



E P R E S S

Viet Nam: a transition tiger?
Prelude to reform: the attempted introduction of central
planning

Abstract for chapter 4

In order to understand the Vietnamese reform process, it is necessary to examine the history of the system that was the object of reform from the mid 1980s.

This chapter outlines the situation in the North and the South prior to reunification, with a specific emphasis on the organisation of the economy. During the post-reunification stage, the Party made the first formal attempt at planning for a unified nation. The turbulence of the mid 1980s led to social pressure for reforms to promote macroeconomic stability.

The weakness of the pre-reform economic system was acknowledged, leading to the initiation of economic reforms, or *Doi Moi*. However the pre-reform period did have significant social achievements that contributed to Viet Nam's economic success.

Keywords

command economy, Fifth Party Congress, First Five-Year Plan, Fourth Party Congress, land reform program, North Viet Nam, post-reunification, pre-reunification, Second Party Plenum, Sixth Party Plenum, social problems, Soviet, the Party, Third Party Congress, war economy

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PRELUDE TO REFORM: THE ATTEMPTED INTRODUCTION OF CENTRAL PLANNING

A good starting point for understanding the Vietnamese reform process is to examine the history of the system that was the object of reform from the mid 1980s. For the authors of this book, that involves venturing into territory of which they lack direct experience. Interpretations of developments since 1988 in this volume are strongly influenced by direct observations; for the earlier period, the study depends on written sources and discussions with Vietnamese officials involved in the reform process, bolstered by a certain amount of speculation extrapolating from later observation.

PRE-REUNIFICATION

The North

Between 1954 and 1965, North Viet Nam had sought to implement a Soviet approach to industrialisation and planning. During the war with the United States, that basic approach was maintained. Private economic activity was largely forbidden. Most medium and large-scale enterprises were nationalised as the French departed following their defeat in 1954. Remaining non-state enterprises were engaged in handicraft and other household industries that were subsequently organised as cooperatives after 1957. Nationalised enterprises were owned either centrally or through local governments. Agriculture had

been collectivised by the end of the 1950s, and was managed through producer cooperatives, with the exception of private plots of land within agricultural cooperatives.

The Vietnamese economy was, on paper, a classic 'command economy'. Nevertheless, even in principle a fully-fledged Soviet command system was never fully operative. For example, the list of commodities allocated under plans was always very limited as compared to the Soviet material balance system. Many central command mechanisms were not implemented in practice.

Indeed, from 1945 until formal reunification of the country in 1976, the North had to concentrate most of its energies on military struggle. There was a heavy commitment of resources directed to military activity initially to fight the war for independence from France (1945–54), and then the war against the United States and the regime it backed in South Viet Nam. During the US war in particular, attention was focused more on the needs of the war economy than the implementation of economic plans.

A period of relative peace during the late 1950s and early 1960s provided some opportunity for development. The initial policy focus (1955–57) was on land reform, and collectivising the agricultural sector and village and handicraft industries. The radical changes during that period resulted in profound social upheaval, one response to which was migration from some northern areas to the south. The Party has since recognised that 'serious mistakes were committed' under the land reform program (Communist Party of Vietnam 1986a:140). Nevertheless, external commentators have noted that 'the period 1954–60 was one of rapid growth for North Vietnamese agriculture and saw a mushrooming of industry as well' (Beresford 1988:130).

Views on economic strategy were strongly influenced by Soviet orthodoxy in that period. The Third Party Congress held in September 1960¹ focused on the building of socialism and the struggle for reunification. That Congress passed resolutions on the main priorities for the First Five-Year Plan (1961 to 1965), which emphasised the development of heavy industry. External commentators have noted that 'rapid industrialisation was also a feature of the period 1959 to 1964' (Beresford 1988:132).² Investment in industry has been estimated to have grown at a rate three times that of the agricultural sector from 1960 to 1975 (Vo Dai Luoc 1994:9).

The share of industrial production in national income increased from 18.2 per cent in 1960 to 24.2 per cent in 1974, with most growth occurring prior to 1965 (de Vylder and Fforde 1988:28). This was 'mainly the result of an increase in external assistance for equipment, raw materials and fuel for industry, coupled with a decline in agriculture production' (Vo Dai Luoc 1994:10). That is, the pattern of growth was strongly influenced by aid coming from the Soviet bloc.

