic process which is currently going on in Vietnam. It is providing a basis for the State to work out plans for the promotion of agriculture and the economic development in the countryside in general.

From now on the government policies will be veucial to the continued acceleration of the process of economic liberation which is also the process of transforming the economic structure in the countryside in the direction of librating the productive force of the farmers and commercialisationog agriculture .This includes a land policy aimed at speeding up the formation of farms producing commercial agriculture produce, the policy of free enterprise freedom of transfer from one occupation to another and from one locality to another, freedom of founding associations and cooperatives, the credit policy, the policy on prices of agricultural produce and materials ,the policy of state investment in support of the peasants in their economic development and shifting of

occupations. While the recent reforms have only stopped at restoring to the peasants their economy, the policies of the government from now on should be to continue to revolutionize the countryside to transform it into an area of dynamic and efficient economic activities as basis for the transfer of the economy to a higher level, that of industrialisation

## CHAPTER 5

# EXTERNAL ECONOMIC RELATIONS

Since the 6<sup>th</sup> congress of the Communist Party of Vietnam in 1986, the broadening of external economic relations has been considered an objective requirement, an important prerequisite for the implementation of the country's political tasks and socio-economic targets.

The main contents of the renovation of external economic relations in this period, as defined in the documents issued by the Party and the Government, are :

- To boost export to meet the demand of import.
- To broaden economic, scientific and technical cooperation with the outside world, irrespective of political regime.
- To diversify market and mode of operation in line with the open door policy, and step by step integrate the national economy and market into the world economy and market.
- To reform the managerial mechanisms for export,

import, investment and economic and scientific - technical cooperation and broaden the right of different services, localities, localities production and export - import units to deal directly with their foreign partners, abolish the mechanism of centralized management and the system of export - import subsidies, and apply cost-accounting in export - import activities. At the same time, to strengthen macro-economic management through a system of laws and policies and clearly drawing the line between state managements and business management.

A new point in the state management in external economic relation since the 6<sup>th</sup> Party congress is the institutionalization of the above renovation policies in legal documents. These legal documents include the Law on Foreign Investment in Vietnam, the Ordinance on Transfer of Technologies, the Council of Minister's Decree on Management and Organization of Export-Import Activities.

Thanks to those reforms, external economic activities such as export and import, cooperation and investment, and tourist service have achieved important initial results.

The 7<sup>th</sup> Party congress in 1991 reaffirmed the direction of renovation in the external economic field.

As commonly perceived in Vietnam, the contents of the open-door policy include, among others, foreign trade (export and import), cooperation and investment, tourism, foreign exchange-generating services, loans and payments in foreign currencies and labour exchanges. Those external economic activities assume different degree of importance in different



periods of history and ferrirorical areas. However export and import and cooperation and investment in general have always played the most important role. Therefore, this paper will deal primarily with these two forms of activity.

## **5.1. FOREIGN TRADE**

### **5.1.1. Export :**

Until the early 1990's, Vietnam had applied two different trading mechanisms, one for the former socialist countries (group 1) and the other for the capitalist world (group 2). With the former socialist countries, trade was mainly based on planning coordination and governed by State-level protocols. Vietnam was provided with government loans to pay for its import surpluses.

Vietnam's total export value of the 1986- 1990 period was 6.85 billion roubles/dollars, 2.37 times that of the 1981-1985 period. With an annual growth rate of 27%, such as increase was relatively high by the 1983-1984 standard of developed and stable economies like Japan (9.1%), the United States (4.2%), France (9.0%), Taiwan (16.5%), and Thailand (12.5%).

However, in absolute term, Vietnam's export value represented only 5 per hundred thousand of the world's export, or 16% of the Philippine's and 10% of Thailand's. The per-capita export value also ranked among the lowest in the world.

It was not until 1988, after a period of trials in a complicated context, that the reforms of the import-export

managerial mechanism started to strongly affect export. That year, with broadened access to markets in capitalist countries, Vietnam's export value for the first time exceeded 1,000 million roubles/dollars. This rise continued in the ensuing years : 1,820 million roubles/dollars in 1989 (a record increase) and 2,200 million roubles/dollars in 1990. In 1991, despite the upheavals in the Soviet Union, then its biggest trading partner, Vietnam netted an export value of 1,970 million roubles/dollars. In the first 6 months of 1992, this figure was 991 million US dollars.

As the market for export was expanded in the direction of multilateralization, the ratios of exports to countries in Group 1 and Group 2 changed as well.

In 1986-1990, export to Group 1 was 3.5 billion roubles, accounting for 55.5% of the total export; export to the Soviet Union alone was 2.5 billion roubles, or 72.8 percent of the export to Group 1 and 37.2 percent of the country's total export. Export to Group 2 was 3.35 billion dollars, or 44.5 percent of the total export.

In 1991, however, export to Group 1 dropped to 191 million roubles, or only 9.6% of the total export value while export to Group 2 increased, accounting for most of the country's export. The main reason was that the export to Group 2 was more flexible. The number of buyers was greater and spread across Asia, Europe, Africa and America, especially Southeast and East Asia. Japan was Vietnam's biggest trading partner in East and Southeast Asia, followed by Hongkong, Singapore and South Korea.

As regards export lines, the staples continued to be such traditional lines as sea products, handicrafts, tropical farm produce and light industrial goods. These items can be had in great quantities and yield high value.

**Table 5.1 : Export value in groups of items**

(in million roubles/dollars)

Year	Total	Heavy industry and minerals	Small industry and handi- crafts	Farm products	Forest products	Sea products
1976	222.7	35.7	86.6	75.3	6.2	19.4
1980	338.6	36.9	160.5	116.2	13.7	11.3
1985	698.5	62.9	235.5	271.2	40.5	82.6
1986	822.9	62.1	245.6	29.2	80.1	103.9
1989	1946.0	3541.8	571.3	742.2	86.9	188.2
1991	1970.0	117.7	267.0	199.2	99.1	

The above table shows that since the 1970's, the main exports remained farm produce, small industrial and handicraft products and minerals. Farm produce are exported mainly in the form of unprocessed materials ; the total export volume is small; and there are not yet any major items which can make a difference in overseas markets.

In recent years, rice and crude oil have become two main export lines. They accounted for 60% of the increase in Vietnam's export in 1989:

As regards crude oil, it should be noted that while Vietnam exports crude, it imports refined oil and gas for domestic consumption. In 1990 it exported 2.7 million tons

of crude oil, but imported 3.9 million tons of refined oil and gas. In 1991, these figures were 3.93 million tons respectively, and in the first 6 months of 1992, 2.536 million tons and 1.445 million tons respectively. Thus, in actuality Vietnam has not yet made any net gain in the export of crude oil.

The exports which earn 10 million US dollars and more also include coffee, latex, coal, tea, groundnut, canned fruits, log, floor board, garments, footwear, and bamboo, rattan and rush products. However, due to their low quality and unattractive form, they have not been very competitive and thus cannot assure a firm foothold on foreign markets.

### 5.1.2. Import :

Import has been geared to "effectively serve" the development of production and the upgrading of technologies, raise the quality and competitiveness of home-made products and meet the people's essential needs. Import value of the 1986-1990 period increased steadily along that line.

Year	Import value (in million roubles/dollars)
1986	1,155.1
1987	2,455.1
1988	2,756.7
1989	2,443.7
1990	2,500.0
1991	2,239.0
1992	829.0

Total import value of the 1986-1990 period thus was approximately 12.2 billion roubles/dollars, half as much again as the figure for the 1981-1985 period. Of this 9 billion US dollars were for regular imports and 3 billion USD for complete equipment or cooperation projects. The annual rate of increase was 7%. Of the imports, consumer goods accounted for about 15%, and the rest were production materials. Of the production material imports, about 40-50% were raw materials and fuel, 25% were complete equipment, and 10-20% were transportation means, tools, parts and accessories.

