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## **REFORMS IN VIETNAM: IMPERATIVES AND RESPONSES**

Winds of change have been blowing all over Eastern Europe and the former Soviet Union for the last few years. The trend has been expected to affect the rest of the communist world. Vietnam, a hard-line communist country has also witnessed significant reform programmes but not in the scale witnessed in Moscow and East European countries. While some social forces in Vietnam, particularly the young and the intellectual community have been pressing for radical change, countervailing forces also exist. Those opposing radical changes fear that these will lead Vietnam into chaos. The hard-line communists would prefer a strategy of adopting measures to satisfy demands of the people by introducing some economic reforms as the Vietnamese economy is passing through a crisis. They also appear to be committed to retain the monopoly of power of the Communist Party, in other words, to prevent political pluralism or multi-party system in Vietnam. Economic reforms have been introduced in Vietnam mainly for the last four years, moving away from traditional Marxist-Leninist policies but there have so far been few signs of corresponding changes in the political structure. At the last (11th) plenum of the Communist Party in mid February, 1991, the hardline conservatives consolidated their control.

Debate on Vietnam's political future is likely to continue for some time to come. The present paper examines the way Vietnam has been

affected by the radical changes in the communist world. It also examines the way it has introduced some reform programmes, the imperatives for the same and their effectiveness. While the focus is mostly on economic reforms as has happened so far in Vietnam, the paper also reflects on the possibility of systemic conflict in the absence of political reforms.

## I. THE RELEVANCE OF THE FALL OF COMMUNISM IN EUROPE FOR VIETNAM

The communist states of Eastern Europe as well as Soviet Union underwent sweeping changes since late-eighties which in most cases led to the fall of the prevailing political system, and in all cases to wide economic liberalization. Once known to be the satellite countries under the socialist umbrella of the former Soviet Union, the Eastern European countries are no longer followers of the Stalinist system both in economic and political front. Disenchantment over the declining economic condition took the shape of powerful political movement against one-party rule and its monopoly on power. The results have been far reaching not only for the countries concerned but for the whole world.

The developments and changes unleashed in Eastern Europe were so dramatic that these eventually brought the total collapse of the communist ideology as well as the system itself. The communist regimes of the area have collapsed, also the communist parties lost their leading role, thus indicating the end of an era that represented a socio-economic and political structure prescribed by the communist ideology. It has been termed as "a run away from politico-economic

monism to pluralism".<sup>1</sup> The revolution in Eastern Europe owes as much to the new political thinking and liberalization under Gorbachev as to the dynamics of political and economic development within the socialist system.

The pitfalls in the way the socialist system operated in the Soviet Union and the rest of East Europe led to all-pervasive syndromes of social, economic and political development. These have been dormant for long years under the all-powerful communist dictatorship. But the introduction of Glasnost (openness) and Perestroika (restructuring) led to sweeping changes including moves towards building a new social, economic and political order based on market and democracy. The choice now is for more free society with the freedom of speech, free press and also free legislature. The mechanism of free and fair election has been developed. There is the freedom to form a political party. Also judicial reforms are underway with a view to making it an independent system. In the economic sphere the most important change has been the transformation of centrally planned economies into market ones. The elements of reform programmes include multiple forms of ownership of means of production, lessening of state-control, free competition, de-emphasis on centralized planning, introduction of market mechanism, liberal incentives for foreign investment and so on. These are being introduced at all levels. The erstwhile Soviet bloc's economic organization Comecon and the Moscow-led Warsaw Pact have collapsed. Accordingly, changes have been initiated in the realm of foreign policy. The concept of ideological confrontation between the East and West has been replaced by an accommodative world view. The countries of the former East bloc

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1. Mizanur Rahman Khan, "Changes In The Soviet Union And Eastern Europe: Sources And Nature", *BISS Journal*, Vol. 11, No. 2, 1990, p. 140.

countries have now reshaped their foreign policy in such a pattern that facilitated closer links with the West in nearly every fronts.

The change that swept Europe has been also felt in Vietnam, through not in a decisive way. Vietnam still remains committed to socialism, and has not yet shown any sign of departing from its fundamentals. The reiteration of the leadership for continuing one party rule in Vietnam coupled with the introduction of economic reforms has been expressed as a response to the demands for change. Sometimes it is argued that Vietnam belongs to the Asian communist bloc in line with China and North Korea. Asian communist countries differ from East European ones in that their communist revolutions were largely home-made, whereas East European communism was imposed from outside after the World War II. It implies that Asian communism probably has more staying power.<sup>2</sup> The Vietnamese communist regime seems to fall in that category.

Vietnam's response to the radical changes in its European counterparts has thus been cautious. The main relevance of this change in Europe for Vietnam is that Vietnam has lost its most important external support base. The country used to get ideological and material support from the former Soviet Union and Eastern Europe. The Commonwealth of Independent States (CIS), born of whatever is left of the Soviet Union is neither interested nor capable of providing the type of assistance it used to extend to Vietnam. Vietnam has been trying to adjust to this new situation. We now turn to examine the way Vietnam has been doing so.