State enterprises were to be the main vehicle for state-led growth. The Party and government were directly involved in the management of enterprises producing high priority goods. These enterprises received preferential access to inputs, had to produce regardless of cost, and were heavily subsidised by the state. State enterprises engaged in lower priority activities were set targets, but had less access to official resources. Significant managerial, political and entrepreneurial skills were required to meet targets in such an environment.

During the war period, there were contradictions between the stated objectives of the Party and the realities of war-time economy. In 1970, Party Secretary-General Le Duan published a reportedly influential book where he stressed the need to 'struggle to take small-scale production to large-scale socialist production'.³ A Party Plenum in January 1971 stressed the need to develop heavy industry and to lay the foundations for large-scale socialist production. The next Party Plenum in early 1972 went further—arguing for trade to be controlled by socialist enterprises, abolishing artisanal and small-scale production organisations, and replacing these with large-scale state organisations.⁴

In practice, however, from 1965 investment priorities were those of a war economy. Emphasis was given to industries directly supporting the war, especially mechanical engineering, iron and steel, coal and electricity. Many centrally managed enterprises were destroyed through bombing or had to operate well below capacity because of the difficulty in obtaining inputs. Scarce resources were directed to either protecting centrally managed state enterprises or moving them to safer areas, resulting in greater deconcentration of production than the commitment to large-scale production implied. Working under difficult war conditions, pragmatic solutions to keep production going overrode economic planning concepts.

External assistance was required just to sustain output in centrally managed enterprises. Dependence on external assistance increased, rising from about one-quarter of total government budget revenue in the in the early 1960s to

almost 70 per cent in the late 1960s according to one source.⁵ Under the stress of the war effort, the economy suffered. Paddy production fell from 7.1 million tonnes in 1972 to 5.3 million tonnes in 1975, while labour productivity fell by 11 per cent during the same period (Beresford 1988).

The government's dependence on external financing to cover fiscal and trade deficits, the bureaucratic nature of decision making and dysfunctional economic incentives facing both the agricultural and industrial sectors led external analysts to conclude that, at the time of reunification, the northern economy was facing chronic economic imbalances (Beresford 1988; de Vylder and Ffforde 1988). It should be noted, however, that under conditions of total war such concepts as 'economic incentives' and 'economic balance' are not particularly meaningful. War economy in any system typically involves inflation, suppressed or open, scarcities, introduction of non-market allocation systems and such like. The fact that the war was won suggests that the system delivered economically in some sense.

One difficulty in interpreting that period and subsequent developments is to judge how far apparent weaknesses were also hidden strengths. De Vylder and Ffforde have argued that North Viet Nam 'in 1975 was a "weak state"; despite its proven ability to mobilise the Vietnamese people for the bloody struggle to liberate the South' (1998:33). Evidently it was (and remained) true that there was a large gap between the state's pretensions to manage the economy through central planning and implement a Soviet-style industrialisation strategy and the degree to which a logic of autonomous action and initiative operated, even within the state-'controlled' sector.

Subsequent Party documents agreed that there were serious imbalances and distortions with only limited effective planning, but that this was necessary to achieve victory during the war. In criticising the continuation of such distortions after the war, the Party noted that

the national economy was disrupted by the US aggression after 1964...the Vietnamese State depended on increased aid from the USSR and other socialist countries...the only means of developing production was by supplying the production units—in the first place industry—with all the means of production (equipment, capital, raw materials, foodstuffs, consumer goods). The factories had to produce the goods whatever the cost. Planning only existed for form's sake. The State assigned tasks to production units, gave them the means and was handed over the finished goods. All the enterprises had to do was to balance the State allowances and their own expenses in the way as the administrative organs do. Thus economic management through administrative subsidies came into being (Communist Party of Vietnam 1986b:17).

The development of locally managed state enterprises became an important priority because of the ongoing military conflict, the limited resources available to the government, and the need for regional self-sufficiency. The amount of investment directed to locally managed enterprises increased four-fold during the war years (Vo Dai Luoc 1994). As a consequence '[i]ndustrial production was maintained in the main, while locally-run industry vigorously developed...[and]...regional economies began to take shape' (Communist Party of Vietnam 1986a:194).