Over the past many years, the import of complete equipment has played an important role in Vietnam's efforts to build the material-technical basis for socio-economic development. A number of capital construction projects such as electric power plants (Phalai and Hoabinh), cement plants, and bridges at key traffic hubs, have been crucial for the country's present development period. However, due to various causes, objective and subjective, the imported complete equipment have operated only at 30 or 40 percent of capacity. According to State offices in charge of importing complete equipment, the major reasons of this situation are the followings :

- There has been a serious disproportion between the capital from outside (here in the form of complete equipment) and the domestic capital invested in exploiting the former. In many cases, equipment had been imported before the capital

for building the factory and infrastructure to operate it such as workshops, power and water supply, transport facilities, stores and ports, was procured. In other cases, even as workshops had been built, material supplies were not ready and the factory thus could not start production or had to suspend operation. Most complete equipment imported from former socialist countries were not of advanced technologies. The products thus bore high cost and were not exportable.

Meanwhile, the import of raw or processed materials such as oil, fertilizers, steel and cotton has positive effects on domestic production.

The import of essential consumer goods which the country has not been able to produce such as television sets, refrigerators, radio sets, motorcycles and fashion clothes has in fact helped raise the general living standard. But, beside these imports, non-essential goods such as beer, liquors and cigarettes were also brought in. These products can sell for a high profit. Therefore, imported through many different channels.

The big volume of such imports of consumer-goods has pushed the prices further into disorder, and worsened the imbalance between money and goods.

An encouraging movement in import is the multilateralisation of Vietnam's import market.

During the 1976-1990 period, Vietnam's imports partners came mainly from the Soviet Union and other socialist

countries which made up 80% of its import value. Vietnam bought from these markets most of the complete equipment, machinery, transport means, spare parts and materials necessary for its economy.

Since 1985, Vietnam has increasingly imported from countries in Group 2. Except for complete equipment, the rate of imports from Group 2 in the over-all import of Vietnam has increased from 19% in 1986 to 25% in 1988, 56% in 1990 and 87% in 1991. Among Group 2, Japan, France, Singapore, Taiwan, Hongkong, South Korea and Thailand are the major exporters to Vietnam. However, the import of production materials, especially modern equipment, from Group 2 markets has been small in proportion.

### **5.1.3. A comparison of exports and imports :**

Before 1989, Vietnam had huge trade deficits. In the 1976-1980 period its exports could cover only 20-40% of its imports. In 1987 and 1988, Vietnam still had a trade deficit of 1,600 million roubles/dollars, with export-import ratio being 1/2.3. Came 1989 with a dramatic change for the better: the export-import ratio was reversed to 1/1.3 and the deficit was down to 623.7 million roubles/dollars. A main reason for this was a marginal increase in export, up by 782 million roubles/dollars. But more importantly it was also because import value did not increase but even dropped dramatically by 318 million roubles/dollars compared with 1988.

The table below shows the trend of the trade balance of Vietnam over the years :

Year	Export (in mil.roubles/USD)	Import (in mil.roubles/USD)	Export - import ratio
1976	222.7	1024.1	1/4.5
1980	338.2	1314.2	1/3.8
1985	695.5	1857.4	1/2.6
1990	2200.0	2900.0	1/1.3
1991	1970.0	2239.0	1/1.3

Worthy of note in this table is that in 1989 while Vietnam experienced a deficit in trade with the socialist countries (mostly the Soviet Union), it scored a surplus in trade with Group 2 markets (with an export-import ratios of 1/0.66).

#### 5.1.4. Observations :

Any change in the export-import activities has been closely linked with changes in the managerial mechanism.

If the past few decades are to be considered, the history of Vietnam's external economic relations can be divided into two periods, corresponding with two economic models that the country has adopted. The first period, beginning in the 50's and lasting till the mid - 80's, corresponded to the old model. The second period, beginning from the mid-80's and is still going on, corresponds to the emergence and development of the new model.

Before 1986, Vietnam's external economic activities were



mainly oriented to markets in the Soviet Union and the other socialist countries in Eastern Europe. Other markets were of little account. As all economic activities then were highly centralized, external economic activities always ministries, services, companies and factories had only one duty, that is to carry out these agreements regardless of their economic results.

Since 1986, this mechanism has been step by step changed with a view to broadening the right of the branches, localities and production units and allowing them to deal directly with their export and import partners.

By mid-1990, the country had had 600 import and export units, including those of the private sector. This had the positive effect of linking domestic production with foreign markets.

In mid-1989, the government decided to abolish system of absolute control of exporters' foreign exchange and fix the exchange rate of the US dollar close to the free market rate. It also stopped all export subsidies and ceased to keep back part of the export-generated revenues. The system of commerce and payment was liberalized and most of the restrictions on export-import quotas were abolished. In fact, these policies and others marked an important turning point in the process of changing foreign trade activities from the old managerial mechanism to a new one, the market mechanism.

However, these positive changes are only initial. They are yet to be made synchronously and in a stable manner. A host

of problems are yet to be solved before the country's foreign trade can actually contribute to the integration of the country's economy with the world economy.

## **5.2. DRAWING DIRECT FOREIGN INVESTMENT**

In order to broaden its economic cooperation with foreign countries, strengthen the capabilities in techniques, technologies and management, and develop the national economy on the basis of effective utilisation of the national resources, available manpower and other potentials, the Vietnamese government has since long paid attention to attracting direct foreign investment.

In 1977, right after the country was reunified, the government issued the first regulation on foreign investment in Vietnam. In fact the regulation could not be enacted due to the then unfavorable political, economic and social situation inside and outside the country. However, its promulgation testified to a new economic thinking in Vietnam.

In 1987, after a decade of constant learning from other advanced countries in the field of attracting foreign investment and perfecting itself by breaking down part by part its old hide bound economic system, creating one element after another for the formation and development of an open and flexible economy, Vietnam issued the Law on Foreign Investment in Vietnam which was immediately rated as "open" and more liberal than those of other countries. And since early

1988, thousands of delegations from tens of countries and regions in the world have come to Vietnam to inquire into conditions of business and investment. As a result, hundreds of projects with a total capital of billions of US dollars have been licensed and started.

The following information generally reflects the real situation of direct foreign investment in Vietnam in the past four years as well as a number of problems arising in the process of implementing the law.

### **5.2.1. Some data**

By the end of June 1993, the Vietnamese government had licensed 719 foreign-invested projects with a total registered capital of 6.262 billion US dollars. This was a trifle compared with the 200 billion US dollars in foreign investment annually registered in the world economy. However, it was already impressive compared with the early years of direct foreign investment in a number of countries. For instance, in the first four years of its policy of attracting foreign investments (1967-1970) Indonesia could draw in only 770 million US dollars; South Korea drew in 500 million USD in five years (1972-1977) and China had 37.8 billion dollars registered after a decade.

The increase in the number of projects is remarkable. Whereas in 1988, the first year of the Law on Foreign Investment when it was still too early for Vietnam and its partners to know each other, there were only 37 projects with

a total registered capital of 359 million USD of which half went to 3 projects in the oil industry, in 1989 the number doubled to 69 projects with a registered capital of 513.6 million USD. In 1990, 108 projects were licensed with a registered capital of 589.2 million USD. In 1991, 150 projects were licensed with a total registered capital of 1.185 billion USD, accounting for 70% of the total projects licensed in 1988, 1989 and 1990, and 81 % of the total registered capital. The number of projects licensed in 1991 was 40% higher than 1990, but the registered capital was 209%. In other words, the average size of the projects increased substantially. In industry, an average project was capitalised at 1.8 million USD in 1990 and 7.5 million USD in 1991. An average project in hotel service in 1991 was capitalised at 9.03 million USD, compared to 4.5 million USD in 1990. Also in 1991, aside from oil contracts, there were large projects such as the Vedan foodstuff complex capitalised at 184 million USD, the Vung Tau tourist area at 97 million USD, the Tan Thuan export processing zone at 89 million USD, the Tan Son Nhat Airport Hotel at 20 million USD, the Da Lat tourist area at 40 million USD, the Mekong Car Corporation at 36 million USD, the Hoa Binh Car Corporation at 33 million USD, the Dong Vong - Uong Thuong coal mine at 27 million USD and the Heineken Brewery at 40.5 million USD.

