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VIETNAM AT THE CROSSROADS : MARKET ECONOMY UNDER STATE CONTROL

INTRODUCTION

With the phenomenal shifts and re-shifts in the communist countries of Eastern Europe following Gorbachev's evolutionary revolution of Glasnost and Perestroika, the monolith of communist countries in other parts also trembled. The anomalies in the social lives in Vietnam, specially in the economy, mingling with unique global realities, made the changes in policy inevitable. The major areas of policy changes in the Socialist Republic of Vietnam were elimination of the autarkic policy and adoption of some radical legislation in relation to other facets of life - politics, administration, bureaucracy, education, health, etc. It was the sixth plenum of the Communist Party of Vietnam (VCP), held in December, 1986, that embraced this 'renovation' of the system. One decade of this renovation is passing with some remarkable feathers already in its crown - economy has overcome stagnation, trade has been dynamic, donors being imbued by its reforms are pouring billions of dollar to set up its economic infrastructure and making huge long term credit commitments. Vietnam has been one of the lucrative investment spots in the world for its radical

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structural adjustment in the economy. The other feedback to these reforms include the lifting of 20 years long US embargo, its acceptance in the regional bandwagon, Association of South East Asian Nations (ASEAN) and so on.

Macro-economic reforms in Vietnam have gone to many facets but major aspects of politics are yet to be reformed. Thus, the scenario is still paradoxical. Demand for political democracy gets momentum and the number of cadres of the communist party is diminishing every month but there is no sign of immediate swerving from the communist line by the Politburo. Again the eighth plenum of the party, to be held in June 1996, is visibly pregnant with prospects, somehow, reminiscent to the sixth plenum that succeeded in producing the package of renovation. The eight plenum of the Party bids fare to produce more radical reforms and reformers as the key movers of the economic reforms are getting higher portfolios of the party in larger number, while the rejuvenated linkage with the US and ASEAN (especially AFTA modalities) remain in the extended list of catalysts. On the other hand, still 85% of the Politburo members are the vanguards of Marxism. Given these parameters and more in the tactical policies of different lobbies of the party concerned, it is difficult to suggest anything comprehensively or concretely; whether the system is moving towards a more harmonious or rather to a more anarchist direction. Thus, "The economic reforms are going slowly and sometimes contradict each other because of the overall ideology has not been changed to fit the renovation policy".¹

The objective of this paper is to examine the prevailing dilemmas in the policy of reforms and its implementation along with portraying a paradox in the politics and economics of

1. *Far Eastern Economic Review*, July 28, 1988. See also Anika Begum, "Reforms in Vietnam: Imperatives and Responses," *BISS Journal*, Vol. 13, No. 1, 1992, p. 90

Vietnam. Feedback to reforms is enormous but because of the pressure from the conservatives in the Politburo the necessary steps for materializing the reform programmes always could not be taken. Section II of the paper denotes the preludes to renovation i.e., the anomalies in the pre-renovation society that compelled the administration to adopt a different path to the traditional communist one. Section III deals with major areas of reforms, initiatives in the respective fields and achievements; Section IV covers the responses to renovation from home and abroad in various terms. Section V explores the issues which necessitated the speeding up of the process of renovation in Vietnam. It should be mentioned that the implications of renovation in the political and economic spheres have been considered reciprocal.

II. ANOMALY AS PRELUDE TO RENOVATION

In the mid 1980s Vietnamese system was facing an entropy. It appeared in the literal sense that there was no way out other than adopting an alternative path to that one followed so far. The major anomalies were the followings:

* The poor economic conditions in the country was the first compulsion to reform the system. In mid 1980s Vietnam was one of the poorest countries of the world. Its per capita income of \$130 per year was lower than that of Bangladesh's \$160 a year.²

* There was spiralling price rise. Repeated devaluation and demonetization were undergone to improve the financial position, but these attempts only worsened the situation, inflation continued to rise.

2. *International Herald Tribune* (Singapore edition), March 21, 1988, Ganganath Jha, 'The Politics of Perestroika in Vietnam 1986-1990', *The International Studies*, New Delhi, 1991, Vol. 28, No. 4, p. 376.

*The devaluation, aimed at combating annual inflation rate of some 700 per cent, not only failed to check it but also to tackle the unbridled black marketeering.

*In that period Vietnam was in acute budget deficits. From 1981 to 1984 the budget deficits averaged nearly 19 billion dong a year. The deficits increased further in 1985-86. The rapidly increasing deterioration of economic condition threw people into the gulf of frustration, the governance was about to be broken.

*There prevailed a rampant corruption in the system. For instance, the state subsidies were being directed to enrich the coffers of the state personnel and the incessant multiplying of disparity between the official prices of the goods sold by the state and the free market prices of the same goods, etc.

*Nepotism made the situation worst of its kind. The corrupt officials escaped punishment because of the 'understanding' with the party bosses. Appointment and promotion in the government posts, very often, depended on flattering them.

*Axe was always over the media, censored for highlighting cases of omission and commission by party officials. The local cadres kept the top leaders isolated from the actual happenings. The leaders never learnt of the actual problem confronting the common mass.

In such a wholesale anomaly in life, the Communist hardliners, who once made the people spell bound with the rhetorics of a classless society, had to step down in the face of mass pressure. Nguyen Van Lin, an advocate of radical reforms, emerged as the top most leader of the party. Making his own assessment of Perestroika and Glasnost of Gorbachev and its applicability in Vietnam, he adopted a thoroughgoing policy of renovating the system named *doi moi* that encompassed reform plans in different

sectors of the economy and society. Literally translated, the expression of *doi moi* means renovation. *Doi moi*, equivalent to Soviet Perestroika, is a programme to develop and modernize living conditions of the people. This idea in Eastern Europe, from where it has come, was referred to reform in the policies towards prices and wages, a fair measure of autonomy for state enterprises and the contemporary roles of the state and private enterprise in the economy as a whole. In Vietnam, *doi moi* means restructuring the socialist system, a means to social change and economic development and to the introduction of certain aspect of liberal democracy in the communist system. Says Nguyen Van Linh, *doi moi* means a far-reaching thoroughgoing renovation. It means renovation in thinking, policy making, in organization and in appointment"³. However, renovation in political arena did not mean the end of communism in all senses. It, at least theoretically, encompasses mechanisms to bring changes and some radical innovations in different faculties of national life that especially include industry, agriculture, trade and commerce, financial system, bureaucracy, the armed forces, the party process, and the parliament. In this paper our concern is largely economic programmes of *doi moi*.