The impact of the war thus had a critical impact on the organisation of the economy. The net result was that the state enterprise sector was more decentralised—both geographically and in terms of decision making—than was the case in most centrally planned economies. While the struggle to move to a socialist system remained on the policy agenda, the central government never achieved the same degree of control over economic activity as was achieved in most East European centrally planned economies.⁶

In addition to responding to the immediate requirements of the war-time economy, the acceptance of decentralised decision making was also consistent with a long tradition of relative autonomy of village and local communities in managing their local economies.⁷

Although the outcome may have implied a 'weak state', in the sense that the state was unable to control economic activity to the degree that it claimed, it also implied that the foundations of a 'strong economy' were being laid unintentionally, both in that the gigantism of Soviet-style industrialisation was avoided and that there was a high degree of practical autonomy within local economic units.

The South

In South Viet Nam, post-1954 industrial policies focused on development of agriculture and light industry. The influx of foreign forces during the 1960s stimulated the demand for food processing as well as demand for other light industries such as garments, construction materials and wood products. The service sector recorded very strong growth during this period. Efforts to shift the burden of the war to the government of the Republic of Viet Nam in the later part of the 1960s and early 1970s were associated with increased investment in the assembly of electronic equipment, machinery and motor vehicles. Facilities were also developed for repairing and maintaining military equipment, ships and aircraft (Vo Dai Luoc 1994).

However, as in the North the pattern of economic growth was determined by the peculiar conditions of war. Strong economic growth during the late 1960s and early 1970s was largely the result of externally financed expenditure on consumption goods, and created an imbalance between sectors catering to the demands of the US operation and the indigenous economy.⁸ Exports were only sufficient to finance a very small percentage of imports in 1969–70.⁹ High levels of public expenditure affected the balance of the economy. The level of economic activity would not have been sustainable under peace-time conditions.

Following the signing of the Paris Peace Accord in January 1973, external financing to Viet Nam fell sharply. This contributed to economic stagnation and increasing unemployment, particularly in urban areas. Social problems, including dislocation of families, the growth of urban slums resulted from rapid urbanisation, the large number of war invalids, drug abuse and prostitution, were prevalent. In rural areas, agricultural output was badly affected by the damage to infrastructure and the environment caused by bombing and chemical spraying (Beresford 1988).

Difficulties were compounded after reunification because, in addition to the departure of segments of the upper and middle classes, the human capacity in the south of Viet Nam was underutilised due to resistance to the post-war changes from some members of the business community, and suspicion from the new administration about the loyalty of important segments of the intellectual, administrative, and skilled worker communities in the south.

On the positive side, the industry and service sectors were much more developed in the south than in the north. Basic economic infrastructure was also much better developed in parts of the south, especially in the commercial centres. Most importantly, there was an established entrepreneurial class with business, managerial and administrative skills that had the potential to play an important role in economic development.

POST-REUNIFICATION

Following reunification, the government initially relied mainly on *ad hoc* measures to direct the economy, concentrating initially on the formidable tasks of reconstruction and rehabilitation of infrastructure, the resettlement of wartime refugees, raising the level of rice output and building administrative capacity.

The integration of two very different economic systems following the defeat of the Government of the Republic of Viet Nam (South Viet Nam) in 1975, and formal reunification of the country in 1976, presented a formidable

challenge.¹⁰ This was because institutions differed considerably, and also because both the North and South, previously heavily dependent on external funding, were faced with much reduced access to foreign exchange at the very moment they needed such funds to drive post-war reconstruction and the transition away from the war economy.

The Fourth Party Congress, held in December 1976, acknowledged the limitations of the industrialisation policies in the North prior to 1975, and calls were made in this forum for a greater share of investment resources to be allocated to the agricultural sector. This, however, did not appear to have been reflected in the strategic objectives for economic development identified by the Congress, namely to

- create the material and technical basis for socialism rapidly
- take the economy from small-scale production to large-scale socialist production with a modern industrial and agricultural structure
- give priority to the rational development of heavy industry on the basis of developing agriculture and light industry; the intensification of agricultural production being regarded as the main task of the 1976–80 Five-Year Plan
- redistribute the social workforce to make productive use of unused land, found mostly in the hilly and mountainous regions
- organise the district as an economic agro-industrial unit
- build the national economy taking account of the needs of national defence
- develop simultaneously a flexible central economy and regional economies
- promote rapid technical and scientific development
- transform the South gradually in order to establish an integrated socialist nation
- resolve economic management problems (Communist Party of Vietnam 1986b:10–11).