If the foreign-invested projects in the past four years were divided along the service line, we shall have the following table:

Domain	Number of projects	%	Registered capital (mill USD)	%
- Consumer goods industries	374	52.0	2,435.5	38.9
- Oil and gas	25	3.6	1,188.3	19.0
- Forestry, fishery and food industry	87	12.1	544.8	8.7
- Post and telecommunications	21	3.0	431.9	6.9
- Hotel, housing, tourism	87	12.1	1,152.2	18.4
- Services	93	12.9	312.2	5.0
- Banking and finance	13	1.8	155.5	2.5
- Others	19	2.6	41.6	0.6

The above classification shows that foreign capital mainly invested in oil and gas prospection and exploitation, consumer goods and food processing, and hotels, housing and services

Meanwhile the Vietnamese government has issued a list of priorities for foreign investment, namely :

- To make capital intensive investment in existing production establishments to make better use of their

production capabilities, upgrade their technologies and raise their quality;

- To exploit and process locally available materials and natural resources, using labour-intensive processes;

- To develop the infrastructure and banking and fiscal services; those projects are relatively suited to Vietnam's wishes. It is only "relatively" since the highest priority - to develop the key sectors of the infrastructure - has not received appropriate investment by foreign investors. However, this is inevitable in cooperation and investment. Any investment - seeker will want to use the foreign investors' capital as a lever to develop its economy, wishing that investment be first all put in the infrastructure or key industries of the economy. For their part, foreign investors only care for high profits. That is why they always wish to invest in highly lucrative and quickly return the capital.

In terms of geography, the investment projects are distributed very unevenly among regions. Most of the projects are in the southern provinces (76% of the total of projects and 80% of the total capital). Ho Chi Minh City leads with 46% of the projects and 48% of the registered capital, followed by Hanoi. Least invested are provinces in central Vietnam and the northern mountainous regions of the country.

Among 647 projects licensed until June 1993 (without oil and gas projects) with a total capital of 4.634 billion USD were distributed as follows :

- Southern provinces: 476 projects (73.5%) with 3,014 mill.USD, in which : Ho Chi Minh City 284 projects with 1,990 mill. USD.

- Northern provinces: 180 projects (26.5%) with 1,620 mill. USD, in which: Hanoi 109 projects with 892 mill. USD.

The provinces which have from 2 to 5 projects are Kien Giang, Ba Ria - Vung Tau, Song Be, An Giang, Quang Nam - Da Nang, Khanh Hoa and Hai Phong. The provinces of Dac Lac, Phu Yen, Minh Hai, Ha Nam Ninh and Nghe An each have one project.

The most prevalent cause of this geographically uneven distribution is the difference in the infrastructures and business environment of each region.

While Ho Chi Minh City, the southern provinces and Hanoi have the advantages in geographic location and in material and technical bases such as roads, ports, communications, hotels, commercial and service systems, skilful workforce and qualified scientists and technicians, the central and mountain provinces lack these conditions and fall far below the foreign investors' need for profitable businesses.

Besides, although the Law on Foreign Investment does provide incentives for joint ventures with foreign investors in central and mountainous provinces, these incentives are not attractive enough.

Experiences of the countries which are ahead of us in the field show that to settle the problem of geographically uneven distribution of foreign investments, they have set up special zones and accorded them special conditions to attract foreign

investors. In 1992, the Vietnamese government decided to build three export processing zones in Ho Chi Minh City, Hai Phong and Da Nang and provide them with special conditions. Besides, to adjust the structure of investment in different localities, since 1992 the State has issued preferential policies on tax, land tax and service prices, to encourage foreigners to invest particularly in Hanoi to modernize the capital city.

As regards the investors themselves, by the end of 1992, more than 500 big and small companies from 40 foreign countries had invested in Vietnam. In order of total investment, the classification is as follows :

Taiwan	85 projects with 1,385.7 million USD
- Hongkong	142 projects with 853.9 million USD
- Australia	35 projects with 727 million USD
- France	41 projects with 563 million USD
- Japan	44 projects with 474 million USD
- Republic of Korea	37 projects with 374 million USD
- Britain	16 projects with 307 million USD
- Malaysia	18 projects with 279 million USD
- Holland	9 projects with 277 million USD

East Asian and Pacific countries are big investors in Vietnam, with Hongkong and Taiwan in the lead .

Oversea Vietnamese invest in 39 projects with a total registered capital of 72 million USD. Their investment are



chiefly put in hotels, tourism, and the production of electric appliances and consumer goods. Considering the ratio between operative capital and registered capital, the biggest investors are Britain, Holland and France, which have invested only in oil and gas. Japan ranks ninth in registered capital, but third in operative capital after Britain and Holland. Beside the Saigon floating hotel (70 million USD), almost all Japanese invested projects are of small size and well prepared which enabled them become operational quickly. Taiwan has the biggest registered investment capital but ranks fifth in terms of operative capital (12% of the registered capital). Hongkong and Thailand have the lowest rates of actual investment and the highest rates of abandoned or unfeasible projects.

### **5.2.2. Economic effects**

The implementation of the Law on Foreign Investment in Vietnam began only recently. Also only recently were a last number of projects licensed. Others have either just barely started construction. Some have even been canceled. Therefore, it is not possible to pass a full and precise judgement on the economic efficiency of the entire process of implementation of the Law on Foreign Investment as well as its actual influence on the development of the national economy. This is a vast work, requiring the efforts of many. So, we only try to point out some results drawn from reports of the managerial offices and the project owners, that researchers have no conditions to double check.

By the end of June 1993, total invested capital had reached almost 1,531 million USD, or 24% of the total registered. This included 1,224 million USD from foreign investors. The

Vietnamese partners contributed 307 million USD, or 20%, chiefly in the forms of land rent, workshops and a number of equipment.

Foreign investment has helped create jobs for 100,000 people, working at foreign-invested enterprises. This figure would be higher if the number working in capital construction and support fields was taken into account. An example is the Hau Giang joint-venture enterprise producing mushroom. Beside the workhands directly involved, the enterprise has subcontracted 20,000 households with 100,000 workhands for planting mushrooms. The foreign investment thus has created conditions for the rearrangement of the labour force, which is of special importance for Vietnam at this point.

Let us cite another example in 1991, with an invested capital of 260 million USD, the enterprises produced a value of 94 million USD (about 940 billion dong), accounting for 1% of the GNP and earned 73 million USD in export or 3.8% of the country's total export.

In the five years implementing the Law on Foreign Investment, on an average, every one million USD invested has created 1.15 million USD of output value and jobs for 60 people (not including jobs in the support businesses).

Thanks to foreign cooperation and investment, we have fundamentally rebuilt and upgraded our international and domestic telecommunications system, thus furthering the development of our international cooperation. The invested projects have started making products and earning export revenue, and creating jobs for labourers. Worthy of special

note is that out of a total registered capital of 587.9 million USD of 13 oil and gas contracts nearly 400 million USD actually invested in four years. On the Vietnamese continental shelf, foreign companies have been doing seismological surveys on thousands of kilometers and made tens of prospecting drills for oil, many of which have hit oil and gas deposits. The amount of crude oil annually exploited is constantly on the rise:

In 1986	41,100	tones
In 1988	680,000	tones
In 1989	1,510,000	tones
In 1990	2,721,000	tones
In 1991	3,950,000	tones
In 1992	6,000,000	tones

With such a development, we can be confident in the bright future of the oil industry of Vietnam.

After five years of actively attracting foreign investment, Vietnam has achieved initial results, modest yet very significant, considering the present difficult juncture in its development. However, in order to have 50-52 billion USD which is needed from now to the end of this century, to get the country out of the poverty, Vietnam has to solve many big and complicated problems, both at the macro and micro levels, of the economy.