III. MAJOR STEPS OF RENOVATION

This section deals with major fields of reform, steps taken by the new leadership and achievements, directly and indirectly, have been achieved in those fields. However, in the captions 'Human Resources' and 'Natural Resources', the influence of *doi moi*, in its actuality, is indirect.

Human Resources : People are Vietnam's great resources. Her population is the twelfth largest in the world. In landmass Vietnam

3. Gareth Porter, "Politics of 'Renovation' in Vietnam", *The Problems of Communism*, May-June, 1990, p. 79.

ranks sixtieth, making it one of the densely populated countries. The health and education levels of the Vietnamese population are of such standard comparable to that of Taiwan or Thailand when they launched their outward-oriented growth strategies. Infant mortality is slightly lower and life expectancy is slightly higher than it was 25 years ago in Taiwan. In terms of school enrollment and the literacy rates of the adult population, she is as or more advanced than Taiwan, Singapore, South Korea or Thailand (Table-1). These educated people, accustomed to low wage levels and equipped with a strong work ethic, is making her as a "treasure island" to the investors.

This chapter of national resources again gets a great leap forward when the overseas Vietnamese, Viet Khien, convinced by renovation and its lofty investment atmosphere in Vietnam, have started to return home. They are 2 million in number with nearly one million settled in the US, 1,40,000 in Australia and 1,10,000 in France. Analysts suggest that "the skills that nearly 2 million overseas Vietnamese have learned while living in the West can help their home land leapfrog from agricultural to industrial age in one generation."⁴

Natural Resources :Vietnam is a country rich in natural resources. Most of the mineral resources are located in remote mountainous areas with petroleum being the main resource. The continental shelf of Vietnam is valued for its potential deposit of oil and natural gas and it is now predicted that Vietnam will be exporting liquid gas by the late 1990s. Meanwhile, the Japanese are constructing a refinery for the offshore oil now produced in the Mekong delta. In addition to oil, there are significant deposits of coal, iron ore, lead, zinc, copper and gold in the mines.

Through renovation programme the forest cover was to rise from 8 per cent of the total land surface to 20 per cent. This

4. *Far Eastern Economic Review*, May 18, 1995, p. 39.

attracts the investors for timber plants (Table-2). In Vietnam, a hilly country, the arable land is also a great natural resource.

Agriculture : Reforms of the system of agriculture received high priority in renovation. In December 1986 the then Secretary General recommended 'incentive policies' in agriculture to stimulate production. Farmers were to be given incentives to ensure the implementation of reform measures. The formula of land allocation was changed. It was made in terms of single parcels of land with cultivation rights fixed for a period of 15 to 19 years. The system of 'quantum depending on how many members the household had' was changed. Now, skill and efficiency of each household were taken into account in making allocation. In 1989 the ethic - 'collectivize all the means of production' - was changed. These reforms provided a farmer the right to join or leave a cooperative of his own free will. These adjustments in 'allocation' and 'production relations' transformed each family into a self-financing unit. It now could work for a cooperative in contract and/or engage in some other trades at will. These measures in the agriculture sector have paid rich dividends. The total production had increased (Table -3) tremendously. In Mekong delta the production of rice in 1989 was 7.7 million tons, a two-fold increase over the 1975 figure. Moreover, reform ensured fair prices and induced farmers to put enormous efforts into farming. Now, agriculture is close to the limit of its capacity given the existing technology.

A minimum nutrition requirement of about 2400 calories per person per day represents about 240 kg of rice per person per year. The food surplus the Mekong delta produces (Table-4) together with the much smaller ones produced in the Red River delta was sufficient to cover the production-consumption deficits in other regions in 1989. Rice production and its area of cultivation grew substantially in 1980s given the same fertility of land (Table -4).

Fruit cultivation was underway with a target to increase fruit production in 1993 from 11 per cent to 20 percent. Coconut, pineapple and banana trees were planted in every district with foreign collaboration. In 1989 Vietnam exported 4,000 tons of banana, both dried and fresh, to the Soviet Union and that quantity presently has increased. The relative importance of agriculture in GDP, employment and exports are visible (Table-5). Agriculture also plays an important role in the process of industrialization. It not only provides industry with workers, but is also an important source of domestic savings and foreign exchange. All these are consequences of attaching priority to agriculture in renovation which replaced forced industrialization in Vietnam.

Industrial Base : The faulty central planning for a long period until 1986 had produced Vietnamese society a little progress despite a consistent efforts of nation-building over the years. The state-owned industrial enterprises, as being mismanaged, never reached the production target in pre-renovation period. The new leaders paid attention to private enterprises as well as the public ones and introduced 'incentive policies' in them too. They decentralized the decision making process and eased restrictions on enterprises. Only three things remained exclusively under the jurisdiction of the Party - "total output value, total quantity of key products and revenue contribution for the state".⁵

The introduction of 'Socialist Business Accounting' and making state bureaucracy more accountable and specific measures to ensure punctual and normal supplies of commodities to enterprises triggered performance in both the sectors of the economy. The improvement in managerial system gave a new impetus to production. Citizens and private owners were invited to

5. James Riedel, "Vietnam on the Trail of the Tigers", in David Greenaway and John Whalley (eds.), *World Economy*, Vol. 16, July 1993, p. 407.

invest and engage in production in areas beneficial to the national economy and the peoples' life. Private citizens enjoy this right in gold and silver since 1986.

