

II. THE ECONOMIC REFORM IN VIETNAM: AN OVERVIEW.

The Economic Reform in Vietnam had gone through two phases of trial and error and is now in the third phase. The first phase was the "New Economic Policy" adopted by a resolution at the Sixth Plenum of the Fourth Central Committee of VCP in September 1979. The second phase was the "Economic Reform" policy adopted at the Eighth Plenum of the Fifth Central Committee in June 1985. The third phase is the present programme of economic reform called *DOI NOI* (in Vietnamese language, which means new start) that was launched in December 1986.

2.1. The First Phase of the Economic Reform

In 1978 and 1979, Vietnam's economy fell into a socio-economic crisis because of both domestic and foreign reasons: the prolonged infamous 30-year wars coupled with the shortcoming of the centrally planned commando mechanism. The effects were far reaching and these resulted in the stagnation of the Vietnam's economy. The mistake in the politically determined strategy by

giving priority to heavy industry, in particular, led to the concentration of national resources being used for heavy industry to the expense of food and consumer goods production. Otherwise, the over-ambitious promotion of a socialist (collective) economic policy gave no incentive to the household economy, abolished the private and the capitalist sector. This discouraged the available resources in developing its potential.

At the same time, the foreign relations became worse after the Cambodian war and the Sino-Vietnamese war. Most of the limited aids, loans, and trade were cut off through China and a number of European countries that did not adhere to the American embargo. Hence, the economy collapsed. The national supply of producer's goods met only half of the total demand. People had not enough food and consumer goods.

When the government failed in transporting staple food from the Mekong River Delta to the various regions of the country, the socio-economic situation worsened.

The first step of the economic reform in Vietnam introduced in 1979 was undertaken to adjust the new economic conditions "spontaneous bottom-up reform". The aim of this reform was to replace the "war-time economic policies" that became unsuitable with a new context by a "new economic policy system" which would help the country to overcome the crisis.

Its contents concentrated on five measures that were functioned to reactivate the desired reactivation of production:

i) Five-year freeze of the food delivery norm imposed on the agricultural cooperatives;

ii) Five-fold increase in the state's purchase price of agricultural products;

iii) Introduction of a new contract system (based on final products, for team or individual peasant families) in the cooperatives;

iv) Granting of rights of independent management and financial operations to state-run enterprises; and

v) Revising the wage system.

Dramatic effects of these policies were seen very clearly in both agriculture and industry. Per capita food production (rice equivalent) increased continuously from only 251 kg in 1978 to 261 kg in 1979. Further increase was registred from 267 kg in 1980 to 309 kg in 1981.

The average growth rate for industrial production recorded for the period 1981 - 1985 was 9.5 percent, a tremendous increase in comparison with 0.6 percent for the period of 1976 - 1980 (Vietnam, Government of. 1991a).

Nevertheless, while the new economic policy produced

these significant effects, it also produced some negative effects: extreme poverty for fixed-income workers due to inflation, market confusion and higher prices, and subsequently rampant corruption and degradation of the society. The "Wage and Price Adjustments" was introduced from 1981 to 1982 to reform the wartime price system, which was the major cause of the national budget deficit and inflation. This was to reduce the deficit and inflation and to create conditions for switching to the cost accounting system for enterprises. ✓

Unfortunately, the price adjustments complicated the official retail price system for consumer goods affecting a change from the former "two price system" to the new "two price system" which include the three kind of retail prices for consumer goods. The three kinds of retail price were "fixed price" (ration prices for the nine essential commodities), "business price" (variable prices at state-run outlets), and ✓ "state-guided prices" (ration prices for commodities other than the nine essentials). The rise in commodity prices which followed the price adjustments caused rapid widening of the gap between fixed prices and business prices. By 1985, in comparison to fixed prices, the business prices are much larger, for

instance, a 100 times for rice, 53 times for pork and 30 times for fish. The greater the difference, the heavier would be the burden on state finance and hence the larger the fiscal deficit.

