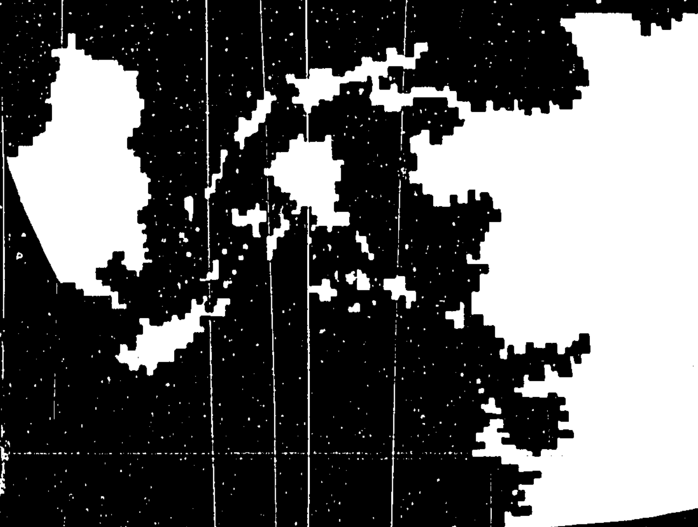
Country Studies
Number 12

VIETNAM

Socialist Economic Development 1955–1992



International Center for Economic Growth

Since 1985 the International Center for Economic Growth, a nonprofit international policy institute, has contributed to economic growth and human development in developing and post-socialist countries by strengthening the capacity of indigenous research institutes to provide leadership in policy debates. To accomplish this the Center sponsors a wide range of programs—including research, publications, conferences, seminars, and special projects advising governments—through a network of over 300 correspondent institutes worldwide.

The Center is affiliated with the Institute for Contemporary Studies and is headquartered in Panama with the administrative office in San Francisco, California.

For further information, please contact the International Center for Economic Growth, 720 Market Street, Fifth Floor, San Francisco, California 94102, USA. Phone (415) 981-5353; fax (415) 433-6841.

PN-ABS-121

ISN 89561

Vietnam

Socialist Economic Development, 1955–1992

Dang T. Tran

An International Center for Economic Growth Publication

ICS PRESS

San Francisco, California

Publication signifies that the International Center for Economic Growth believes a work to be a competent treatment worthy of public consideration. The findings, interpretations, and conclusions of a work are entirely those of the authors and should not be attributed to ICEG, its affiliated organizations, its Board of Overseers, or organizations that support ICEG.

Inquiries, book orders, and catalog requests should be addressed to ICS Press, 720 Market Street, San Francisco, California, 94102, USA. Telephone: (415) 981-5353; Fax: (415) 986-4878; book orders within the contiguous United States: (800) 326-0263.

Library of Congress Cataloging-in-Publication Data

Tran, Dang T., 1944–
Vietnam : Socialist economic development, 1955-1992 / Dang T. Tran.
p. cm. — (Country studies ; no. 12)
Includes bibliographical references.
ISBN 1-55815-316-0
1. Vietnam—Economic policy. 2. Communism—Vietnam. I. Title. II. Series: Country studies (San Francisco, Calif.) ; no. 12.
HC444.T68 1994
338.9597—dc20 94-8699
CIP

Contents

List of Tables

Preface

We are pleased to publish *Vietnam: Socialist Economic Development, 1955–1992* as the twelfth in our series of Country Studies, discussing the broad effects of both macro- and microeconomic policies in developed and developing countries.

Vietnam has overcome serious economic crises to reach its current state as an economy with strong growth prospects. The government learned many valuable, but painful, lessons that enabled it to survive and stand firm on its commitment to the socialist path of economic development—despite the crisis the ideology faces around the world today.

Vietnam followed the Maoist tradition of "socialist transformation," organizing its labor force into collectives and taking control of the means of production before striving to increase productivity through mechanization and similar means. The Vietnam leadership aimed for socialist development of heavy industry, followed by light industry and agriculture. This strategy actually arrested the development of the country and brought it to the brink of collapse after the Vietnam War ended in 1975. In the face of the crisis, Vietnam's leaders embarked on the first limited reform, the New Economic Management Mechanism. In 1986 they implemented a more extensive reform, *Doi Moi*. These reforms toward a market economy, particularly the second, halted the decline and boosted labor and capital productivity.

Dang Tran's analysis of Vietnam's unique experience reveals a number of factors that contributed to the country's development crisis, such as the misguided emphasis on heavy industry at the expense of agriculture and consumer goods, the tax system heavily biased in favor of distribution and cooperativization, and the morbid fear of ideological deviation.

Now Vietnam's leaders are willing to accept many institutions and policies that they previously despised as decadent capitalist practices. Professor Tran warns, however, that even though the fever of this new openness in the Vietnam economy can be particularly alluring to foreign investors, it is important to examine the leadership's long-term goals. Seeing no contradiction between economic reforms and communist orthodoxy, the leaders view the reforms as "the period of transition to socialism." Whether Vietnam's leaders are right is for history to determine. In the meantime, Dr. Tran has provided us with a fascinating analysis of this transitional economy. We hope it will be useful especially for policy makers in other transitional economies, trying to manage transformation to market economies.

Nicolás Ardito-Barletta
General Director
International Center for Economic Growth

Panama City, Panama
May 1994

Acknowledgments

Special thanks to Dr. Seiji Naya and Dr. William James of the East West Center; to my colleagues, Professors Don Snyder, Neil Garston, and Ed Ochoa for their helpful suggestions; and particularly to Professor Gale Johnson of the University of Chicago for his valuable comments. I am also indebted to Dr. Vu Viet at the Statistical Office of the United Nations for sharing his insights with me in our numerous discussions. I am particularly grateful to an anonymous reviewer for his detailed comments and suggestions. Despite this, I alone am responsible for any errors contained herein. Without the help of Mr. Lawrence Chickering of the International Center for Economic Growth at the various stages of preparation, the manuscript might not have been completed. Last, but not least, many thanks to Ms. Debbie Reece, assistant editor at the Institute for Contemporary Studies, and Ms. Joanne McClintock, copy editor, for their dedication in getting this book in print.

About the Author

Dr. Dang T. Tran is associate professor of economics at California State University, Los Angeles. He served as director of research and planning and as chief economist for the Ministry of National Planning and Development of South Vietnam in 1971 and 1972. He has taught economics at the University of Baltimore and at Utica College of Syracuse University. He received his education in economics at Syracuse University and the University of Western Australia, where he graduated with honors. In the last decade, he has written for a number of economic journals and publications. Professor Tran is a member of the American Economic Association, the Econometric Society, the Eastern Economic Association, and the Western Economic Association.

