

Chapter II- ECONOMIC REFORM IN VIETNAM AND CHANGES IN TRADE SECTOR

2.1. OVERVIEW OF THE ECONOMIC REFORM IN VIETNAM

2.1.1. Process of the economic reform

The Vietnam economy has undergone a long process of trial and error since 1976. In December 1976, the fourth Congress of the Communist Party of Vietnam introduced the long-term path of the development of Vietnam's economy and the second five year plan (1976-1980). In this plan, a high priority was placed on heavy and chemical industries. Unfortunately the plan was unsuccessful. In the later half of the 1970s, the average annual growth for the agricultural sector was only 1.9%, and for the industrial sector was 0.6%. In 1978 the rice harvest was only 12.9 million tons, 22% less than that in 1976. There were two main reasons : an over-ambitious promotion of socialist (collective) economic policies and a shortage of capital and other resources. This policy was carried out with subsidy system from state funds. This situation forced the government to become aware of the need for economic reform.

It can be said that in Vietnam, the economic reform has gone through two phases of trial and error and now is in the third phase.

The first phase was the " New economic policy ", which was introduced in 1979 at the fourth plenum of the Sixth Central Committee.

The second phase was " the economic reform " established in Jun 1985 at the fifth plenum of the Eighth Central Committee.

The third phase is the present program of economic reform launched in december 1986.

The first two phases of the economic reform were mainly micro-economic reforms affecting agriculture as well as small industry and trade.

The Vietnam "New economic policy" was a measure to revive the national economy from its bankrupt condition. It concentrated on the increase in production of food and other essential commodities, mainly in the agricultural and small industrial sectors. From 1981 to 1985, the national income increased every year, the per capita food production (paddy equivalent) increased from 267 kg in 1980 to 309 kg in 1985 or 32 kg higher than in 1976. The total industrial output also increased. However, there were many defects and after-effects of the new economic policy such as increased budget deficit, extreme poverty for fixed-income worker due to inflation, market confusion and high prices, rampant corruption and degradation of society.

The currency in circulation increased, worsening inflation at that time, the monthly average price increased

from 5% to more than 10%, and the monthly salary provided no more than a week's living expenses. The "wage and price adjustments" of 1981-1982 was a major cause of the national budget deficit and inflation because these price adjustments caused the official prices to rise by five to seven times.

The policy of the second phase was mainly reform of the wage and price system that began in July 1985 and monetary reform that began in September of the same year. The results of the "Economic Reform" in 1985 were the opposite of what was intended by the government, the amounts of expenditure rose to 85 percent over the previous years. The budget deficit also increased to 2.2 times the deficit of the previous year. The prices of essential commodities increased rapidly each month. In the first two phases, the socio-economic changes went too fast to be acceptable. The two first economic reforms were failure. It can be said that around the years 1985-1986 Vietnam was in a deep socio-economic crisis. The party admitted "serious errors and mistakes" in economic policies "the growth of production is low, major targets such as production of food, grain, coal, cement, textiles ext. have not been achieved. Imbalance, for example between supply and demand, revenue and expenditure, exports and imports have become acute. Unemployment is high. Most legitimate and minimal requirements of the people have not been met"

At the Sixth National Party Congress in December 1986 a program of economic reform was announced. The main purpose of the policy was to revitalize the economy and guarantee a stable livelihood for the people.

The major points of economic reform can be summarized as follows:

a) A long-term strategic policy is to develop a multi-sectoral economy. The Government allows all people to undertake activities in production and business either individually or collectively. Semi-private ownership and private ownership are permitted.

b) The government is to concentrate on the production of food, consumer and export goods

c) Improving economic management mechanisms for instance, decentralization of state economic management to local levels, replacement of administrative measures with economic ones such as taxation, interest rate and the application of the contract system in agriculture.

d) The necessity of a market economy was recognized with the implementation of an open door policy and expanding its foreign economic relations, into regional and world economy.

e) Democratization of socio-economic life.

In the Party's regulation, it said :

" Instead of promoting the development of a heavy industry sector the emphasis should from now be on food

production and consumer goods as well as export promotion in order to earn the necessary foreign currency much needed for the important of raw materials and other necessities. At the same time government controlled prices and subsidies should successively be withdrawn."

From 1987 to 1992 the government also introduced many important policies and measures such as " the financial autonomy of state enterprises" (1987) "foreign investment law" (1987), "private enterprise law" (1990), "company law" (1990). The most important documents are the "Party's Strategy for Socio-Economic Stabilization and Development in our Country up to the Year 2000" (1991) and " Constitution of the Socialist Republic of Vietnam " (1992).

2.1.2. Some first results:

Following the adoption of the economic reform policy in 1986, Vietnam had successes in the transition from a central- planned economy to a market oriented economy.

The "open door" policy has helped to create opportunities to develop the economy of Vietnam in all fields, bringing Vietnam into the world market.

Some first results of the economic reform can be summarized as follows:

2.1.2.1. Social stability, economic growth

During the period 1986-1994, the Vietnam economy has been growing fast. The achievements recorded in economic development in the 1991-1994 shows that the average GDP increased in the last four years (1991-1994) stands by 7.8%, while in the period of the 1981-1985, it was 6.4% and for the period of the 1986-1990, 3.9%.(table 2.1).

Industry :

In the period 1991-1994, the gross output of industry increased by 13% compared with 9.5% for the period 1981-1985. The speed of industrial development increased rapidly from 6.1% (1986) to 10.44% (1991) and 12.1% (1993)(table 2.2)

The main industrial products rose significantly from 1985 to 1994 such as electricity: 5230 million KW (1985) to 10,928 million KW (1993), 12.2 billion KW (1994). Crude oil : 2.7 million tons (1990) to 6.3 million tons (1993)(see table 2.3 and 2.4)

The industrial development has had a direct effect on various branches of the national economy, especially on agriculture, about 15% of the total production of electricity is reserved for agriculture. The chemical industry provided from 300,000-400,000 tons of fertilizes to the field.