The Vietnamese leadership ruled out widespread political changes and placed priority on economic reforms. Even before the changes in the Soviet bloc, Vietnam had been facing severe economic

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2. *Far Eastern Economic Review (FEER)*, January 11, 1990.

challenges. The Vietnamese economy was passing through a crisis which produced constant hardships for the nation. The policy makers have, therefore, been more attentive to the economic hardships while formulating policies at the national level than other factors. A healthy economy capable of leading the country to stand on its own has not yet been achieved by Vietnam since its independence. Initially because of the protracted war of independence Vietnamese economy could not be built on a stable infrastructure. Since independence, the transition from the war-economy to an economy on a peacetime basis proved slow. Vietnam's progress towards economic development has been faltering for damaged economic infrastructure inflicted upon by three decades of war.

At present Vietnam remains one of the poorest countries in the world. Vietnamese economy is beset with a number of problems. The standard of living of the Vietnamese is now lower than at any time since 1975.<sup>3</sup> A shrinking per capita income variously estimated to be between US\$ 180 and 300 per year, the rate of unemployment amounting to between 20 and 30 per cent,<sup>4</sup> the soaring inflation, acute food shortage and also a shortage of raw materials and imported inputs are some of the notable aspects of the deteriorating economic condition. Added to this is an agricultural and industrial production system characterized by low labour productivity and under-utilization of resources managed by a bloated centralized bureaucracy ill-equipped to make economic decisions.<sup>5</sup>

As opposed to what happened in the Soviet bloc, organised dissent in favour of dramatic political change has been virtually absent in Vietnam. No alternative political force emerged to challenge the

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3. Ronald J. Cima, "Vietnam's Economic Reform", *Asian Survey*, Vol. XXIX, No. 8, August 1989, p. 786.

4. *Ibid.*

5. *Ibid.*

communist party. During the transition period in Eastern Europe, opposition forces comprising of loose non-communist political groupings have been formed in Hungary (Democratic Forum), GDR (New Forum), Czechoslovakia (Civic Forum), Romania (Front of National Salvation) and Bulgaria (Union of Democratic Forces) as Poland's Solidarity set the pattern. These opposition forces participated in movements against the leading role of the communist party. But in Vietnam, there has been practically no tradition of organized dissent. The popular image of the Communist Party of Vietnam might have contributed to this. In Eastern Europe, many citizens view the party as having been installed by an outside power - the Soviet Union - while in Vietnam even the most vehement anti-communists see the party as having played a leading role in gaining independence from France and the United States.

The external factors have also led Vietnam to place high priority on the economic front. The Cambodian expedition which resulted in a diplomatic isolation of Vietnam and also in the imposition of trade and aid embargo by the West led by the United States, has turned to be too heavy a burden for the economy to bear. Again, Vietnam is handicapped by the aid cuts from East Europe and particularly the former Soviet Union. Besides, since 1975 the Vietnamese economy has remained stagnated while most of its neighbours achieved splendid growth rates and became bright examples of economic success.

## II. VIETNAM'S CHOICE : ECONOMIC REFORMS

The Sixth Party Congress in Vietnam held in mid-December 1986 embarked upon wide ranging economic reform programmes in the backdrop of alarming failures in nearly every sector of the economy. Vietnam is a predominantly agrarian country. Agriculture accounts for nearly half of Gross National Product and employs over seventy per

cent of the working population. This important contributory sector faced a decline in its productivity between 1976 and 1980. The agricultural crisis of the late 1970s cast a dark shadow on the rest of the economy. Grain production was down on previous years and production of cash crops like cotton, jute, sugar, pepper and tea until 1979 stagnated. State grain procurement fell from 2m. tons in 1976 (15 per cent of national output) to 1.4m. tons in 1979. (10 per cent).<sup>6</sup> In 1978 Vietnam could not reach the targeted amount for the year in grain production, rather it was even 2m. tons less than the 13m. tons achieved in 1977. Also, in the northern part of the country 62% agricultural cooperatives were running under bad management, according to an official assessment.<sup>7</sup> On the other hand, the industrial sector of the country which was suffering from the lack of raw materials and spare parts contributed to the slow growth of export income. Vietnam also went through drought, floods, typhoon and cold weather. All these contributed to an economic hardship in Vietnam between 1978 and 1981.

The worsening economic condition was further affected by the Chinese aid cut in July 1978. China cut off economic aid following deteriorated relation with Vietnam as 140,000 ethnic Chinese left Vietnam charging discrimination.<sup>8</sup> The crisis was further aggravated by similar actions by large number of western countries in protest against Vietnam's invasion of Cambodia. The border clash with China which left some 2m. sq. metres of housing space, mines, factories,

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6. Melanie Beresford, "Vietnam: Socialist Agriculture in Transition", *Journal of Contemporary Asia*, Twentieth Anniversary Issue, vol. 24, No. 4, 1990, p. 473.

7. FEER, *Asia Yearbook 1980*, p. 303.

8. *World Almanac*, 1991, p. 768.

railway lines and bridges destroyed in northern Vietnam also added a burden on the economy.