DANG T. TRAN

Vietnam: Socialist Economic Development, 1955–1992

The ultimate objective of the Vietnamese revolution was to build a socialist society with "new productive forces" and "new production relations." Production relations means the relationship among people in the production, distribution, and exchange processes. In the capitalist system, production relations between employers and employees are viewed as exploitative by virtue of the former's ownership of the means of production. Productive forces consist of people, machines, and natural resources. To build new productive forces, it was necessary to pay attention to economic levers that could raise labor productivity. This transformation was called "socialist construction." But to build new production relations, capitalist properties must be seized and the capitalist sector (or the feudalistic sector in agriculture) eradicated. The individualist economy of the peasants and craftsmen had to be transformed into collectives and socialist ownership of the means of production. This was referred to as "socialist transformation."[1]

During the socialist transformation, class struggle, that is a struggle between the socialist and capitalist tendencies, must be maintained. The corollary of this imperative was the egalitarianism principle that stated that income had to be roughly equalized across the classes.[2]

The Vietnam leadership conceived an end vision of a socialist state with large-scale agriculture and heavy industry as its foundation.[3] In such a socialist utopia, the government played a central role in managing all aspects of the economy from production to distribution including control over agricultural cooperatives, since they would eventually be merged into large-scale state farms.

The choice of which of the two processes comes first, building the new productive forces or new production relations, depends on which doctrine is followed. For Lenin, "Without a [large] industry, the cooperatives could not be consolidated." Vietnam leaders, however, adopted the Maoist notion that building the new production relations must precede the building of new productive forces. During the transition period in which the degree of mechanization in agriculture is low, collectivization where labor can be organized on a large scale can partly substitute for mechanization.[4] To increase the level of mechanization, top priority has to be given to heavy industry, which when fully developed will raise labor productivity in agriculture sufficiently. From this point of view, heavy industry must be accorded absolute priority over the development of agriculture and light industry (consumer goods).[5] In other words, the order of priority in the strategy of Vietnamese socialist development was heavy industry, light industry, and agriculture.[6]

Given the relative resource endowment and limited state of technical knowledge, the strategy of collectivization in agriculture and top priority for heavy industry actually arrested the development of the country and brought it to the brink of collapse after the war ended in 1975. Facing a crisis of an enormous magnitude, the Vietnam leaders embarked on a limited reform in 1979 and a more extensive reform in 1986. These reforms halted the decline and gave the Vietnamese regime a chance to survive in the face of the global retreat of socialism.

The organization of this monograph is as follows: Historical background on the socialist transformation in the North before 1975, the postwar economic crisis, and the institutional and policy origins of the crisis are discussed in the first section; the first economic reform is discussed in the second section; the second reform is covered in the next section; and the conclusion is given in the last section.

Historical Background

Socialist Transformation During 1955–1974. After the long war against the French, North Vietnam faced a severe economic crisis with high unemployment, food shortage, and widespread poverty. The manufacturing sector was quite small. The few important factories that formed its backbone were either destroyed or moved to the South. Faced with a shortage of 200,000 metric tons of rice that used to be supplied by the South, North Vietnam was determined to raise agricultural productivity through moral incentives. In a land reform, which ended in 1957, 810,000 hectares, or 37 percent, of the cultivable land were expropriated and distributed to 2.1 million families, or 72.8 percent of the rural population (together with hundreds of thousands of attached farm tools, cattle, and homes).[7] But the violence allowed by the government during its implementation resulted in at least 15,000 innocent people being killed.[8]

The land redistribution program was part of a collectivization strategy that included a cooperativization drive. The latter began with the work-exchange teams in which the peasants performed production activities collectively on their own land. Then these teams were upgraded into low-level cooperatives in which the individual families pooled their land to be cultivated collectively. They received rent in return for the land ownership. They also received a (wage) payment in paddy according to each family's work share calculated on the basis of its daily work points. Alternatively, the peasants could choose the high-level cooperatives in which they surrendered their land and draft animals to the collectives and were only paid wages for their labor. In 1955, 44 percent of the families joined the work-exchange teams. The ratio increased to 50 percent in 1956 but fell sharply to 22 percent in 1957 because of the adverse effect of the land reform implemented. The ratio of the families belonging to the high-level cooperatives was only 2 percent in 1959 but rose to 40 percent in 1963.[9] The main incentive in this drive for cooperativization was differential taxes, whose rate for cooperatives was 40 to 50 percent lower than for noncooperatives.[10]

Since the beginning of the communist regime in the North in 1955, there has been an acute concern about rice shortage. The government leaders referred to this as "the question of food" and the "battle of rice."[11] They thought that cooperativization in agriculture would provide the solution to the food problem once and for all. During 1955–1964, however, rice production rose at an annual average rate of only 1.9 percent and fluctuated a great deal from year to year. For the whole 20 years (1955–1975), it increased in 11 years but decreased in 8 years (unchanged in 1975).[12]

The peak in rice production for the 1955–1975 period occurred in

1959 with 5.2 million metric tons—only 49 percent higher than 1955.[13] Though annual population growth was estimated between 2.1 percent (United Nations figure) and 3 percent (official figure), the per capita rice output actually fell during 1955–1975. Per capita quantity of milled rice was only 153.4 kg in 1970 compared with 172.3 kg in 1960.

In the industrial sector, a similar cooperativization and nationalization drive was in effect. In 1955, the wholly private enterprises accounted for 17 percent of the industrial output. They belonged to private individuals who remained in North Vietnam after the division of the country in 1954. The firms abandoned by the French or the Vietnamese who had fled to the South became nationalized. The remaining private firms were forced into joint state-private enterprises in which plants, equipment, inventory, and capital funds were handed over to the state. The former owners received a 6 to 8 percent interest rate per annum on their contributed capital and were employed in various capacities by their former firms. These "interest payments" were, in practice, a form of compensation paid in installments over a certain period of time.[14] By 1960, the private sector practically no longer existed.[15]

Even the wholesale and retail trade was not exempted from government control. In 1958, the trade sector was almost totally private. Two years later, 99 percent of the sector became joint state-private enterprises (called "national capitalist" by the government). In particular, the share of private enterprise in retail trade shrank from 79.9 percent in 1955 to 7.9 percent in 1963 while the share of the state and cooperative enterprises soared from 20.1 percent in 1955 to 86.9 percent in 1963.[16]

In terms of labor force proportion, although the agricultural sector decreased in size over time, with its 76.0 percent of the labor force in 1971, it still dominated the economy throughout the 1955–1975 period.[17] In the same period, the proportion of the labor force employed in industry rose from 7.3 percent to 12.4 percent. The industrial output share in the gross material product (GMP)[18] followed the same trend, increasing from 24.3 percent in 1957 to 43.9 percent in 1971 while agriculture output share fell from 41 percent to 30.5 percent.[19] During 1965–1968, because of the intensity of the war, rice production and industrial output declined by 3.8 percent and 2.4 percent, respectively, from the 1961–1964 average level.[20]

Since the public sector played the dominant role in the economy, the budget had been used as an instrument in distributing national income among sectors and groups of workers. True to the leadership's goals, industry was given priority over agriculture. Within the industrial sector, investment in heavy industry expanded at the expense of light industry, consumer goods industry, and export industry. The reasons for the lack of emphasis on agriculture, even though the leadership was genuinely concerned with food production, were many. First, the leaders believed in the dogma according to which the capitalist industrialization starts with the building of light industry and socialist industrialization starts with heavy industry.[21] Second, they believed that the land reform and cooperativization drive would generate the peasants' enthusiasm, which would, in turn, boost agricultural production. Third, the development of heavy industry would provide abundant inputs and machinery for the agricultural sector, which would raise agricultural productivity and land yield. The data reflect clearly this policy.

