EMERGING ECONOMIC SYSTEMS IN ASIA

A political and economic survey

Edited by Kyoko Sheridan

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9 Atchison Street
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Australia
Phone: (61 2) 9901 4088
Fax: (61 2) 9906 2218
E-mail: frontdesk@allen-unwin.com.au
Web: http://www.allen-unwin.com.au

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Melanie Beresford and Bruce McFarlane

Vietnamese leaders say that they are constructing 'a market-oriented socialist system under state guidance'. This followed some 25 years of experience with a modified East European model which, in the decade after the unification of the country in 1975, had failed to deliver adequate agricultural surpluses, an adequate structure of industry or sufficient elements of collective consumption in relation to the societal needs.

The course of Vietnamese socialism was dominated in the 1970s by the problems of repairing a country destroyed by 30 years of war; the 1980s was a period of economic reform and restructuring of a socialist-oriented system towards the market, domestic and international. In linking these periods to economic development and structural change, two things stand out as requiring substantial analysis: the process of capital accumulation under Vietnamese conditions and the economic role of the state. The latter has increasingly been seen as a key aspect of the development of East and South-East Asian countries (Amsden et al. 1995). It is the aim of this chapter both to record the development and growth achieved to date and to demonstrate the importance of capital accumulation and the role of the state as it shifts from operating a centrally planned economic system to managing the market economy.

STRATEGIC DECISIONS

The basic elements of the development strategy pursued by the Vietnamese government during the period since 1954 were determined by the desire of the Communist Party leadership, first, to initiate a process of rapid industrialisation and modernisation of the economy (a desire held in common with all other newly independent states in the region) and, second, to build a socialist society. As a result of both domestic and international factors impinging on the economy during the last four decades, the authorities have on five occasions been forced by circumstances to make major strategic choices (Kolko 1974 & 1988):

1 In the mid-1960s, at the height of US bombing of the country, whether to concentrate resources to maintain economic growth in the North, or to divert resources from this purpose in order to aid the liberation of the South (Catley & McFarlane 1974).
2 After 1975, how rapidly to unify the economic system in the two halves of the country and what kind of land program to put through in the South, given that there had been great inequalities and social tensions over land in the past (Ngo Vinh Long 1983; Quang Minh Dao 1993), the withdrawal of both American and Chinese food aid to the two halves of the country (Beresford 1989) and the need to promote a capacity to export rice on a large scale to earn precious foreign exchange.
3 In 1979–81 how far to tolerate and develop spontaneous reforms in the areas of agriculture, industry and domestic trade that had appeared in a number of provinces in response to acute shortages which had emerged after collectivisation of southern agriculture, a sharp decline in Council for Mutual Economic Assistance (CMEA) imports as prices rose, the diversion of resources to the war effort against Pol Pot (Beresford & Fforde 1996), and whether to attempt to roll back the movement towards marketisation of the economy that this development heralded.
4 In 1985–86 whether to accept and codify the movement to market socialism generally, and to approve specific measures like freeing the foreign exchange rate of the dong and lifting the remaining price controls or to persist with centralised economic planning and emphasise more traditional socialist policies.
5 In 1996, after four years of GDP growth at over 8 per cent per annum and large volumes of rice exports, how to maintain the 'accelerated growth' policy in the face of increasing uncertainty by foreign investors and domestic private investors at the apparent inability of institutional reforms to adapt rapidly enough to the requirements of effective planning and management of the market.

The decisions taken dictated the course of events for years afterwards, for as Maurice Dobb once put it, '[H]aving started on one path of development you have to stay on it for some considerable time ahead. It is impossible (without considerable dislocation and wastage of resources) to make abrupt turns, although you can of course start easing off in one direction or another, and begin gradually to deflect your course' (Dobb 1951, p. 82).

Specifically, the first decision—to direct assistance from the North to the South—although it ultimately led to victory, also greatly complicated postwar problems of development in the unified country. There had developed *within the same geographical boundaries*, two very different and antagonistic economic systems. On the one hand the South, following withdrawal of direct funding of its budget by the United States and large quantities of subsidised imports annually, actually had a negative economic surplus that had necessarily to be plugged by already scarce resources from North Vietnam (Beresford 1989). On the other hand, in the North itself, the influence of relatively abundant consumer goods available from the South during 1975–76, simultaneously with increased shortages in its own production sectors, had a strong impact on popular attitudes towards the planned economy, putting pressure on the government to shift its economic strategy towards raising consumption levels.

The second strategic, and disastrous, choice was to collectivise agriculture in the South, in an area (the Mekong Delta) which had seen the strong market-oriented development of farming by small and medium peasants who had also proved to be receptive to the use of pumps and other modern inputs, following land reforms initiated by the Communists themselves in the 1960s (Beresford 1989). The result of collectivisation was a rapid erosion of incentives and plummeting production results which had to be reversed from 1979 onwards by the introduction of a system of contracts between the farming families and the state, similar to those in China. Under the new system, surpluses over and above compulsory sales were retained by the producers and could be disposed of on the market or to the state at elevated prices. The immediate effects of the change could soon be seen and can be underlined by pointing to the fact that the state actually gained control over more grain reserves than it had achieved under the previous state-run, collectivist farming system (Beresford 1987). However, three valuable years had been lost and near famine conditions had prevailed in many areas in the late 1970s. By the late 1980s, the new system was under further pressure from farmers to abolish compulsory agricultural procurement altogether and to extend household control over production and investment decisions. Once this was achieved, agricultural output growth was rapid and the system yet again came under pressure from both rural and urban people with wealth to allow a market to develop in land itself. (A free-for-all market in housing, urban land and office space had already developed in the cities by 1992.)