For making the export-oriented industrial strategy, Reidel suggested, "Vietnam needs two things: first, the government must do a reasonable job of fulfilling its fundamental duties of supplying essential public goods and of maintaining macro-economic stability; second, the obstacles to exporting which were built in the period of inward-orientation must be removed. The latter involves, most importantly, establishing and maintaining a realistic exchange rate and giving exporters free access to imported immediate inputs and capital goods. If this is done, there is every reason to expect that Vietnam will enjoy the same success with export-oriented industrialization that other countries in the region have."⁶

National Assembly has approved several revisions in the foreign investment laws to make the country even more enticing. Foreign countries can repatriate their profits in hard currency, hire and fire at will, and profit from tax holidays over highly negotiable periods. Even though all land remains state property, investors can get leases for upto 70 years for offices and factories. Exchange rate over evaluation, as measured by the ratio of the official to free market or parallel exchange rate, has been largely eliminated (Table-6). Export-oriented industrialization has gone underway as the main obstacles are removed. Now there is no restrictions on the number of labourers in a factory, which was previously not more than 10 in a factory. Presently there are some private industries employing as many as thousand workers, creating new employment opportunities.

Trade : A major reform of trade regime has been instituted since 1989, giving enterprises more freedom to trade directly with

6. *Ibid*, p. 407.

foreigners, reducing dramatically the number of imports subject to quota, revising the tariff code so as to broaden its coverage and make tariffs more uniformed. These reforms were accompanied in 1989 by a 118 per cent increase in exports to convertible currency countries. Still Vietnam is building up exports. It was expected that the target US \$ 3 billion would be passed in 1994, but the delayed rice exports due to serious flood in the main rice growing area, the Mekong Delta, at the fag end of the year had obstructed that. In the last seven years Vietnam has emerged as the world's third-largest rice exporters. 'Exports of marine products, rubber, coffee and offshore oil have also surged, lifting Vietnam's per capita income to \$ 230 a year in 1995, which remains steady to date, from \$150 in 1977, according to World Bank estimates. The increase comes despite the growth of population by nearly one third to 70 million since the end of the war.'⁷ A trade deficit has become a surplus for the first time in 2 years. Rice and oil account for almost 50% of Vietnam's export revenue.

On the other side of the coin, imports were expected to reach US \$ 3.3 billion, but ended up several hundred million higher. In addition, the smuggling of goods worth an estimated US \$ 500 million adds to the unofficial trade deficits which may refer to an anomaly in the financial system. However, there is not much to worry because at the very inception of export oriented industrialisation even the multiplying of import bill is not abnormal. Greater import also refers to better standard of living. As for example, despite "2.8% increase in cement output over August 1993, the intense construction activity forced its imports to jump to 981,000 tons for the first nine months of 1994, compared with 134,000 tons in 1993".⁸

Vietnam is also adjusting to the end of aid from former Soviet Union and reliance on it as a major export customer. In

7. *Far Eastern Economic Review*, May 4, 1994, p. 23.

8. *Asia Year Book 1995*, *Far Eastern Economic Review*, p. 394.

fact, Vietnamese companies are now managing garment assembly and other factories in Russia. Not only that they are also getting prepared to have investment in Laos, which has taken an ambitious programme of economic reforms.

With the initiation of *doi moi* and Vietnam's sticking to it, the overseas Vietnamese are smelling new wine in a new bottle of economy, the political label remains same: communism but open market. The overseas natives are highly inspired by this and they did a lot to set up the Vietnam-America Chamber of Commerce. They are happy to see the potentials of Vietnam as a market and investment spot.

Finance and Financial Institutions : The centralized socialist banking system was a serious handicap in operation and functioning of private enterprises. It is now under reorganization. Traditionally the bank for issuing note was the National Bank of Vietnam, the other bank was the Vietcombank.

In July 1989, a decree allowed new banks to come up. The banking system was divided into a central bank and a number of sectional banks to promote trade and agricultural development. In November 1989, a new bank, namely, The Vietnam Import Export Bank was founded. Steps were taken to facilitate the setting up of foreign banks as well. Some foreign banks have already started their works. Efforts have been made to create proper conditions, to provide for resource requirements, to frame rules of operation and to lay down management qualifications for the functioning of independent commercial banks.

In mid-1993, the National Bank of Vietnam has taken another leap from old-time Marxist philosophy. It has opened the country's first inter-bank money-market trading in dong. It is another stage of Hanoi's drive to overhaul its banking system and to prepare the groundwork for establishing Vietnam's first capital

market to provide cash-strapped financial institutions in short-term credit. During the market's first session, held on July 23, the Bank for Investment and Development met half of the 20 billion dong (US \$ 1.8 billion) shortage faced by the Bank of Industry and Commerce.⁹

The Stabilization Programme : Until the late 1980s, the budget was balanced primarily by borrowing from the Soviet Union (Russia), but when that began to dry up, the government was forced to turn to the National Bank, which passively supplied the credit it needed. In 1988, that required an increase in domestic credit of 395 per cent. Its result was an inflation rate in that year of 400 percent. Vietnam implemented a bold stabilization programme which restrained government expenditures and the growth of credit and eliminated most domestic price controls, raising interest rates and devaluing exchange rate. It reduced rate of inflation and curbed black marketeering.

The response to this programme resulted in doubling the rate of private saving between 1988 and 1990. It brought the inflation rate down from about 400 percent in 1988 to 25 percent in 1993. The target became keeping the inflation rate below the double digit. But over the first 10 months of 1994 prices rose to 11.3%. The deficit budget did not fueled the inflation but the rise in food prices was mainly due to the flood in the Mekong delta.

IV. RESPONSES FROM THE EXTERNAL WORLD

The feedback from the external world to the renovation is mainly economic in nature, but can be seen from both political and economic viewpoints.

A. Political Response

(i) *Lifting of the US embargo :* 'Vietnam' continues to haunt the American psyche even more than twenty years after the fall of

9. *Far Eastern Economic Review*, August 5, 1993, p. 57.

Saigon. "In fact, the Vietnam War was by far the most conclusive and traumatic of American three wars in Asia in the 50 years since the Pearl Harbor. It set the US economy on a downward spiral and left American foreign policy in disarray, at least for a temporary period, discrediting the post-war Policy of Containment and undermining the consensus that supported it."¹⁰ Since then till date, perhaps, the Americans continue to treat Vietnam as an enemy and they just after the defeat imposed a trade embargo against Vietnam which actually also enforced a political embargo. Vietnam's economic backbone was mesmerized. "America has been far less generous with the foes that embarrassed it than those nations it defeated in the World War II."¹¹

The introduction of free market economy laid a far-reaching impact on the Vietnamese economy. Overseas investments became available. The American business community because of the trade embargo, felt that they were going to get left out from the business opportunity where most of their competitors were already in. In this situation, in 1990 President George Bush drew up a 'road map' adding to diplomatic relations with Vietnam. But Clinton could not go ahead because of the vehement protest from old-soldiers lobby. Powerful men in the State Department and Pentagon were still angry and unforgiving about a war in which America withdrew without victory leaving her men insecure. To them, lifting the embargo meant Vietnam won the war.