Table 2.1:

VIETNAM: MAJOR ECONOMIC INDICATORS

		1985	1986	1987	1988	1989	1990	1991	1992	1993
Population	Million		61.1	62.5	63.7	4.4	5.7	67.7	69.1	70.9
GDP	%change	5.6	3.3	2.6	8.0	5.1	6.0	8.3	7.5	8.1
Per Capital GDP	%change		1.2	0.4	3.7	4.4	2.7	9.7	6.4	5.7
GD Savings	%of GDP					0.2	2.1	4.8	6.9	n.a
GR Investment	%of GDP	12.8	10.3	8.8	8.9	8.6	11.5	11.6	12.0	12.7
Money supply	%change					121.1	59.5	83.5	17.4	n.a
Inflation Rate	%	91.6	487	316.7	301.9	76.0	67.1	67.5	17.5	5.2
Exports	%change	20.5	20	13.9	15.1	82.9	19	14.6	22.6	17.5
Imports	%change	4.3	17.8	16.5	19	-6.2	3.8	-11	15.5	29.9
Current Account										
Balance	US\$Mill	-891	1423	1360	1542	1101	200	83	210	170
External Debt										
Outstanding	US\$Mill	6.74	7.65	10.7	12.99	14	14.6	15.3	15.4	16.8
Debt-Services										
Ratio	%						5.5	5.6	7.5	8.0
Exchange Rate	D:US\$					4000	5200	9750	11500	10750

Sources : - Vietnam Statistical Year Book, 1994.

- MIER 1994 National Outlook Conference.

- Economic Intelligence Unit 1991.

Table 2.2 :

INDEX OF GROSS INDUSTRIAL OUTPUT

(at 1985 price, previous year = 100)

Year	Total	Of Which					
		State-owned business			Others		
		Total	Of which		Total	of which	
			Central	Local		Cooperative	Private
1986	106.2	106.2	105.6	107.1	106.2	114.8	93.5
1987	110.0	109.3	106.8	113.0	110.9	105.8	119.9
1988	114.3	115.5	112.3	119.9	112.9	101.0	131.8
1989	96.7	97.5	105.9	86.5	95.7	63.9	131.5
1990	103.1	106.1	115.3	91.1	99.3	80.0	110.4
1991	110.4	111.8	115.5	104.2	107.4	58.4	126.7
1992	117.1	120.6	123.1	111.5	109.6	68.9	116.9
1993	112.1	113.3	114.1	110.0	109.0	97.7	110.2
1994	115.3	111.3	107.3	121.8	125.2	108.2	118.8

Source: Vietnam Statistical Office

Table 2.3.

MAIN INDUSTRIAL PRODUCTS

Items	1985	1990	1991	1992	1993	93/85 (%)
Electricity (bill.KWh)	5.23	8.8	9.3	9.8	10.9	208.4
Crude oil (mill.tons)	0	2.7	4.0	5.5	6.3	
Coal (mill.ton)	5.7	4.6	4.7	5.0	5.4	94.7
Steel (thous.tons)	62	101	149	196	236	380.6
Machinery tool (piece)	964	894	1235	844	1288	133.6
12 cv Tractor (piece)	1103	1700	2279	770	2500	226.6
Insecticide pumps (thous.pieces)	19.6	78	47	53	n/a	
Threshing Machine (thous. pieces)	19.6	43.3	39.5	30.2	30.3	154.6
Diesel motors (thous.pieces)	5.3	4.5	5.3	3.3	2.85	53.7
Electricity rotating engine (thous. pieces)	5.14	10.6	9.5	13.9	21.4	416.3
Electricity transformer (piece)	479	2612	1964	1310	n/a	

Source: Vietnam's 1993 Statistical Yearbook, GDS.

Table 2.4:

GROSS OUTPUT OF INDUSTRY BY INDUSTRIAL ACTIVITIES

(at 1989 price)

Billion dongs

Industrial Activities	1990	1991	1992	1993	1994
Total	14011.1	15471.1	18116.9	20300.0	23406.0
Electricity	1046.2	1100.8	1161.0	1288.5	1350.0
Fuels	1551.3	2141.0	2963.3	3320.7	4100.0
Ferrous metallurgy	119.6	187.8	220.8	264.2	285.0
Non-ferrous metallurgy	99.1	131.5	185.6	223.5	260.0
Equipment & machinery	597.7	588.0	668.1	667.3	690.0
Electric & electronic products	272.3	277.6	300.3	371.5	420.0
Other metallic products	324.8	316.5	326.8	357.7	380.0
Chemical products, fertilizer & rubber	920.5	1114.0	1355.2	1591.7	2220.0
Construction materials	1000.2	1105.1	1383.5	1506.3	1990.0
Wood & wood products	572.7	595.7	610.9	661.6	835.0
Cellulose & paper	311.5	292.0	337.6	306.5	410.0
Glasseath ware & porcelain	146.1	178.3	205.0	226.0	265.0
Food	468.2	512.5	562.0	631.0	710.0
Foodstuffs	4571.1	4865.9	5578.3	6360.8	6695.0
Textile products	1259.6	1276.4	1423.1	1367.0	1380.0
Sewing products	202.5	219.1	262.1	333.5	380.0
Tanning & manufactures of leather products	93.7	55.3	78.4	155.5	220.0
Printing	97.3	108.4	127.8	151.8	200.0
Others	356.7	314.7	367.1	451.9	616.0

Source: GOS of Vietnam, January 1995.

Agriculture

Average increase in gross output of agriculture compared with 1985 was 5% in 1986 going up to 19.6% and 42.5% in 1990 and 1993 respectively (table 2.5).

Table 2.5 :

GROSS OUTPUT OF AGRICULTURE

(At constant price of 1989)

Unit : Billion dong

Year	TOTAL	of which	
		Cultivation	Animal husbandry
1985	12,450	9,389.7	3,060.3
1986	13,074.8	9,716.2	3,358.5
1987	13,125.5	9,508.4	3,617.1
1988	13,656.2	10,158.6	3,497.6
1989	14,675.6	10,940.3	3,735.3
1990	14,193.4	11,099.5	3,819.8
1991	15,358.8	11,511.7	3,847.1
1992	16,607.5	12,331.1	4,276.3
1993	17,696.7	13,007.6	4,689.1
Index 1985 = 100%			
1985	100	100	100
1986	105	103.5	109.7
1987	105.4	101.3	118.2
1988	109.7	108.2	114.3
1989	117.9	116.5	122.1
1990	119.6	117.9	124.8
1991	123.4	122.6	125.7
1992	138.4	135.6	146.9
1993	142.4	138.5	153.2

Sources : - Vietnam Statistical Year Book 1994.

The rise harvest reached of 25.8 million tons in 1994, 40.2% higher than in 1986 (table 2.6). Vietnam revitalized successfully its agricultural sector, changing from a food importer to a major food exporter.

There was positive change in the structural economy. In 1986, industry utilized about 11% of the employed labour, producing 36.2% of the GDP and 29% of the exported goods .