While the economy was at this dire stage, Hanoi leadership modified existing policies through new economic policies. These basically aimed at encouraging individual initiative and motivation of private profit. In an attempt to promote small-scale private trade and the free movement of goods between the urban and rural areas, highway checkpoints were abolished by a Prime Minister's decree. According to a regulation, enterprises which produce export goods were given priority in the supply of raw materials including imported ones.<sup>9</sup> The government urged all state-run production enterprises and units to expand and complete the application of the piece-work and incentive-pay system to increase labour output.<sup>10</sup> Agriculture became the priority sector of the government and efforts were taken to increase agricultural production. A system of product contract (Khoan san pham) was introduced among cooperatives of the country. The idea was to encourage peasants by allocating collectively owned land to individual households for the purpose of effectively carrying out the work in more labour intensive stages in the production process, i.e., transplanting, cultivation and harvesting. Under a contract cooperatives were given the responsibility to provide necessary ploughing and irrigation services, fertilizers and pesticides, etc. The service was paid by the cooperatives for a quota of the harvest fixed by the state. This allowed the peasants free disposition of surplus by the household themselves, either at prices negotiated with the state or on the free market. This contract system was the replacement of a previous one in which peasants were allocated to specialised teams and

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9. *FEER, Asia Yearbook 1980*, p. 303.

10. *FEER, Asia Yearbook 1983*, p. 276.

accumulated work points which entitled them to a share of the harvest after deduction of taxes, obligatory sales to the state and contributions to cooperative funds.<sup>11</sup>

The product contract system was designed to provide incentive for the peasants and to encourage them upgrading the production. Also efforts were made to improve grassroots management of agricultural cooperatives so that these could also contribute to the growth of production. One important aspect was that through the new economic measures the interests of the state, cooperatives and individual peasants and workers were maintained in a balanced way.

The reforms contributed to the growth of production to some extent though not in a very significant degree. One of the areas of growth was cash crops. The production of these crops was stagnated in the late 1979s but recovered following the introduction of reforms in the system of production and distribution. There were similar results for other key cash crops like cotton, Jute, Sugar, pepper and

#### Output of selected cash crops in Vietnam 1979-83

<i>Year</i>	<i>Soybeans</i>	<i>Peanuts</i>
1979	20.4	81.7
1980	32.0	95.0
1981	55.0	106.3
1982	16.9	118.9
1983	63.5	126.3

11. Melanie Beresford, *op. cit.* p. 475.

tea.<sup>12</sup> The government claimed that the reforms were effective in achieving progress towards self-sufficiency in food and growth of industrial production.

### Reforms introduced under the Sixth Congress of the Communist Party of Vietnam

The renovation campaign initiated from the Sixth Party Congress by Party Chief Nguyen Van Linh triggered a series of reforms which manifested a greater degree of commitment to liberalization. Concentration was given on increasing production, especially in agriculture and on the domestic trade sector since the primary goal of reform was ascribed as the development of a commodity market that would be more subjected to the rules of marketplace than to government regulation.<sup>13</sup> In February 1987, the government introduced new measures to encourage private enterprise. Under these changes, i) businesses were privileged with tax breaks in their first year, ii) some companies were allowed to obtain bank loans and draw their own pricing, iii) exporters were given the right to borrow foreign currency for importing raw materials.

More reforms came through the party central committee's second plenum in April. First of all, higher cash incentives acted as stimulating force for the peasants and workers. Farmers were expected to earn upto forty per cent profit. The leadership also expected a review of agricultural tax rates and product contract quotas. Secondly, the plenum called for an end to discrimination against private capitalists. Thirdly, a less reliance was expected on central planning. The central committee also demolished checkpoints which used to

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12. *Ibid.*, p. 472.

13. Ronald J. Cima, *op. cit.*, p. 791.

control transaction of goods across provincial lines. The class of private capitalists were to enjoy the same access to cheap credit and supplies as the cooperatives used to get. It was one way how private businessmen were encouraged to get involved in transport, in an attempt to overcome Vietnam's critical distribution problem.<sup>14</sup>

One of the most important laws adopted in Vietnam was the one relating to liberal foreign investment. In an attempt to attract foreign investment from Western and non-communist Asian countries a new code of foreign investment was introduced in January 1988. According to this new law foreign companies were allowed to set up wholly owned companies or to establish joint ventures with a minimum of thirty per cent foreign capital. This law was aimed at encouraging foreign investment in every sector including the improvement of transportation and public utilities such as electricity. It ruled out nationalization of foreign property and the contracts were limited to twenty years. The profits tax ranged from fifteen to twenty five per cent. Companies were also authorised to repatriate profits, capitals, and savings at an exchange rate set by the State Bank, but these remittances will be taxed from five to ten per cent.<sup>15</sup> And in June, one company - Haiphong Shipping Co. was permitted to sell the first stocks in communist Vietnam.<sup>16</sup>

A set of financial reforms were introduced in March 1988. The Vietnamese currency, Dong, was devalued to a rate near that of the prevailing black market. The government squeezed the credit facilities and it adopted realistic interest rates which was above the level of inflation. Price controls were related and subsidies were withdrawn in

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14. *FEER, Asia Yearbook 1988*, p. 255.

15. *FEER, Asia Yearbook 1989*, p. 253.

16. *FEER*, October 13, 1988.

many cases. Taxes on luxury goods were increased but those on equipments required for increased production were exempted to a certain extent. All these moves kept in front the objective of reducing government spending and cutting the budget deficit. It is important to note that most of these new policies were recommended by the International Monetary Fund with whom Vietnam wanted to restore relations in order to attract investment, credit and technology from the West.