The 1981 struggle over domestic trade and rural pricing was a crucial one since political factors stifled the further spread of a promising experiment in decentralised rural administration and price flexibility that had emerged in one particular province (Beresford & Fforde 1996) and thereby delayed acceptance of the 'market socialism' concept for another four years, as well as leading to stagnation of food surpluses (after the initial output spurt resulting from the new system of contracts) and delaying the ability to undertake large-scale rice exporting. At the same time, however, the limited reform that was achieved in the early 1980s began the process of dismantling price controls and rationing of many consumer goods so that, despite the Party's intention to maintain central planning, the area of economic life dominated by market relations expanded gradually throughout the first half of the decade. This process was also evident in the reforms applied to state-owned enterprises (SOEs) in 1981, under which the latter were permitted to produce part of their output for the market.

These early reforms therefore helped to create an atmosphere in which monetisation of economic transactions became increasingly important and the scope for market relations gradually expanded while the area of the economy which remained under the influence of directive planning shrank.

The Party Congress of 1986, with its 'renovation' or 'Doi Moi' policy, essentially prepared the ground for the abolition of Soviet-style planning methods (the move to a 'one-price' system—that is, market prices for all goods—in 1989 was the final step here), the granting of genuine independence from arbitrary state interference to industrial enterprises (1987) and expansion of movement towards de-collectivisation in agriculture (1988). However, institutions established during four decades of building the 'traditional' socialist system cannot be expected to change overnight as a consequence of a political decision. In reality, many institutional changes have run ahead of policy reforms—the development of spontaneous market relations during the late 1970s and early 1980s is a case in point. Others have been slower to change, at least partly due to the fact that the transition from plan to market disrupts earlier relations of authority and control over resources. Reforms introduced since 1989 have therefore been aimed at accelerating institutional change within the state apparatus so that it becomes better adapted to the requirements of regulating a market economy. By the mid-1990s, at the time of

writing, tensions over the direction and pace of these reforms reflects to some extent the last of the strategic decisions mentioned above—how far to promote the development of private foreign and domestic investment in order to sustain high growth rates versus the desire of Party leaders to maintain a socialist direction of development with dominance of public ownership and high levels of social equity.

WAVES OF INDUSTRIALISATION IN VIETNAM

Given the objective of modernisation and rapid industrialisation mentioned above, a discussion of the extent to which this goal has been achieved should start by examining the trends shown in Tables 9.1 to 9.4 which cover the structural change in industry, the overall change in value and volume of industrial production and the achievements in reaching *per capita output* levels for selected major products.

These tables give a bird's-eye view of the course that Vietnamese industrialisation has taken,[1] dividing the process into a number of different waves:

1. 1955–60 was a period of recovery and improvement of the functioning of the existing capital stock of the industry sector.
2. The first five-year plan period, 1961–65, launched a number of new industrial projects, including several in the category 'heavy' industry.
3. The whole decade 1965–75 was one of maintaining industry under conditions of total war and extensive bombing, mainly by shifting plant to the countryside (Kolko 1974).
4. The period 1975–88 shows that industrialisation resumed under peacetime conditions, that it achieved respectable results in relation to per capita production of some major products (Table 9.4), but that declines were recorded in relation to coal (due to poor mining methods), bricks, paper and seafoods.
5. The period 1988–95 (earlier in some sectors) shows a substantial recovery of industrial production as well as rapid structural change with remarkable growth in the production of electricity and fuel (including crude oil which grew from 2.7 million tonnes in 1990 to 7.7 million tonnes in 1995), cement and other construction materials, chemical fertilisers, and a number of consumer goods, such as paper, electronic goods, light bulbs, thermos flasks, milled rice, beer, cigarettes, dairy products and shoes—primarily in the state-owned sector (*Statistical Yearbook 1995*).

Table 9.1 The value of total industrial products in the whole country, Vietnam, 1930–88 (1982 prices, 1930 = 1.0)

Year	*Total*	*Group A**	*Group B**
1930	1.0	1.0	1.0
1939	1.7	1.9	1.6
1955	0.7	0.7	0.7
1960	2.8	3.5	2.6
1965	6.0	9.0	4.9
1975	11.9	17.8	9.9
1976	13.4	20.5	11.0
1985	21.1	35.1	25.5
1988	27.0	41.6	35.0

Note: * The category 'Group A' refers to heavy industry, while Group B refers to light industrial goods and agricultural products.

Sources: The statistics for 1930–85 are from Vo Nhan Tri (1990) and for 1988 from *Statistical Yearbook* for that year.

Table 9.2 Industrial structure of Vietnam: Percentage of gross value of output by industrial sector

	In the North		*In the whole country*		
	1960	*1975*	*1976*	*1985*	*1995*
Total	100	100	100	100	100
Group A (heavy industry and engineering)	33	42	30	32	na
Group B (consumer goods, light industry, agriculture)	67	58	70	68	na
Central industry	38	45	44	34	52
Local and regional industry	62	55	56	66	48
Industry in the state and collective sector	57	72	68	57	73
Private industry	43	28	32	43	27
Electricity	1.2	4.3		4.5	7.0
Energy	5.0	5.1	5.6	1.2	16.2
Metallurgy and machinery	11.0	18.0	12.3	14.0	9.4
Chemicals	3.7	14.1	9.4	10.5	8.7
Building materials	8.7	5.6		6.5	8.1
Wood and paper	13.0	5.9	17.6	12.0	5.6
Glass, porcelain, ceramics	1.0	1.6		1.5	0.1
Textiles and garments	26.5	10.9	14.5	17.0	9.1
Foodstuff	25.0	30.6	33.6	27.4	31.0

Source: *Statistical Yearbook*, various years.