Table 2.6 :

PRODUCTION OF MAJOR ANNUAL CROPS

Unit : Thousand tons

	1985	1990	1991	1992	1993
Food (in rice equival)	18200.0	21488.6	21989.5	24214.6	24500.0
Rice	15874.8	19225.1	19621.9	21590.3	21900.0
Other cereals(in rice equival)	2325.2	2263.5	2367.6	2624.3	2600.0
Annual industrial crops					
Cotton	4.4	2.8	8.3	12.8	13.0
Jute	47.1	23.8	25.3	25.7	28.0
Rush	92.8	63.3	54.4	77.2	69.0
Sugar cane	5559.7	5397.7	6130.9	6437.0	6435.0
Peanut	202.4	213.1	234.8	226.7	242.0
Tobacco	38.2	21.8	40.4	27.3	32.0
Soy-bean	79.1	86.6	80.0	80.0	
Tea	126.9	145.1	59.9	62.8	
Rubber (tons)	47867	57939	64563	66081	70000
Coffee	35763	320506	361627	387485	
Live-weight of slaughtered pigs	560.6	728.5	716.3	797.2	837.1

Source : - *Statistical Data of Agriculture, 1994.*

And the percentage of gross services increased from 19% in 1986 to 35.5% (1991), 38.8% (1992) and 41.2% (1993) (table 2.7; 2.8 and figure 2.1).

Table 2.8 :

STRUCTURE OF GROSS DOMESTIC PRODUCTS (GDP)
By Kind of Economic Activities
(at current price)

	Per cent		
	1991	1992	1993
Total	100	100	100
Goods	63.4	61.2	58.8
Industry	19.8	21.7	21.5
Construction	4.0	5.6	6.9
Agriculture			
Forestry	39.5	33.9	29.3
Others	1.0	0.9	1.1
Services	35.7	38.8	41.2
Transport, Postal service, Tele- communication	3.7	4.2	4.4
Trade, Material supply	12.7	13.8	12.8
Fiance, Banking Insurance	1.4	1.4	1.7
State Management, Science, education, Health, Sport.	8.9	8.8	10.6
Housing, Tourist, Hotel, Repair of personal Consumer Goods	9.0	10.6	11.7

Source: GOS of Vietnam, July 1994

VIETNAM SECTORAL GDP CONTRIBUTION (%) (At constant price of 1989)

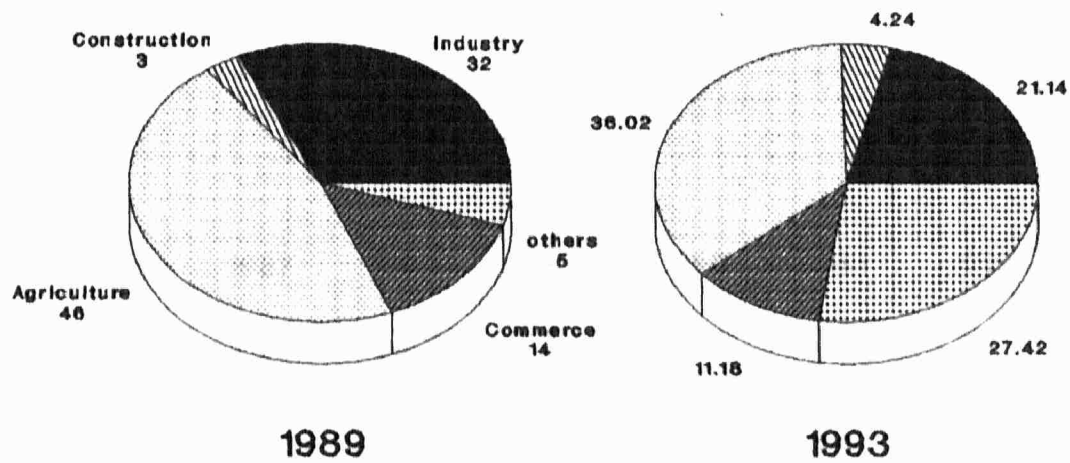
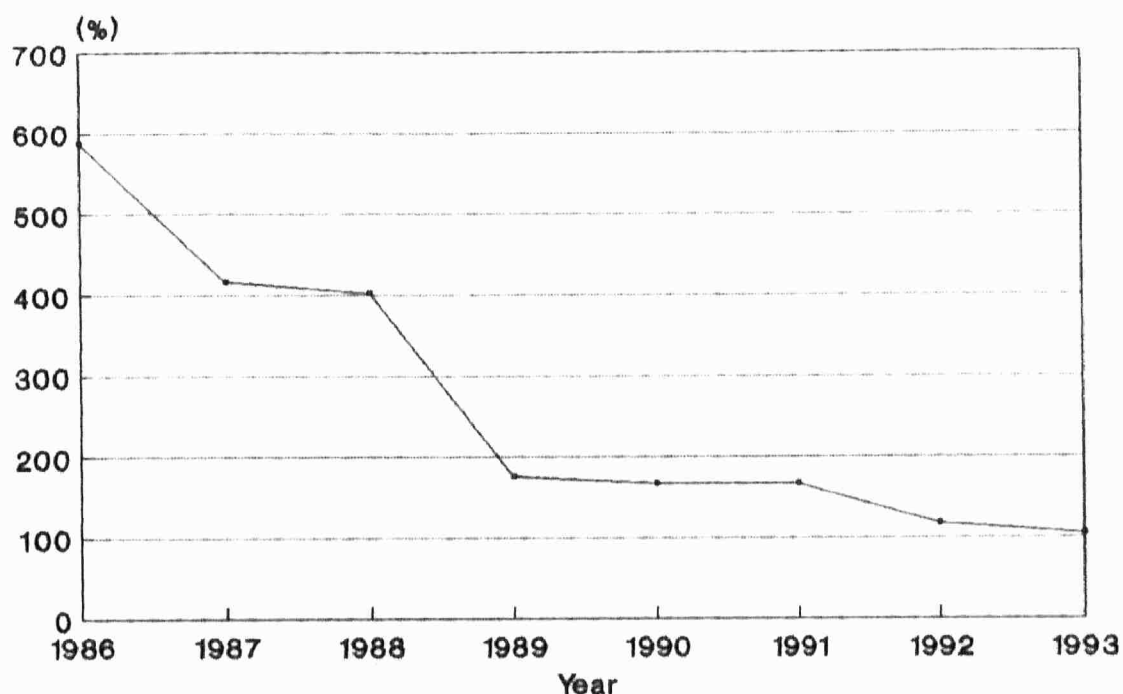


Figure 2.1

Source : VN Year Statistical Book
Economic Intelligence Unit 1991

Figure 2.2

RETAIL PRICE INDEX OF CONSUMRE GOODS AND SERVICES



Source : VN Statistical Year Book,1990.