In April 1988 a resolution on the "Renovation of Economic Management in Agriculture" provided considerable free hand to the peasants in their affairs. The guarantee of long term right to land acted as a stimulating force for the people to work harder. These new policies were aimed at boosting farm production and diminish the role of the agricultural cooperatives,<sup>17</sup> known as the cornerstone of Vietnam's farm policy for more than three decades. In the face of the possibility of a famine in early 1988, the party opted for private initiative in agriculture and hence gave peasants long-term tenure to land, effectively ending the era of collective agriculture. Under the new system peasants were granted the right to use a specific plot of land for at least fifteen years. They could also pass it on their children. After paying an agricultural tax based on the fertility of his field which averaged around ten per cent of output, a peasant got the right to sell his produce in the free market where private traders could compete with state companies.<sup>18</sup> The idea was to give peasants a sense of ownership of land so that one would be encouraged to improve soil fertility and production.

The need for reforming the Vietnamese economy has long been acknowledged by the leadership. But the problem remained with the lack of a consensus regarding the nature and pace of change in the

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17. *FEER, Asia Yearbook 1989*, p. 253.

18. *FEER*, May 10, 1990.

form of reforms. The very introduction of reforms was a result of pulls and pressures between several forces in the politburo. According to one analyst, the politburo could be divided into four major factions under the label of reformers, neoconservatives, military and bureaucrats, representing four different viewpoints.<sup>19</sup> To the conservatives, relinquishing the party's tight hold on the economy to the vagaries of the market place was as an invitation to chaos and anarchy; to the bureaucrats, reforms meant changing the *status quo* and threatening the established and often corrupt power hierarchy; and to the military, it represented a threat to national security because it diminishes the importance of military strength in favour of economic development. Even both Defense Minister Le Duc Anh and Chief of Staff General Doan Khue went to the extent as saying publicly that economic reform was being emphasized at the expense of national security and that emphasis on the economy could demoralize the army.<sup>20</sup> It will be relevant to mention that a decision was earlier taken by Hanoi as a part of reforms to reduce the size of its more than 1.1m. standing army to cut government spending on it.

As time moved on, confrontation on the basic point of introducing reforms faded away but what lasted was the question how to move with these policies. "No one stands against the reforms but in reality some people don't act firmly", commented Gen. Tran Cong Man, the editor of the army newspaper.<sup>21</sup> It means, recognition of the need to impose some manner of economic reform was all aged but the trouble was with the extent and manner of implementation of those. Party leader Nguyen Van Linh admitted that reforms faced "serious

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19. Douglas Pike, "Change and Continuity in Vietnam", *Current History*, March, 1990, Vol. 89, No. 545, p. 118.

20. Ronald J. Cima, *op. cit.*, p. 789.

21. FEER, *Asia Yearbook 1989*, p. 249.

opposition," even at the central level.<sup>22</sup> The leadership differed on the pace of reform. In mid-1989, many mid-level officials were reluctant to implement the reforms because they did not know what to do and they feared they would lose their influence.

The ideological viewpoint also did not seem to match with the new thinking pattern in economic sphere as communist ideology was not sufficiently revised to reflect new economic policies. A retired party ideologist, Tran Back Dong opined, "The economic reforms are going slowly and sometimes contradict each other because the overall ideology has not been changed to fit the renovation policy".<sup>23</sup> Some aspects seemed not suitable with the communist ideals, for instance, the profit system. The party was not willing to accept the concept of profit because it was unsuitable to the ideals of social egalitarianism. Although there was little dispute over the rationale of the reform, the old guards of the system, particularly, the bureaucracy continued to stand in the way of entrepreneurs because of the concern that they might become rich in the process of contributing to production.<sup>24</sup>

### III. IMPACT OF REFORMS

Positive outcome from the new measures in tangible form were sure to be slow in forthcoming. The reforms even appeared almost faltering because of two serious economic disasters early in 1988, famine in a dozen of northern provinces and soaring inflation. However, gradually the reforms started to take hold and the economy retreated from collapse. Despite some setbacks, the new measures steadily yielded some positive results for the economy.

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22. *FEER*, July 28, 1988.

23. *Ibid.*

24. *FEER*, August 31, 1989.

A large scale private economic activity was observed for the first time in Vietnam. Vietnamese people stepped up with capital to invest. Small scale private enterprise was no longer subject to government control. Hanoi and Ho Chi Minh city witnessed the flourishing of restaurants, tea shops, cycle repair stand, pavement food stalls and small shops selling imported goods. According to the party source, some 602 families began handicraft production after the new regulations were adopted, providing jobs to more than 6,000 people.<sup>25</sup> An atmosphere of openness was brought by the reforms. Individual efforts became competitive and more hard labour was needed to improve the quality of products. The incentive for private enterprise contributed to the building of the capital's real-estate market.

The impact of financial reforms could be seen from the containment of inflation. In September 1986, the inflation was running at the rate of 700%. The runaway inflation deepened the prevailing economic crisis. Vietnamese policy makers tried to put a brake on inflation by placing some measures. A series of devaluations brought the official rate of Dong closer to the free market rate and a dozen or so existing exchange rates were reduced to one. It helped in dropping the rate of Dong in black market. Financial stability was attained to a great extent although everything was not unmixed blessings. Many enterprises were out of business and a large number of workers were rendered jobless because of the currency reform. It was so devastating that in February 1987 the government sacked vice premier Tran Phoung who was in charge of currency reform.