The 1976–80 Five-Year Plan included ambitious growth targets, which reflected, in part, the euphoria following the reunification of Viet Nam and an assumption that the strict social and economic discipline that had been exercised during the war could be sustained during peace. It was also assumed that the war would be followed by a rapid build-up in foreign aid flows.¹¹ Inadequate attention was given to past failures and the difficulties of rapid economic integration given the differences in economic systems and resource endowments between the North and South (Asian Development Bank 1989).¹²

In the period immediately following reunification the approach to socialist transformation had been fairly cautious. However, dissatisfaction with the pace of socialist transformation and the rapid growth in private trade, combined with concerns about internal political opposition to socialist transformation in the southern business community, dominated by ethnic Chinese, led to attempts to accelerate the process of transformation to socialism.

In early 1978, many private enterprises in the south, particularly in Cho Lon, where ethnic Chinese dominated trade, were nationalised or closed. This was followed by an increase in the exodus of 'boat people' from Vietnam (Beresford 1988).

The policy of subsidising state enterprises regardless of cost continued after reunification. Indeed, increased subsidies were allocated for these policies to be applied nationwide, covering new enterprises and newly nationalised enterprises in the south of the country (Vo Dai Luoc 1994). The maintenance of this system after reunification has also been recognised by the Party to have been a mistake.

This system was necessary in war conditions when the State was receiving a large amount of foreign aid. It should have been abandoned when the war was over, when the country, now reunified, was embarking on the stage of socialist construction. But conservative ideas and the tendency to rely on foreign aid delayed the reorganisation of economic management. Effective for the years of war, the old system, became a hindrance to all economic activities (Communist Party of Vietnam 1986b:17).

The emphasis on a rapid transformation to socialism provided Party and government officials with a mandate to interfere in the day-to-day management of enterprises and household businesses. Delineation of responsibility and accountability became increasingly unclear. The lack of accountability included a perception that the state would financially support the enterprise in the event of financial losses.¹³ At the same time, commitment to the war effort as an incentive to produce diminished following reunification. These factors contributed to growing ineffectiveness in the state enterprise sector. Despite the increasing number of state enterprises, and the large share of public expenditure allocated to the state enterprise sector, the share of state enterprises in national output actually declined from 27.7 to 19.7 per cent between 1976 and 1980.

A decision was taken by the Second Party Plenum in July 1977 to accelerate the development of state farms throughout the country and to implement

agricultural collectivisation in the south (Communist Party of Vietnam 1986a). Ambitious targets were established to transform individual farming enterprises in the south into production cooperatives. It has been argued that local cadres, who were under great pressure to meet these targets, used force rather than persuasion to establish cooperatives and were more interested in reaching the target number of cooperatives than in how successful the cooperatives were in promoting increased production (Vo Nhan Tri 1990).

Despite the stated priority to be given to agricultural development (as a necessary step towards the ultimate objective of developing heavy industry) most development expenditure continued to be directed to the industrial sector.¹⁴

A policy biased towards industrial development and the concentration of public investment in industry, particularly large-scale heavy industry, meant that the sectors where Viet Nam could be expected to have a comparative advantage were neglected. Pricing policies favouring the industrial sector was effectively a tax to subsidise inefficient industries. The emphasis given to rapidly creating the material and technical basis for socialism and similar targets put pressure on officials to realise targets such as increasing the scale of collectives and state enterprises at the expense of efficiency (and the stated aim of large-scale production).¹⁵ Party cadres were under considerable formal and informal pressure to conform to the perceived requirements for rapid socialist transformation.

The end of the 1970s saw the peak of attempts to create an orthodox Soviet style of centrally planned economy in Vietnam. The failure of those attempts and the willingness of the Vietnamese system to learn the painful lessons of that failure created the conditions for the subsequent period of reform and accelerated growth.

Formal regulations governing state enterprise were promulgated in 1977 and regulations on enterprise unions promulgated in 1978.¹⁶ The regulations recognised state enterprises as independent legal entities, but they had little independence in operations.

The enterprise was obliged to fulfil the compulsory targets ordered by the State. The State also worked out plans for production, marketing, and pricing as well as salaries and bonuses, distribution and utilisation of its funds. Hence the scope for initiative at the enterprise level was very limited. Industrial cooperative units in general had a greater autonomy in production and marketing than State Enterprises (Le Trang 1989:156).

Control of state enterprises by line ministries and provincial authorities was organised through unions of state enterprises. Most enterprises were required

to be members of these unions. Trang defined unions of state enterprises as 'production-business organisations that organise state enterprises in the same business area, manufacturing similar products, using similar technologies or technologies which are related to each other' (1989:157).