2.1.2.2. Control of inflation

The Vietnamese economy since 1976 has experienced rampant inflation reflecting severe demand pressures resulting from the disruption of supply and the government subsidy regime. In order to solve this situation, the government introduced a series of policy measures in 1989. First of all, the

government increased the interest rates of deposit to a high level than the inflation rate. An other measure was the liberalization of imports followed by a surge of consumer goods from China and other countries. As a result, there was a decrease in consumption and increase in savings. The inflation rate was reduced. The rate of increase in prices has been slowly but clearly reduced. The average growth rate of retail prices per month at social market has been reduced from 11.8% in 1986 to 4.4% in 1989 and 0.4 % in 1993. (see table 2.9). In 1994, the consumer price was kept at a stable level: the average rate of increase in consumer prices was 0.45% a month. Inflation was held back and reduced from 95.8% in 1989 to 5.2% in 1993 (table 2.9 and figure 2.2).

2.1.2.3. Tax collection

The tax and fee collection rate of the budget in GDP increased from 14% (1991) to 17.3% (1992) and 22% (1993). The financial autonomy or self-responsibility structure is slowly replacing the centralized, bureaucratic and subsidized financial structure, contributing greatly to the liberalization of productive forces, awaking all the hidden energy, creating a trend for dynamism to rise up and really engage in the conduct of business with proper cost accounting.

Table 2.9:

RETAIL PRICE INDEX OF CONSUMER GOODS AND SERVICES

Unit : %

	1986	1987	1988	1989	1990	1991	1992	1993
Previous month=100								
Month								
1			118.3	107.4	102.9	113.2	104.4	101.7
2			114.0	109.2	103.8	108.7	105.5	101.9
3			128.4	105.4	101.9	100.5	100.5	99.5
4			123.8	103.5	102.5	102.2	100.9	99.8
5			127.6	99.8	102.6	103.0	101.3	101.5
6			116.8	97.1	102.1	101.7	100.1	99.7
7			109.6	98.5	103.6	102.5	100.3	99.8
8			107.5	100.2	105.7	103.4	100.3	100.5
9			106.5	101.6	104.3	103.7	100.0	99.9
10			108.0	102.5	106.1	102.8	99.8	99.7
11			108.3	102.6	107.9	105.6	102.0	100.0
12			105.3	103.0	108.8	106.1	101.4	101.2
Monthly average					104.4	104.4	101.4	100.4
Year average	587.2	416.7	401.9	176.0	167.1	167.5	117.5	105.2

Sources : - Vietnam Statistical Year Book, 1994.

- Vietnam Socio-Economic Forecasts for 1990s,

2.1.2.4. Foreign Trade and Investment

Foreign Trade

It is clear that there are some significant changes in foreign trade before and after economic reform.

a. Turnover of foreign trade increased rapidly from US\$ 2,471.1 Million (1985) to US\$ 3,908.3 million (1989) and US\$ 8,100 million (1994).

b. There is a transformation of foreign partners from mainly socialist countries to non-socialist countries. Vietnam has concentrated on regional co-operations, especially in Asian region.(tables 17; 18; 24). Changes in foreign trade will be examined more detail in session II.

Foreign Investment:

Vietnam's greatest challenge is the mobilization of the required capital, both from domestic and foreign sources, to fund its development. From the start of liberalization of investments until October 1994, foreign investment involving US\$10.5 billion on 1109 projects were approved in Vietnam. The top five investors in the country, Taiwan, Hongkong, South Korea, Australia and Singapore, in that order, account for 58% of the total foreign investment by value. 72% of the investments are in the form of joint ventures, 12 per cent in "business cooperation contracts" and 15 per cent in 100 per cent foreign capital.

Foreign investment in Vietnam is governed principally by the Law on Foreign investment in Vietnam which was passed by the National Assembly in December 1987, and which has been subsequently refined by several amendments. The Foreign Investment Law technically permits foreigners to invest in any sector of the economy and expressly encourages investment in the following sectors : export- oriented and import-substitution industries; high technology industries using skilled labour; labour intensive production using skilled labour; infrastructure projects; foreign exchange services such as tourism, ship repair, airport and seaport services.

The government offers incentive policy to attract foreign investors into the country such as tax incentives.

However, there are a few problems that are faced by investors in Vietnam, such as inadequate infrastructure, lack of foreign exchange and slow bureaucratic investment approval procedures .

2.1.2.5. In domestic trade, there was a transformation from the "divided" and "closed" market to free market operated under government law in the whole country.

Initially, there were two market system operating at the same time : "organized market" that was market of state-owned companies controlled by the government and "Free market" for small private business.

Market was limited to administrative boundaries, where some commodities were allowed to circulate only in a province or in an area, while other commodities were banned to circulate in normal market. The government was not able to accomodate the whole market by itself. As a result, there was shortage of a commodity in some areas while other areas there was a surplus of this commodity.

Before 1986 all selling and buying materials and commodities were based on the plans made by the government. The government enacted policy that carried out a system of administrative supply of producer's goods and consumer goods at low prices maintained by subsidies from state funds.

This mechanism created a two-market and two-price system, in which the government prices were always low compared to the free market, therefore it did not encourage people to produce.

There was frequent shortage of consumer goods. This created speculation and hoarding, instability of the supply, demand and price factors. As a result, the price in the free market increased very fast but at different ratio.

The transformation from the old mechanism to the market mechanism has created a procedure to operate the trade sector in a much more efficient than before.

The formation of a market and price system for the whole country constitutes an important change that stimulates production and business.

In practice, the market has become more exciting, diversified and active with all the restrictions being lifted.

The formation of a market in the whole country created convenient conditions for free circulation of commodity and freedom has been given back to the market. As a result, the population's buying and selling activities have been made easier than before, thus ending the shortage of commodities.

The free circulation of goods is guaranteed through a rapid shift to business accounting in the activities of state and co-operative run trading and socialist market.

by expanding the social market, an environment and conditions for the vigorous development of a commodity economy was created. Some centralized commodity producing areas were appeared, especially areas producing rice in the south Vietnam and coffee in Tay Nguyen Highland.

As a result, the retail sales of general trade increased significantly from 333.9 billion dongs in 1986 to 12,911 billion dongs in 1989 and 68,019 billion dongs in 1993, in which domestic and goods account about 63% and 37% respectively (see table 2.10).