The response to the law on liberal foreign investment was positive. After the promulgation of the law, a number of foreign companies sent delegations to visit Vietnam to explore investment possibilities and some of them signed contracts in industries such as

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25. *FEER, Asia Yearbook 1988*, p. 255.

electronics, banking, tourism, sea products and airport development at the initial stage. By July 1990 about seventy projects had been put into operation since the new law came into force, with a total investment of over \$ 600m.<sup>26</sup> The largest portion of foreign capital was invested in oil and natural gas off Vietnam's coast. By the end of February 1989, the Ministry for External Economic Relations authorised 26 companies to open office in Vietnam. Shell of Netherlands and Petrofina of Belgium signed contracts worth US\$ 70m. over a three year period with Vietnam in June 1988. They got the contract on the basis of product sharing in order to explore oil off the coast of central Vietnam. An Indian state oil company, Hydrocarbons India, signed a twenty five-year production sharing agreement with Vietnam in May 1988 to begin oil exploration off the Vietnamese coast. An overseas Vietnamese company based in France helped in opening the country's first small oil refinery in July with a capacity of about 40,000 tones a year. It is important to note here that a large degree of investment came from Vietnamese living abroad and about eighty per cent of the investment was put in South Vietnam. The foreign capital was being invested mainly in fishing and sea-food processing, textile and garments, tourism, hotel and telecommunication. In late August, 1990, a state run Australian company, Overseas Telecommunications International (OTCI), based in Sidney signed a contract to invest US\$ 80m. to upgrade Vietnam's international telecommunications system.<sup>27</sup> In banking sector, in January 1991, Indovina Bank, the first partially foreign owned financial institution was allowed to operate in the country. Another one, Banque Indosuez is expected to be granted a licence to operate.

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26. *Background Brief*, Foreign and Commonwealth Office, London, July 1990, p. 2.

27. *FEER*, September 13, 1990.

Till May 1990, the British companies have been known to be the largest non-communist investors in Vietnam with a commitment to invest \$ 113m, with France in the second place with contracts worth US\$ 93m..<sup>28</sup> Other major foreign actors in investment have been Australia, Belgium, the Netherlands, Sweden, South Korea, Taiwan, Hong Kong and Thailand. India, Indonesia and Thailand have been attracted to Vietnam also in search of market for consumer goods. Japanese firms have been Vietnam's largest non-communist trading partners with trade totaling US\$ 519m. in 1989. The Soviet Union continued to extend cooperation in the field of cultivation and harvesting of sea products, production of rubber, coffee, tea, textile, leatherware, shoes and coal industry. By September 1990, the amount of foreign investment totaled more than \$ 1.2b. with 183 agreements with foreign companies.<sup>29</sup> It needs to be mentioned that Hanoi watchers around the world, particularly businessmen have been waiting to see the upliftment of trade and investment embargo imposed on Vietnam by the United States following the US Vietnam war. If the embargo is lifted there would be wide chances of getting more foreign deals for business which could contribute to the economic boost up.

With the reforms introduced in agricultural sector Vietnam has re-emerged as a major player in international rice market after an absence of almost four decades. In 1989 Vietnam became the world's third largest rice exporter by exporting 1.4m. tones of rice behind Thailand and the United States.<sup>30</sup> This achievement can be attributed to the reforms introduced in agriculture. Relaxation in government's control in this sector played an important role in raising the country's

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28. *FEER*, May 24, 1990.

29. *Asiaweek*, February 8, 1991.

30. *FEER*, May 10, 1990.

agricultural output. Grain production increased from 19m. tons in 1988 to 21m. tons in 1989.

#### IV. MAJOR OBSTACLES FOR ECONOMIC DEVELOPMENT

Despite the success achieved so far two major obstacles stand in Vietnam's way, e.g., the Cambodia settlement and the relationship of Vietnam with the IMF which in a way are interlinked and are tied with US-Vietnam relations. A solution to these problems is expected to trigger a massive financial help for Vietnam which it desperately needs.

The constrained relationship between Vietnam and the IMF has been a barrier to the access of fund for Vietnam. In recent times Hanoi seemed to feel the need to mend its relation with this financial institution which suspended aid in 1985 when Hanoi was unable to repay the \$ 130m. arrears it owed. This issue needed to be resolved to obtain new funds from the IMF as the economy was passing through crisis. As the faltering economy desperately needed financial help, the leadership was seeking ways to restore its relation with the IMF. Vietnam also showed interest to set trade link or to get significant investment, credit and technology from the western countries, the full potential of which has not been fully realized due to US-led embargo on Vietnam. Embargo was imposed by the US in 1975 against Vietnam when the Saigon regime was overrun by the communists. Successive administrations have maintained that position and since 1978 when Vietnam invaded Cambodia they have tightened the embargo. The problems compounded when some allies of the US also joined. Besides, the US has been continuously blocking the IMF loan as well as UN aid and World Bank's loan to Vietnam.

Realizing the fact that without the US blessing international financial assistance would not be easily forthcoming, Hanoi leadership tried to improve its relation with the US. Measures adopted in this direction included the Vietnamese cooperation with the Americans on the issue of US servicemen missing in action (MIA). In September 1988, Hanoi for the first time allowed American experts to visit rural Vietnam and meet villagers who might have information about some 1,800 US MIA in the Vietnam war. Again, as a gesture to the US, Vietnamese national assembly took steps to delete reference to "US imperialism" from its 1980 constitution.<sup>31</sup> But before considering any policy change on Vietnam the US demanded cooperation of Hanoi in a political settlement of the Cambodia problem.