Table 9.3 Some main industrial products of Vietnam, measured in volume

	In the North				*In the whole country*			
	1955	*1960*	*1965*	*1975*	*1976*	*1985*	*1988*	*1995*
Electricity (m kwh)	53	255	633.6	1 340	3 089	5 230.2	6 948	14 691
Washed coal (m tonnes)	0.6	2.6	4.2	5.2	5.7	5.7	6.9	7.7
Chrome ore (000 tonnes)	1.2	19.4	28.2	10.4	14.4	4.1	2.6	na
Machine tools (pieces)	799	1 866	1 695	1 609	964	1 115	1 785	
Diesel-motor (pieces (p)		1 115	2 705	3 225	5 315	7 158	5 200	
Electric rotary engine (p)	488	5 712	10 069	10 952	15 395	19 833	28 705	
Tin (tonnes)	70	470	510	263	288	501	573	1 200
Chemical fertiliser	6.4	51.5	144.4	423.0	434.8	531.5	502.8	895
Insecticide (000 tonnes)		0.045	2.676	4.683	14.8	17.8	13.0	na
H_2SO_4 (000 tonnes)			4.68	3.5	5.44	15.94	17.31	na
NaOH 100% (000 tonnes)			1.84	1.73	3.96	3.0	4.9	na
Bicycle-tyre (000 pieces)		88	780	2 872	5 223	11 559	11 265	10 377
Cement (000 tonnes)	8.4	407.9	573.8	370.6	743.6	1 503	1 958	5 854
Brick (m pieces)	51	799	1 560	1 915	3 704	2 932.2	3 806	6 576
Glass (000 tonnes)	0.4	3.2	21.3	36.0	40.1	57.5	53.0	42.8
Wood (000 m^3)	362	753.2	1 090	836.8	1 673	1 437	1 529	na
Paper (000 tonnes)	0.8	5.6	23.9	21.3	75.0	78.5	88.0	203.9
Salt (000 tonnes)	58.1	117.6	157.0	222.4	584.1	676.7	850.5	na
Sugar (000 tonnes)	5.6	32.2	41.3	19.6	72.8	401.7	366.0	393
Cloth (m metres)	11.1	89.7	100.3	105.2	218.0	374.3	383.5	221

Source: *Statistical Yearbook 1955–95.*

Table 9.4 Some main industrial products of Vietnam, measured in levels of output per head

	In the North				In the whole country			
Years	*1955*	*1960*	*1965*	*1975*	*1976*	*1985*	*1988*	*1995*
Electricity (kwh)	3.9	15.5	34.7	55	62.8	87.2	109.1	199
Washed coal (kg)	47.0	161.2	229.7	220	115.9	93.9	108.3	104
Cement (kg)		25.3	31.4	15	15.1	25.1	30.7	80
Brick (piece)		49.6	85.4	78	75	49.0	59.7	88.9
Wood (m^3)	0.03	0.05	0.06	0.03	0.03	0.02	na	na
Paper (kg)	0.06	0.35	1.31	1.0	1.53	1.31	1.38	2.8
Salt (kg)	7.0	7.3	9.1	9.5	11.9	11.2	13.3	na
Seafoods (kg)	6.9	5.6	5.1	4.0	12.3	10.5	9.9	na
Sugar (kg)	0.1	2.0	2.3	0.8	1.5	6.7	5.7	5.3
Cloth (m)	0.72	6.0	5.9	4.5	4.5	6.2	6.0	3.0

Source: *Statistical Yearbook*, various years.

In explaining the failures of the earlier period, we might say that the initial post-unification decade was one in which industrial development was hampered by the need to repair war damage and by the ruthless US-led embargo on trade and investment between Vietnam and the non-communist world. However, the disincentives faced by workers and managers in state-owned factories also played a crucial role: workers' wages were low compared to incomes outside the sector, leading to high absenteeism and pilfering of state property while managers found that all profits were transferred to the state as a part of the government budget revenues, leaving managers with little flexibility and no resources with which to conduct market research or to modernise plant and equipment. Only after 1981 did state enterprise managers begin, gradually, to gain more scope for profit retention and greater flexibility in their production plan.

In general, there were two weak points of the industrial sector in this period after 1955: a lack of depth in the industrial structure and weak management.

Yet 1955–60 was a *period of recovery, improvement and economic development*. While light industry was given attention, in time it was thought necessary and possible for bases of heavy industry to be constructed, and economic aid from other countries was available to assist in power development (USSR) and machinery (East Germany). Unfortunately, poor planning and shortages of raw materials meant that many industrial factories and plants operated well below capacity. Problems also arose because the country had been divided into two parts: South and North (Beresford 1989), including the fact that there was a lack of skilled cadres for servicing both South and North and competition for limited investment resources and differences over the worth of collectivisation of agriculture. Some achievements in this period were seen in the fact of the rise in the volume of industrial products after 1955 as shown in Table 9.3 and in the per capita level of output of a few of the major products shown in Table 9.4.

It should be noted that industry was scheduled for priority in the first five-year plan (1961–65) which incorporated a plan to change the structure, with heavy industry to be developed and industrial development to be coordinated closely with agricultural development. This change is clearly depicted in Table 9.1 which shows that Group 'A' products, accounted for largely by heavy industry or producer-goods production, increased more quickly than the light industry category.