In 1955, the share of industrial investment in total budgetary investment (TBI) was 6.9 percent. During 1955–1964, industry on the average accounted for 35.3 percent of TBI versus 16 percent for agriculture.[22] Locally run industry received an insignificant share of the total investment (1.4 percent) compared to centrally run industry (33.8 percent).[23]

During 1960–1975, the investment structure showed little change. The average share of industry and agriculture was 37.2 and 15.4 percent, respectively.[24] Similarly, heavy industry absorbed an average 78.7 percent of the industrial investment, with the remaining 21.3 percent going to light industry.[25]

In sum, North Vietnam pursued an economic development program through fast collectivization, lack of emphasis on agriculture, and favoring producer goods over consumer goods. We would expect, as a result of such policies, a serious imbalance between food supply and its demand, between consumer goods supply and farmers' demand for them. The consumers were forced to sacrifice more in the present in exchange for the promise of an ever-elusive future consumption. This policy might work in the short run, but it is not likely to work in the long run. For uncorrected long-term disequilibrium will eventually lead to runaway inflation which, if suppressed, will cause profound resource misallocation, disincentiveness, and stagnation in the productive system.

Available evidence appears to support the above conclusion. During the 1956–1958 period, the supply of consumer goods was lagging behind fast-growing demand, which was driven by an expansion of the money supply and bank credit to finance capital investment and state activities as well as by peasants' savings being released into the market. Retail sales rose by an average 25.2 percent a year while credits granted by the state bank expanded at a rate of 147 percent a year. The government's answer to the inflationary pressure was to apply a large-scale monetary reform in 1959. The government announced a new currency exchange in which a new dong would be worth 1,000 old dong. But the effect of the policy lay in the limit of 2,000 new dong (equivalent to US$557 according to the new official exchange rate) that the owner could exchange. For any amount above this ceiling, the owner had to deposit it in a frozen account. This hurt a small group of about 4,000 wealthy capitalist families the most. A crisis ensued in 1960. But since the root of the problem, which lay in the rate of money expansion, was not eradicated, inflation subsided for a while only to resurface two years later.[26] According to official sources, during the 1959–1962 period, commodities available for retail sales increased by an average 7.2 percent a year while credits grew by an average 56.4 percent a year.[27] In addition, since the rice crop fell at an annual rate of 4.1 percent during 1960–1963, inflationary pressures remained strong throughout the period and were abated only in 1964–1965, when production of rice and consumer goods rose.

Substantial foreign economic aid in the form of both capital and consumer goods, particularly rice and wheat, from other socialist countries made up for the shortfalls, alleviating the pressures somewhat. Thus, foreign aid was not only the backbone of accumulation for investment as Max Spoor (1987, p. 354) observed but was also absolutely vital to its economy. In fact, foreign aid formed an average of about 11.3 percent of North Vietnam's gross national product (GNP) during 1955–1960 while for South Vietnam the average ratio during 1960–1968 was only 6.6 percent.[28] The war that followed further reduced the aggregate supply of domestic goods, exacerbating the imbalance. Food prices in the unorganized market rose 99 percent and 20.1 percent in 1973 and 1974, respectively.[29]

The Postwar Economic Crisis. The sudden and rather unexpected victory over the South presented the North with a host of problems: differences in the standards of living and mode of production between the two regions, huge urban unemployment, lack of security and loyalty among a significant segment of the population in the South, and reconstruction of industries and agriculture for the whole nation. To cope with these problems, the second five-year plan (1976–1980) (SFYP) was introduced.[30] The plan gave temporary priority to the development of agriculture and consumer goods, particularly in the food industry. Heavy industry was relegated to third priority and exports, the fourth.[31] National income was projected to grow at 13 to 14 percent a year, agriculture at 8 to 10 percent a year, and industry at 16 to 18 percent a year. Food production was to rise to 21 million tons with rice output increasing to 18 million tons in 1980. In the 1978 annual plan, it was announced that 33 percent of total investment would be allocated to agriculture and 32 percent to industry. Out of the latter, 71 percent would be given to heavy industry.[32]

The overly optimistic plan targets reflected the euphoria experienced by the leaders after the military victory. It was thought that if such a seemingly impossible war could be won, then economic development would be a much easier task. But economic problems have proved to be quite difficult, and socialist economic problems are even more intractable. Real gross domestic product (GDP) grew only at an annual average 1.7 percent during the SFYP period (Table 1). Similarly, agricultural output grew at only 3.8 percent a year and industrial output at 3.2 percent (Table 1). Only 14.4 million metric tons of foodgrain and 11.6 million metric tons of rice were attained in 1980 (Table 2; see Table 3 for a breakdown of industrial production). Gross fixed investment (GFI) fell at an annual rate of 6.3 percent during 1979–1981. Except in 1977 when investment in agriculture rose by almost 50 percent owing to the construction of an extensive irrigation network in the South,[33] the share of agriculture in GFI was not even 31 percent as planned but actually only 22.7 percent, and this ratio dropped to 19 percent in 1980 (Table 4). Similarly, industry share in GFI was not the planned 33 percent but actually 39 percent in 1978, rising to 41 percent in 1980.

The same economic system and policy that had carried the leaders to victory were confidently applied. The Vietnam leadership thought that general collectivization and occasional ideological checks (as demanded by the law) of the class struggle would generate enthusiasm among peasants and workers, thereby enhancing productivity and contributing to the development of both agriculture and industry. The system required a personal sacrifice equal to that which could be demanded only in war. In peacetime, it became self-destructive and brought down the leaders and the population with it. It caused a recession, which first began in agriculture then spread to industry. The

TABLE 1 Some Basic Growth Indicators (percent change from previous year)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP at 1982 prices[a]	9.0	2.0	2.2	−0.5	−3.7	5.1	8.2	5.9	5.1	5.7	6.5	3.4	4.6	2.7	2.3
Gross agricultural output[b]	10.2	−5.7	−1.8	8.7	7.5	3.8	10.4	3.3	5.3	1.8	4.8	0.4	4.3	7.4	1.6
Gross industrial output[b]	12.6	6.1	11.1	−3.3	−10.3	1.0	8.7	13.1	13.1	12.1	6.2	10.0	14.3	−3.3	3.1
Real GDP per capita	6.3	−0.4	0.2	−2.6	−5.9	2.8	5.7	3.7	2.8	3.6	4.4	1.1	2.6	1.6	−0.5
Agricultural OPPE[c]	—	−9.1	−2.8	7.4	2.7	1.1	7.6	0.2	3.3	−14.8	0.3	0.3	0.3	6.1	−3.1
Industrial OPPE[c]	—	0.3	14.3	−4.9	−14.9	1.7	6.6	12.4	9.1	1.8	5.1	5.1	5.1	12.6	15.9
S&JSP enterprises	—	8.8	−4.0	−19.7	−8.9	1.0	2.2	5.0	7.4	8.4	5.4	5.4	5.4	5.2	11.4
Cooperatives	—	−6.2	61.5	30.6	−22.9	−2.0	9.0	19.6	9.0	−23.3	2.8	2.8	2.8	−4.6	37.5
Private sector[d]	—	−34.5	12.3	13.5	−5.5	10.2	15.0	11.5	10.3	−10.9	0.7	0.7	0.7	29.1	1.3
OPID															
All sectors	—	−18.3	−6.4	2.0	2.9	16.8	7.8	−17.7	−16.1	−1.2	28.7	32.7	−0.3	−1.6	−8.5
Agriculture	—	−36.3	−6.2	25.7	21.5	7.3	35.8	−20.3	−26.3	−1.6	26.9	30.8	−5.6	59.3	−25.5
Industry	—	−13.5	−5.3	−14.6	−7.9	−1.2	5.8	3.1	8.0	11.2	10.8	10.8	10.8	−14.7	20.4
Heavy industry	—	−14.9	−14.9	−14.9	−3.9	−19.1	13.5	—	—	—	—	—	—	—	—
Light industry	—	−5.1	−5.1	−5.1	−11.0	76.1	9.2	—	—	—	—	—	—	—	—