Vietnam also made attempts to normalize relations with the IMF. The general idea has been that old debts of Vietnam must be repaid first to become eligible for new funds. The IMF suggested that Vietnam must repay its debt of about US\$ 130m. and recommended a "comprehensive economic adjustment programme" to stabilize the country's economy.<sup>32</sup> In 1989, Vietnam repaid about US \$ 30 million in principal and interest and declared the intent to remain current with the IMF on obligations that fell due in January that year. Debt and overdue interest arrears before 1989 however remained unpaid.<sup>33</sup> Vietnam maintained liaison with the IMF to discuss plans to settle outstanding loans. Also it tried to implement reforms in tax practices and money supply controls which were recommended by the IMF.

These have yielded some positive results. Impressed with the reforms introduced in Vietnam, the World Bank has been planning to

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31. *FEER*, November 17, 1988.

32. *FEER*, April 27, 1989.

33. *FEER*, September 20, 1990.

extend structural adjustment loans in areas like agriculture, transport, energy and education. The Asian Development Bank (ADB) accelerated cooperation in the economic field. In April 1989 an ADB economic reconnaissance mission completed a study that focused on developing Vietnam's agriculture and transport. It also drafted an assessment of Vietnam's economy based on previously unreleased figures provided by Vietnam.<sup>34</sup>

However, the whole question of multilateral assistance is linked with the Cambodian issue which was yet to be fully solved. Once Vietnam could be totally out of the Cambodian problem it would be eligible for concessional loans. There have been considerable developments in this respect in recent times.

In early April 1991, the US offered a set of conditions to normalize relations with Vietnam. Known as "road map" the conditions to be implemented within a time frame of two years was presented by Assistant Secretary of State Richard Solomon to Trin Xuan Lang, Vietnam's representative to the United Nations. The four phased proposals covered almost the whole set of issues related to the implementation of the Cambodian peace accord and was to end with the installation of a democratically elected government in Phnom Penh. The main thrust was the United Nations Security Council Peace Plan which subsequently entered the process of implementation. In the first phase, the Vietnam backed government in Phnom Penh would sign a Cambodian peace accord and normalization talks would begin. The next stage would involve a cease-fire and establishment of a United Nations transitional presence in Cambodia, paralleling the task of speeding up Hanoi's accounting of US soldiers listed as "MIA". A partial lifting of the embargo would appear as reward. The third

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34. *FEER*, April 27, 1989, p. 68-69.

phase would imply the exchange of diplomatic missions, an end to the embargo and a United Nations supervised election in Cambodia. Finally, the US would establish full diplomatic relation with Vietnam and Cambodia.<sup>35</sup> The 'road map' again proved that without the settlement of the Cambodian problem, the lifting of the embargo as well as normalization of relations were not going to take place. At another level, inside the US many American business leaders and legislators seemed intent on easing the restrictions of the government on investment and trade in Vietnam.<sup>36</sup> There were also forces inside the US who considered de-linking of a full scale normalization issue from the process of peace in Cambodia.

Meanwhile with the signing of the Paris Peace Accord on 23rd October 1991, substantive progress has been made in achieving a comprehensive political settlement. The United Nations Advance Mission in Cambodia (UNAMIC) took its position by way of preparing the way for the full UN presence in Cambodia. With this, from the perspective of the US the implementation of the 'road map' has advanced substantially, so that the US could partially lift its trade and investment embargo against Vietnam. Full normalization would depend on the holding of elections which is currently scheduled for 1993. Meanwhile, positive signs have been emanating from Washington as it permitted money remittances and direct humanitarian aid to reach Hanoi.<sup>37</sup> The US is also expected to back full normalization of Vietnam IMF/World Bank ties after elections in Cambodia.<sup>38</sup>

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35. *Asiaweek*, April 26, 1991.

36. *Newsweek*, June 17, 1991.

37. *Asiaweek*, November 8, 1991.

38. *FEER*, October 17, 1991.

Vietnamese stake in restoring full-fledged western cooperation and assistance was further brought into sharp focus when it agreed to provide the Americans some access to the formerly confidential Vietnamese military archives. In response, the first US official mission was opened in Vietnam. It was a four man mission seeking information on the 1,662 American troops still officially missing in action in Vietnam.<sup>39</sup> At the other level, Vietnam is trying also to come out of the international isolation. West European countries and also Japan seemed flexible in responding to Vietnam's need for financial assistance. Vietnam's conciliatory approach vis-a-vis some of the issues concerning the West has contributed to this. Hanoi's cooperation with Britain, for example, helped the establishment of direct diplomatic links with the EC. A lobby of international financial institutions, sympathetic towards Hanoi basically for humanitarian reasons showed signs of impatience with US handling of the Vietnam situation. According to this group if the US continued blocking the fund to Vietnam by relating the whole set with the Cambodia problem, there was a strong possibility that the EC and Japan would have abandoned the US line and acted on their own to help Hanoi.<sup>40</sup> There was also a strong feeling that Washington should not prevent other governments from helping Vietnam which has been implementing a credible economic adjustment programme with advice, but not fund from the IMF. Vietnam was also interested in the relaxation of relations with the non-communist ASEAN bloc. Premier Do Muoi announced in late 1990 that Vietnam wished to join ASEAN very soon<sup>41</sup> and thus demonstrated the willingness to achieve accomodation with ASEAN which could be of much economic help. Hanoi also appeared to have taken into consideration the far reaching changes

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39. *Newsweek*, June 17, 1991.