According to the theory (seen also in Mao's China at this time), light industry was to be developed simultaneously with heavy industry, while central and regional (local) enterprises were also to be developed at the same time. However, in practice, light industry and provincial industry tended to lag behind the modern and urban-based activities.

The results for the whole 35 years after the first serious attempts were taken in 1955 to accelerate industrialisation are shown in Tables 9.2 and 9.3. The main result was that, by 1965, industrial products had increased by 9.1 times (taking 1955 as the base year), and the technical and material bases and the skill of industrial management were improved. *Industry also developed during the period 1965–75 despite bombing and war* (Paine & Fforde 1987), although the Vietnamese had to move the factories and plants to different places to continue working. After unification in 1975 it was discovered that an inappropriate industrial structure was emerging, with too many large projects with long gestation periods and ineffective rates of return on state investment. In the 1980s, therefore, there were deliberate attempts to develop more profitable industries, especially those using local materials or bringing in foreign exchange (Beresford 1989; McFarlane 1993). At the same time, enterprises were given increased scope for autonomous decision making through the introduction of a 'Three Plan' system under which only one part of the enterprise's output was subject to directive plans, while others were subjected to more limited interference from the centre. This change of direction was reinforced with the official endorsement of the 'Renovation' (Doi Moi) policy in 1986. Directive output plans and centrally fixed prices were finally abolished in 1989. Since that time, a major share of the capital stock of the country has passed into the hands of the household and private sectors, while the remaining state enterprises, following a substantial shakeout of the sector in 1990–92, have lifted their game and achieved labour shedding, higher output and higher levels of productivity (Limqueco 1996a).

ECONOMIC AND SOCIAL ATTAINMENTS: GROWTH VERSUS DEVELOPMENT

Industrialisation is an essential ingredient of economic development, not only because it raises the rate of growth of GDP faster than the agricultural and tertiary sectors, but because of the diversification of the economic structure and transformation of human capacities which it engenders. However, there is also a wider notion of development. This distinction has been noted by other contributors to this book, and given Vietnam's well-recorded achievements in education (Marr & White 1989), 'grass-roots health programs' (Beresford 1995), and its extensive experience in environmental management (Beresford & Fraser, 1992; Beresford 1995b), it behoves us in studying this country to distinguish economic growth trends as portrayed in GDP movement, per capita GDP (as in World Bank 1995) from 'development' which includes the egalitarian achievements resulting from income redistribution and social and collective consumption (Marr & White 1989; Cohen & Purcal 1995). Moreover, the 'growth indicators' themselves need to be de-composed or disaggregated, in order to show the nature of the industrialisation process that first got under way in the North in 1955, and to introduce the dimension of poverty relief and income redistribution.

CAPITAL ACCUMULATION PROCESSES

Under the condition of the social relations which exist in South-East Asia, three ways of accumulating capital have been dominant:

1 Members of the local Chinese community pool their incomes, inter-marry with members of other rich Chinese families and use their contacts with origins in Amoy and Swatow to arrange credit and funding for larger projects.
2 The state imposes forced savings via its taxation powers or its ownership of successful state-owned enterprises.
3 Under condition of low per capita incomes and low salaries for civil servants and managers of state-owned enterprises, corruption, rent seeking and the prevalence of rent-capital (Bobek's term) constitute a semi-legal or illegal source and process of relatively autonomous accumulation—'autonomous' in the sense of being outside the normal channels or processes of state-controlled accumulation.

In Vietnam, while all the aspects of the accumulation process have occurred, there is a difference compared to the other South-East Asian countries: the second was dominant for the first decade, but the third has become significant since the 1986 decisions of the Party Congress to expand the area for economic reform and for market forces generally in the economy.

Suddenly, people with land near to urban centres were able to make windfall fortunes and then to invest (admittedly, the short-term avenues were largely in residential activity and tourism) thereby increasing the national rate of investment from a low 6 per cent of national income to about 12 per cent in 1990 and around 25 per cent by 1995. A further source of relatively autonomous accumulation was the semi-legal fees and royalties charged by officials, especially in their dealings with foreigners, bringing about a new faction of capital closely linked to overseas-based capital and of course having a vested interest in the maximum deregulation of the economy and the deepening of the area of domination of market forces.

SOCIO-POLITICAL GOALS: BACKGROUND TO THE NEW ECONOMIC POLICY

Beginning in 1981, some leading figures in Vietnam began to think about a new political project—a new sort of political economy for the country. This new set of ideas was further developed and accepted as Doi Moi in 1986, and contact with the World Bank and the IMF has also contributed to the current shape and contours of the project. The most recent policies have been to disinflate the economy, restore public finances, corporatise and deregulate industrial sectors, broaden the tax base and plan for the equitisation of public industries.[2] Unemployment has been viewed by some as the necessary cost of accomplishing these reforms (especially by IMF advisers), but the majority of government and Party have been reluctant to allow state enterprises to face the full force of market competition which might cause too rapid an increase in labour shedding from the sector. Instead there has been a rather gradual tightening of budget constraints on enterprises, while increases in household sector employment have been relied upon to provide employment for those displaced, as well as for the million or so new additions to the workforce every year.

The core of the transition really consists of six issues related to economic reform and two related to the political theory of the leading political force—the Vietnamese Communist Party (CPV). The six aspects of the reform, to be discussed in more detail below, are:

- the need to improve the structure, management and flexibility of industry;
- the need to reorganise the structure, management and role of agriculture;
- the maintenance of a healthy balance between agriculture and industry in respect to the terms of trade between them and in relation to their shares in the annual investment fund;
- the need to reorganise the structure and direction of Vietnamese trade with other nations;
- the need to reorganise state finances, banking and the monetary systems (Spoor 1989), in the wake of the changing fiscal and monetary policies being urged by the IMF (Dollar 1996); and
- the need to avoid excessive or unfair differentials in the distribution of resources between regions and between social classes.