Since economic reform, the various sectors of trade have developed and are competing well with each other. The government encouraged private business to develop and created avitable conditions for them to do business, promoted the expansion of investment and joint ventures in trade and

Table 2.10 :

RETAIL SALES OF GENERAL TRADE

Year	Total	State	of which	
			Collectives	Private
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	382820.2
1993	68019.0	17550.0	523.0	49946.0
Structure				
1980	100	29.2	8.3	62.5
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: GOS of Vietnam, 1994.

production to meet the social demand.

Since 1989 up to now, the number of state-owned business has decreased significantly from 3864 businesses in 1989 to 2520 businesses in the late 1992 because of weakness in their activities. In 1993 employee in trade sector decreased by about 2000 employee, while the number of private permanent businessmen has increased rapidly from 467,900 in 1986 to 793,000 in 1989 and 1,038.2 in 1994. In addition, there is a great number of part-time businessmen consisting of 160,000 people. Up to the first October 1993, there are 7343 private businesses, 2863 trade companies limited, 96 share companies and 1 million individual trade households

Table 2.11 :

**The Weight of Economic Sectors in Retail Domestic
Trading Calculated at The Private Sector Price**

(in per cent)

	1980	1981	1985	1990	1994
State Sector	74.2	65.7	65.6	51.2	44.6
Private Sector	25.8	34.3	34.4	48.8	55.4
Total	100	100	100	100	100

Source: Trade Ministry of Vietnam, Report to Government, Jan. 1995.

The private retailed goods and service compared to the one in the social market increased continuously from 45.6% in 1986 to 60.8% in 1989 and 73.4% in 1993. The weight of economic sectors in retail sales of social market can be seen in table 2.10; 2.11 and figure 2.3.

Because of the participation of private and individual sector in recent years, the goods and material circulation has been more favorable. Travelling and shopping have become easier without the people and goods having to wait for transportation as used to be the case. The quality of services has also improved owing to the competition between various economic components.

2.2. CHANGES IN TRADE SECTOR

Foreign trade occupies an important role in the economic development of the country. It facilitates the expansion and development of the major sectors of the economy such as agriculture, industry. Exports not only stimulate the growth of domestic products through the enlargement of markets but also provide vital foreign exchange for importing capital goods. Whereas, imports, in turn, facilitate the expansion of domestic investment and the introduction of foreign technology embodied in such imported products. According to a study of Tran Van Tho, the export/GDP ratio was 8% and the import/GDP was 17.3% in

STRUCTURE OF RETAIL SALES OF GENERAL TRADE (%)

(Domestic trade)

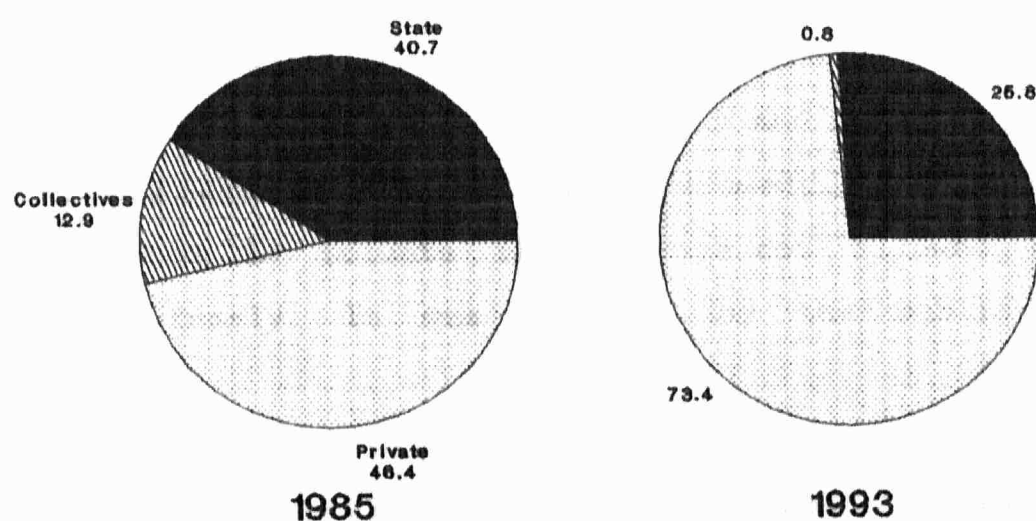


Figure 2.3

Source : VN Year statistical book.

1988. With the data recorded in table 2.1; 2.7; and 2.12 these ratios were 26.9% and 28.2% in 1991 ; 23.6% and 25.9% in 1993, while industry and agriculture accounted 21% and 29% of GDP respectively (table 2.8).

There has been many changes in foreign trade since economic reform, especially since 1989.

2.2.1. The transformation from the state's monopoly trade system to a new trade system with the participation of the various sectors of economy.

Before economic reform, the state controlled the major part of the whole sale trade as well as the retail trade, foreign trade was the state's monopoly and was placed under the management of the central government, and those who participated in private sector were not allowed to do business freely. It was hindered by the public trade sectors.

The monopoly in trade sector has created some hindrances. Competition between trade sectors and trade companies in the same sector was limited. It did not encourage development of trade sector. It did not encourage the development of the potential of economic sectors, especially, private sectors.

After economic reform, export and import producing enterprises belonging to different economic sectors and meeting certain stipulations by the State are permitted to

deal directly with foreign partners provided that they abide by the law and are under the government's control. The authoritarian monopolies in foreign trade has been removed away.

2.2.2. The foreign trade has been revitalized

Under the government subsidy regime, the balance of trade recorded large deficits mainly due to sizable imports which the slow growth of exports have not been able to adequately cope. Table 2.12 and figure 2.4 show that the exports have been only half of imports for many years.