40. *FEER*, April 26, 1991.

41. *FEER*, November 22, 1990.

that are taking place in contemporary international relations marked by growing need of cooperation rather than confrontation at all levels. Vietnam's interest in establishing closer ties with ASEAN is an output of such realization.

The basic strength of the reforms in Vietnam is the imperatives for the same as appear to be realized by the leadership of Vietnam today. The pursuit for economic reforms seems to be a demonstration of a changed world view of the Vietnamese leadership as well as internal socio-economic dictates which helped in facilitating the reform programme. The Vietnamese leaders who were previously locked in ideologically dominated perspectives changed the course of thinking and initiated new economic postures, although political changes were hardly under consideration. Until the mid 1980s the leadership viewed the world politics as a class struggle between socialist and capitalist forces based on orthodox Marxist Leninist beliefs. But the latter half of the 1980s witnessed a reassessment of global economic realities which prompted the unavoidable imperative form Vietnam to find a niche in the world economy.<sup>42</sup> Elements heralding the old world view however continued to persist at the political front which have contributed to genuine doubts about the ultimate success of the economic reform without corresponding political reforms.

#### IV. PRESSURES FOR POLITICAL REFORM

Political reform in Vietnam, as already mentioned unlike economic reform has been viewed to be more sensitive and continues to be hostage to conservatism. The party leadership is still dominated by forces in favour of keeping the party's monopoly of power. While the

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42. Gareth Proter, "The Transition of Vietnam's World View: From Two Camps to Interdependence", *Contemporary Southeast Asia*, June 1990, p. 1.

economic scenario has changed, Vietnam's political future does not seem very clear.

Some reorganizations in the leadership of the party did, however, take place. The Sixth Party Congress announced the most widespread cabinet reshuffle in Hanoi in four decades. Nguyen Van Linh, who is known as a reformer became the party leader in late 1986 with a mandate to rescue the country from near-economic ruin and growing political malaise. He replaced the previous party leader Troung Chinh as also the architect of 'doi moi' (renovation) policy. The two other top leaders, premier Pham Van Dong and Le Duc Tho, key party strategists stepped down for the reason of "their advanced age and bad health". Also three members of the Politburo, Defence Minister Van Tien Dung, General Chu Huy Man and former vice-premier Huu were dismissed. Dung and Man had been criticized within the army for their autocratic styles. Huu lost his job as vice premier after being blamed for the disastrous currency change in September 1985.<sup>43</sup> Then in February 1987, Vietnam instituted a wide government reshuffle which made way for the more reform-minded officials to come. Six new vice-premiers and twelve new ministers were appointed. Among the personnel change two were important - Foreign Minister Nguyen Co Thach, promoted additionally to vice-premier and Mai Chi Tho chosen to head the Interior Ministry. These changes were officially described as a 'renovation' of the leadership in the interest of efficiency.<sup>44</sup> Do Moui was elected premier by Vietnam's first contested election competing Vo Van Kiet of Ho Chi Minh City. After election, Muoi promised that national assembly will thoroughly grasp the renovative spirit of party chief Linh.

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43. *FEER, Asia Yearbook 1988*, p. 252.

44. *The Asia and Pacific Review*, 1988, p. 245.

In April 1987, the Vietnamese voted to elect a new national assembly. Compared to the previous occasions election this time was considered more open as campaign was allowed for the first time in Vietnam and the candidates attended and voters were able to let the candidates know about their grievance and criticize them. The voters had their option to select 96 members out of 829. Some localities rejected all the candidates running in their areas, forcing another round of elections a few weeks later.

All these changes, however, proved to be insignificant compared to the expectations that were simmering. The demand for freedom in politics started to get momentum in early 1989 which appeared to surprise the party leadership. There were small scale demonstrations by peasants in Ho Chi Minh City demanding the redistribution of land and by university students in the North some of whom were calling for political pluralism. The authorities responded rather strongly. At the sixth plenum of the party central committee in late March 1989, Vietnam's communist leaders called on the party to accelerate the pace of economic reform but rejected appeals from some comrades to overhaul the country's political system. The conclusion drawn from the plenum said the aim of reforms was to achieve socialism more quickly, not to change the system as such. It also moved on saying "renovation in thinking is aimed to overcome what is incorrect and enrich the correct ideas about the era and socialism and to creatively apply and develop, not to deviate from the principles of Marxism-Leninism".<sup>45</sup> But the agitation was on and the leaders were aware of it. The concern rose high with the pro-democracy demonstrations in China in May and June, 1989. Vietnam was very cautious in her reaction to the Chinese crushing of the movement. Hanoi leadership regarded the event as regrettable but held the position that it was an

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45. *FEER*, April 13, 1989.

internal question for China. Again anxiety arose over the events happening in Eastern Europe.