2.2. The second phase of economic reform

As a result of the five-year "New Economic Policy", the Eighth Plenum of the Fifth Central Committee decided to introduce the new reform. This new reform focused on the wage and price systems and the monetary reform, consisting of denomination and devaluation; had launched in June and September 1985, respectively. +

The main contents of the policy are as follows:

- i) Wages to include price differential compensations
The actual method proposed for implementing a unitary money compensation system was to incorporate money wage price differentials for fixed prices and business prices.
- ii) National Unified Basic Wage System.
The standard for rational wage differentials was set at 1.3 times the minimum wage for the average wage and 3.5 times the minimum wage for the maximum wage.

iii) Single - Price System

The Single - Price system and the money wage created a possibility to include the "wage in kind", which made 70 percent of real wages in production costs. As a result, goods could then be sold at a "value-reflecting price" (the business price). Hence, price subsidies were eliminated. However, some strategic goods such as steel, oil and gasoline continued to be administered at two or three prices. Subsidy allocations continued for housing, electricity, water, medical treatment and transportation. Nevertheless, this still posed a burden to the government budget.

iv) Monetary reform by denomination of the dong currency

The results of the "economic reform" which began in 1985 were the opposite to the expectation of the government and the party. The amount of expenditure for wages and salaries and for subsidies in the national budget in 1985 rose substantially by 85 percent over the previous year. Hence, the budget deficit therefore rose to more than double that of the previous year. The subsidies accounted for 45 percent of the total deficit. In November 1986 alone, the monetary reform reduced the denomination of the *DONG* by 80 percent. The

exchange rate was also reduced to 80 new dongs per US\$. The purchasing power of the *DONG* continued to fall, reflecting a further devaluation to 368 dong per US\$ in December 1987. One month after the implementation of the wage and price reforms, in Hanoi, in October 1988, the cost of living rose to 41 percent- 55 percent compared with 24 percent for the previous month. 7

In short, the "economic reform" initiated in the Eighth Plenum was a real failure (Vietnam, Government of. 1988)

2.3.DOI MOI - The third Phase of Economic Reform

2.3.1. Aims and contents

In December 1986, the Sixth Congress of the VCP implemented the "*DOI MOI*" policy.

"The main purpose of the reform policy was to revitalize the economy and guarantee a stable livelihood for the people." The aim was to help the country to overcome the crisis and to develop (Nguyen Van Hung, 1991) more of. list: 7

The reforms focus on the following contents:

- (1) Developing a "multi-sectoral economy". The state, collective, private, individual, capitalist and

household economies have equal rights to undertake their activities in the production and business. This is a long term strategic policy:

- (ii) Structure adjustment in production, "concentrating on production of food, consumer and export goods". This policy is called "three large economic programmes";
- (iii) "Vietnam has embarked upon the reform of its economic management mechanism". This content focuses on economic democracy and the role of the market forces;
- (iv) Implementing an "open - door policy", expanding economic relation with other countries, especially with the countries in Asia-Pacific region; and
- (v) Expanding social democracy along with the economic reforms (Vietnam, Communist Party. 1986).

In order to make the above contents of the reform become a reality, during, many instruments - regulations, laws, strategy and the constitution were launched, during 1987-1992. They are:

- a) "Financial Autonomy of State Enterprises" (1987);
- b) "Foreign Investment Law" (1987);
- c) "Private Firm Law" (1990),
- d) "Company Law" (1990),
- e) "Law of Land" (1991),
- f) "Strategy for Socio-Economic Stabilization and

Development in Our Country up to the Year 2000"

(1991), and

g) "Constitution of the Socialist Republic of Vietnam"

(1992).

2.3.2. Achievements

The adoption of the above policies, strategies and the constitution has initially brought **drastic results:**

1. Economic growth and social stability .

There has been a visible growth in the Vietnamese economy recently. It can be seen very clearly from Table 2.1 that in comparison with the year 1986 when the DOI MOI policies was laid out, the economy in 1993 grew at a much higher rate. The GDP growth accounted for 8.1 percent in 1993 compared with only 3.3 percent in 1986. For the same periods, GDP per capita increased by 5.8 percent compared to 1.27 percent; Agriculture, 6.6 percent increase compared with 1.42 percent; Industry, 12.1 percent increase in comparison to 6.17 percent. Food production per capita annually grew sharply from 300.8 kg in 1986 to 324.4 kg in 1990 and then to 345 kg in 1993.