Pressures on the US, from home and abroad, were increasing to lift the embargo and pursue a normal relations with Vietnam. Allies like France, Australia and Japan, at the April 1993 IMF meetings in Washington, tried to convince the US to resume aid to Hanoi. Various domestic lobbies also tried. Senators Clairborne

10. Henry C. George, "America and Vietnam : The Unending War", *Foreign Affairs*, Winter, 1991-1992, Vol. 70, No. 5, 1991, p. 117.

11. *Ibid.*

and Richard Lugar of the Foreign Relations Committee US-Vietnam Trade Council, the Centre for National Policy headed by Edmund Muskie, spokesmen for the veterans of wars, nineteen members of Congress who had served in Vietnam, all urged President Bill Clinton to lift the embargo 'in the interest of the nation'. However, the most bold request came from the US business community. On June 30, the National Association of Manufacturers, the US Council for International Business, the Emergency Committee for American Trade, and the National Foreign Trade Council wrote to President Bill Clinton "on behalf of the thousands of US companies, to urge the earliest possible lifting of the trade embargo against Vietnam as a major step towards normalization of commercial relations".¹² The most fascinating episode began when the Vietnam veterans in the senate-led by John Kerry, who was wounded three times and John McCain, R-Ariz, a former POW, appeared the most eloquent in urging an end to the enmity and the beginning of the trade relations. Six of the eight senators who served in Vietnam approved the legislation, including Senator Bob Kerry, D-Neb, a Congressional medal winner who lost part of his leg in Vietnam. John Kerry said, before voting "If you want to serve the families (of MIA and killed in Vietnam) you will vote to lift the embargo. If you want to put war behind us and act in a statesman-like fashion and move to the future and protect the interest of this nation you will vote to lift embargo"¹³ Since then, recommendation of the Senate for lifting the trade embargo became a forgone conclusion.

After a long awaiting, on 28 January 1993, the Senate had recommended lifting the trade embargo 20 years after the last American soldier left Vietnam. The recommendation was passed

12. Kunda Dixit, "Vietnam America Relations Still Frozen in Cold War Era", *Holiday*, July 1, 1993, p. 8.

13. *Ibid.*

by 62-63 votes, urging the Administration lift the embargo expeditiously. Though it was not binding but it provided considerable amount of impetus for the administration as it moved toward normalizing relations with the former enemy putting the war behind. The embargo was ultimately lifted on 28 February 1994. One need not go far to understand the reasons behind the normalizations move. Seeing the trade and investment prospects in Vietnam they lifted the embargo. The present enthusiasm of the US about her is nothing but an attempt to catch the boat of investment in Vietnam hurriedly. "American strategic outlook is based on calculations of American national interest in the specific circumstances in which decisions are made and actions are taken".¹⁴ After the US withdrawal of its 20 years trade embargo, on February of 1994 Washington opened a liaison office in Hanoi.

(ii) *Vietnam's membership in the ASEAN* : Immediate neighbour is an enemy. Enemy's enemy is friend. Friend's enemy is an enemy. This *mandala* doctrine of Kautilya is taken as an axiomatic truth in the realist paradigm. But renovation in Vietnam, perhaps is refuting this theory, at least partially. In July 1994, Vietnam joined the ASEAN, most of whose members supported the US in the war. She got membership on 28 July in Bandar Seri Begwan after passing three years as observer of the regional organization. She has become the first Marxist state to gain a seat in the traditionally capitalist group created 28 years ago in part to contain communism.

The entry of Vietnam into ASEAN is certainly a debut on the international stage. "Vietnam's admission into ASEAN will pave the way for broadening her cooperation with other countries near

14. *Council on Foreign Relations*, "Basic Aims of United States Foreign Policy", Walter F. Hann and John C. Neff. (eds.), *American Strategy for the Nuclear Age*, NY Doubleday & Co., 1960, p. 4

and far."¹⁵ The immediate benefits of joining ASEAN are likely to enhance trade and investment, especially more new markets for their product. Even before formally joining this club about a quarter of Vietnam's trade was with the ASEAN members, and a similar share of its foreign investment comes from them. On the other side of the coin, her accession is sure to bolster ASEAN's political clout. The traditional practice of mainly tackling the political and strategic issues may now be changed in this regional umbrella. Now the main focus is becoming bolstering the AFTA (ASEAN Free Trade Agreement). Joining AFTA was taken as a yardstick of her willingness to join this regional organization.

B. Economic Response

Vietnam defeated America in a 30-year protracted war 20 years ago, the Tet Offensive being the final onslaught, but she could not enjoy the victory. Her economic backbone was broken in that war. The euphoria of victory proved meaningless very soon. The command economy and the continued American embargo under the Trading With Enemy Act of 1927 left her economy in shambles. Moreover, the veto arsenal of US blocked aid to Vietnam from international donor agencies. It was proved that her economic warfare has been more effective than her military operations ever were. This war isolated Vietnam politically and economically and deprived her of trade, technology and capital, so desperately needed for construction and reconstruction.

Until July 1993, for the US economic embargo and 'veto' power in international donor community, Vietnam got a nominal assistance from the external world. Now, after the introduction of renovation in Vietnam and various radical reform measures to establish a dynamic atmosphere for market economy and other

15. *The Independent*, 20 July, 1995.

structural adjustments, the international donor countries and agencies are impressed (Table-7).

(i) *Assistance inflow from the external world* : A breakthrough happened on November 10 1993, in the WB and UNDP sponsored International Donors' Conference in Paris which pledged US \$ 1.86 billion for 1994¹⁶ in aid (Table - 8). The Conference praised Hanoi's outstanding success in switching over to open market. They further promised US \$ 2 billion for 1994. These tremendous feedback from donors are attributed to her hard work for years and to right bold policy actions.