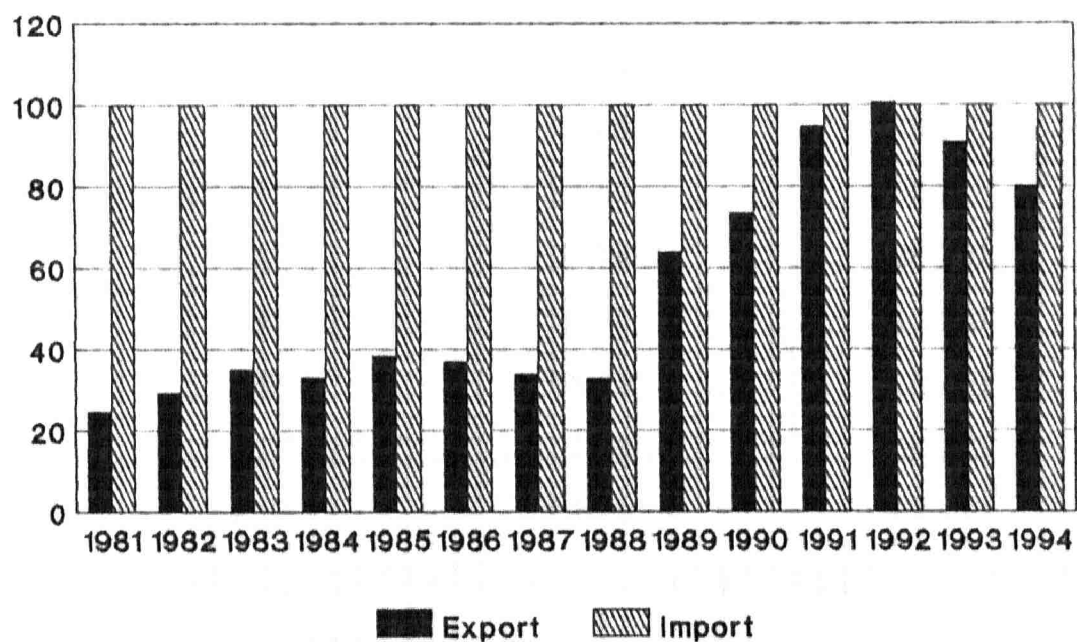
Since exports have been at low levels, Vietnam's imports have been largely financed by loans and aid from foreign countries, mainly the USSR and other members of CMEA. In 1987 imports financed by foreign loans and aid accounted for 67% of total imports.

One among three major programs of Vietnam economic development is the export promotion program. This program was based on the country's comparative advantage in agricultural products, labour costs and adaptability to new technologies. All economic units are being encouraged to take part in the production of goods for exports. Central, bureaucratic control over the country's foreign trade is slowly being loosened. The rate of exchange between the US dollar and Vietnam dong has been adjusted so as to achieve levels that are closer to true market value (table 2.1)

As a result, foreign trade has been revitalized, The

value of exports in 1994 increased by 431% over levels of 1986 and by 236% over levels of 1989. The gap between imports and exports levels has also decreased considerably from USD -1,151 million in 1986 to -859.1 million in 1989 and -0.9 billion in 1994 (table 2.12 and figure 2.4)

VIETNAM EXPORT/IMPORT (%) 1981-1994



Source : Ministry of Trade
VN Year Statistical Book.

Figure 2.4

Table 2.12 :

VIETNAM FOREIGN TRADE TURNOVER

Billion USD

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
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 Statistical Year Book, 1994.*

- *Annual Report of Ministry of Trade, 1994.*

- *Institute of Economic and Technological
Research on Trade.*

2.2.3. The important change in direction of trade

The traditional trading partners of Vietnam's foreign

Table 2.13 :

VIETNAM'S EXPORTS BY DESTINATIONS

Unit : %

Year	Socialist Countries	Advanced Capitalist Countries	Developing Countries	Internal Exports
1976	59.7	19.5	20.8	0.0
1977	68.6	18.7	12.7	0.0
1978	75.5	14.4	10.2	0.0
1979	73.3	15.8	10.9	0.0
1980	67.3	11.6	13.3	7.8
1981	64.3	13.4	18.7	3.6
1982	77.4	7.6	13.6	1.4
1983	71.8	11.2	16.8	0.2
1984	72.6	11.5	15.6	0.3
1985	71.6	9.0	18.6	0.8
1986	67.1	11.8	20.7	0.4
1987	70.1	12.6	16.5	0.8
1989	40.4	18.5	41.1	n.a
1990	44.4	20.7	34.9	n.a
1991	12.2	40.4	47.4	n.a
1992	8.6	42.8	48.6	n.a

Sources : - Vietnam Year Statistical Book 1994.

trade were the former Soviet Union and the CMEA (or COMECON) members. So that Vietnam's foreign trade met with tremendous

challenges with the collapse of the USSR and loss of the traditional markets in eastern Europe. Imports from COMECON members dropped from USD 1,725.8 million in 1989 to merely USD 74 million in 1992. The rate of Vietnam's exports to COMECON in total exports turnover reduced from 67.1% in 1986 to 40.4% in 1989 and 8.6% in 1992 and the rate of Vietnam's imports from COMECON in total imports turnover dropped from 83.3% in 1986 to 66.8% in 1989 and 6.2% in 1992 (table 2.13; 2.14; figure 2.5 and 2.6)

Table 2.14: VIETNAM'S IMPORTS BY ORIGIN

Unit : %

Year	Socialist Countries	Advanced Capitalist Countries	Developing Countries	International Organizations
1976	56.4	30.4	13.2	0.0
1977	41.5	37.7	14.3	6.5
1978	39.8	35.4	15.2	9.7
1979	52.3	23.4	13.3	11.0
1980	57.6	23.5	13.4	5.5
1981	71.4	20.4	2.2	6.0
1982	80.9	12.7	4.1	2.3
1983	78.7	15.6	3.3	2.4
1984	75.7	17.7	5.0	1.6
1985	81.1	12.1	4.1	2.7
1986	83.3	9.6	4.9	2.2
1987	85.8	7.9	4.3	2.0
1989	66.8	7.7	25.5	
1990	51.0	13.3	34.8	0.9
1991	18.2	20.5	59.7	1.6
1992	6.2	22.3	70.6	0.9

Sources - Vietnam Year Statistical Book 1994.