**Table 2.1. VIETNAM: SELECTED INDICATORS OF
ECONOMIC GROWTH**

Indicator	unit	1986	1990	1991	1992	1993
Population	mil.	61.1	66.2	67.8	69.4	70.9
GDP growth	%	3.3	6.0	8.3	8.6	8.1
GDP/capita growth	%	1.27	3.76	5.8	6.05	5.8
Saving/GDP	%	n/a	2.1	4.8	6.9	n/a
Investment/GDP	%	10.3	11.5	11.6	12.0	12.7
Agri.Output Growth	%	1.42	1.7	8.3	8.1	6.6
Indus.Output Growth	%	6.17	10.45	10.3	14.6	12.1
Services Output Growth	%	n/a	n/a	n/a	7.0	9. 2
Annual Food/ capita	Kg	300.8	324.4	325	349	345

Sources: - Vietnam, Government of. 1994a. "1993 Statistical Yearbook". GDS. Hanoi.
 - _____. 1994b. "Statistical Data for Agriculture, Forestry and Fishery, 1985-93". GDS. Hanoi.
 - Zulkifli. M. A. 1994.

In the agriculture, the production of major crops such as rice, cotton, rubber and peanut have increased tremendously compared to the achievements before the implementation of DOI MOI policy (1985). It can be illustrated in Table 2.2 that with the exception of tobacco, tea and rush, other agricultural products were produced after 1985 in a larger quantity. In comparison to that of 1993, rice - the main crop production went

up by 37.7 percent accounting to more than six million tons. During the same period, live-weight of slaughtered pig, tea, cotton, and peanut also grew between 42.2 percent to 737.6 percent. /

Table 2.2. VIETNAM: MAJOR AGRICULTURAL PRODUCTS
(thousand tons)

Items	1985	1990	1991	1992	1993	Growth Rate 93/85 (%)
Food (in Rice Equivalent)	18200	218891	21990	24215	24500	34.6
Rice	15875	19225	19622	21590	21900	37.7
Other cereals (in rice equi.)	2325.	2264.	2367.6	2624.3	2600.	11.8
Industrial Crops						
- Cotton	4.4	2.8	8.3	12.8	13.0	95.5
- Jute	47.1	23.8	25.3	25.7	28.0	-40.5
- Rush	92.8	63.3	54.4	77.2	69.0	-25.6
- Sugar cane	5560.	5398.	6130.9	6437.0	6435.	15.7
- Peanut	202.4	213.1	234.8	226.7	242.0	19.6
- Tobacco	38.2	21.8	40.4	27.3	320	737.6
- Soybean	79.1	86.6	80.0	80.0	n/a	n/a
- Tea	126.9	145.1	59.9	62.8	n/a	n/a
- Rubber	47.87	57.94	64.6	66.1	70.0	43.5
- Coffee	35763	32050	361627	387485	n/a	n/a
Live-weight of slaughtered pigs	560.6	728.5	716.3	797.2	837.1	42.2

Source : Vietnam, Government of. 1994b. "Statistical Data for
Agriculture, Forestry and Fishery, 1985-1993". GDS. Hanoi.

The production of the main industrial products in 1993 was also greater than that of the period prior to DOI MOI. This can be shown in Table 2.3 that compared to 1985, in 1993, rates of growth in the production of electricity, tractor, steel and electricity rotating engine registered at 108.4, 126.7, 208.6 and 316 percent, respectively. In 1993, Vietnam produced as much as 6.3 million tons of crude oil although none was produced in 1985.

Table 2.3. VIETNAM: MAIN INDUSTRIAL PRODUCTS

Items	1985	1990	1991	1992	1993	Growth rate 93/85 (%)
Electricity (bil. kwh)	5.23	8.8	9.3	9.8	10.9	108.4
Crude Oil (mil. tons)	0	2.7	4.0	5.5	6.3	n/a
Coal (mil. tons)	5.7	4.6	4.7	5.0	5.4	-5.3
Steel (thous. tons)	62	101	149	196	236	280.6
Machinery Tool (pieces)	964	894	1235	844	1288	33.6
12 cv Tractor (pieces)	1103	1700	2279	770	2500	126.7
Insecticide Pumps (thous. pieces)	19.6	78	47	53	n/a	n/a
Threshing Machine (thous. pieces)	19.6	43.3	39.5	30.2	30.3	54.6
Diesel Motors (thous. pieces)	5.3	4.5	5.3	3.3	2.85	46.3
Electricity Rotating engine (thous. pieces)	5.14	10.6	9.5	13.9	21.4	316.3
Electricity Transformer (pieces)	479	2612	1964	1310	n/a	n/a

Source: Vietnam, Government of. 1994a. "1993 Statistical Yearbook". GDS.