The two major points of issue in the political ideology of the party–state have become clearer since about 1986 and they are:

1. Whether socialism allows for a plurality of ownership forms. For example, should there be some sustained attempt as in the past (and as in countries like socialist China or Soviet Russia) to transform cooperative and collective economic units into state-owned ones, or can the socialist economy in its longish transition to communism thrive economically and develop politically by allowing not only state economic units (state-owned factories and state farms) but collective, cooperative, private, family, state–private joint ventures etc. to play a significant role in the economy (McFarlane 1990; Nolan & Fureng 1990).
2. How the socialist aspects of economic development and social change can be maintained in the face of the dynamism of regional (ASEAN, APEC) capitalism and the trend to globalism led by transnational corporations and policed by the IMF/World Bank incubus.

At this point it is necessary to note that the course of the reform during the transition period 1986–96 has been erratic

because of shifting political power alignments. For example, some economists have been strong advocates of eliminating all forms of collectivism as inherently inefficient, while others stood for a continuing role for state ownership and state intervention in order to provide basic social investments and to prevent a blow-out in regional and personal income inequality. Given that recorded output in the state sector had generally grown faster than that in the non-state sector over the 1990s, and given the strength of SOE representation within the Party policy organisations, the majority view tended to be to continue with the line of shoring up public ownership and 'state guidance' in economic life.

It should also be remembered that during the 1970s, in the aftermath of the Vietnam–United States war, Vietnam missed out on the opportunities that had opened up for other South-East Asian countries. These states were able to maintain their investment booms throughout the 1970s by borrowing recycled petro-dollars at negative real interest rates, and foreign investment was readily available to assist both internal infrastructure needs and the expansion of productive manufacturing. As had happened earlier during the 1950–53 Korean war, the Vietnam conflict provided enormous spin-offs for Asian countries in terms of contracts for war-related supplies, American R&R which boosted the 'hospitality' sectors, as well as promoting the demand for food and beverages, textiles, apparel, etc.

Vietnam, of course, was isolated first by war itself and then by a very tight US-organised and policed trade and investment embargo which was obeyed by Japan and nearly all the others, effectively blocking the development of the economy for a decade. Soviet and East European civilian aid was often not suited to Vietnamese conditions, or was used inefficiently by the Vietnamese themselves. Only barter trade supplied some relief but this was on a small scale, Vietnamese products having no mass market in Europe at that time.

The decision taken in the late 1980s to open the economy to foreign investment and trade had as its chief purpose to increase the effectiveness (and profitability) of state enterprises through obtaining technology transfers and exposing them to international competition, and to restructure production in a way that would make Vietnamese products competitive in global export markets. The authorities remain wary, however, of allowing international market forces to structure the economy in the way that happened during the colonial period. Hence local joint venture partners are protected under the Foreign Investment Law, by giving them an effective veto over strategic business decisions of the company. In 1996 licensing of foreign investment was also tightened in an attempt to ensure that foreign investment projects more nearly reflect Vietnamese plan priorities and to retain at least partial Vietnamese ownership in key sectors such as telecommunications, insurance and power generation. A major requirement, if this objective is to be achieved, is to increase the mobilisation of domestic savings for the government's development goals. This has been partially achieved through the increase in government savings in the mid-1990s but, as discussed further below, the reform of the banking and non-bank financial sectors is also important.

KEY ASPECTS OF THE ECONOMIC REFORM PROCESS

Since 1986 reform processes have covered industry, agriculture, finance and trade.

Industry policy

At the end of 45 years' experience with the construction of industry and its management, the CPV Congress in 1986 was able to sum up all the negative and positive lessons and to hammer out a new package of policies towards industry that they believed would fit more closely the new economic system that, they thought, would take the country into the next century (CPV 1986). Perusal of the decisions and deliberations of the 1986 Congress appears to confirm that the following new approach was foreshadowed. The approach starts from the viewpoint that profitability and effectiveness of investment should be taken into account in projects and in selecting which industries to expand; rural industry, small cooperatives and family-based businesses should become dominant in light consumer goods industries, although efficient parts of the older 'social industry' should be retained; private domestic and foreign investment should be welcomed, especially in tourism, export industries, technology transfer, and generally for products that are bought and sold on the market; and state enterprises should be made more productive, should shed excess labour but ought not to be sold off purely for ideological considerations based on the theme of the 'magic of market forces' (Limqueco 1996a & 1996b).

After a period of focusing on the need to reduce the level of subsidy to state-owned industrial enterprises and force them to restructure their activities to become more efficient and profitable, the theme emerging most strongly at the 7th and 8th Party Congresses was a return to the concentration on industrialisation and modernisation as the means to avoid falling further behind

Vietnam's neighbours in economic development (CPV 1996). In this process it is envisaged that the state-owned sector will play the 'leading role', although other components, particularly new types of cooperatives and the 'state capitalist' economy (comprising joint ventures between SOEs and foreign and domestic capital), individual and small owners, as well as private capitalists, are also to be encouraged. Within the industrialisation policy, priorities are given to human resource development, labour-intensive medium-size and small industries using advanced technology, processing of agricultural commodities, consumer goods, exports and information technology. Key heavy industries in areas such as energy, construction materials, some engineering, ship building and repair, metallurgy and chemicals are also planned to expand (CPV 1996). Direct government investment will be focused heavily on improvement of the country's dilapidated transport and communications infrastructure, while industries will be promoted through the availability of state credits (MPI 1996). Three major industrial areas are envisaged—around Hanoi-Haiphong-Quang Ninh in the north, Ho Chi Minh City–Bien Hoa–Vung Tau in the south and Quang Nam–Da Nang in the centre—and these are the focus of infrastructure development in the form of industrial zones and export processing zones.