VIETNAM'S EXPORTS BY DESTINATIONS (%)

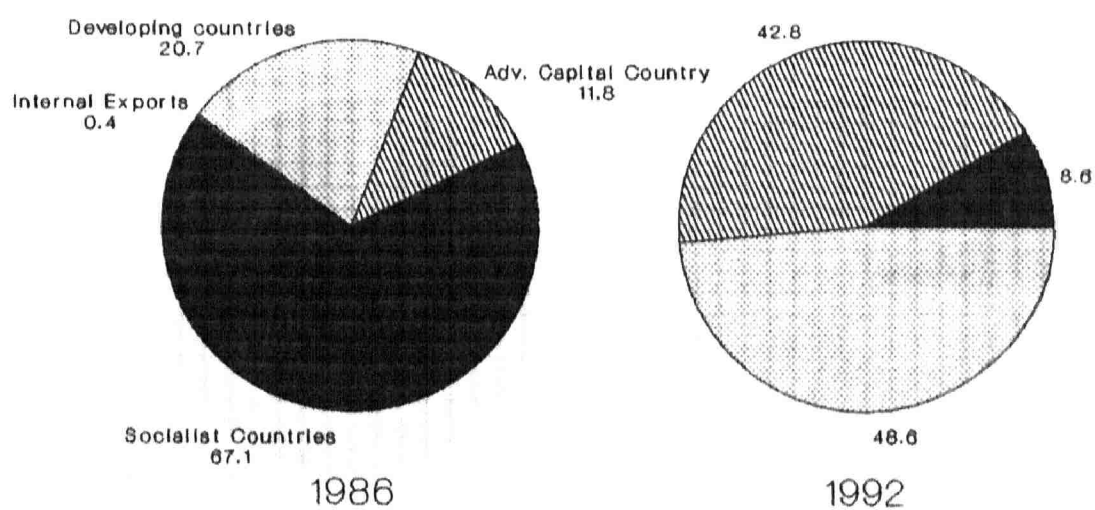


Figure 2.5

Source : VN Year Statistical Book.

VIETNAM'S IMPORTS BY ORIGIN (%)

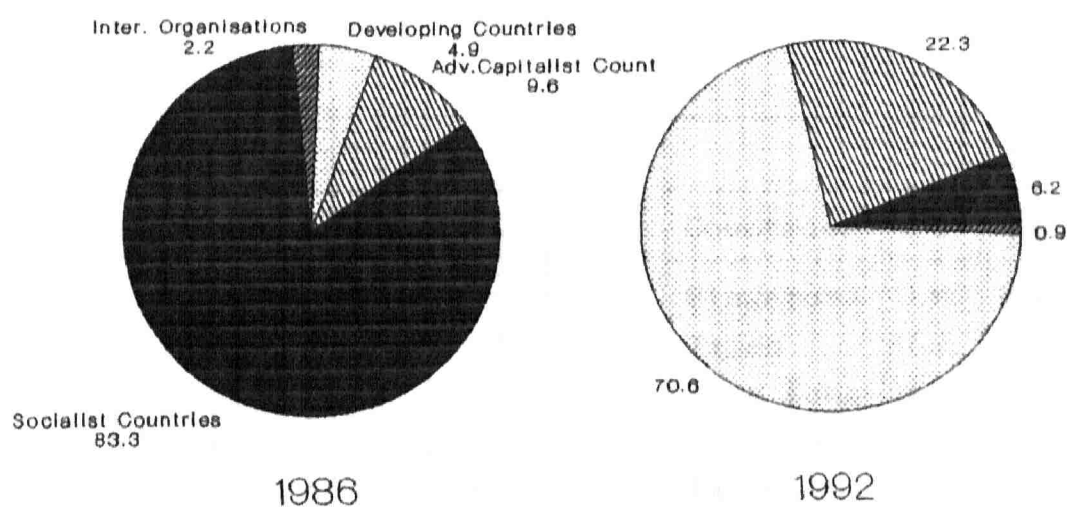


Figure 2.6

Source : Ministry of Trade.

In order to overcome this situation, Vietnam is implementing the "open door" policy and expanding its foreign economic relations, thus gradually entering into the regional and world markets. Vietnam has replaced quickly the traditional trading partners by many other partners in the world, especially in Asia. Trading partners in Asia such as Singapore, Japan, and Hongkong, account today for 80% of Vietnam's exports and imports (table 2.15 and 2.16).

Table 2.15 :

MAJOR TRADE PARTNERS

Unit : %

1991				Range	1993			
Countries	EXP	IMP	TOTAL		Countries	EXP	IMP	TOTAL
Singapore	26.76	33.93	30.14	1	Singapore	30.49	29.02	29.72
Japan	20.85	9.82	15.65	2	Japan	17.60	9.23	13.12
Hong Kong	11.74	11.52	11.78	3	Hong Kong	12.65	8.22	10.33
CIS	8.57	4.88	6.83	4	S.Korea	1.42	13.19	7.58
France	4.23	5.78	4.96	5	Taiwan	4.92	8.55	6.82
S.Korea	1.54	8.74	4.94	6	France	2.49	9.02	4.34
Taiwan	3.17	4.35	3.73	7	China	5.13	2.72	3.87
Thailand	4.70	2.29	3.56	8	Thailand	3.11	2.62	2.85
China	4.90	2.00	3.53	9	UK	4.73	0.57	2.55
Germany	0.52	3.03	1.71	10	Malaysia	2.35	1.70	2.01
Indonesia	1.66	0.89	1.30	11	Russia	2.07	1.92	1.99
Switzerland	0.35	2.22	1.23	12	Germany	0.84	2.21	1.56
Netherlands	1.26	1.10	1.18	13	Indonesia	1.57	1.44	1.50
Campuchia	1.27	1.01	1.15	14	Netherlands	1.60	1.15	1.36
Total	91.52	91.86	91.69		Total	90.97	88.56	89.60

Source : - Vietnam Year Statistical Book 1994.

Table 2.16 :

STRUCTURE OF FOREIGN PARTNERS BY REGIONS

Unit : %

Regions	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 Year Statistical Book 1994.

Trade with the non-socialist countries has expanded rapidly from 32.5% in 1986 to 59.6% in 1989 and 91.4% in 1992. (table 2.13)

2.2.4. Changes in structure of foreign trade

2.2.4.1. The structure of exports

Table 2.17 shows the Vietnam's exports by five groups of commodities. This classification does not show a strict distinction between primary commodities and manufactured products. However, it gives the impression that the share of

light manufactured products was quite high in the period 1970-1989.

Table 2.17 :

VIETNAM'S EXPORTS BY COMMODITY

Unit : %

Year	Share by product category (%)				
	Agricultural products	Forestry products	Aquatic products	Heavy industry products & mineral, others	Light manufactural product
1976	33.8	2.8	8.7	16.0	38.7
1977	25.7	4.9	5.7	17.1	46.6
1978	31.2	9.3	4.7	15.2	39.6
1979	25.5	4.6	5.0	11.4	53.4
1980	34.3	4.1	3.3	10.9	47.4
1981	30.6	4.9	7.2	17.1	40.2
1982	32.5	6.6	10.8	11.1	38.9
1983	37.9	6.3	12.6	7.5	35.7
1984	38.0	5.7	12.4	8.2	35.4
1985	39.3	5.8	11.8	9.0	33.7
1986	40.0	9.7	12.6	7.5	29.8
1987	41.7	6.4	15.5	5.3	30.9
1989	36.3	5.6	10.6	16.8	30.0
1990	32.6	5.3	9.9	25.8	26.4
1991	30.1	8.4	13.7	33.4	14.4
1992	32.0	5.5	11.9	37	9.6
1993	29	5	12	36	18

Sources : - Vietnam Year Statistical Book 1994.