NOTES: Dash = not available. OPPE: output per person employed. OPID: output per investment dong. S&JSP: state and joint state-private. SRV: Socialist Republic of Vietnam.

a. Figure for 1976 from *Far Eastern Economic Review* (hereafter *FEER*), December 2, 1979, which quotes an earlier IMF report. Figures for 1977–1980 come from *IMF Report, 1985.* The SRV adopts the Soviet-type national income accounting system, which excludes the value of nonmaterial service and depreciation from national income. I followed the IMF method in computing GDP for 1981–1985 using *Nien Giam Thong Ke*'s data by adding 30 percent of GDP for service and 10 percent of GDP for depreciation to national income.

b. Figure for 1976 from *FEER* and the rest from *Nien Giam Thong Ke, 1985* and *Nien Giam Thong Ke, 1990* (hereafter *NGTK, 1985* and *NGTK, 1990*, respectively).

c. Figures for 1986–1988 are extrapolated as they are not available in *NGTK, 1990.*

d. Consists of individual owners of private business firms.

SOURCE: See notes a and b.

TABLE 2 Gross Domestic Product, Agricultural Output, and Other Agricultural Indicators

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Real GDP (bil. of dong at 1982 prices)	200.448	204.457	208.955	207.910	200.217	210.428	227.683	241.116	253.413	267.823	285.232	294.929	308.496	316.826	324.113
Gross agricultural output (bil. of dong at 1982 prices)	66.297	62.510	61.401	66.743	71.742	74.500	82.254	85.001	89.472	91.669	96.044	96.383	100.550	108.033	109.707
Population (mil.)	49.2	50.4	51.4	52.5	53.7	54.9	56.2	57.4	58.7	59.9	61.1	62.5	63.7	64.4	66.2
Foodgrain production (mil. of metric tons)	13.5	12.6	12.3	14.0	14.4	15.0	16.8	17.0	17.8	18.2	18.4	17.6	19.5	21.5	21.5
Area of grain cultivation (thousands of ha.)	6,192.2	6,640.5	6,780.1	6,921.6	7,019.3	6,984.2	6,968.1	6,775.2	6,817.3	6,833.6	6,812.3	6,709.9	6,967.8	7,089.6	7,110.9
Rice production (mil. of metric tons)	11.8	10.6	9.8	11.4	11.6	12.4	14.4	14.7	15.5	15.9	16.0	15.1	17.0	19.0	19.1
Area of rice cultivation (thousands of ha.)	5,297.3	5,468.7	5,462.5	5,485.2	5,600.2	5,651.9	5,711.3	5,611.0	5,675.0	5,703.9	5,688.6	5,588.5	5,726.4	5,895.8	6,027.7
Average rice yield (metric tons per ha.)	2.23	1.94	1.79	2.07	2.08	2.20	2.52	2.63	2.73	2.78	2.81	2.70	2.97	3.23	3.19
Per capita milled rice (kg)	156.0	137.0	123.9	141.1	140.4	146.8	131.9	166.5	172.0	172.5	170.2	157.0	173.5	191.8	187.5
Fertilizer availability (thousands of metric tons)	571.0	—	—	409.0	412.0	627.0	956.0	1,200.0	1,600.0	1,998.6	—	—	2,846.5	2,211.9	2,439.4
Fertilizer per ha. (kg)	92.2	—	—	59.1	58.7	89.8	137.2	177.1	234.7	292.5	—	—	408.5	312.0	343.1
Cooperativization[a] (cooperative membership as % of total peasant families)	96.5	93.2	94.5	96.6	65.6	65.0	65.4	65.7	65.8	67.4	—	—	—	—	—

NOTES: Dash = not available. For method of computing GDP, see Table 1 notes.
a. Figures from 1976 to 1979 are for North Vietnam only.
SOURCES: *NGTK, 1985,* tables 2, 27, 29, and 78. *NGTK, 1990,* tables 41 and 161. *IMF Report, 1985,* Table 14.

TABLE 3 Industrial Production (in billions of dong at 1982 prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Gross industrial output	65.3	69.3	77.0	74.7	66.9	67.6	73.5	83.0	94.0	103.3	109.6	120.6	137.8	133.3	137.5
By sector															
Heavy industry	25.2	—	—	27.2	25.3	24.3	28.8	28.3	30.9	32.4	33.6	37.3	41.3	40.6	48.0
Light industry	40.1	—	—	47.5	41.6	43.3	44.6	54.7	63.1	70.9	76.0	83.3	96.5	92.8	89.5
By management															
CREs	29.3	34.2	35.5	31.0	24.4	25.0	26.2	29.1	32.6	35.1	37.0	39.6	44.4	47.0	54.2
Heavy industry	—	—	—	—	13.7	12.9	—	16.0	17.7	18.5	19.8	21.6	24.3	26.0	31.3
Light industry	—	—	—	—	16.7	12.1	—	13.1	14.9	16.6	17.2	18.0	20.2	21.1	23.0
S&JSP enterprises	29.3	34.2	35.5	31.0	24.4	25.0	26.2	29.1	32.6	35.1	37.0	39.5	44.4	47.0	54.2
LREs	36.0	35.1	41.5	43.7	42.5	42.6	47.3	53.9	61.3	68.2	72.6	81.0	93.4	86.3	83.3
Heavy industry	—	—	—	—	11.6	11.4	—	12.3	13.2	13.9	13.8	15.7	17.0	14.6	16.7
Light industry	—	—	—	—	30.9	31.1	—	41.7	48.1	54.3	58.8	65.3	76.4	71.7	66.6
S&JSP enterprises	13.2	15.2	17.2	13.9	15.9	14.9	15.3	17.1	20.2	23.1	24.7	27.9	33.5	28.9	26.3
SS&HIs	22.8	20.0	24.4	29.8	26.6	27.7	32.0	36.8	41.1	45.1	47.9	53.1	60.0	57.3	56.9
Cooperatives	10.0	8.5	13.0	18.6	16.3	15.3	16.2	18.6	21.4	26.8	30.8	32.6	33.0	21.0	16.8
Private sector	12.8	11.5	11.4	11.2	10.4	12.4	15.9	18.2	19.7	18.3	17.1	20.5	27.0	36.3	40.1
By ownership															
S&JSP enterprises	42.6	49.3	52.6	44.8	40.3	39.9	41.4	46.2	52.8	58.2	61.7	67.4	77.9	75.9	80.5
SS&HIs	22.8	20.0	24.4	29.8	26.6	27.7	32.0	36.8	41.1	45.1	47.9	53.1	60.0	57.3	56.9
Cooperatives	10.0	8.5	13.0	18.6	16.3	15.3	16.2	18.6	21.4	26.8	30.8	32.6	33.0	21.0	16.8
Private sector	12.8	11.5	11.4	11.2	10.4	12.4	15.9	18.2	19.7	18.3	17.1	20.5	27.0	36.3	40.1

NOTES: CREs: centrally run enterprises. LREs: locally run enterprises. S&JSP: state and joint state-private enterprises. SS&HIs: small-scale and handicraft industries. Private sector: individual owners of private business firms. Dash = not available. Errors due to rounding.