The power entrusted to unions of state enterprises was considerable, including the preparation of sector plans and allocation of responsibility to enterprises under the union to realise specific targets within the overall plan. State enterprises were obliged to fulfil quotas and other targets as directed by the unions. Unions were 'also responsible for supplying technical materials to its members and for marketing their products, monitoring their fulfilment of the techno-economic norms and criteria of the branch, and training or re-training managing cadre and technical workers for its members'. This additional administrative layer caused considerable conflict and confusion and 'a few such unions became intermediaries obstructing their member enterprises' operations' (Le Trang 1989:157).

The problems of inappropriate economic policies, distorted incentive structures, and passive resistance to socialist transition were compounded by the cancellation of external assistance, and increased demands for military expenditure following the invasion of Cambodia in late 1978. After strong growth in 1976, economic output stagnated in 1977 and 1978 and actually declined in 1979 and 1980. There was a particularly pronounced decline in output from state-owned industrial enterprises, with production declining by an average 2 per cent per year between 1977 and 1980.

By the late 1970s, Viet Nam was facing a 'major economic crisis, with acute shortages of food, basic consumer goods, and inputs to agriculture and industry, and a growing external debt' (Asian Development Bank 1989:6). The impending economic crisis was recognised in August 1979 at the Sixth Plenum of the Fourth Party Congress. The Party has since bluntly criticised the policies of this period, noting that these policies

...underlined the weakness and inadequacies in economic and social leadership over the previous years, which showed themselves in manifestations of subjectivism, impatience, conservatism, inertia, bureaucracy, lack of realism, irresponsibility (Communist Party of Vietnam 1986b:15).

and that

the decrease in production in the late 1970s and the mistakes made in laying out the economic structure, especially in allocating investments and capital construction in the preceding five years (1976–80), have left us heavy consequences (Communist Party of Vietnam 1987a:10).

The efforts to develop the economy of the unified nation were in principle guided by a system of central planning. The Interim Three-Year Plan (1978), drawn up with assistance from Soviet advisers, was the first formal attempt at planning for the unified nation. It was intended to lay the foundations for a more complete socialist transformation under the First Five-Year Plan, to start in 1981.

The First Five-Year Plan (1981–85) set out to construct a strict central-planning system with state allocations of capital and inputs and even labour being allocated centrally. There were plans for large-scale investment in cement factories, steel mills and hydroelectric power plants. Virtually all consumer goods were strictly rationed. Money and prices did not play a determining role in the allocation of resources; official prices were low and had little influence on production decisions.

The mechanisms of central planning were never properly established. The setting of plan targets in great detail at the centre, without any instruments for effective enforcement, meant that despite the apparent high degree of centralised decision making there was little effective discipline and a high degree of autonomy at the provincial and enterprise level in practice.

Emphasis on quantitative production targets encouraged enterprises to maximise their allocations of capital and inputs and hoard machines, raw materials and labour, thus amplifying imbalances caused by the overambitious aggregate targets.

In fact, the period in which there was a serious effort to introduce orthodox central planning throughout the country was quite brief, which meant that in the south in particular there was too little time for central planning to be institutionalised. The poor performance of the economy in that period set the conditions for the birth of the reform process.

FIRST STEPS TO REFORM: LIMITED DECENTRALISATION, 1979–86

Early intimations of reform can be seen already at the end of the 1970s, when economic difficulties prevented the consolidation of the centralised planning system.

Economic stagnation led to pressures for change. As early as 1979, socioeconomic targets were revised downwards and agreement was reached on the need to decentralise some decision making and to provide improved

incentives for increased production. The debate initiated at the Sixth Party Plenum in August 1979 was an important turning point. The Communist Party and society began to question, in a systematic way, fundamental issues about how society and the economy system should operate. The difficult process of experimentation with reform since then has contributed to a transformation of the beliefs within broad sections of society, the Party and government. This, in turn, has substantially changed the informal constraints that play such an important role in influencing economic performance. Consequently, the options available to alter the formal framework for economic and social activity also changed.¹⁷

De Vylder and Fforde (1988) have described the reform process as being initiated through partial, unofficial relaxation of constraints on private activity and spontaneous moves towards production and trade outside of official channels ('fence-breaking'), leading to eventual Party recognition of the role of the household sector in agriculture, handicrafts, and retail trading. For example, the Council of Ministers issued a decree providing scope for local state enterprises to operate outside the central plan once central plan targets had been realised.¹⁸

The system of 'full allocation and full delivery', the system where the state provided all the inputs to state enterprises and recovered all profits, was replaced by a system whereby state enterprises could supplement state allocations with loans from the banking system, and some experimentation with alternative approaches to increasing production was allowed.