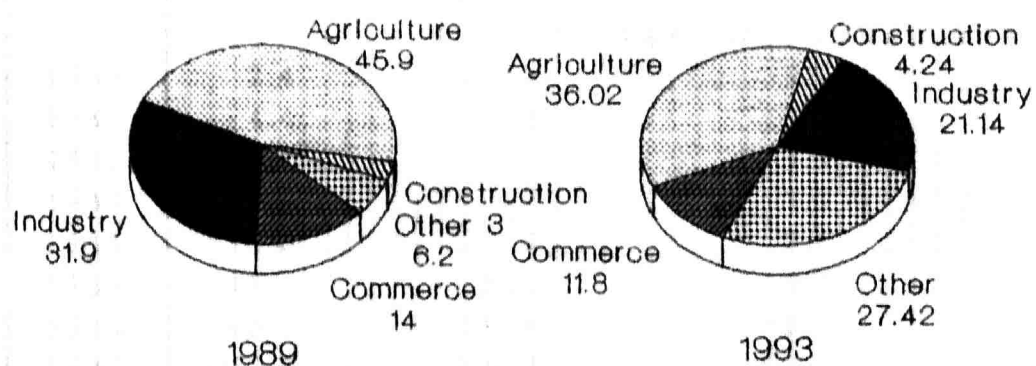
The effects of economic reforms can also be seen through the changes in the structure of the economy. The share of agriculture in GDP, National Income, Total Export Value reduced while the shares of other sectors increased accordingly. For example, as shown in Table 2.4 and Figure 2.1, the percentage of Agriculture (including Forestry) reduced from 46 percent of the total GDP in 1989 to only 36.2 percent in 1993. This is because of the lower rate of the agriculture sector compared to that of industry and services. The industrial growth was decreased slightly from 32 percent in 1989 to 21.14 percent in 1993. However, there was a sharp increase in the growth of the services sector from 18 percent in 1989 to 37.5 percent in 1993.

Table 2.4. VIETNAM: STRUCTURE OF GROSS DOMESTIC PRODUCTS
(GDP) by kind of Economic Activities
(at 1989 price) (%)

	1989	1991	1992	1993
Total	100	100	100	100
Goods	81.8	63.30	62.88	62.50
Industry	31.9	19.31	20.37	21.14
Construction	3.0	3.79	3.87	4.24
Agriculture	45.9	38.0	37.51	36.02
Forestry				
Others	1.0	1.2	1.13	1.10
Services	19.2	36.70	37.12	37.50
Transport, Postal service, Tele-communication	1.6	2.53	2.48	2.44
Trade, Material supply	14.0	11.68	11.40	11.18
Finance, Banking Insurance	0.0	1.42	1.46	1.57
State Management, Science, education, Health, Sport.	0.0	9.10	8.94	9.05
Housing, Tourist, Hotel, Repair of personal Consumer Goods	3.6	12.97	12.84	13.26

Source: Vietnam, Government of. 1994a.
"1993 Statistical Yearbook". GDS. Hanoi.

**Figure 2.1. VIETNAM: STRUCTURE OF GDP
(At constant prices of 1989) (%)**



Source: Vietnam, Government of. 1994a.