SOURCES: *NGTK, 1985*, tables 82, 83, 85, 86 and *NGTK, 1990*, Table 23. Figures for 1976–1979 and 1982 are estimated based on *NGTK, 1985*, Table 82, and the *IMF Report, 1985*, Table 3.

10

TABLE 4 Gross Fixed Investment in Key Sectors (in billions of dong at 1982 prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Gross fixed investment[a]	12.808	15.995	17.477	17.047	15.959	14.351	14.407	18.538	23.226	24.839	20.559	16.020	16.800	17.532	19.596
By sector															
Agriculture	2.562	3.792	3.972	3.434	3.038	2.939	2.390	3.101	4.427	4.609	3.806	2.920	3.226	2.176	2.966
Industry	4.087	5.013	5.881	6.674	6.499	6.644	6.830	7.486	7.842	7.752	—	—	7.632	8.654	7.416
Heavy industry[b]	2.759	—	—	4.832	4.686	5.574	5.819	—	—	—	—	—	—	—	—
Light industry[b]	1.328	—	—	1.842	1.813	1.070	1.011	—	—	—	—	—	—	—	—
Transportation	2.699	2.656	2.988	3.266	3.037	2.008	2.494	3.189	4.896	4.455	—	—	2.134	2.305	3.214
Trade	0.577	0.565	0.526	0.393	0.248	0.286	0.320	0.525	0.803	1.050	—	—	0.519	0.410	0.548
Other	2.883	3.969	4.110	3.280	3.137	2.474	2.373	4.237	5.258	6.973	—	—	3.289	3.987	5.453
By management															
CREs	8.034	9.446	10.084	11.343	11.742	11.283	10.832	13.215	14.098	13.807	12.101	9.404	10.795	12.312	12.280
LREs	4.775	6.549	7.393	5.704	4.217	3.068	3.577	5.325	9.128	11.032	8.458	6.616	6.005	5.220	7.317
Increase in capital stock[c]	7.629	9.092	8.858	8.527	9.551	8.271	7.126	11.110	11.600	15.658	8.811	8.324	6.982	8.698	13.091

NOTES: For CREs and LREs, see note in Table 3. Dash = not available.

a. Expenditures on plants, equipment, land, and the like.

b. Estimated based on *IMF Report, 1985*, Table 13.

c. Based on capital projects already completed and handed over to the responsible agencies.

SOURCES: *NGTK, 1985*, tables 104, 105, and 107. *NGTK, 1990*, tables 107, 109, and 110.

Cambodian invasion and the Chinese border attack aggravated the recession, causing a general slump in 1980. The economy, already slowed down considerably in 1977, was driven to an imminent collapse in 1978–1979 by the cooperativization drive and a stern monetary reform.

Agriculture. In the South, after the first wave of land confiscation and arbitrary redistribution of land ownership in favor of cadres and members of the Communist Party of Vietnam (CPV), the Vietnam leadership agreed in November 1975 upon a gradual, step-by-step approach to collectivization in all sectors of the economy.[34] In agriculture this meant that the peasants would be persuaded to first join the labor-exchange teams, then to form low-level cooperatives, which would then be upgraded to higher-level ones.[35] At the time, the southern members of the Provisional Revolutionary Government (PRG) were pressing for a go-slow approach and became quite vocal in their demand. Fearing that their demands could get out of control, which might end up turning the South into an autonomous region, the CPV decided in its Second Plenum in July 1977 to hasten the pace of collectivization.[36] During 1975–1976, farmers were allowed to retain ownership of land and had an option to join labor-exchange teams. The new directive in January 1978 abolished this option and specified that initial forms of cooperative organizations such as mutual-aid teams and production collectives must be completed by the end of 1978. At the same time in early 1978, growing confrontation with Peking on the Hoa (Chinese Vietnamese) question and on Cambodia accelerated the campaign to transform private industry and commerce through expropriation and collectivization to take control of the economy, particularly food distribution.[37]

The peasants resisted the cooperativization in the South by dispensing land to grow noncontrolled products. For instance, ponds were dug to raise fish and shrimp, more land set aside to grow fruits and vegetables instead of grain. They also refused to adopt intensive-farming methods. The resistance was apparently quite strong, particularly in the southeast region, which covers Ho Chi Minh City, formerly Saigon, and the Mekong Delta. One official source indicated that 75 percent of the collectives established in 1979 collapsed by the beginning of 1980.[38] There was no increase in the proportion of peasant families joining cooperatives during 1980–1983: It remained at 25.5 percent for the South compared with 65.5 percent for the whole country.[39]

One factor that particularly discouraged peasants from joining cooperatives was the social welfare burden cooperative members must shoulder. Cooperatives supported a large number of nonproductive members such as party cadres, the unemployed, the poor, and the like. During 1984–1985, a typical cooperative had on the average 558 producing members who must support the remaining 1,030 nonproducing members, which implies a participation rate of 35.1 percent compared with that of 47.7 percent for the whole economy. In general, agricultural production cost accounted for 50 percent of the producer price. The remaining 50 percent went to investment, orphans, widows, and salaries for party cadres. The latter constituted extra expenses for cooperatives' members. It was estimated that the expenses were 35 percent higher for cooperative members than for nonmembers. Nonmembers, however, were able to eliminate waste caused by theft, fraud, lack of care for common property, or simply poor management and thereby cut their cost down to 15 percent of the producer price.

In the 1977–1980 slump, the agricultural sector suffered most (see Table 2). Agricultural output declined at a rate of 3.8 percent per year during 1977–1978. Rice production decreased by 8.9 percent per year during this period. Foodgrain production decreased steadily from the 1976 level of 13.5 million metric tons to 12.3 million metric tons in 1978. One saw a similar steady fall in average rice yield from 2.23 metric tons per hectare per crop in 1976 to 1.79 in 1978 and 2.08 in 1980. For the fertile Mekong Delta, the area most affected by the drive, paddy yield languished between 2.26 and 2.28 metric tons per hectare for 1976–1981 despite greater fertilizer availability.[40] The southeast region was in no better shape. Its yield hardly improved beyond the 1976 level, which was 1.89 metric tons. The 2.5-metric-tons-per-hectare rice yield that had been achieved by South Vietnam in 1975 was reached by unified Vietnam only in 1982. Per capita milled rice dipped below the 1976 level by between 6 to 20 percent during 1976–1982. Real agricultural output per person employed declined at an annual rate of 1.5 percent during 1976–1979 (Table 1). Likewise, real agricultural output per investment dong decreased by 5.7 percent per year during the same period. The plunge in rice production was attributable to three major factors: forced collectivization; erroneous pricing policy; and irrational, government-controlled distribution of rice.[41]

Industry. From the peak of 12.6 percent in 1976, growth in gross industrial output slid steadily downward until it culminated in a spectacular plunge of 10.3 percent in 1980 (see Table 1). A typical enterprise in the South operated below 50 percent of capacity, partly because of shortage of spare parts, energy, and raw materials and partly because of uncertainty and lack of enthusiasm. The closest measure of average capital productivity that can be computed from available official data is output per investment dong (OPID) at 1982 prices. OPID in industry fell by 8.5 percent per year during 1977–1981. Output per person employed (OPPE) of the state and joint state-private (S&JSP) industrial enterprises fell 10.9 percent per year during 1978–1980. Similarly, industrial cooperatives' OPPE plunged 22.9 percent in 1980. In the same year, however, the private industrial sector's OPPE decreased by only 5.5 percent (Table 1).