However, the ability of the Party to impose its priorities depends to a large extent on the availability of foreign direct investment (which currently supplies about one third of the total investment effort) and overseas development assistance, while foreign investors and donors are likely to be wary of large-scale investments in a climate of uncertainty caused by lack of an effective legal framework and sluggish reform of the bureaucratic apparatus. The poor state of the education system, following severe budget cuts in the early 1990s, may also affect the skills base of industry and dilute one of the key advantages that Vietnam has held over other low-wage industrialising countries in the region.

Agricultural policy

The main concern has been to upgrade the role of the household sector and to expand free market conditions for the disposal of agricultural surpluses (Beresford 1990).

A contract system, under which households agreed to supply a quantum of agricultural produce to state purchasing agents, was established. Above-quota output could then be sold to the state at higher prices or sold on a free market (e.g. at rural fairs). The immediate results were good from the viewpoint of yields and output levels, but incentives declined when peasants found that they could not buy radios, bicycles and light industrial goods which were in short supply. As a result, agricultural output stagnated during 1983–86, forcing a change in policy.

That change was based on the idea of upgrading the role of the household sector and abolishing procurement at fixed prices of the 'minimum' quota. In 1988, the Politburo of the ruling CPV passed its Resolution 10 which allowed investment and production decisions to be made by households. This led to the break-up of most of the remaining cooperatives, although there was no systematic government-backed assault on collectives, nor any official de-collectivisation of agricultural units of the type organised in China by Deng Xiaoping after 1978. Those that remained became suppliers of extension services: they leased-out equipment or assisted with marketing.

Two further developments in agricultural change may now be mentioned: banking arrangements and reorganisation of rice exports.

Up to 1994, a State Bank for Agriculture lent to collectives but because of uncertainty and risk in agriculture in practice turned its attention to the state enterprise financing. After 1994 the agricultural bank branches gradually increased their loan portfolios in agriculture. Concern has been expressed, however, that the bulk of credits and loans have gone to wealthier peasant households, so a new bank modelled on Grameen Bank in Bangladesh has been set up to gather resources for poorer families.

As part of the government's new desire to expand exports, a major restructuring has been undertaken in the organisation of the rice trade. To counter tendencies towards economic trading organisations cutting rice prices and annoying other ASEAN states and rice exporters, licensing was introduced and an oligopolistic structure for rice export was established. Export quotas were given to a few selected companies. A gap was allowed between the lower domestic-priced rice (to keep the urban real wage down) and the much higher export price. However, successful recipients of the quotas were given windfall profit arising from the price gap, giving cause for concern about the fluctuations of super-rents for income distribution.

Financial policy

For the Vietnamese state to fulfil its reform aims it has had to position itself in a way that allowed it to control the banking sector (as the foundation of the financial system) while encouraging the non-state sector to expand trading in liquid securities. This

has meant that *direct* control of finance (money supply, finance earmarked for development projects, forcing commercial banks to lodge reserves with the State Bank, etc.) has been supplemented by *indirect* influence (via interest rates and foreign exchange rates) stemming from the gradual establishment of (a) short-term money markets; (b) fluctuating exchange rates with the appearance of a legal foreign exchange market; (c) a bond market; and (d) embryonic development of stock markets.

In *largely* withdrawing from control of finance of the sort operated by the state in the period of planned economy, the Vietnamese authorities have shown an awareness of the role played by the financial sector in establishing a stable macroeconomic environment in which other reforms can flourish. The large volume of regulations and legislation since 1989 relating to the banking and financial systems; the emphasis on sequencing the monetary reforms; the awareness that the public must see banks as 'honest brokers' if domestic resources are to be mobilised—all these factors show an awareness of the need for new economic functions of the state in the financial sphere.

While the rate of accumulation has climbed steadily to some 25 per cent of GDP, and while much of this has been in the form of private housing construction, the pressure on the state to promote an *acceleration* of the national rate of investment is enormous. Not only are there infrastructure and developmental projects eating up the savings pool, but to get a higher savings pool, the state must (as Kalecki (1976) demonstrates so clearly) expand output by investing, so more savings emerge at a higher level of output. Getting there is the problem because acceleration of investment by government is only partly compatible with price stability. There is in fact a sort of 'trade-off' between the two. The inflationary pressures inherent in such an acceleration of the national rate of investment are considerable. The new emphasis on monetary and fiscal reform evident since 1989 is partly a response to the need to keep inflation under control with an 'independent' central bank declining to print money to finance government capital budget deficits, while pointing the state officials to the need to approach bond, share and foreign exchange markets for their needs instead.

In 1990 a two-tier banking system was introduced comprising (a) a central bank (with functions similar to European central banks), and (b) a commercial banking network. This was done in recognition of the reality of the growth of petty commodity production and exchange and the wider scope given to market forces in shaping the structure of output. Two years later, foreign banks were licensed.