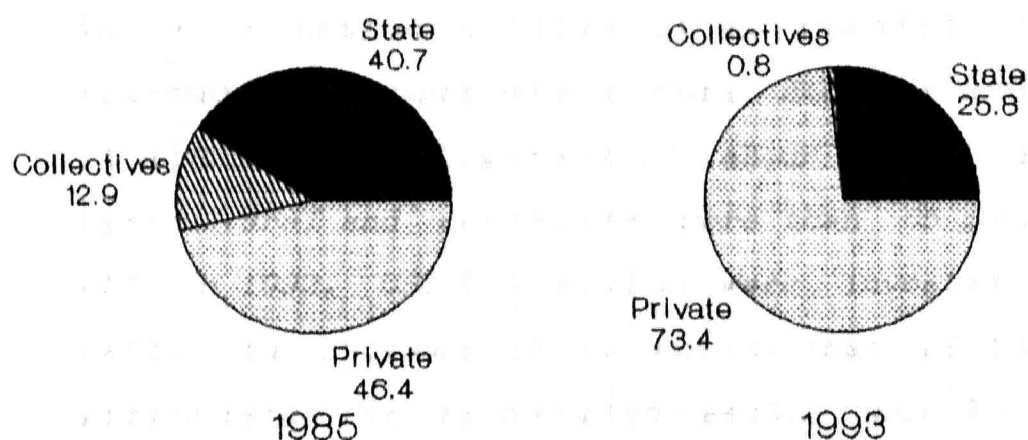
The effects of economic reform were also evident with the increasing participation of the private sector, hence reducing the shares of state as well collective sectors in the economy. This is most obvious in trading as shown in Table 2.5 and Figure 2.2.

Table 2.5. RETAIL SALES OF GENERAL TRADE

Year	Total	Of which		
		State	Collectives	Private
Billion Dongs (at current price)				
1980	2.4	0.7	0.2	1.5
1981	4.4	1.4	0.4	2.6
1982	11.1	3.1	1.1	6.6
1983	17.5	5.5	1.7	10.3
1984	31.3	9.9	3.9	17.5
1985	65.1	26.5	8.4	30.2
1986	333.9	132.8	62.9	138.2
1987	1453.5	596.3	229.7	627.5
1988	7233.2	2924.0	663.0	3646.2
1989	12911.0	4267.5	792.8	7850.7
1990	19031.2	5788.7	519.2	12723.3
1991	33403.6	9000.8	662.4	23740.4
1992	51214.5	12370.6	563.7	38280.2
1993	68019.0	17550.0	523.0	49946.0
Structure (percent)				
1985	100	40.7	12.9	46.4
1990	100	30.4	2.7	66.9
1991	100	26.9	2.0	71.1
1992	100	24.2	1.1	74.7
1993	100	25.8	0.8	73.4

Source: Vietnam, Government of. 1994a. "1993 Statistical Yearbook". GDS. Hanoi.

**Figure 2.2. VIETNAM: STRUCTURE OF RETAIL
TRADE OF GENERAL TRADE (%)
(Domestic Trade)**



Source: Vietnam, Government of. 1994a.

Under the impacts of DOI MOI policy in which the state, collective, private sector have equal rights to develop,

the private sector has reaffirmed its strength by occupying 73.4 percent of the retail sale of general trade in 1993 compared to only 46.4 percent in 1985. On the contrary, the state sector occupied a reduced share from 40.7 percent in 1985 to 25.8 percent in 1993. Similarly, the collective sector nearly collapsed with the decrease of its share from 12.9 percent in 1985 to only 0.8 percent in 1993.

In the economy as a whole, it was reported that *"the non-state sector has been growing steadily since 1988. It accounts for 85 percent of labour force (including agriculture) and contributes more than 65 percent to GDP. In 1992, US\$ 700 million were invested in that sector, an increase of 40 percent that of 1991. The growth rates for the non-state sector were 7.4 percent in 1991, 6.0 percent in 1992 and is expected to registered between 7.0 to 9.0 percent in 1993"* (Hofmann and Stingftung. 1993).

In the same report, it as also estimated that there were more than 400,000 private businesses employing a total of 2.2 million people. However, of these only 2,590 are registered companies by the year 1992. The non-agricultural private sector accounted for 60-70

percent of local industrial output, 60 percent of total whole sale volume and 20 percent of import - export volume (Hofmann and Stingftung, 1993).

2. Controlled inflation and stable currency

Inflation has been curbed through gradual measures. The value of the currency also stabilized. These factors created a conducive environment for the process of socio-economic development to continue although foreign aids were discontinued.