For individual branches of industry, food and foodstuffs and printing industries were most affected by the socialist transformation. The printing industries dwindled to such a point that their share in industrial output was no longer significant. Food and foodstuffs declined at an annual rate of 7.8 percent during 1976–1979. Its share in industrial production shrank from 33.4 percent in 1976 to 22.4 percent in 1979. 1980 was a depression year for most industries despite the initiation of an economic reform. Production in virtually all major industries contracted in 1980.

In 1975 immediately after the take-over of the South, 43.6 percent of nationwide industrial output was estimated to be produced by the private sector. One year later during the first phase of collectivization, as many of the private businesses were nationalized or forced to become joint state-private enterprises, the share of the private sector in industrial output dropped to 19.6 percent (Table 3). In 1977, its labor productivity, as measured by OPPE, plummeted by 34.5 percent.

Even the state sector in industry was not immune from the effect of the slump. Its labor productivity fell by 11.4 percent per year during 1978–1980. There are three reasons why the state sector was hard hit during 1978–1980. First, socialist transformation sharply reduced the private supply of raw materials and inputs, allowing the state enterprises to operate at only 30 to 50 percent capacity. Second, in the war with China many of the plants and much of the equipment of some heavy industries, such as the Thai Nguyen Iron and Steel Complex and apatite mine, were destroyed. Third, markets and sources of important raw materials were cut off following the breakup with China. Particularly affected were steel, cement, coal, apatite, and chemical industries.[42] The exodus of ethnic Chinese workers caused a fall in coal production. The loss of US$177.5 million in bilateral and multilateral aid and an unknown amount of Chinese aid resulted in a suspension of many projects in heavy industry such as cement, fertilizer, steel, and paper.[43]

Heavy industry played a pivotal role in the grand plan of the Vietnam leadership. It had been called the foundation of socialism on which every other industry was said to be based. By necessity, its priority had to be deferred for the time being because of the exigencies of the postwar period. It was relegated to the third place in the SFYP. The intentions of the planners, however, were not realized.[44] During 1976–1982, GFI in agriculture hardly rose. The average share of agriculture in GFI during 1976–1985 sank even below the 1976 level (Table 4). During 1976–1982, while GFI in heavy industry grew at an annual rate of 13.7 percent, light industry (consumer goods) fell at an annual rate of 2.3 percent. The latter found its share reduced from 10.4 percent in 1976 to 7.0 percent in 1982 while the share of the former expanded without interruption from 21.5 percent to a stunning 40.4 percent. Thus, investment data dispel any doubt about the absolute priority accorded to heavy industry despite the planners' claim to the contrary in the second five-year plan.

Heavy industry absorbed about three-fourths of the industrial investment during 1976–1985, yet it produced only 36 percent of industrial output. This was because heavy industry grew at an annual rate of only 2.5 percent during 1976–1979.

During 1976–1979, despite the spectacular expansion in its investment, heavy industry's OPID declined at an equally impressive rate of 18 percent per annum compared with the fall of light industry at only 5.7 percent. Labor productivity fell in both industries during 1976–1980.

Dominant control by the state in all aspects of social and economic life was another crucial objective aggressively pursued by the Vietnam leaders. Thus, they attempted to carry over to the postwar era the same policy regarding centralization and state control that had been implemented during the late 1950s and 1960s. Two-thirds of all industrial S&JSP enterprises (3,220 in 1985) were centrally run industrial enterprises (CREs). The locally run industrial enterprises (LREs) consisted of the remaining one-third of the S&JSP industrial enterprises plus small-scale and handicraft industries (SS&HIs). The latter were broken down into cooperatives and individual owners of private businesses. The S&JSP enterprises and cooperatives made up the socialist sector, which during 1976–1985 accounted for about 82 percent of industrial production.

CREs on the average absorbed two-thirds of the GFI during 1976–1985. If we assume a similar share in the industrial GFI for the industrial CREs, it would be surprising to find their output accounted for only 39.4

percent of industrial output. This is because the CREs' industrial output grew at 2.9 percent a year during 1976–1985 compared with 8 percent for the industrial LREs. At the same time, industrial CREs provided only 15.5 percent of industrial employment compared with LREs providing 84.5 percent (Tables 5 and 6). Before reform, industrial output per person employed in CREs declined at an average rate of 0.6 percent a year while that of LREs increased by 6.1 percent a year (Table 7).

The Administrative Supply System and the Three-tier Pricing System. The administrative supply system in North Vietnam was organized throughout 1955–1974 on the egalitarianism principle. It consisted of a network of subsidies and rationing combined with price controls. It was managed by a tremendous bureaucracy.

In agriculture, a production quota was negotiated every year between the government and each cooperative. The quota was sold to the state at a low state-controlled price. In return, the government sold to cooperatives fertilizers, seeds, fuel, pesticides, and consumer goods at comparable low prices. After the peasants paid a tax (about 6 percent of output) and sold their quota to the government, any surplus crops could be sold to the government at the negotiated price in exchange for consumer goods sold by state stores also at negotiated prices. All these were stipulated in the "exchange contracts" made between the government and the cooperatives. Thus the supply of agricultural inputs and consumer goods was designed as a lever to encourage peasants to join low-level cooperatives and procure surplus output from them. During the initial period, any deficits incurred by the poorest cooperatives in new economic zones would be made up by the state in order to bring them to the subsistence or even to the surplus-producing level.