Unlike the former Soviet Union, Hanoi did not congratulate the new democratic Polish Government headed by non-communist Prime Minister Tadeuz Mazowiecki. Instead mass meetings were organized to condemn Poland's "counter-revolutionaries".<sup>46</sup> The leadership was worried that similar movement may start at home. Hanoi was also very calculative in responding to whatever political discontents have so far surfaced in the country. Student protests at several Hanoi colleges in May 1989, for example, were quickly calmed by acceding to demands for better stipends and conditions.<sup>47</sup> The changed atmosphere of Eastern Europe was so much a source of anxiety for the leaders that a plenum of the central committee (the seventh) was held in August, 1989. In this plenum, the leaders rejected appeals for increased political pluralism in Vietnam. Party chief Linh told the central committee on August 24, 1989 that the party had found a very high level of unanimity in rejecting calls for bourgeois liberalization, pluralism, political plurality which were viewed to be aimed at denying Marxism-Leninism, socialism and challenging the party supremacy. He also said that "democracy in Vietnam must be guided by the communist party. But we must firmly grasp the fact that ours is a socialist democracy, that is a democracy with leadership." At the same time party leaders also accused western countries of attempting to undermine socialism with "frenzied and insidious trick".<sup>48</sup>

Despite these, pressures for democracy continued, perhaps at a low profile, but gradually embraced the party leadership. A Politburo

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46. Ronald J. Cima, "Vietnam in 1989", *Asian Survey*, Vol. XXX, No. 1, January 1990, p. 93.

47. *Ibid.*

48. *FEER*, September 14, 1989.

member known to be reform minded Tran Zuan Bach asked the party to consider calls for broader political changes in Vietnam. In a statement that led to considerable debate, he maintained that Asian communists are not immune to the tumultuous changes taking place in Eastern Europe. His idea was that political reforms must accompany economic liberalization and one cannot be separated from the other. To realize it the party does not have to give up its dominant political role and compete in a multi-party system. Instead the party was asked to take the lead in introducing greater democratic reforms and allow more diversity of political ideas.<sup>49</sup> Bach had been increasingly outspoken in this regard in early 1990. An organization called the Club of Resistance composed of a group of respected and influential war heroes which otherwise operates as a loyal opposition force within the party's southern base also came out with a call for political liberalization. The club which describes itself as a pressure group within the party rather than as an opposition movement called on the country's leadership to speed up the pace of reforms and allow more political reforms. Since its inception in 1986, the Club voiced dissatisfaction with existing economic and political system and demanded greater openness and a national assembly independent of the party.

The government reacted by dismissing Bach for his 'grave violations of party organizational and disciplinary principles, which have caused many bad consequences'.<sup>50</sup> Since the club's political pronouncements were an embarrassment to the party, its activities were also soon suppressed. Its newspaper was first closed down by a decree. Subsequently it was banned. The press in general also faced strict control whenever it attempted to extend support for political reforms.

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49. *FEER*, February 1, 1990.

50. *FEER*, April 12, 1990.

The government has always maintained the position that the press should represent Vietnamese official view. Outspokenness of the press in favour of reform brought negative effects. In some cases journals were closed and editors of others replaced. A discussion was held in December 1989 at a national assembly session on the role of the press, the question of whether private individuals should be allowed to publish newspaper as well. It was decided that it was "not necessary to let the private sector operate newspaper".<sup>51</sup> All these suggest the Vietnamese leadership has not been ready to relinquish communist party's control in the political system, at least for the time being. Reform of the political system has been viewed to contradict with the socialist ideology to which the leadership has remained firmly committed. The party's theoretical journal, *Tap Chi Cong San*, had argued earlier that Vietnam's goal was socialism and that all reforms undertaken were in the interest of furthering socialism's objectives.<sup>52</sup>

## CONCLUSION

Introduction of reforms in Vietnam is a continuous process. A number of changes have been introduced in the economic system which in some cases have started to show benefits. Although there is a long way to go, Vietnam at least as proclaimed by the authorities, is progressing towards market-oriented economic system. The reforms are indeed the manifestation of the preparedness of Hanoi to respond appropriately to the contemporary changes and trends elsewhere in the world. Vietnam has been trying to adjust with the new global situation. The imperatives for change came also from the fact that the Vietnamese Communist Party's old friends in Eastern Europe have been swept from power and the former Soviet Union was unwilling

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51. *Background Brief, op. cit.*, p. 4.

52. *Tap Chi Cong San*, May 1989, quoted in, *Asian Survey*, vol. XXX, No. 1, January 1990.

and incapable of supporting Vietnamese economy. The other and possibly more important imperative came in the form of a realization that for its economic development it has no option but to look to the West which favoured economic liberalization.

At present consideration of the Vietnamese leadership for political change does not, however, seem to be on the agenda. The determination expressed in the Seventh Party Congress which ended on June 27, 1991 to keep the one-party system indicates so. Socialism is still the best option for Vietnam according to the present leadership which appears to be dominated by the politically conservative communist group. The conviction and ideological beliefs of this group may not disappear quickly which may prevent liberal thinking in the political field. And that breeds potential source of systemic conflict since effectiveness of economic liberalization programmes presupposes political liberalization. Much would depend on the way the outcome of the economic reforms can meet the rising expectations of the people. In the absence of tangible benefits pressures for further political change are likely to mount. In that event the choice for Vietnam may be either to retreat from whatever reforms have been introduced, or gradually to open itself to further political liberalization.