Aid agencies are impressed because Vietnam has already taken difficult steps like freeing firm prices, reforming the tax system, allowing family farms and devaluing the home currency without waiting for foreign aid. Not only that, the donors had pleaded for lifting the US embargo against her which ultimately came into being on 28 February 1994.

In September 1994, World Bank announced US \$ 400 million loan as "quick-aid", a stop-gap measure to get projects going, and in October further announced a US \$ 150 million loan to help Vietnam's financial restructuring. The two loans will help stabilize Vietnam's balance of payment and support the country's monetary and fiscal policies. The first large commercial loan, US \$ 100 million, to Vietnam Government since 1975 has been fixed by a nine-bank consortium led by Export-Import Bank of Thailand and Krung-Thai Bank in May 1994. The International Finance Corporation approved participation in two loans to Vietnam in July, both co-arranged by Banque Indosuez. One was for the expansion of Sofitel Metropol in Hanoi, while the other was for a southern port project."¹⁷

16. Shada Islam, 'Welcome Bank, Donors Demonstrate Faiths in Vietnam', *Far Eastern Economic Review*, August 5, 1995, p. 56.

17. Asia Year Book 1995, *Ibid*.

Long-term public and publicly guaranteed and disbursed capital inflow in Vietnam in 1980 was US \$ 8 million which in 1993 reached US \$ 80 million. Another indicator of the donors confidence in Vietnam is inflow of credit. Use of IMF credit was zero in 1980 but that reached US \$ 100 in 1993 (Table- 9).

(ii) *Investment inflow in Vietnam:* In the meantime Vietnam has appeared as a lofty investment spot to the foreign investors. By 1993 January, foreign companies have signed more than 600 direct investment contracts, for a total of US \$ 4.6 billion. Not only the business delegates are coming to Hanoi, the highest governmental executives of the countries also come to obtain a share in the investment opportunity.

In fact, foreign cash is going to all manner of industries. In nine years, since the country launched *doi moi* or free market reforms, foreign businesses have signed deals totalling nearly US \$ 14 billion. Seven of the biggest investing countries are Asian. Vietnam's trade with ASEAN now accounts for almost one-third its total but Taiwan is the single largest investor with investments totaling about US \$ 790 million through December 1992 (Table - 10). Hong Kong, South Korea and Japan were the three largest investors in 1994, but the US climbed from zero to 12th place after the embargo was over. Japanese investment is increasing every month and now is pushing its total to be the third largest investment. They have been in Vietnam since 1988. Then the government could not control their businessmen But now the government encourages businessmen to move in. Major fields of overseas investment have been profiled below.

Oil : This sector attracted the investors from the very beginning of open market. The discovery of new oil fields such as Dai Hung (Big Bear) has been the main reason. The four wells of Dai Hung operated by Australia's Broken Hill Proprietary on behalf of a five-company joint venture, are now adding between a

fifth and a quarter to Vietnam's current oil production (7.1 million tones). In June last year, Mitsubishi Oil of Japan announced a sizable find of oil in a block close to the current main beach off Vietnam's southeastern coast. Petrovietnam so far has signed 27 production sharing contracts with foreign oil companies, 24 of them have been put into operation. Already six American companies have entered this sector. A French-Taiwanese consortium won the bid to do a feasibility study for Vietnam's first oil refinery last year. Not only oil, foreign investment is coming in the overall power sector, such as gas, electricity, etc.

Cement : Taiwan's Ching Fong Co, the biggest single corporate investor in Vietnam, with a string of deals, has now formed a \$290 million joint venture with the government to build a cement factory near Hanoi. Cement output was up 2.8% over August 1993 and till date the production rate kept the same pace.

Car : Volkswagen and BMW of Germany have come to invest before the lifting of trade embargo of the US. Volkswagen sold about 500 cars in 1993. They see a potential car market in Vietnam where there were only 70,000 cars and 1 million motor cycles (equivalent to 60,000 cars). If people are in high income they would buy car as has happened in China. The US General Motors was waiting anxiously for the lifting of embargo and now has entered the Vietnamese market. In February the recently formed Vietnam American Chamber of Commerce sent a team to find facts in Hanoi. Now Mitsubishi Motors figures prominently in Vietnam. Kyohei Steel of Japan in 1994 built a joint venture to produce round bars in Ho Chi Minh City. Another Japanese group has built assembly plant in Saigon, turning out four-wheel-drives that closely resemble Chrysler Jeeps.

Hotel : The hotel industry attracted 26% of all capital by the end of 1991. Hong Kong's New World Development is bidding a

\$65 million complex in Ho Chi Minh City. The Pullaman group of France has refurbished the old Hotel Metropol in Hanoi. New Hotel Thonghat, Lien International & Resort Management of Singapore are building the 394-room Lien West lake Resort near the capital.

Infrastructure : Among the other large investment projects that received a green signal was a project to develop a whole city south of the existing centre of Ho Chi Minh City. The US \$ 242 million project, a joint venture with Taiwan Kuomintang party, would put in infrastructure for the development of the area. "The United Nations Development Council, which puts about \$200 million annually into Vietnam reckons, it will take \$4 billion a year for five years to fix the troubled roads, silted-up ports, cracked airport runways, and wobbly railroad tracks, and cure the power shortages that darken factories for hours if not days on end".¹⁸ After the lifting of the US embargo the participation of IMF, ADB and World Bank have been possible. The year 1995 is signified as the year of international donor and investing agencies in Vietnam.

French companies now benefit from their government's policy. Electronic giant Thomson has already signed a contract for traffic control system at Tan Son Nhut airport in Saigon. Australian & Overseas Telecommunications have been cooperating with Vietnam's postal and telecommunications authority since 1987. It signed a \$60-million deal in 1990 to install international gateways and phone exchanges in Hanoi and Ho Chi Minh City. In April, Singapore Team agreed to expand circuits serving the two countries from 72 to 210 within eighteen months. France's Alcatel Alsthom has a telecommunications contract, and Royal Mail of Britain is advising on upgrading the

18. Colin Leinster, "Vietnam: Business Rushes to Get in", *Fortune* (NY), April 5, 1993, P. 22.

postal service. Now, Internet system, considered to be a super-revolutionary device in communications, is coming in Vietnam through the initiatives of both public and private sectors. The companies like Goliath of Vietnam Post & Telecommunications, Netham and Vernet are in competition in this sector. The former one has signed an agreement with the American telecommunications firm Sprint which provides a range of data communications services, including Internet access.