A similar relationship existed in the state industrial enterprises. They bought raw materials and inputs from the government at low prices to produce the target output that had to be sold to the government, also at low prices. All losses were made up by the state budget and eventually by foreign aid and credit from the state bank. The relationship between the productive units and the government could be characterized as a subservient one.[45] The productive units had to receive inputs from and submit output to the government on the latter's order. This hierarchical top-down relationship precluded independent, horizontal transactions between cooperatives or enterprises. Every request or decision by individual enterprises had to go up through several higher echelons for approval. The supervisors in these echelons, however, were not responsible for the enterprises' performance. But neither were the enterprises. Red tape, delay, raw material hoarding, and waste were quite prevalent. It was not uncommon to find excess inventory of raw materials in one enterprise while a nearby enterprise found itself short of the same inputs. It might take the latter months to obtain them.[46] State-run enterprises had no incentive to match expenses with revenue and to minimize costs since any deficits could be covered by a tax exemption, subsidy, overdraft from the state bank, delay on loan repayment, output reduction, or price increase. The right to bargain on administrative prices, subsidies, tax credits, and loans would soften the budget constraint considerably. In addition, the "three-in-one" management principle was adopted whereby a factory manager, who had to share power with the party secretary and the union chief, did not take the blame for the losses; much less would he be sanctioned for mismanagement, substandard and defective products, arbitrary pricing, or overpricing. The government now admits that most state-owned enterprises operated at a loss.[47]

During the war, the American bombing forced North Vietnam to dismantle and disperse factories into the countryside. In the South for the sake of survival, guerrillas operated secretly in small units independent of one another. In such an environment, local initiatives and decentralization of decisions were encouraged. It worked well during the war. Unfortunately, it failed during peacetime. For a large bureaucracy without effective central coordination, relying on patriotism as a main binding force would most probably lead to red tape, work slowdowns, apathy, and cynicism. The Vietnam leadership apparently understood this fact well, as is evidenced by the appeal of Le Duan, the general secretary of the CPV, to the population in 1974 for greater sacrifices and patriotism. However, instead of reforming the price system to give material incentives to peasants, he had so much confidence in the existing supply system that, while acknowledging the irrationality of the low agricultural prices, he brushed aside the need for changing them.[48]

The administrative supply system was transplanted to the South without change in 1975. Before the cooperativization drive took effect, the government focused on boosting production and wresting control of the distribution system from private hands. The government bought surplus grain from the peasants at low prices and then sold it to the public at subsidized prices (Table 8).[49] In the South, peasants could sell surplus crops to private grain merchants, in which case they could not

TABLE 5 Employment and Labor Force (in thousands of persons)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total employment[a]	19,358.0	—	—	—	21,638.5	22,527.2	—	—	25,114.2	26,025.3	—	—	28,477.1	28,939.7	30,286.0
Employment in agriculture[b]	12,734.0	13,211.0	13,346.0	13,511.0	14,147.0	14,527.1	14,900.1	15,361.3	15,646.3	18,808.0	—	—	20,446.0	20,697.5	21,683.1
State sector	137.6	233.0	243.0	261.0	262.0	283.2	298.4	332.2	378.7	408.4	—	—	400.4	384.9	342.5
Cooperatives and private sector	12,596.4	12,981.0	13,102.4	13,250.0	13,885.4	14,243.9	14,601.7	15,029.1	15,267.6	18,399.6	—	—	20,045.6	20,312.6	21,325.4
Employment in industry	2,033.4	2,151.2	2,092.4	2,134.8	2,248.1	2,228.8	2,273.2	2,290.7	2,376.7	2,571.8	—	—	2,945.0	2,531.4	2,251.0
By sector															
Heavy industry	572.2	—	—	—	700.2	1,001.9	—	—	1,078.7	1,157.0	—	—	1,313.1	1,132.4	1,011.2
Light industry	1,461.2	—	—	—	1,547.9	1,226.9	—	—	1,298.0	1,414.8	—	—	1,631.9	1,399.0	1,239.8
By management															
CREs	311.4	318.6	344.0	340.9	343.2	332.5	344.3	369.5	382.7	393.5	—	—	432.5	406.3	400.3
Heavy industry	198.3	—	—	—	219.2	207.9	—	—	241.9	242.8	—	—	258.9	240.7	234.6
Light industry	113.1	—	—	—	121.0	124.6	—	—	140.8	150.7	—	—	173.6	165.6	165.7
LREs	1,722.0	1,832.6	1,748.4	1,793.9	1,904.9	1,896.3	1,928.9	1,921.2	1,994.0	2,178.3	—	—	2,512.5	2,125.1	1,850.7
Heavy industry[c]	373.9	—	—	—	481.0	794.0	—	—	836.8	914.2	—	—	1,054.2	891.7	776.6
Light industry[c]	1,348.1	—	—	—	1,423.9	1,102.3	—	—	1,157.2	1,264.1	—	—	1,458.3	1,233.4	1,074.1
By ownership															
S&JSP enterprises	519.2	553.0	614.8	652.4	643.5	630.7	641.1	682.4	725.5	738.0	—	—	843.9	782.0	743.9
SS&HIs	1,514.2	1,598.2	1,477.6	1,482.4	1,604.6	1,598.1	1,632.1	1,608.3	1,651.2	1,833.8	—	—	2,101.1	1,749.4	1,507.1
Cooperatives	1,024.2	926.0	887.0	967.9	1,101.8	1,050.6	1,023.7	983.3	1,036.6	1,193.8	—	—	1,177.8	786.4	458.1
Private sector	490.0	672.2	590.6	514.5	502.8	547.5	608.4	625.0	614.6	640.0	—	—	923.3	963.0	1,049.0

-18-

Employment in other material production sectors	2,754.8	—	—	—	2,721.2	2,711.2	—	—	2,662.5	2,649.1	—	—	2,901.1	3,121.4	3,245.3
Employment in state sector	2,475.3	—	—	—	3,315.8	3,303.9	—	—	3,657.6	3,867.6	—	—	4,051.7	3,801.3	3,418.4
By type of work															
Nonmaterial production	759.1	—	—	—	1,086.3	1,124.9	—	—	1,270.6	1,319.0	—	—	—	—	—
Material production	1,716.2	—	—	—	2,229.5	2,179.0	—	—	2,387.0	2,518.6	—	—	—	—	—
By management															
CREs	1,114.7	—	—	—	1,338.8	1,330.9	—	—	1,548.2	1,625.0	—	—	1,570.2	1,469.8	1,340.1
LREs	1,360.6	—	—	—	1,977.0	1,973.0	—	—	2,109.4	2,242.6	—	—	2,481.5	2,331.5	2,078.3
Employment in nonmaterial production	1,374.0	—	—	—	1,527.1	1,599.1	—	—	1,773.2	1,768.1	—	—	1,980.4	1,879.7	1,965.6
State sector	759.1	—	—	—	1,086.3	1,124.9	—	—	1,270.6	1,319.0	—	—	—	—	—
Nonstate sector	614.9	—	—	—	440.8	474.2	—	—	502.6	449.1	—	—	—	—	—
Labor force[d]	23,500.0	—	24,500.0	—	25,600.0	26,200.0	—	—	—	—	—	—	31,100.0	—	—
Unemployment rate (%)	17.6	—	—	—	15.5	14.0	—	—	—	—	—	—	8.4	—	—

NOTES: Dash = not available. For CREs, LREs, S&JSP enterprises, and SS&HIs, see note in Table 3.
a. Includes also those who are below or above the working age.
b. Includes only those who are within the working age range.
c. Figures for 1985–1990 are estimated based on the 1985 ratio of heavy industry employment to total LRE employment.
d. The labor force figures are estimated based on that of Vu Quoc Tuan, "Doi Moi Cong Tac Can Doi Ke Hoach, Lay Can Doi Lao Dong Lam Can Cu Xuat Phat," *Nghien Cuu Kinh Te*, vol. 1, no. 101, February 1978.
SOURCES: Computed from *NGTK, 1985*, tables 5, 7, 8, 9, 72, 97, 98, and 100; and *NGTK, 1990*, tables 3, 4, 5, 50, 51, 52, 53, and 54.