Table 2.6. VIETNAM: INFLATION AND CURRENCY STABILIZING

Indicator	1986	1990	1991	1992	1993	1994
Inflation rate (%)	774	67.1	67.5	17.5	5.2	14.0
Growth of Money Supply (%)	n/a	59.5	83.5	17.4	19.2	21.0
Exchange Rate (D/US\$)	n/a	5200	97500	11500	10750	11000

Source: Vietnam, Government of. 1994a. "1993 Statistical Yearbook", GDS.

- State Bank of Vietnam. 1995. "1994 Banking Data".

As shown in Table 2.6, the inflation rate fell sharply from 774 percent in 1986 to only 5.2 percent in 1993. In 1994, due to the increase in investment, the inflation was higher at 14 percent. At the same time, the money supply dropped dramatically from 83 percent in 1991 to 21 percent in 1994. The Vietnamese currency and the exchange rate have therefore been stable during the period of 1991-1994.

3. Expansion of Foreign Trade and Foreign Investment

As evidenced from Table 2.7, Vietnam's export and import have increased sharply. Since 1988, export has climbed up from US\$ 833.5 million to 3,600 million or an increase of more than four times. The average growth rate of export during this period reached 27.6 percent annually, despite losing the traditional socialist world market.

Table 2.7. VIETNAM: FOREIGN TRADE TURNOVER
(in million US\$)

Year	Exports	Imports	Trade balance
1981	352.4	1325.2	-972.8
1982	387.0	1320.1	-933.1
1983	463.6	1323.0	-859.4
1984	493.3	1488.3	-995.0
1985	594.7	1552.4	-957.4
1986	677.8	1829.3	-1151.5
1987	723.9	2132.5	-1408.6
1988	833.5	2539.5	-1706.0
1989	1524.6	2383.7	-859.1
1990	1815.0	2474.0	-659.0
1991	2081.7	2198.7	-117.0
1992	2552.0	2540.0	12.0
1993	3000.0	3300.0	-300.0
1994	3600.0	4500.0	-900.0

Sources:- Vietnam, Government of. 1994a.
 "1993 Statistical Year Book". GDS.
 - Vietnam, Government of. 1995.
 "1994 Annual Report." Ministry of Trade.

Table 2.8 shows that there has been a very perceptible shift in Vietnam's main trading partner from former socialist countries to non-socialist countries in Asia-Pacific region. Asia trading partners now account for 80 percent of Vietnam's export and import. Today, Singapore, Japan, Hongkong, South Korea, Taiwan and France are top five trading partners of Vietnam. Malaysia is ranked at the position of sixth with total trading accounted for RM 539 million or US\$ 232 million.

Table 2.8: VIETNAM: STRUCTURE OF FOREIGN PARTNERS BY REGIONS

(%)

Region	1991			1992			1993		
	EXP	IMP	TOTAL	EXP	IMP	TOTAL	EXP	IMP	TOTAL
Asia	79.74	77.59	78.72	84.31	80.18	82.43	82.52	80.22	81.32
Europe	9.79	14.79	12.23	9.39	15.23	12.04	11.76	13.28	12.56
CIS	8.67	4.89	6.88	3.97	2.98	3.52	2.61	3.58	3.12
Africa	0.68	1.37	1.01	0.47	0.01	0.26	0.44	0.03	0.22
Ocean	0.96	1.36	1.15	0.71	0.75	0.73	0.59	1.63	1.13
North America	0.16	-	0.01	1.15	0.85	1.02	2.07	1.26	1.65
South America	-	-	-	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Vietnam, Government of. 1994a.

"1993 Statistical Yearbook". GDS. Hanoi.

Besides, the mobilization of the required capital, both foreign and domestic source for funding her development still remains the greatest challenge of the country. Since the promulgation of the Foreign Investment Law in 1987, US\$ 10.5 billion of foreign capital has been attracted with 1109 projects approved. Taiwan, Hongkong, South Korea, Australia and Singapore become the top five investors. Malaysia is ranked sixth overall and is the second largest ASIAN investor (after Singapore) with a current total of 29 projects worth

US\$ 557.7 million. During the first ten months of 1994 alone, there were 486 projects worth of US\$ 3.8 billion were approved.

Foreign investment become very important, especially since it creates more job opportunities for the one million youths who reach working age annually as well as for the existing unemployment problem in the country.