It can be seen in table 2.18 that most products of this category are handicrafts and hand-made products such as

mats, carpets and miscellaneous products. However, this percentage declined during the period 1990-1993, while the share of heavy industrial and mineral products that declined in the period 1976-1987, increased in the period 1989-1993, the reason being an increase in exports of crude petroleum that began in 1989 and increased rapidly to 6.2 million tons in 1993.

Table 2.18 :

MAIN GOODS FOR EXPORTATION

	Unit	1985	1989	1990	1991	1992	1993
Crude oil	1000t		1514.	2617	3917	5400	6210
Coal	1000t	766.0	579	788.5	1173	1568	2270
Tin	ton	478	805	1808	3440	3727	3600
Cement	1000t	5.7	22	9.6	16.2	-	-
Round wood	1000m3	147.9	421	614.3	1253	-	-
Rubber	1000t	35.2	57.7	75.9	62.9	75	85.5
Ready made for wearing	mill R & USD	57.4	140.4	178.1	116.8	160.9	
Fine & art Products	mill R&USD	4.8	22	23.9	6.8	-	
Rattan & bamboo	mill R&USD	31.7	54.4	44	10.8	-	
Woolen carpet	1000m2	334	255	163.5	158	-	
Rice	1000t	59.4	1420	1624	1033	1950	1800
Shelled ground nut	1000t	31	38.5	70.7	78.9	70.5	85.5
Tea	1000t	10.4	15	16.1	8	12.5	16.2
Coffee	1000t	9.2	57.4	89.6	93.5	98	106.
Frozenshrimps	1000t	8.5	27.3	37.6	41.6	-	
Frozen fish	1000t	0.5	17.5	4.4	10.1	-	

Note : t = ton

Source : Vietnam Year Statistical Book 1994, Ministry of Trade

The share of agricultural products and processed foods has not shown any substantial change during the period under review, but there has been an important change in exports of rice. Vietnam successfully revitalized its agriculture sector, changing from a food importer to a major food exporter. Exports of rice increased significantly from 1.5 million tons in 1989 to 1.8 million tons in 1993.

However, it is possible to say that Vietnam's exports depend heavily on primary products and handicrafts. The top export products of Vietnam have been rice, froze shrimp, coffee and crude petroleum.

2.2.4.2. The structure of imports

From the table 2.19 and 2.20, it can be seen that most imported products are fuels and raw materials, plans and other producer goods. Their share of total imports did not change substantially and was around 90% of total imports. This shows that Vietnam's industrial activities still depend largely on foreign materials and parts.

Imports of consumer goods are usually profitable to importers because domestic prices in free markets are much higher than imported prices. The reasons are the shortage of supply and smuggling. According to a trade investigated data, the value of illegal imported goods from Chin and Thailand accounted for 5.8% of the total retail sales of domestic trade in 1992 and 6.2% in 1993.

Table 2.19 :

VIETNAM'S IMPORTS BY COMMODITY

Unit : %

Year	Consumer goods	Producer goods			
		Total	Plan	Parts	Fuels and raw materials
1976	16.8	83.2	23.6	6.0	53.6
1977	23.5	76.5	24.2	5.5	46.6
1978	23.9	76.1	32.4	5.3	38.4
1979	27.2	72.8	38.1	4.0	30.6
1980	24.0	76.0	41.7	6.0	28.2
1981	17.3	82.7	36.9	6.9	35.2
1982	13.9	86.1	35.2	7.9	43.6
1983	8.8	91.2	27.6	6.7	53.0
1984	12.2	87.8	23.9	6.2	52.1
1985	14.6	85.5	27.1	5.9	48.4
1986	13.4	86.6	27.9	5.6	47.3
1987	14.3	85.7	30.3	5.6	45.2
1993	10	90			57

Source : - Vietnam Year Statistical Book 1994.
- Ministry of Trade.

Table 2.20 :

MAIN GOODS FOR IMPORTATION

	Unit	1985	1989	1990	1991	1992	1993
Tractor	Piece	548	763	1604	148	-	-
Motorlorries	Piece	4788	3647	3726	808	-	-
Iron& Steel	1000t	282.6	379.4	324	113	266	558.
Petrol	1000t	1899	2262	2861	2572	3331	3980
Chemical fertilizer	1000t	1467	1840	2085	2662	2829	2284
Cottons	1000t	49.5	51.5	58.8	32.5	7.2	12
Mill & Powder	ton	1638	630	2836	7460	8.6	-
Textile fabrics	Mill m	29.8	40.2	30.7	19.8	28.1	-
Medicament	Mill R&USD	23	32.8	35.7	29.5	31	-
TV receivers	1000 pieces	2.8	24.3	172	142.1	225	-

Sources : - Vietnam Year Statistical Book 1994.

- Ministry of Trade

Thus, we can see that Vietnam is still a primary exporter and importer of producer goods which are essential for domestic investment in industrial activities. Such trade structure shows that, as other developing countries, Vietnam faces two gaps : The investment-saving gap and the foreign exchange gap. Table 2.21 shows that Vietnam occupies a very small proportion of the world exports.

Table 2.21:

SHARE OF THE WORLD EXPORTS

Per cent

	1985	1986	1987	1988	1989	1990
Newly Industrilizing Economies	6.217	6.580	7.432	8.171	8.266	7.875
Hong Kong	1.646	1.760	2.024	2.303	2.455	2.466
Korea, Rep. of	1.652	1.728	1.975	2.211	2.094	1.916
Singapore	1.244	1.118	1.198	1.432	1.503	1.519
Taipei, China	1.674	1.975	2.235	2.225	2.213	1.974
Southeast Asia	2.512	2.124	2.204	2.332	2.593	2.569
Indonesia	1.014	0.736	0.717	0.706	0.737	0.731
Lao People's Democratic Rep	0.001	0.001	0.003	0.003	0.003	0.003
Malaysia	0.841	0.694	0.749	0.769	0.841	0.862
Philippines	0.252	0.239	0.238	0.256	0.260	0.242
Thai Land	0.389	0.440	0.483	0.581	0.673	0.704
Vietnam, Socialist Rep. of	0.016	0.014	0.015	0.017	0.025	0.026

Source: *The Intelligence Unit (1991)*