Heavy Industries : Once the infrastructure is built up Vietnam is ready for heavy industries. Natsteel of Singapore is now in a joint venture for a \$.8 million rolling mill near Hanoi. South Korean Pohang Iron & Steel has already started up a \$4-million line producing galvanized sheets and is planning a \$94-million Haiphong to open in 1995. Daewoo has a \$170 million project to assemble television tubes with Hanoi Electric Corps, a state-run moneymaker that already put together YVS and JVC, a cassette player company of Japan.

Brewing : Asia Pacific Breweries, the Singapore brewer of Tiger Beer, has set up a \$42.5-million Saigon brewing jointly with the municipal government. The two foreign partners together hold a 60% share. The Netherlands' Heineken and Singapore's Tiger are jointly building a \$5 million brewery in Saigon.

Banking : Investment in banking sector is not meagre. Hong Kong Bank and Standard Chartered Bank have applied for licenses, so has France's Socie'te' ge'ne'rale. Business is mainly trade finance. Bank of America has also entered Vietnam in 1994 after the lifting of the embargo.

The onrush of foreign investment can be seen by the example of Vietnam Fund, the listed investment vehicle specializing in Vietnam.¹⁹ Investors in 1993, quintupled the size of this fund by

19. Mark Clifford, Money in the Bank : "Vietnam Fund Succeeds Secondary Offering", *Far Eastern Economic Review*, August 5, 1993, p. 56.

pouring \$44.6 million into a secondary offering that closed on July 21, 1993. The Fund's units were priced at a 14% premium to their underlying net-asset value. The company had planned to raise US \$20 million, but had to increase the offering to meet demand from European investors. The US investors are not allowed to buy into the Fund because of a provision on most American investments in Vietnam. They maintained 'look but don't touch' view according to the behests of their government. Among others, American Mobil Oil, Pepsi Cola Co. were waiting for the removal of the embargo and now has entered Vietnam in the respective areas.

However, the most precious response to the success of renovation would be the one coming from the 2 million overseas Vietnamese, who left the country for West on the wake of the end of war. They may come with expertise and capital to rebuild their land they left because of disdain for or fear of communism. Now they may successfully play the role in Vietnam. The attitude of the overseas people towards the communist government have also changed to a great extent.

V. ISSUES FOR STRENGTHENING REFORMS

Renovation has rejuvenated the nation building spirit and initiated new awakening in Vietnam. It retrieved the prestige of the soldiers, once compelled to beg in the street because of the wrong policy adopted in the era of command economy, and made her diplomacy prudent in global political terrain. It has switched over to market economy and changed the price system, hotel, banking and other services. Renovation is pulling overseas Vietnamese back towards home. Virtually, *doi moi* has become the domestic and external policies of Vietnam. It has retrieved the confidence of the neighbours upon her. It has, without war, turned enemies of war as economic friend in the international world.

As mentioned before, Vietnam's reforms have been virtually all economic. It is inevitable that the liberalization in the economic arena should lead liberalization in political arena in a ramification process but still the political future of Vietnam is hanging in a balance. The country has taken big strides towards market economy but the ruling Politburo remains dominated by traditional Marxists. Now, "about 15% of the current National Assembly is non-communist but its emergence as an often rambunctious government critic has been an interesting nod towards democracy."²⁰ Back in 1989 the party had 1,00,000 recruits a year, but now it stands only a third of that. On the contrary, after the mid-term Congress of the Communist Party in January 1993, the party standing committee has been bolstered which could iron out the difference over the political report and the appointment of new members of the central committee. A consensus was reached over the choice of 20 new members. It responded to the underground papers urging a quick transition to a multi-party political system which sent out warnings to members not to associate with forces 'opposing socialism'. Before the conference, the four new members were drafted by the central committee to the Politburo, three of them were committed to Marxism-Leninism. Not only that the political report of the conference said that the party should build "a socialist-oriented market mechanism under state management".

In its June 1993 session, the National Assembly passed Vietnam's first laws to enable labour function in a free market environment. It gave workers the right to strike, but did not reintroduce a minimum monthly wage of US \$50, as unions had laboured for. The minimum wage was reduced to US \$35 to please foreign investors. The communist party, whose power base depends on the inseparability of party and state, is realizing that

20. *Far Eastern Economic Review*, May 4, 1995.

the emerging government structure will cut its access to funds and its ability to dominate the bureaucracy totally. This led to a search for alternatives, and this in turn has made the communist party look to its neighbours, such as Malaysia, and China.

The eighth plenum is crucial for not only passing some required decrees to boost up the economic reforms, but also for its political especiality as it bears the prospect of a remarkable change in party leadership. Party General Secretary Da Muoi and Premier Vo Van Kiet are expected to retire in it. "Deputy Premier Phan Van Khai, a key mover of the economic reforms, is tipped as the next Prime Minister. Another rising star is Politburo member Pham The Duyet, an economist. Some potential reformers are waiting in the wings. The current darling of foreign investors and the media is Hoang Van Nghien, Hano is *de facto* mayor since last year".²¹ Despite all these, to the dismay of the ultra reformist group, there is no sign of loosening power of the party because of the good results of its economic strides where the radicals opposition lags behind. No doubt, more than half of Vietnam's 72 million people are under 21 who love the market economy as well as democracy, which the party does not refuse categorically (but tactically). Things are very confusing. Now, Vietnam is really at the crossroads again after 1986. The eighth plenum is potentially reminiscent of that of 1986. More 'radical liberals' are coming in the ranks and files of the party and then the parliament happens to get more non-communists. If the present zeal for liberalism and market economy persists then, perhaps it seems, a stronger demand for democracy is coming but still it remains a big question when it will come. A balanced pattern of politics in consideration of the current need, social attributes and culture is still absent in the country.