In January 1981, a contract system was introduced in the agricultural sector,¹⁹ and the government issued a decision providing limited autonomy to state enterprises.²⁰ The decision reduced the number of mandatory targets that enterprises had to meet, and introduced the 'three plan' system, which gave enterprises rights to operate outside the plan, but only after centrally planned targets had been met. Up to 85 per cent of the profits from activities outside these targets could be retained by the enterprises, and some of this could be allocated to workers as bonuses. A related decision included provisions for salary payments to state enterprise employees to be related to output.²¹

Other reforms included moves to shift official prices closer to market rates in October 1981, and decentralise trade to local enterprises. These reforms were followed by decisions taken at the Fifth Party Congress in 1982 to reorient previous policies that focused on heavy industry and an inward-oriented economy to give greater attention to agriculture, light industry and export-

oriented production. While the concept of central planning continued to be defended, more modest targets were established by the Fifth Party Congress.

- Meet the most pressing and essential requirements of everyday life, gradually stabilising and eventually improving the people's material and cultural life. First of all we must solve the problem of food supplies, and make efforts to meet the requirements in clothing, study, medical care, housing transport, child care, and other essential consumer needs.
- Continue building the material and technological infrastructure of socialism, with the emphasis on boosting agriculture, consumer goods production and exports, while at the same time improving the technical basis of the other economic branches, and making preparations for a more vigorous growth of heavy industry in the next stage.
- Complete the socialist transformation in the southern provinces; continue improving the socialist relations of production in the North; and consolidate the socialist relations of production in the whole country.
- Meet national defence requirements and maintain security and order (Communist Party of Vietnam 1986b).

Despite improved economic growth performance, considerable internal policy debate continued during this period and there was considerable uncertainty about future policy directions. Grassroots initiatives towards economic liberalisation interacted with oscillations between policy concessions and periodic clamp-downs on the free (or unofficial) market (de Vylder and Fforde 1988). Considerable uncertainty about what was legal remained. Such an uncertain environment checked the growth of non-state economic activity as it discouraged long-term investments.

While the authorities showed some flexibility in decentralising decisions and accommodating spontaneous changes, there were differing views about the desirability of such pragmatism. Strong private sector growth, sometimes at the expense of state enterprises, combined with inflationary pressures, led to internal pressures for reversal of earlier reforms. In 1983, administrative changes were made to control 'anarchy' in the market. Private enterprise registration procedures, tax policies, and bureaucratic interference discouraged private sector initiatives, particularly in trading. The freedom of state enterprises to trade outside of official channels was reduced and controls were imposed on foreign trade (Asian Development Bank 1989).

While the partial reforms introduced from 1979 to 1982 had an important impact in improving production incentives, the reforms did not adequately address key issues of pricing, financial discipline and reform of the bureaucratic administrative structures. Public sector and trade deficits increased alarmingly.

Inflation accelerated rapidly and growth began to slow from 1985. Government attempts to reduce these imbalances through currency, price and wage reforms were poorly coordinated, and fiscal imbalances and inflation became acute. By 1986, inflation had soared to an annual rate of more than 500 per cent, growth was slowing, and external deficits had increased sharply. This instability led to social pressures for reforms to promote macroeconomic stability. Partial reform had left the economy in a difficult halfway house, with neither the constraints of a tight planning system, nor the policy instruments for managing a decentralised economy, in place.

ACHIEVEMENTS OF THE PRE-REFORM PERIOD

The account above emphasises the many weaknesses of the pre-reform economic system, which necessitated the initiation of economic reforms (*Doi Moi*). It would be a mistake, however, to conclude that the pre-reform period was without significant social achievements, which have contributed to the subsequent economic success.

Contributions from the earlier period are largely ignored in much of the writing on recent economic developments in Viet Nam, which identify *Doi Moi* as the primary explanation of Vietnam's recent economic success. That is quite correct in the sense that the economic boom could not have happened without the *Doi Moi* reforms and the official sanctioning of the market economy that this implied. One can still ask, though, whether programs in the pre-reform period contributed to the subsequent achievement.