### 5.2.3. Questions to tackle

The practical activities of attracting foreign investment over the past five years in Vietnam as well as the experience of neighbouring countries in the field show that the possibilities for this work depend on the two following fundamental factors :

- First, the investment environment of the target country, including its political and socio-economic stability, the consistency of its government policies the perfection level of its system of economic laws, the ability of its government in management and supervision of foreign investment operations, etc., and

- Second, the international situation, especially the relations between the invested and investor countries.

As regards the first factor, it can be said that Vietnam's implementation of the Law on Foreign Investment over the past five years has taken place in an atmosphere of political and social stability. The political platform and socio-economic strategy adopted by the Communist Party of Vietnam at its 7<sup>th</sup> Congress affirmed Vietnam's policies for renovation and expansion of its external relations. This move has, on the one hand, created favourable conditions for the various economic sectors to develop, and, on the other, enhanced the confidence of foreigners in Vietnam's consistent policy. The past years have also seen the multi-sector commodity economy continue its positive changes despite numerous difficulties and hardships. Many State and private enterprises have succeeded in overcoming the initial trials of the market mechanism, not

only strengthening their foothold but also making considerable development, proving themselves to be trustworthy local partners of foreign investors.

Despite the US embargo against Vietnam, many foreign corporations and companies have come to inquire into its investment environment and signed with it big and long-term investment projects.

However, a close and analytical look at the inner factor of the process would reveal many problems yet to be solved :

a) First of all, it is the problem of making and enforcing laws and other legal instruments relating to foreign investment. Over the past years, the government has issued over 70 sub-laws and regulations which institutionalize its major policies toward foreign investment operation. However, a number of decrees and directives of great necessity are yet to be issued. Some others, though already effected, contain articles not rational nor adequate and appropriate to the market mechanism. They include, for instance, the regulations on joint-venture managerial council, land rent, the hiring of labourers, the procedures for application for visas and travelling passes, etc.

Also there are regulations in several laws such as the law on stock company and law on private businesses which do not entirely fit in with other laws concerning foreign investment.

Obviously, the perfection of policies and legal instruments is an imperative task, especially in the context that Vietnam is located in a region where a number of nearby countries are vying to attract foreign investment and in fact have a better

investment environment. Besides, along with the establishment of a legal system, of no less urgency is a strict and consistent observance of the already enacted laws. Regrettably, over the past years certain localities have passed regulations which serve only for their own interests and do not conform with laws of the nation.

b) A subsequent important issue relating to the inner factor is the perfection of the national financial and banking system.

As we already know, banking and financial operations are closely associated with investment activities. Nevertheless, Vietnam's banking and financial activities remain very inefficient. Therefore, they have become a major hindrance to investment operations. Many foreign investors appear to have doubts about Vietnamese banks' capabilities in payment and insurance. They complain about their troubles in opening bank accounts, in payments and transactions through banks, in seeking credits and other services. They also complain about the charges they have to pay in cashing cheques, depositing and with drawing their money, which are against international practice.

It can be said that these are complicated problems whose solution will take time and require conditions. In any market economy, banking and financial institutions are part of the infrastructure. Any belatedness in the banking and financial system hampers not only investment operations but also the development of the economy itself. Therefore, it is necessary to successfully and immediately solve the existing problems in banking and financial activities. In order to build an appropriate banking and financial structure which meets

requirements of the market economy, it is a must, on the one hand, to change the mode of banking and financial operations, retrain and upgrade the professional staff of these two services and provide them with modern technical facilities appropriate for international banking operations.

On the other hand, efforts should be made to encourage foreign banks to open branches in Vietnam. Several foreign banks which have been licensed to establish their branches in Hanoi and Ho Chi Minh City have contributed to giving foreign investors more confidence in their investments in the country. Their presence also rushes Vietnamese banks into competition.

c) Another aspect of the inner factor is the state's managerial role in the training of managers in the field of investment. The content of the state's managerial work toward investment activities includes elaborating investment attraction policies, issuing investment laws and regulations, creating a favourable environment for foreign-invested enterprises and foreign investors to operate, and assigning specific tasks to government offices in charge of managing foreign-invested enterprises. The main constraints of the present managerial work are the failure to unify the existing system of laws and the other legal instruments relating to foreign direct investments (as mentioned above). The delegation of responsibility in managing investment projects, so as to enact the principle of "one door only" and the time-consuming and complicated red-tape. Besides, the professional skills of officials involved in investment attraction work are yet to be raised so as to meet the present

requirements. There is a shortage of qualified cadres from the central level to the grassroots to study more thoroughly the external economic strategy of each foreign partner, especially his intentions in direct investment, and at the same time, probe intensively each foreign company or business group to have a firm grasp of their intentions, business behaviours and financial resources, etc, in order for us to take the initiative in every move, both to broaden our business contacts and avert cheating.

On the national scale as well as in each province having foreign-invested enterprises, the training of a sufficient number of cadres working in cooperation and investment is an imperative requirement.

Other factors directly relating to the state management include adjustments of the objective of investment attraction and the flow of investment into various industries and territorial areas...

A multiple objective of drawing foreign direct investment is to take advantage of the investors' capital, their technologies, managerial experience and markets, take up positions in international labour division, create jobs, etc. All these are aimed at maximizing the utilization of the national resources, natural and human, to increase internal capital accumulation for national industrialization. However, for each stage, the government should make necessary readjustments to the aforesaid objectives. Take the present initial stage of investment attraction for instance. Given the many internal economic difficulties and international conditions which are not entirely in our favour, it is advisable to give priorities to



attracting *as much capital as possible* and creating more jobs for the working people since they are the most urgent issues. The other objectives, such as modern technologies, advanced managerial experience and access to markets should be lesser priorities. Moreover, direct investment is an operation characterized by voluntariness and mutual high benefits. It cannot be determined by the objectives of one side alone but the other sides' capabilities, interests and concerns must also be taken into account.

Proceeding from that approach, we see that at the present juncture, the government should adopt a policy to encourage investments in labour-intensive projects so as to create more jobs. High technologies should be attracted only in processes and projects essential for products of high competitiveness on overseas markets or to manufacture substitutes for crucial imports.

As we already know, each territorial area in the country has its own difficulties and attraction for foreign investors. However, in order for us to have a relatively rational distribution of foreign investment projects on the national scale, conforming to the national redistribution of the workforce, we should not depend entirely on the attractiveness of each locality. Here, the government's role in regulating the investment inflow is very important. With its tax-based regulations, such as natural resource tax, profit tax, import-export taxes, income tax and profit repatriation tax, the government could divert investment to difficult areas such as midland, mountainous and remote rural areas. As shown by experience of Thailand and China in attracting foreign

investment, it is wise to set up special zones where foreign investors are given preferential treatment. The current construction of export processing zones in Ho Chi Minh City, the port cities of Haiphong, Danang and Hanoi is in that direction.

As regards the second factor - relations between the invested and investor countries, one thing is downright clear that is Vietnam, is ready to receive investments from all countries, organizations and individuals wishing to invest and do business in Vietnam on the basis of mutual respect and mutual benefits.

Vietnam began to attract foreign investments when its neighbouring countries had already covered a long distance in the course. They had created a favourable investment environment and accumulated rich experience. They alone is enough to put Vietnam in a fierce competition for the investment resources, themselves very little compared with other parts of the world. In this competition, Vietnam has relative advantages in its untapped natural resources, labour and market. However, it also has disadvantages, especially the US embargo and the lack of understanding and sympathy of foreigners for its present political system. These disadvantages are causes of the caution and reluctance of not a few foreign investors who want to invest in Vietnam.