21. *Ibid.*

With *doi moi* economic-reform programme entering its tenth year, and the five-yearly plenum a few months ahead, the chasm between the reformists and conservatives becomes amazing. The conservatives blamed the reforms programme as the main cause of all social evils of the society. They still believe, "The party's unity is a unity in politic, ideology and organization,"²² and "That unity has to be built upon the basis of Marxism-Leninism, Ho Chi Minh's thoughts, and the party's guidance, orientation and viewpoint."²³ They also think that the economy is no longer the only item on the agenda. This group is led by former Prime Minister Pham Van Dong. On the contrary, reformists led by Prime Minister Vo Van Kiet, maintain, "Vietnam had no choice but to radically overhaul its stultifying bureaucracy, distance the party from day to day government administration and push ahead the development of a legal base appropriate to a market economy."²⁴ This difference in the views of the groups within the party instigates them to backroom politicking that ultimately obstructs quick decision. Hence, pace of reforms is desperately needed in the present realities.

Enhancement of private sector is ethically the basic policy objective of reforms. Public sectors still have a monopoly in the key areas of production and service. "They have better access to land, capital and trading licenses, while foreign firms and joint ventures benefit from the tax breaks and other incentives designed to lure overseas capital."²⁵ For these official discriminations, a very few Vietnamese enterprises have been able to overcome the obstacles to build a corporate-size private company. Those few who could set up a corporate structure face a lot of hindrances in their daily business and implementing larger plan. Even a corpo-

22. *Far Eastern Economic Review*, March 7, 199, P. 15.

23. *Ibid.*

24. *Ibid.*

25. *Ibid.*

rate like Huy Hoang, widely considered Vietnam's biggest private company with roughly \$50 million in assets and more than \$40 million in turn over last year, had to wait for months just to get rights to use 2500 square metres for extension of workshop. The first obstacle is bureaucracy. Again when it was waiting for the land to be cleared, Hanoi issued a new property regulation that changed the rules of the game. It replaced land-use rights with leases, with land payable to the government. The rules amount to severe penalty for private companies. A complicated system of trade quotas and licenses also favours state companies. Despite having own export-import licenses of particular material, private companies have to pay state enterprises a commission to import the material they need. Apparently it is a consensus : "The state should leave smaller business - ranging from restaurants to garment workshops - mainly to the private sector, while retaining ownership of "strategic" industries such as steel making."²⁶

Again access to credit is a major sore spot with Vietnamese private business people, who are typically forced to pay more than 20% interest to state banks on loans for capital investment compared with 85% to 9% for state firms. Not only that even if the loan is secured, bank typically ask private companies for collateral worth 1.5 times the value of a loan. So, expanding a private business is not easy. State enterprises, by contrast, can often secure loans on nothing, but guarantee letters from their sponsoring ministry. As the consequences of it, after nearly nine years of economic reform, Vietnam has only 6,300 registered private enterprises, most of them small operations employing about 30 workers. Their positions are usually too weak to attract foreign investment - all but about 2% of foreign joint ventures have been signed with state-owned firms. If this trend lasts long the overseas investment may go back from the pipe-line.

26. *Ibid.*

Vietnam does not yet have a stock-exchange, an essential element needed for the proper functioning of an open market economy. Removing obstacles to exporting by setting a realistic exchange rate and giving exports free access to imported material inputs and capital goods is severely needed for the investors and the entrepreneur class. The major constraint in this respect is the acute shortage of public finance for the private sector. Though the Vietnam Fund is doing most of the functions of a stock-exchange, but it cannot be as good as that proper financial institution.

Different indicators of economics suggest that Vietnam may reach the 'tiger status' of her four neighbours by 2010. Her economic growth rate has topped 8% a year since 1992, while the average income is about \$1,200. But neither the per capita income nor the growth rate is the reliable yardstick of the actual condition of an economy. The rich-poor gap is still a curse in the society. Still 60% of all farmers, but only 14% of government workers, are poor; four-fifths of all social-security benefits go to the latter.²⁷ With liberating the economy this gap has expanded. For example, in the Mekong delta, there are now numerous landlords owning more than 100 hectares each while many small farmers have become landless after losing their land to money-lenders.

The unemployment rate in the country is nearing 20%. As the "boat people"²⁸, Vietnamese refugees, settled outside since 1975, are returning home. This process started in 1989, that got momentum in 1992 and 1993 and still continues. Returning from the Asian camps is predominantly the present concern. This will worsen the social and economic conditions as the returnees must compete for jobs in the given number of scopes. Until December 1995, the number of boat people back home from Hong Kong was 45,890 while 20,161 were staying, those figures for Malaysia

27. *Far Eastern Economic Review*, May 1995, p. 28.

28. *Asiaweek*, February 9, 1996, p. 43.

were 4,818 and 4340, for Indonesia 8,160 and 4,471, Philippines 1,547 and 2,563, for Thailand 12,024 and 4,940, for Japan 1,1122 and 137, while the returnees from other countries of Asia were 108 against 102 staying still in the camps. Some donor countries are providing repatriation cost but the rehabilitation will obviously be the onus upon the Vietnam government.

Human rights issue, perhaps, is a common issue in which the erstwhile command economies, that switched over to market economy, face acute problem to satisfy the investing countries. Although several visiting heads of state and other officials have raised human rights questions with Vietnamese leaders, most have received clear message that Vietnam considered stability its most important goal, and that foreign countries should respect Vietnam's focus on the people's right to food, work and peace over individual rights to free speech and political activity. But repression on the political opponents, detention of the political prisoners, arrest of the intellectuals according to black list prepared secretly, etc., certainly belittle her human rights performance. Even sometimes political or religious demonstration go under repression of the government, such as the ethnic protests of the United Congregation of Buddhists (UCB) in 1995.

The official drive against 'toxic cultural imports', with the main targets being prostitution, drugs, gambling, pornography and so on, gives the impression of awareness of the public morality by the government. This is a similar drive against 'spiritual pollution' adopted by China in the early 1980s. But the cultural department gives licenses of these, such as the bars, but very self-contradictorily they later on do not allow business of these. It hampers the related business. Some of its steps indicate discrimination towards foreigners. A number of foreign investors have objected to the regulation which calls for the removal of many-foreign language signs and bill-boards, a ruling which

appears to contradict another rule on advertising passed a year earlier. These create a feeling of alienation and panic in the foreigners. It worsens when the party favours stepping up monitoring of foreigners working on Vietnam. Commentators say that party does not like much of the foreign involvement in the economy, which is already labelled as 'xenophobic tinge' by the foreigners.