There are three main areas in which programs in pre-reform period helped create the conditions for accelerated growth. The first relates to human resource development. In the period before reform, Viet Nam made substantial investments in human capital. The commitment to provision of basic education and health meant that at the beginning of the reform period the country enjoyed much higher levels of basic literacy and health than most countries at a similar income level.²² Thus, in 1990, Vietnamese per capita income levels (on a purchasing power parity basis) placed Viet Nam on the same income

level as the 'low human development' group of countries, but adult literacy rates were 88 per cent compared to an average 48 per cent for the low human development group. At that time, Viet Nam's indicators of basic education were in line with those of much richer countries in the region—in average years of schooling, Viet Nam was ahead of Thailand and Indonesia, and literacy rates were on a par with other countries in the region.

There had also been a substantial investment in higher education, in Vietnamese institutions, similar to that in the Soviet Union and Eastern Europe and in an earlier period in China. The number of students graduating from colleges and universities in the country averaged over 20,000 per annum through the 1980s.²³ While this training was notably weak in areas such as economics, business skills and law (all important in the subsequent reform process), well trained cadres were produced in a number of technical subjects.

Viet Nam also made use in the 1980s of support from the UN system to provide postgraduate training in the region in subjects such as agriculture, and had cooperative programs with the International Rice Research Institute and other research institutions. Also, the OECD countries which maintained support programs (particularly Sweden) provided opportunities for higher level training.

While it is not possible to separate out and measure the returns to the investment in human resources, there can be no question that the high level of literacy and the trained technical cadres were critical inputs into the success of the Vietnamese economic reforms.

Table 4.1 Comparative indicators of human development, 1990

	Real GDP/capita (USD, PPP)	Average life expectancy (years)	Mean years schooling for 25+ years	Adult literacy (per cent)	Child ^a mortality (per 1,000 children)
Viet Nam	1,100	62.7	4.6	88	65
Thailand	3,986	66.1	3.8	93	34
Philippines	2,303	64.2	7.4	90	69
Indonesia	2,181	61.5	3.9	82	97
Low human development	1,110	56.5	2.3	49	n.a.
All developing countries	2,170	62.8	3.7	65	104

Note: ^a Child here refers to children under five years old

Source: United Nations Development Programme, 1993. *Human Development Report*, Oxford University Press, New York.

It should also be noted that, somewhat perversely, the disruptions and emigration associated with the war and unification, while having immediate costs with the departure of qualified people, also had strong positive consequences, as the Vietnamese Diaspora has become a source of international business connections, transfer of know-how and remittances.²⁴

A second area in which foundations were laid for future growth was in relation to rural institutions. Communist reforms in the rural sector increased the equality of access to land, which meant that, when the reforms were implemented, there was a basis for a positive production response and a wide diffusion of the benefits of growth.

The consequence of these egalitarian developments can be seen if a comparison is made, for example, with Pakistan. Pakistan has enjoyed periods of robust growth in GNP, but the impact of that growth was limited both in terms of poverty alleviation and sustainability by the rigid rural social structure and related poor performance in human resource development.

Also, in fairness, Soviet supported investments in infrastructure provided needed capacity (for example, electric power generation). In the South, considerable investments had been made during the US war in transport, agricultural research, extension and development, which contributed to the later expansion in production.

NOTES

- ¹ The unified Indochina Communist Party officially met for the first time in Hong Kong in February 1930. The First Party Congress (of the Indochina Communist Party) was held in Macau in March 1935 and focused on building up the Party and the struggle against imperialism. The Second Party Congress was held in the Tuyen Quang jungle during the resistance against the French in 1951. At this Congress the Indochina Communist Party was dissolved and replaced by three national parties. Discussion focused on the struggle against imperial rule.
- ² De Vylder and Fforde (1988:28) also noted that from 1961–65 the industrial sector ‘showed impressive rates of growth’.
- ³ Le Duan quoted in Communist Party of Vietnam (1986a:215).
- ⁴ Le Duan quoted in Communist Party of Vietnam (1986a:216–17).
- ⁵ Vo Nhan Tri (1990), quoting official government statistics.
- ⁶ See, for example, de Vylder and Fforde (1988), who argue that North Viet Nam was a ‘weak state’, and Van Arkadie and Vu Tat Boi (1992).