### **5.3. SERVICES**

Apart from the two main fields of external economic relations, namely foreign trade and foreign investment and

cooperation, other foreign exchange-earning services such as tourism, ship chandlery, air services, overseas remittance, post and telecommunications, labour export and expert exchanges are also important contributions to broadening Vietnam's economic, cultural, scientific and technological relations with countries all over the world.

### **5.3.1. Tourism**

Tourism is a field where Vietnam has a number of considerable advantages due to its geographical position. Vietnam lies on the international East-West and North-South tourist routes. It has beautiful and unique landscapes and also many historical sites ranked as world cultural relics by various international cultural organizations. These factors, once exploited, can help us develop package tours such as combined tour of sightseeing and medical treatment (hot spring bath) or study of oriental socio-cultural history.

Vietnam considers tourism an important economic branch and has since long invested much labour and capital in it. However, only after the 6th Party Congress (1986), was Vietnam tourism actually encouraged to develop expansively and intensively, in closely combine action with the country's activities in scientific and technological cooperation and investment.

In the 1986-1990 period, Vietnam tourism hosted 724,000 visitors, earning a turnover of more than 52 million roubles and some 155.5 million USD. With this income in hard currencies, the service has been able to upgrade its capacity. Whereas in 1986, it had 700 hotel rooms of international

standard for 7,200 guests, in 1989 the number of rooms increased to 4,995 for 9,709 guests, and in 1990 the figures were 7,000 and 13,000 respectively.

Vietnam tourism, however, is still in a state of underdevelopment for the following reasons:

- Vietnam has not put any big-sized investment in tourism, so its material basis including hotels, equipment and facilities is basically very poor and backward, falling below international standard. Vietnam also has not organized tours and business lines that its potentials allow.

The organizing capabilities of the service itself are low. It lacks a strong network and competent management. The quality of its service is low. Also, it has not been able to forge close ties and cooperation with outside tourist organizations and institutions so as to create attractive tourist programmes and upgrade its service capacity.

In recent years, the cooperation between Vietnam tourism and other countries has been considerably expanded. In the four years of implementation of the Law on Foreign Investment, 87 tourist projects with a registered capital of nearly 700 million USD, have been approved. A number of these projects are already operational, helping put a new look on Vietnam tourism and considerably increase its foreign exchange revenue.

### **5.3.2. Sea and air services**

Air service is a field where Vietnam has favourable conditions for development due to its geographic location.

However, the present material and technical bases of the service are seriously handicapped. It is short of planes; the planes it has are antiquated; the airport and flight support equipment are below international standard. Its freight therefore is low. In the 1986-1990 period its total turnover was only 90 million roubles and 80 million USD, and its total carriage, 70 million passengers. Worthy of note is that it is incapable in terms of facilities and prestige of opening international routes. In recent years, in implementing the Law on Foreign Investment, the service has received investment to upgrade its airports and control and managing systems (computerized booking service, fax system, etc.). A number of international air companies have opened regular flights to Vietnam. This not only makes the service's operations more bustling but also earns it more foreign exchange through airport services (the airport tax, controller's fee, loading and unloading fees, storage, fueling, catering, etc.).

Sea transport and ship chandlery are also a field in which Vietnam has good potentials.

Vietnam now has an ocean going fleet with a tonnage of nearly 500,000 tons (not including 150,000 tons owned by various services and 160,000 tons owned by provinces). In the 1986-1990 period, the sea transport service shipped 5.8 million tons of goods, netting 90 million roubles and 180 million USD. It also earned 50 million roubles and 20 million USD from port services, ship chandlery and brokerage for foreign ships. Along with the fast growth of foreign trade relations, cooperation in

science and technology, investment and tourism, the post and telecommunication and banking services have also developed. In the 1986-1990 period, these services remitted hundreds of millions of roubles and USD to the State budget.

As from 1980, another external economic activity has been added, the guest workers and specialist service. This is a field where Vietnam has comparative edges thanks to its resources in skilled and relatively low-waged labour.

Vietnam has since sent 212,000 workers abroad including more than 200,000 to the Former Soviet Union, East Germany, Czechoslovakia, and Bulgaria, and 10,000 to Algeria and Iraq. In the 1986-1990 period, there were always 200,000 Vietnamese workers and experts working overseas. They work in factories and plants, or in education and health areas.

Apart from procuring a relatively big sum of foreign exchange to the State (estimated at more than 400 million roubles and 150 million USD, in the 1986-1990 period) and earning for themselves from 50-100 USD a month, the overseas-guest workers and experts have helped ease the pressure of employment and, at the same time, had opportunities to approach advanced technologies and techniques of other countries, and learnt from other cultures.

In short, the foreign exchange earning services as part of the overall external economic operation in the 1986-1990 period took important steps forward, creating a favourable environment for import-export activities and cooperation as well as for direct investment from foreign countries, and bring

in a considerable sum of foreign exchange. According to estimates prepared by management agencies, the total revenue earned by these services in this period was 1,753 roubles/dollars, representing about 25.5% of the country's total export value in those years.

In the coming years, with a faster development in import and export, scientific and technological cooperation and direct foreign investment, the services such as tourism, air and sea transport, post and telecommunications and banking will have the conditions to grow ever faster and, in turn, they will create favourable conditions for import and export, cooperation and investment to quicken their pace and become more efficient.

#### **5.4. ORIENTATION FOR EXTERNAL ECONOMIC STRATEGY IN THE COMING YEARS**

External economic activities have entered into the 90's, the last decade of the 20th century at a time when :

- The 7th Congress of the Communist Party of Vietnam has made public the country's political programme and strategy for socio-economic development up to the year 2010, which affirm that Vietnam will continue its renovation policy and broaden its external relations. The economy, though not yet out of crisis, has continued to make positive development while the socio-political situation has basically stabilized. Those are favourable internal factors.

- The normalization of relations with China, the signing of agreements on relations with the ASEAN countries, West

European countries, Japan, etc., have improved the political atmosphere in the relations between Vietnam and other countries.

The disintegration of socialism in Europe and the Soviet Union was a great disruption in the sources of capital, materials and markets, depriving Vietnam of a counterweight in its relations with the West and forcing Vietnam to take more resolute and daring steps toward renovation in search for ways to join the regional and world economy.

Given an international situation of such great changes, Vietnam has to carry out a strategy for joining the regional and world economy.

Joining in essence is to take the initiative to link the Vietnamese economy to the world's, join the home market with the world's market, making it an organic part of the world market.

However, an important condition for joining the economy with the world economy is to first of all turn it into a market economy *with structures conformable to the world market*. This structure must, on the one hand, make the most of the comparative edges of Vietnam such as its geography, labour and natural resources, and on the other, meet the requirements of the world market : What the world needs and whether Vietnam's economic structure is beneficial to the world.

An issue of current debate : should the structure be import replacement - or export-oriented. The current requirement of



the economy is to step up export for import. Vietnam lacks hard currencies to import essential materials and goods for production and consumption. The economic structure therefore must aim to increase export to earn the hard currencies and at the same time boost the production of goods which can be produced domestically to save hard currencies. This structure must be flexible and the export and import of each kind of goods must be conducted in the most profitable way.

Another condition for joining the Vietnamese economy with the world and regional economy is a *managerial mechanism conformable to the world market economy*. This mechanism must be built on principle of strongly developing a market-oriented economy. The whole country is meant to be a market. This market must be open to the world, and all the business principles practiced in it must conform to the rules and regulations practiced in the world market.

The third condition is *to upgrade the infrastructure of production and services to international standard* : airports, sea ports, roads, transportation means, communication, post, banking, etc., must step by step be perfected along the line of modernization.

In its commercial relations with the world market, it is very important for Vietnam to join international commercial associations. We have set up many associations such as the Vietnam Grain Exporters-Importers Association, the Vietnam Coffee Association, etc. Only by joining the world's associations can we learn the way of business operations.