There is, however, a clear link between problems being experienced by both state and non-state enterprises stemming from inadequate quantitative and qualitative control over the credit system (State Bank of Vietnam 1994; Kijima 1994; Communist Party of Vietnam 1986; Central Institute for Economic Management 1994). The private sector found itself discriminated against in credit availability, partly because the banking system has a lack of capacity to calculate commercial risk. Given the likelihood that SOEs will not be allowed to be bankrupted, they are seen as a safer lending prospect. This has led, however, to a build-up of debt arrears and liquidity problems for many banks. In addition, lack of confidence in official financial institutions meant that there was always below the surface an untapped, immobile pool of domestic savings, transformed into gold hoards or real property (as hedges against inflation) and not available as loanable funds, for a capital-hungry industrial sector. However, the growth of non-bank markets, aimed at stepping up mobilisation of idle funds in the hands of the public, the enterprises and the local authorities was, in 1996, still in its infancy.

Fiscal policy aimed to reduce budget deficits of government. This new discipline arose partly from IMF pressure, but also because the 'easy' solution of seeking aid from CMEA allies was closed off. The task of limiting the ratio of the overall budget deficit to GDP to about 4 or 5 per cent was essentially achieved by 1993.

The reform led, inevitably, to the sort of banking and financial changes now being tried out, simply because enterprises were now dealing horizontally with other economic units, instead of vertically (with the next level of administration) as in the old system. As well, it should be noted, the deepening of the monetary and banking changes will cause the reform itself to accelerate, since the criss-cross of credit flows, the inter-sectoral movements of loanable funds, will render state control increasingly irrelevant.

International trade

Accompanying these changes in the domestic sphere has been a rethinking about how to conduct *international* trade which led directly to a change in the direction and structure of international trade (McFarlane 1993). There has been a particularly rapid growth in exports during the decade since 1986 with a shift away from 'soft' manufactured goods (especially handicrafts), for which genuine demand was lacking, to primary commodities such as crude oil, rice, coffee, marine products and rubber, and light manufactures such as garments and shoes. The structure of imports, however, remains, as before, concentrated on fuel, industrial raw materials, and machinery and equipment. The direction of trade has shifted markedly: whereas previously trade was dominated by CMEA countries, especially the Soviet Union, in 1994 75 per cent of trade was with East and South-East Asia, notably Japan and Singapore for exports and Singapore, South Korea and Japan for imports (*Statistical Yearbook 1995*). Trade with the former CMEA countries has begun to revive after a severe slump in the wake of the collapse of socialism in Eastern Europe: in 1994 the region provided just under 10 per cent of imports and took 7 per cent of Vietnam's exports.[3] Officially recorded trade with China has also grown rapidly: exports increased 38-fold between 1990 and 1994, while imports increased 31-fold in the same period. All of these data are, however, blurred by the large amount of smuggling, estimated as high as 25 per cent of total trade and affecting mainly the trade in consumer goods and agricultural products between Vietnam and its northern and south-western neighbours.

The earliest reform in the foreign trade sector came in 1980 when the central trade monopoly was broken and province-level, state-owned trading companies were established. This change brought about a rapid increase in trade with non-CMEA countries during the 1980s and a concomitant shift towards production of export goods outside the plan. But the biggest change came in 1989 with the floating of the exchange rate and the decision that, in principle, anyone can engage in international trade. In practice, however, trade remains largely in the hands of state-owned companies because of their experience and connections outside the country, their larger capital resources and privileged position with regard to obtaining import licences. Small cooperative, private and state enterprises have found it necessary to use the state trading companies because of their lack of marketing skills and information and relative inability to travel abroad to establish contacts.

International trade reform has also been linked to policies of price stabilisation. The government issued, for example, export quotas for rice in an effort to maintain a low domestic price and high export prices. In previous years, since the domestic cost of production had been well below the world market price, Vietnamese exporters in competition with each other, drove down the price and caused complaints from Thailand.[4] The existence of a quota, however, means that Vietnamese rice producers have not been able to take full advantage of the large price difference between rice in Guangxi province of southern China and the domestic market.[5] Despite reports of large-scale smuggling of rice to China, domestic prices had not risen substantially, suggesting that the controls may have had some impact. The main beneficiaries of this policy are undoubtedly the mainly state-owned rice-exporting companies who profit from the difference between low farm-gate prices and high world market prices, although it also enables the standard of living of poor urban Vietnamese to be maintained. Since much of the profit is unlikely to be ploughed back into agriculture,[6] the policy may have an adverse impact on long-run productivity increases in rice production, not to mention the farmers' standards of living.

Cement is another commodity which the government attempts to stabilise through the use of import quotas. Since most construction occurs during the dry season, seasonal fluctuations in the price of domestic cement can be very large. Local cement producers who have an effective monopoly of the domestic market have reportedly engaged in speculative hoarding and cutting production in the dry season, when demand is high, in order to force up prices. During one such 'cement fever', in 1995, the State Planning Commission agreed with the factories on a cement import quota which was expected to guarantee the profitability of domestic producers while discouraging speculation.[7] Cement imported under the quota system is distributed by the Ministry of Trade. Here again, the stabilisation policy seems most likely to benefit SOEs without allowing international competition to force improvements in efficiency.

ROLE OF THE MARKET IN THE TRANSITION PERIOD

This issue has come to dominate the literature on events in the post-communist economies. Not all commentators have retained enthusiasm for predominantly market solutions (Amsden et al. 1995; Haddad 1992, 1995 & 1996 review).

The major point in relation to new market mechanisms in socialist economies has been the issue of the *speed of introduction of new reform policies*. As Haddad put it, unless we absorb Karl Polanyi's point that capitalism required prior institutional development to become viable, we will have a simplistic view of what can be achieved by sudden economic reform in Vietnam and elsewhere.