- ⁷ Neil Jamieson's book *Understanding Vietnam* (1993) explores the interplay between individualism, and commitment to family, village and nation in Vietnamese history. The author offers an interpretation of the differences in social structure at the village level in North, Central and South Viet Nam and an interesting interpretation of the paradoxical combination of a tradition of strong local autonomy and individual initiative, with acceptance of a high degree of discipline with respect to the larger social unit at each level of Vietnamese society. However, while the study provides interesting insights into the historical and philosophical origins of modern Viet Nam it is not so insightful about post-unification developments, and stops short of any treatment of the *Doi Moi* period.
- ⁸ See Jamieson (1993) for a telling account of the tensions that emerged as a result of the lucrative returns from serving the needs of the US community and the squeeze on other activities under war-time inflationary conditions.
- ⁹ Beresford (1988) cites an ADB study (ADB 1971) which estimated that imports financed by US aid amounted to about one-third of the total GDP of South Viet Nam in the late 1960s.
- ¹⁰ One could make some comparisons with the reunification of Germany, but the problems caused by the protracted war, the low level of economic development and the very limited fiscal resources in both the south and the north compounded the difficulties facing the Vietnamese authorities.
- ¹¹ A UN report published in June 1976 recommended that US\$400 million be raised for immediate rehabilitation and reconstruction needs. In November 1976, however, the US government vetoed Vietnam's application to join the United Nations, despite support for Vietnam's application by the other 14 members of the Security Council. Viet Nam was finally admitted to the United Nations in September 1977.
- ¹² Vo Dai Luoc (1994:14–15) noted that documents prepared for the Fourth Congress of the Party included 'an indirect acknowledgment of the limitations of the industrial policy conducted from 1961 in North Viet Nam...[but that]...this policy was taken up again by the following Party congress almost without a single alteration... Only after 1980 when all these targets failed to materialize did the 5th National Congress of the Party decide to readjust the industrial policy'.
- ¹³ Often referred to as the 'soft budget constraint', this is a major contributing factor to inefficiency in state enterprises, especially in centrally planned economies (Kornai 1980).
- ¹⁴ Vo Nhan Tri (1990:76) reports that the share of state investment directed to the agriculture sector increased from 20.0 per cent in 1976 to 23.7 per cent in 1977, and then gradually declined to 19.0 per cent in 1980. Total state investment increased by about one-third in real terms between 1976 and 1978, but then fell by about 9 per cent over the next two years.

- ¹⁵ See, for example, Communist Party of Vietnam (1987a).
- ¹⁶ Decree 93-CP (8/4/77) 'Articles on Industrial State Enterprises', and Resolution 302-CP (1/12/88) 'Articles on Unions of State Enterprises'.
- ¹⁷ The commitment to a form of socialism, however, has continued through this period.
- ¹⁸ Decree 279-CP (2/8/1979) 'On Work to Promote the Production and Circulation of Commodities not under State Management and the Supply of Inputs or Raw Materials and Waste and Low Quality Materials at the Provincial Level'.
- ¹⁹ Directive No. 100 of the Party Central Committee, 13 January 1981, 'On Piece-work Contracts to Employee Groups and Individual Employees Working in Agricultural Cooperatives'.
- ²⁰ Decision No. 25-CP (21/1/1981) on 'Several Directions and Measures to Enhance the Rights of Industrial State Enterprises to take Initiative in Production and Business and in Self-Financing'.
- ²¹ Decision No. 26-CP (21/1/1981) on 'Wage and Bonus Policies for State Enterprises'.
- ²² One of the costs of reform has been the weakening of some of the institutions of social service provision. For example, the cooperatives had served both an economic and social function and their decline resulted in a weakening in the provision of education (particularly pre-primary) and of basic health care. An alarming piece of evidence of this decline comes from an analysis of infant mortality, partly based on the results of the 1997–98 Vietnam Living Standards Survey, which suggests that, despite a general improvement, there has been an actual deterioration of provision of some services to the bottom quintile of the population and, as a result, an increasing gap between the survival chances of those born into families in that quintile and higher income groups (Nguyen Nguyet Nga and Wagstaff 2002).
- ²³ Official statistics show the number of students studying in colleges and universities peaked at 154,000 in 1980, and numbers graduating peaked at 34,000 in 1983. In 1990, there were 93,000 students in colleges and universities and 19,000 graduating. Subsequently, from 1994, there was a sharp rise in tertiary education, so that by 1998 there were 492,000 students studying and 62,000 graduating (General Statistics Office 2000a).
- ²⁴ It is an ironic result of migrations resulting from political upheaval that the unusual opportunities provided for migration as borders are opened for refugees, albeit often grudgingly, have so frequently worked to the economic benefit of the migrants, the host country and, in some cases, the country of origin. Examples amongst many include the positive impacts of refugees from Germany in the 1930s, and Asians and Africans who left Uganda in the 1970s.