Besides, at a time when the Council for Mutual Economic Assistance of the socialist countries has been dissolved, Vietnam's joining in these associations is of greater significance

*To diversify the market* is an important condition for Vietnam to join the world economy. The old two-camp, four-contradiction doctrine has been abolished. The world is witnessing a process of integration in all fields and at all levels of development. Diversification of market relations is therefore an inevitable trend. *Vietnam must be a friend of all countries and regions*. Diversified market relations will create the conditions for a maximum exploitation of capabilities at home and abroad, and the various counterweights to balance the economy and its export and import.

As regards the markets, despite their present major disruptions and instabilities, the CIS and East European countries remain important markets for Vietnam's exports and are still supplying it with strategic materials. However, Vietnam's trade with these countries has been shifted onto an entirely new basis, that of purely market characters. Beside the already existing relations at governmental level, it is necessary to develop direct ties between enterprises and localities. On their part, although East European countries have also shifted to market economy, their products are not yet competitive compared with Western goods. Vietnam is therefore their prize market for their products. Also, they themselves prefer to buy a number of Vietnam's traditional

products since they do not have to pay in hard currencies.

*The Lao and Cambodian markets* : It is a must to open the borders to these two countries. This is not only to encourage cross-border trades but also to promote joint ventures and cooperation.

*China* : In recent years, China has opened its doors to just dump its unsalables into Vietnam but showed no signs of willing to invest for they themselves are poor and are running after foreign investments. We therefore cannot pin much hope on the Chinese market. Vietnam's external economic strategy for this market should first of all aim to expand cross-border trade for people on both sides to improve their living conditions.

*For other markets* : such as France, Italy, Sweden, the Netherlands, and the Federal Republic of Germany, we should, on strength of our capacity and the practical situations, make use of their companies and business groups for trading and investment. They will make important partners whose capital, techniques and technologies are what we should look to

*The Thai and ASEAN markets* have changed for the better in their business and trade with Vietnam. Vietnam has signed commercial and investment protection agreements with the ASEAN countries. Singapore has officially lifted its embargo against Vietnam. What is important in these markets is that if we can gain access into them, we will have chances to do business with other countries in the region and the world as a whole.

*The U.S. market* : Vietnam has not yet any access into the U.S. market since the latter still maintains an embargo against it. The embargo has posed big obstacles to Vietnam's trade and investment relations with other countries.

Approaching the US market through American companies, large and small, is the right way to step by step normalize relations with the US, the world's big resource.

The diversification of external economic activities is both realistic and necessary. Vietnam has since long considered commerce as including only trade goods, and any inclusion of non-trade goods in commerce as illegal and evil. It is time now to start regarding non-trade commerce an important complement commerce of trade goods.

Tens of thousands of Vietnamese are working or studying abroad. They can annually send their relatives at home millions US dollars and hundreds of tons of commodities, hence a big help for the country's economy.

A good number of Vietnam's art and handicraft items and commodities, if exported in large quantities in trade manner, will not sell well abroad. Even so, the exports will have to be handled by agents and subject to complicated procedures. However, if Vietnamese overseas workers are allowed to bring them out as non-trade items, large amounts will be marketed.

Buying and selling, or working as agents for foreign companies are also commercial forms worth to be encouraged. What matters is Vietnam has markets but cannot produce, so

it can buy imports from markets where prices are favourable and re-export them, or it can serve as trading agents for foreign firms to earn commissions paid in farm produce. This form of commerce should indeed be reserved for capable companies and localities, and even for foreign businessmen who wish to work as trade agents in Vietnam.

At the present difficult juncture when Vietnam's domestic market is still suffering from the U.S. embargo and its trade has not adequately developed, the above-mentioned forms of commerce are beneficial to its economic stabilization and development.

As mentioned in 1.3, Vietnam has in recent years recorded encouraging achievements in cooperation and investment. In the years to come, it is necessary to push ahead the attraction of capital investment.

Foreign cooperation and capital investment now have become a really fierce competition among countries in the region. Each has been striving hard to improve its investment environment by adjusting tariffs, land rents and land-lease duration, simplifying licensing procedures, adopting "open-door" policies, upholding "credibility", etc. In this competition, Vietnam, on the one hand, has certain advantages: it is a new market; its dexterous and creative workers can quickly adapt to new technologies; and its location is favourable geographically. On the other hand, Vietnam's disadvantages are its poor infrastructure, its two-tier management mechanism incompatible with that of investor countries (tax, price, salary), its consumers' low

purchasing power and the inconvertibility of its currency. But whatever the reality, cooperation and foreign investment have become a realistical possibility for the process of internationalization of the world economy still continues on an ever deeper and larger scale.

In such an international situation, it is clear that in the years to come the tempo and scope of foreign investment in Vietnam will probably become higher and larger than in the past years. Large groups and firms may come into Vietnam to replace the present contingent of medium and small-sized investor companies. Many key projects may also draw greater attention from foreign investors.

How the above-mentioned possibilities translate into realities will depend on Vietnam's efforts, the improvement in its external political relations, the renovation of its policies and laws on business management and organization, and its efforts in personnel training.

Another important question for stepping up Vietnam's external economic relations in the coming years is it has to *strongly develop its multi-sector economy*, promoting the role of every economic sector in external economic relations.

While these relations are suffering from many limitations in the *government-to-government field*, it is a must to attach importance to those in the non-governmental area, especially as numerous Vietnamese companies and individual businessmen have forged good ties in foreign markets. What matters now is to define which goods items to be handled by the State and the private sector. Regulations must be

introduced and observed strictly. And all import and export operations should observe the same uniformed set of regulation to be efficient.

External economic activities play an important role in the performance of the entire economy. They not only bring home economic resources such as capital and new technologies but, more importantly, also open the way for the country to join in the world and regional economies and continue its advance to the pinnacle of humankind development.

## CHAPTER 6

# CHALLENGES AND PERSPECTIVES OF DEVELOPMENT

From 1979 Vietnam began the first steps of economic reform and from 1989 it moved really to the market economy. The process of economic restructuring has taken place without haste, with much worry and full of difficulties. Yet the changes were radical and vigorous. An end has been put to the chronic fever of inflation and a stable environment of business has been created thanks to the alteration of macro-economic policies in the direction of close combination of measures of economic stabilization (inflation control, gradual reduction of the government's budget deficit, implementation of the policy of currency-tightening oriented towards a more improved international balance of payment, establishment of a macro-economic ambience with more stable and reasonable institution and laws...) and liberalized measures, diminishing the intervention by the central government in economic activities, regulating the structure so as to raise the effectiveness of economic activities based on market standards and carrying out the open-door policy in international



economic relations. Progresses in economic growth have given effect to the amelioration of living and social physiognomy. The side by side development of various economic components in the relationship of cooperation, association and competition made economic operations more vivacious.

The results of economic development in 1992-1993 proved that Vietnam has shifted to a new period of development with more advantages. The speed of growth reached a rather high level (1992: 8.6 per cent; 1993: 7.5 per cent). Both industry and exportation have been relatively increased. Inflation was at low level (1992: 17.6 per cent; 1993: 5.2 per cent).

The international and regional context also became more favorable for the development and integration of Vietnam into the world economy. The decision to loan again to Vietnam by the World Bank and the International Monetary Fund as well as the lift of embargo on trade with Vietnam by the U.S. has engendered a new atmosphere in economic relations of various countries and international organizations with Vietnam and opened new opportunities for Vietnam.

However, in our opinion, the prospect of a long and sustainable socio-economic development of Vietnam may depend a great deal on the solution of fundamental theoretical problems of which the contents are related to the very continuation of the process of shifting to market economy. There are a lot of such issues among which we only bring forward the three followings:

1. To define the reasonable role of the state in managing and regulating the development.

2. To choose an appropriate strategy of industrialization allowing to shorten the space in the level of economic development between Vietnam and the preceding countries.

3. To co-ordinate rapid economic growth with assurance of social equity.

Based on the analysis of practices in Vietnam and experiences of reforms in other countries, we'll try to raise some approaches and solutions to the above mentioned issues.