Further closely related issues are those of the proper sequencing of the decentralisation processes and the need for prior establishment of well-functioning institutions (banking, investment market; accounting procedures in public-sector activities, foreign exchange markets, etc.) *before* major economic reform proceeds. It has been suggested that a country like Vietnam needs to be

most careful about these two aspects. In relation to sequencing and institutions there should be a definite plan (Haddad 1992), in which 'sequencing' via intelligent state intervention would be undertaken, and in which institutional change would accompany and sometimes precede 'economic reform'. There is a growing awareness that in formerly planned economies, the *order* in which new institutions and policies are introduced matters a great deal—for example, a clear demarcation has to be drawn between illegal and legal activities.

ECONOMIC ROLE OF THE STATE: PRACTICAL AND THEORETICAL ISSUES FOR THE VIETNAMESE TRANSITION PERIOD

Doi Moi has been a process not only of economic renovation, but also one of redefining the social and political goals of socialism. The traditional socialist model in which state intervention in economic and social life was pervasive has been replaced by one in which the state has withdrawn from most areas of concrete production and investment decisions, and many social services (health, insurance, parts of education) have also been subject to market forces. While no clear definition of socialism in the new environment has yet emerged, a number of themes have consistently appeared in Communist Party documents which give some clue as to the new thinking. These include the notions that public enterprise will continue to be the dominant force in the economy, that planning (though not of the administrative variety) will guide the overall development strategy, that poverty alleviation and social equity between classes, genders, ethnic groups and regions will be a major priority, and that workers' rights will be defended (including the right to live and work in a safe and healthy environment). Given that Vietnam remains one of the world's poorest countries and needs to rely heavily on foreign investment and development aid from capitalist countries, these goals are likely to be difficult to achieve while sustaining high rates of growth. Nevertheless, they are an indication that the Vietnamese leadership wishes to avoid the situation where the economic transition becomes simply a transition to capitalism and intends to use state power to preserve many of the social gains of the past as well as ensure that growth does not occur at the expense of development.

The practical problems associated with achieving these goals are:

1 Public enterprise remains relatively inefficient with a lot of very old capital stock. It requires high levels of protection against foreign competition (taking the form of state credit subsidies, import quotas and tariffs) which give it a disincentive to restructure and become efficient. There is so far little evidence of the sort of carrot and stick policies used by the South Korean regime in the 1960s and 1970s to force large enterprises to conform to government policies. In principle, there is no discrimination against private enterprise, but in practice it is more difficult for larger private enterprises to get an operating licence and import and export licences, and to receive credit from the predominantly state-run banking system. Most find it useful to come to an arrangement, either a joint venture or some other form of cooperation, with an SOE in order to avoid these pitfalls. In general, the lack of transparency in the legal and bureaucratic environment of enterprises makes corruption a problem.

2 Adjustment to new methods of planning within a market environment has been slow. There is a lack of coordination between economic ministries, so that indicative plans do not have any real force. Many projects included in the plan are unfunded, and current expenditure implications of capital expenditure are not often taken into account, meaning that adjustment of priorities often has to be undertaken at the last minute to meet resource constraints.

3 Severe budget constraints during the early 1990s meant that expenditure on poverty alleviation, education, health and welfare programs was drastically reduced. The quality of education and health care in the public sector fell, with the result that the rate of school drop-out increased and the availability of both education and health care increasingly depended on income. Despite efforts to increase public spending, especially on education, as public finances were restored, many years of neglect of infrastructure and low teacher and health worker salaries mean that this has had little impact. Moreover, areas funded from the central budget, like universities and hospitals, tend to receive proportionately more funds than basic services funded by provinces, districts and communes whose revenues are, for the most part, less buoyant.

4 Industrial disputation over wages and conditions has tended to rise mostly, but not entirely, in foreign-invested firms. Whereas workers in SOEs have often benefited from profit-sharing arrangements, share ownership, social facilities and a generally looser disciplinary environment made possible by the protectionist regime, those in the new private enterprises have tended to suffer long working hours and low wages. Labour regimes common in other Asian countries have generally not been accepted by Vietnamese workers and the state has so far refused to intervene on behalf of the employers and indeed encourages the formation of unions within enterprises. It is too early to say whether this attitude is likely to discourage foreign investors—for the moment, wages are evidently low enough to offset any perceived disadvantages.

NOTES

1. The French colonialists ruled Vietnam for nearly 100 years in order to squeeze out raw materials to supply their industries and they were prepared to exploit cheap labour to get more profits. They installed mainly old and redundant equipment. The Vietnamese after 1946 carried out a war of resistance against the French colonialists for nine years, in which the objective was 'to resist the French colonialists and to construct industries at the same time'. The tasks announced by North Vietnamese leaders in achieving this program were: to construct the industrial branches on a small scale everywhere, particularly the industry of national defence; to use available domestic materials; and to build public enterprises in coal, minerals and engineering. Light industries (like textile industries) were also given attention.
2. Equitisation is distinguished from privatisation by the fact that the Vietnamese government generally does not envisage the state abandoning its shareholding in the equitised industries. While shares will be sold to managers, workers and the general public, the state will normally retain a dominant shareholding.
3. Includes Germany.
4. Interview at State Planning Commission, 29 September 1995.
5. In 1995 the rice price in Guangxi was said to be 7000 dong per kilogram, while in the Hanoi markets it was only around 3000 dong (*Thoi Bao Kinh Te* (*Economic Times*) various issues).
6. In one case reported to the authors, a state-owned oil company was given a rice export quota.
7. Interview at State Planning Commission, 29 September 1995.

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