Last but not the least, the red tapism obstructs the development in all aspects. The local press often lambastes bureaucratic inefficiency. But dissent has its limits, very often inflicted by the government.

VI . CONCLUSION

Renovation has brought great dynamism in the economic, political and social lives of the people of Vietnam. But it needs to guide the overall string in a balanced way that may sometimes require a management involving some sorts of control with a system of discipline. Chaos and disorder can produce no good in any society. Vietnam is not an exception. Perhaps, it needs to be recognized by all.

Today's scenario in Vietnam is, to a great extent, similar to that of China when she entered the market Leninism. The political culture, vying for overseas investment, building up infrastructure, adopting compatible technology, availability of labour force, corruption in the government executive level, geographic and geo-political location, potential support from the 'overseas natives', same type of relations with West, same sort of governmental culture and issues like human rights raised by the investors as precondition etc. - are indeed remarkably comparable. On the contrary, the consequence of an all-out switching over to market economy accompanied by full democracy, in Russia serves as a very fresh experience before Vietnam. Then the path followed by

China in the beginning of market economy phase may be followed in a careful approach considering own realities and then adopting a model, if deemed necessary. Given the fact that human resources is the most precious resources in the national economy and the industrial base is yet to be developed, at least for some more years ahead, adhering to labour intensive sectors may prove fruitful to her. In this respect they have the experience of the blunder made by the party during the command economy. The 1975 victory convinced the communist leaders that "they could do no wrong. Then they drafted policies regardless of reality. They wanted to develop heavy industry when they did not have the raw material and had only backward technology from China."²⁹ Still the economy of the country remains agrarian, thus, suggestion of an all-out industrialization deserting the agriculture sector may not be pragmatic, maintained moderate pro-reforms commentators of Vietnam.

The responses from the external world have dual impact for the economy, society and political culture of Vietnam. It must build relations with the US and others strictly on the basis of a calculated commercial sense keeping pace with that of counterparts. As there is a competition amongst the investors to pour money in Vietnam, a preference scale in this respect may work: what is first, either infrastructure or service sector or heavy industrial base. Along with this removing the bars to the growth and development of private sectors is very important. Because without new and expanded scopes of production, employing and feeding of such an enormous population is not possible. On the other hand, the hindrances to the reforms should be addressed without making any more delay. The June 1996 party plenum gives an ample scope to consider these issues.

29. *Far Eastern Economic Review*, May 4, 1995, p. 22.

Table -1. Health and Education Indicators

Subjects	Taiwan 25-30 ERs ago	Thailand 15 -20 Years ago	Vietnam Most Recent
Infant Mortality Rate	-----	55	42
Life Expectancy	63	60	67
Calories per capita	2390	2285	2233
Enrollment. Rate (a)			
Primary	97	83	102
Secondary	30	26	42
Tertiary	3	12	---
Illiteracy (b)	30	7	16

(a) Per cent of scholar children.

(b) Per cent of Population over 15 years.

Source: *IBRD Social and Economic Indicators, Taiwan Statistical Data Book* (1989), p. 224, see also James Riedel, "Vietnam : On the Trail of Tigers, World Economy" (eds.), David Greenaway and John Whaley, Vol. 16, July 1993.

Table -2. Natural Resource Endowment

Subjects	Quantity
Area Thousand sq. km A1990),Data of 1990.	332
g. Land /Total Area %	21
Ag. Population Density Pop/sq km	934
Forests Thous. Sq Km	98

Source: BIRD, Social and Economic Indicators, FAO Production Yearbook, James Riedel, *ibid*, p. 425

Table - 3. Per Capita Production Food Crops (rice equivalent kg/person)

Areas	Production
North mountains and midlands	270
Red River delta	315
Central coast of Northland ²²⁶	
Northeast of South land	283
Central Highland	240
Mekong delta ⁶³⁷	
*Vietnam	33

Note : (a)includes Ho Chi Minh City also.

Source: Vietnam GSO (1991), James Riedel, *ibid*, p. 416

Table -4. Growth of Rice Production Yields and Area of Cultivation in Vietnam

Period	Production	Area under Cultivation	Yield
1970-1990	3.1	0.9	2.2

Source: AF Yearbook, Taiwan Statistical Data Book (1989), James Riedel, *Ibid*.

Table -5. The Share of Agriculture in Employment, GDP and Exports

Subjects	1985	1990
Employment	72.3	71.5
Value Added	37.4	32.5
Exports	-	75.0

Source: Vietnam GSO (1991): IBRD , World Tables, Ibid.

Table -6. Official and Parallel Exchange Rates

Year	Official Rate dong/US \$	Parallel Rate dong/US \$	Rate of Officials to Parallel Rates
1985	18	115	0.15
1986	18	425	0.04
1987	225	1270	0.18
1988	900	5000	0.18
1989	3900	4100	0.95
1990	6300	6500	0.96

Source: James Riedel, *Ibid*, p. 426

Table-7. Indicators of Commitment of Assistance By International Donor Community, 1992

country/ Agency	Commitment for 1994	Nature of Assistance
Japan	\$ 560 m	Soft Loans, grants and technical assistance
WB	\$ 400 m	Agricultural rehabilitation and Structural Adjustment
Britain, South Korea, France each	\$ 55-65 m	
ADB	\$300 m	
IMF	\$ 150 m	Stand-by Credit
EC	\$ 40 m	Market Transition

Source: Extracted from, Far Eastern Economic Review, November 25, 1993.

Table 8. Investment Inflow From Abroad, December 1993

Countries	Investment (\$ Million)
Taiwan	790
Hong Kong	606
France	475
Australia	404
Britain	305
Japan	305

Source: Colin Leinster, 'Vietnam: Business Rushes to Get in', Fortune, April, 1993, p. 21

Table - 9. Total External Debt (million \$)

Long-term debt		Use of IMF credit		Short-term debt		Total External debt	
1980	1993	1980	1993	1980	1993	1980	1993
40	21,55	0	100	0	2,750	40	24,224

Source : *World Development Report 1995*, 'Workers in an Integrating World, 1995', The International Bank for Reconstruction and Development, The World Bank, Washington DC, p 200).