## **6.1. THE ROLE OF THE STATE IN ECONOMIC DEVELOPMENT**

Although the State's role in managing and regulating the economy has expanded in many underdeveloped countries, it is far from uniform and it seems that no direct correlation exists between the level of the State's intervention and the speed of the economic development (1) .

According to our remark, in the process of policy reforms in the last time, enough attention has been given to the shaping up of institutions and the reorganization of the governmental apparatus assuming the regulatory function. During the

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(1) See "The Role of the State in Economic Development - Experiences of the Asian Countries". Ed. by Vu Tuan Anh. Hanoi - 1993.

transitional period, Vietnam's economy has operated in the style of the "laissez-faire" model with a little impact from the State. The effect bearing a dualistic character of this type of market economy required that there should be an intensified regulation and interference by the State

The guideline of the Vietnamese State has been affirmed in recent documents issued by the highest leading bodies namely: on the basis of a continued economic reform, there will be built "an economy operating according to market mechanism with State management and along a socialist orientation". The basic idea of this guideline is the combination of all stronger postures which can be brought about by different factors, concretely speaking the flexibility of market mechanism, the unity of institutions and orientations for action emanating from an unique centre through the State management, and the socialist idea of raising the social welfare and effecting a fairer distribution of incomes among different social groups.

According to our imagination, the State in Vietnam may operate in the economic domain in its capacity as planner, as regulator and as entrepreneur.

In its capacity *as planner*, the State would directly influence the orientation for investment and economic development.

In the centralized planning economy, this impact from the State finds a clear-cut expression in the fact that the State replaced the market in the distribution of resources and

commodities. Plan is the decisive factor of this distribution and market operates only as a additional tool of the distribution. In a free market economy, the market plays the primary role in the process of distribution of productive resources and consumer goods.

Such an opposition of centralized planning to the market would create a suspicion about the possibility of realizing planning in the market economy. The experiences of Japan and South Korea have shown that indicative planning might gain a high result in the orientation for economic development, especially for the elaboration and implementation of industrial policies. The crux of the matter is that planning should not be at variance with the rules of the game in the market, but it should create favourable conditions for the business to forecast the trend of market fluctuations and to act in a most advantageous manner within the framework of market institutions. In such circumstances, planning is needed for businesses and for most of those which voluntarily comply with the plan outlined by the State.

Plans in the market economy have the following effects :

- 1/ Put forward the aims and a clear priority order for policies;

- 2/ Discover those constraints which still remain to be overcome, and the correlations needed to be solved in an homogeneous manner;

3/ Give an orientation for the activities of all members in society, first and foremost the businesses;

4/ Create conditions which oblige governmental organs to implement the planned orientations.

In the last years in Vietnam though a long-term strategy of socio-economic development until the year 2000 and other annual indicative plans have been elaborated, the correspond policies and measures following those plans are not adequately effective. Not counting the private businesses, the State-owned enterprises themselves do not find it necessary and useful to comply with the guidance of the plan. It is quite obvious that the system of plans should be made more perfect still so as to fulfil their function of orientation for development.

In its capacity *as regulator*, the State in all countries intervenes in both economic and social domains, naturally with different ways and scales.

In the economic domain, theoretically speaking, it would be better that the State shouldn't directly control the activities of businesses but should only see to the provision of suitable conditions and facilities in order to help the businesses implement well the objectives set forth by the State. Businesses should be free and independent in their operations and calculations as to how best to obtain the desired results and secure the expected economic efficiency. They should know how to properly deal with the matters in hand. The

market will become a place for businesses to compete against one another and at the same time to cooperate with one another to realize their own benefit in the context of society's common interests.

However, in practice such a model is still far from becoming a reality. Especially in the condition of an under-developed economy, market relations do not equally develop on the country-wide scale, technical infrastructure facilities and legal backgrounds do not have yet an ideal environment for realization. For that reason the defects of market exert a rather strong impact on social life. That's why, in given periods, several States couldn't avoid interfering in the market mechanism for restricting its inherent defects by means of fixing prices , defining the limit and quota for production and trade with regard to a number of commodities. These measures usually bear a situational character and should be withdrawn and ended when no negative impact is to be exerted by the market on the life of inhabitants.

On the other hand, the State gives preferential treatment to those businesses whose production of goods and services conforms to the directives of the State. This policy has been effectively used in Japan and in the Asian newly industrialized economies during the industrialization period. Many analysts regard this policy as a decisive factor for the creation of a "miracle economic growth".

In the social domain, the regulatory role performed by the

State has a special importance. The sensitivity of social groups to the distribution of "the society's pie" has a strong influence on the sustainability of economic growth and development. For that reason, the determination of the extent to which the State would play its role in the primary distribution and in the redistribution of social wealth will be the main content of the so-called "socialist orientation" that the State of Vietnam wishes to carry into effect.

Without mentioning that socialist orientation, it is clearly seen that nearly all States have already played at least a certain role in regulating the economy and this on a rather large scale, ranging from influencing the labour relations, limiting the rate of unemployment, redistributing the incomes through the system of taxes and welfare funds, developing health care, education, helping the vulnerable groups (such as women and children, ethnic minorities, invalid and poor people), protecting the environment

In these domains, the market mechanism doesn't necessarily play the regulatory role because on the one hand long term investments must be made in favour of the development of human resources without any possible calculation of the economic efficiency like in the case of making investment in industry and commerce. On the other hand, the social objectives that the State intends to realize must not be based on the market mechanism. This required that the State should adopt clear viewpoints in the making

policy of public finance and should consistently carry them out.

In its capacity *as entrepreneur*, the State directly takes part in business undertakings in a number of domains. In Vietnam, there are actually different ideas about the participation of the State in business undertakings. An idea says that because of the low economic effectiveness in the State sector, it would be better that the State makes investment and carries out business which the private sector does not want to be involved in. Another idea says that it would be better to give a wider scope to the activities of State-owned enterprises namely : production of public goods and services, development of infrastructure. A third idea advocates that the State sector should occupy the "commanding heights", explore new industries and create a wide-spread effect on the private economy, and more than that, it should , within a long period of time, actively make investment in those branches which might bring about high budget income. With the functions as cited above, though the State sector may occupy no big percentage in the economy, it would have the effect of giving a lead to the development. Viewed from the angle of a purely economic aspect, this idea belongs to the highest leading organs of Vietnam. The arguments on socio-economic and political aspects have further consolidated the "leading role" of the State sector in the multi-sector economy which is to be built in the country.



The main instruments that the State may use are : State budget, policies of incentive (finance, monetary,, international trade, regulatory measures, State-owned enterprises. Those instruments may have two modes having direct and indirect effect on growth and on structural change of economy. The reality is that if each instrument is to be analyzed separately regarding its effect and capacity of application, it will be easy to make recommendations to the policy-making organs of the State. However, if those instruments are combined for aiming at a given target, the calculations for a general effect will be a problem hard to solve. Particularly, the coordination of specialized organizations of the State apparatus requires that there should be formed a suitable organizational structure. At present that is the problems for which Vietnam still has to seek for the experiences from the world and afterwards to strive to devise a feasible scheme for itself.

## **6.2. CHOICE OF AN APPROPRIATE STRATEGY OF INDUSTRIALIZATION**

On the basis of analyzing the events which have happened in Vietnam as well as the experiences of economic transformations in other countries, we try to put forward the approach and solution to the above-mentioned issues.

To reform the policies is only to change the institutional environment while the development must be based on the

material and technical basis of the economy of which the process of creation will be curtailed thanks to a suitable strategy of industrialization.

The development strategy is, first of all, attached to the mobilization and unfolding of growth resources. There are two extreme models of growth which have taken place in history and can be selected by the developing countries: the one was based on natural resources and the other, on manpower. Besides, is existing another, the third model which the under-developed countries should oriented towards: that based on technology, a special trait of developed ones.

In Vietnam, according to present estimation, both natural and manpower are available and can serve as initial reliance for the process of industrialization. On the one hand, the natural resources, though not much profuse, but are diverse. The increase of income from the exportation of mineral oil, rice, sea products, agricultural ones and some other natural products constitutes an important source for a better living standard of the population, and also a source of currency in exchange for different varieties of consumer goods from abroad that leads to a change of the marker physiognomy in recent years. These natural potentials will not be exhausted in the forthcoming time. It is possible and necessary to use these potentials as a basis of development for various processing industries. On the other hand, the manpower is very plentiful and relatively cheap in comparison with that in other

Southeast Asian countries. Although the low price of labour can only be a temporary strong point, but with the high sensitiveness to the novelty and relatively high rate of education of the labourers (though the technical level is still low), this important source of manpower can be certainly used as a factor stimulating the attraction for capital and technology from foreign countries and creating new industries. The strategy for socio-economic development of the country to the year 2000 has considered these two sources to be important traction. Yet the issue how to bring both these sources taking part effectively in the coming industrialization needs further study.

One logical problem of industrialization strategy is to choose the orientation of principal market for the industry to be built. The pattern of export-oriented industrialization which has been successfully carried out in the new industrial economies in East Asia is an attractive one. Moreover the role of foreign aid and investment has also been regarded by a lot of people as a decisive "big push" to the process of "taking off" of the economy in the for coming period. However, is should be noticed that opportunity of repeating the way that the new industrial economies have undergone is very rare in the new background of world politics and economy.

The fact that Vietnam has a domestic market including over 70 million people, though their purchase power is still low, constitutes certainly an advantage of which the

newly-built industry should make full use. It seems that a strategy which is oriented, on the one hand, to export in order to quickly and effectively expand production scale, and on other hand, to domestic market as a long and steady one is the most rational option.

Industrialization in combination with modernization is a current task posed for Vietnam in the next two decades. Its fundamental target is to create the foundation of development for the economy with a rather high and long lasting speed on the basis of improving technology, changing fundamentally the economic structure, and forming the key branches which have the ability to take the entire economy to a modern level. The norm of growth rate to strive in the next ten years is at least to double the average gross domestic product (GDP) per capita while the growth rate of industry and service must be also higher so that the proportion of these two spheres can win a vantage position in economic structure and gradually substitute for the place of that of agriculture.

However, not a few of obstacles are remained for industrialization.

First, the level of development of the economy in general and of industry in particular is still very low. In the GDP, the proportion of industry accounts only for 22.6 per cent while that of agriculture is 34.5 per cent, and that of service is 37.9 per cent (1992). The value of the fixed property of industry is estimated about 3.4 billion US dollars, equivalent to 25 per

cent of the property value of the whole economy (not counting the value of land and roads). At the same time, industrial manpower represents only 7 per cent while agricultural manpower makes up 75 per cent of the total manpower in the entire economy in which 90 per cent of labourers do manual work, and only 10 per cent of them use machinery, supplying about 35 per cent of the value of the gross social products (GSP)

Secondly, the rate of accumulation of the economy is very low, equivalent approximately to 10 per cent of the GDP. Despite that the foreign investment capital may play the role of a "big push", a desired process of industrialization couldn't be implemented under the conditions of shortage of domestic capital.

Thirdly, the infrastructure is still too deficient and backward. Not only in mountainous area, occupying three fourth of the country's territory, even in the plain and coastal areas, the communication network including land routes, ports, airports, storehouses as well as the system of water supply and drainage should be much improved together with the construction of new ones for a further vigorous development of industry. The gap in conditions and levels of development between different territorial areas has been reflected most clearly in the disposition and level of this substructural system. Due to this wide gap, the process of industrialization will not be of the same scale and speed for

different areas that will not meet the socio-political objectives of endeavouring to provide equal opportunities for all regions and population communities in their development.

Fourthly, the would be young industry will certainly have to face up to the extremely severe competition in both international and domestic markets for its existence and further development in the present context of open-door economy.

To overcome obstacles and to shorten the process of industrialization - that is the very greatest challenge which Vietnam has to surmount.

### **6.3. INTERACTION OF ECONOMIC GROWTH AND SOCIAL EQUITY**

The impact of economic reforms on society seems to be not so simple as it is for economic growth. It could be compared to a multi-color and multi shade painting. Though still in the process of formation, the market economy has begun to reveal both strong and weak points through its effects on development of society.

First and foremost, it could be observed that the social structure in terms of trades, professions and incomes has undergone a vigorous change along with the economic restructuring. The market economy has operated a change in the needs of trades, professions and employment for a good

number of persons. In both urban and rural areas, the system of social values used so far for evaluating the social positions of trades and professions as well as of individuals in society has rapidly changed. Businessmen, traders and persons engaged in the service branch who were formerly not held in esteem are now tending to increase in numbers among the social work force.

Small and medium-sized private businesses have received a stimulus from the State and this has drawn in young people who formerly intended to find jobs only in the State-managed economic sector or State-run offices.

The ever more accentuated differentiation in incomes between one group of persons and another has on the one side made more seething business activities, but on the other has weakened the formerly close knit community relations, particularly those of rural communities. The peasant households are now playing an ever more active role while the economic community organizations such as agricultural cooperatives, and small industrial and handicraft organizations see their role and position dwindled away to a definite extent. In former times these organizations, besides of their economic functions, assumed also the social welfare functions such as health care service at the grassroots for the sake of working people and their families; education of and care for children at creche and kindergarten age, insurance for laborers and elderly people, and cultural and spiritual

activities for the benefit of the population living in the areas where these organizations stationed. After the shifting of the economic mechanism, not only the community activities in the economy such as labor cooperation, advances of funds and materials, selling products, but also common social endeavors have been declining in many places and are being reorganized into a better shape.

The switch - over to the market economy has on the one side stimulated the economic motive of individuals , but on the other has increased the level of risks in economic undertakings compared with the past. Not only private undertakings are being subjected to the pressure of market fluctuations but also the persons being employed in the State sector are worrying about possible losses of their jobs due to the streamlining of organization. In the context that the system of social insurance for the unemployed is not yet set up, and that on the labor market supply exceeds demand, job-shortage constitutes a potential factor which might break up social stability.

Other important fields of social welfare such as compulsory education and public health care have been encountering no small difficulties due to the government's restricted financial means. Average health spending per capita in 1990 stood only at 1.42 U.S dollars. The rate of children leaving off schooling in recent years has been tending to increase. It is on the rising generation that depends for a major part the sustainable development of the human resources of the country.



At present there are changes in policy and organization in order to raise the effectiveness of this field, but it is quite obvious that financial difficulties constitute a major factor hindering it from going forward for many years to come, and its consequences are to be long-standing too.

As mentioned above, through its impact on the economy, the State on the one hand controls and supports the development of the economy and on the other regulates the structure and promotes social progress. It would be a challenge to the economy of Vietnam at present when a high and stable economic growth rate is obtained. But it would be still a bigger challenge if economic growth were to be combined with social progress. There are different approaches to this matter. Some persons hold the view that economic growth must be secured first and the aim of ensuring social equity will be effected some time later. Thus, the economy will be the field on which the State must primarily focus its attention. Capitalism had developed following such a path. Other people have different ideas saying that there should be a forecast of the price to be paid on the social aspect for the rapid economic growth and that the State should work out appropriate policies to have an impact at the same time on both economic and social aspects in order to ensure a definite balanced and sustainable development of the whole society and of different communities of population living in it. The viewpoint on the building of a market economy along a socialist orientation belongs to this

category of ideas. Naturally, discovering and following a new path is a matter of great difficulty and offers more risks than following a well-beaten path. But this new path responds to the requirements of the Vietnamese people. According to this viewpoint, the evaluation of the impact of the State on the economy is not only based on growth targets and economic effectiveness but also on the results achieved in the social field.

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Chế bản điện tử tại Trung tâm Thông tin UBKHNN.

In tại Xí nghiệp in Bộ Thủy lợi.

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