19

TABLE 6 Share of Centrally Run and Locally Run Enterprises by Sector (percentage)	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Investment[a]															
CREs	62.7	59.1	57.7	66.5	73.6	78.6	75.2	71.3	60.7	55.6	58.9	58.7	64.3	70.2	62.6
LREs	37.3	40.9	42.3	33.5	26.4	21.4	24.8	28.7	39.3	44.4	41.1	41.3	35.7	29.8	37.3
Industrial production[b]															
CREs	44.9	49.4	46.1	41.5	36.5	37.0	35.6	35.1	34.7	34.0	33.8	32.8	32.2	35.3	39.4
LREs	55.1	50.6	53.9	58.5	63.5	63.0	64.4	64.9	65.2	66.0	66.2	67.2	67.8	64.7	60.6
Industrial employment[c]															
CREs	15.3	14.8	16.4	16.0	15.3	14.9	15.1	16.1	16.1	15.2	—	—	14.7	16.1	17.8
LREs	84.7	85.2	83.6	84.0	84.7	85.1	84.9	83.9	83.9	84.8	—	—	85.3	83.9	82.2
State sector employment[c]															
CREs	45.0	—	—	—	40.4	40.3	—	—	42.3	42.0	—	—	38.8	38.7	39.2
LREs	55.0	—	—	—	59.6	59.7	—	—	57.7	58.0	—	—	61.2	61.3	60.8

NOTES: For CREs and LREs, see note in Table 3. Dash = not available.

a. Table 4.

b. Table 3.

c. Table 5.

SOURCE: See notes a–c.

TABLE 7 Industrial Output per Person Employed (in thousands of 1982 dong)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total	32.1	32.2	36.8	35.0	29.8	30.3	32.3	36.3	39.6	40.3	—	—	46.8	52.7	61.1
By sector															
Heavy industry	44.1	—	—	—	36.1	24.3	—	—	28.7	28.0	—	—	31.5	35.9	47.5
Light industry	27.4	—	—	—	26.9	35.3	—	—	48.6	50.1	—	—	59.1	66.3	72.2
By management															
CREs	94.2	107.3	103.1	90.8	71.2	75.2	76.0	78.8	85.2	89.2	—	—	102.7	115.7	135.4
Heavy industry	—	—	—	—	62.4	62.0	—	—	73.1	76.2	—	—	93.9	108.0	133.4
Light industry	—	—	—	—	138.4	97.2	—	—	105.9	110.2	—	—	116.4	127.4	138.8
LREs	20.9	19.2	23.8	24.4	22.3	22.5	24.5	28.1	30.8	31.3	—	—	37.2	40.6	45.0
Heavy industry	—	—	—	—	24.2	14.4	—	—	15.8	15.2	—	—	16.1	16.4	21.5
Light industry	—	—	—	—	21.7	28.3	—	—	41.6	43.0	—	—	52.4	48.1	62.0
By ownership															
S&JSP enterprises															
per person employed	82.0	89.2	85.6	68.7	62.6	63.2	64.6	67.8	72.8	78.9	—	—	92.3	97.1	108.2
per production worker	97.3	—	—	—	77.0	78.4	—	—	90.9	78.9	—	—	92.3	97.1	108.2
SS&HIs	15.0	12.5	16.5	20.1	16.6	17.3	19.6	22.9	24.9	24.6	—	—	28.6	32.8	37.8
Cooperatives	9.7	9.1	14.7	19.2	14.8	14.5	15.8	18.9	20.6	15.8	—	—	28.0	26.7	36.7
Private sector	26.1	17.1	19.2	21.8	20.6	22.7	26.1	29.1	32.1	28.6	—	—	29.2	37.7	38.2

NOTES: Industrial output is per person employed unless otherwise indicated. Dash = not available. For CREs, LREs, S&JSP enterprises, and SS&HIs, see note in Table 3.

SOURCE: Computed from tables 3, 5, and 19.

21

TABLE 8 Quantity of Foodgrain Procured by the State (calendar year, unless otherwise indicated)

	1980	1981	1984	1985	1988	1989	1990
In thousands of metric tons[a]	1,977.0	2,738.5	3,767.3	3,965.4	3,441.2	2,976.5	2,541.3
As percent of total foodgrain production	13.7	18.2	21.2	21.8	17.6	13.8	11.8
Methods of procurement							
Tax	—	—	—	1,092.9	—	—	—
Two-way contract	—	—	—	1,425.0	—	—	—
Two-way exchange	—	—	—	212.9	—	—	—
Purchase at negotiated price	—	—	—	1,020.7	—	—	—
Other	—	—	—	125.4	—	—	—

NOTES: Dash = not available.
a. By production year.
SOURCES: *NGTK, 1985,* tables 142, 143, and 145. *NGTK, 1990,* Table 148.

buy consumer goods in state stores at negotiated prices. The government, however, was unable to bid against the merchants, as it purchased at too low a price. In fact, procurement prices for agricultural products even fell during 1977 (Table 9). Moreover, if the government paid peasants low prices, it had to sell them consumer goods, fertilizers, pesticides, and fuel at comparably low prices. Unfortunately, the government did not have enough consumer goods to provide them in the exchange.[50] If the peasants did not sell grain to the merchants (usually at twice the government price), they could always feed their hogs and ducks, which they sold at higher profits. As a result, the quantity of grain held by the government was less than that of the merchants, making it impossible for the government to control grain at the low official price. The government then resorted to administrative measures by prohibiting people from carrying a larger quantity of rice than was necessary for their own use. Checkpoints were set up along roads and waterways to enforce the regulation. This mercantilist approach to rescue the government's inability to compete ground the distribution system to a halt. The rice surplus regions could not supply the deficit regions such as Ho Chi Minh City (Saigon). Peasants found it difficult to sell rice even to private traders, for the latter could only distribute small quantities to the needing markets through extensive bribery. As

TABLE 9 Index of Procurement Price for Agricultural Products

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
General index	100.0	98.4	120.4	144.9	253.2	713.3	918.7	1,177.3	1,825.9	3,365.0
Staples and food	100.0	95.8	104.3	121.4	284.5	876.9	1,046.3	1,151.0	1,785.5	3,381.0
Industrial crops	100.0	101.6	121.8	130.9	198.5	350.9	917.9	1,108.0	1,560.0	3,260.0
Wood and forestry products	100.0	100.0	134.4	128.1	118.6	262.5	1,692.7	2,857.0	5,205.0	14,413.0
Livestock and poultry	100.0	97.5	135.9	171.3	244.7	566.5	795.9	1,318.8	2,293.6	3,626.0

SOURCE: *NGTK, 1985,* Table 148.

a consequence, corruption among cadres and officials became rampant.[51] At the same time, the heavily populated areas such as Ho Chi Minh City were on the verge of famine while newly harvested crops in the Mekong Delta rotted for lack of adequate drying and storage facilities.

A three-tier pricing system was adopted:

1. A number of essential consumer goods and raw materials for which the state monopolized trading and those commodities for which private producers had to buy raw materials from the state would be sold at state prices.
2. Goods other than necessities, or goods whose production level was beyond the required tax payment and obligation sales to the state, could be sold at "producers' price," defined as average production cost plus distribution cost plus some reasonable profit. This price had to be negotiated between the government and collectives, hence called the "negotiated price." The fact that the government was the sole supplier of cheap fertilizer and pesticides to cooperatives left little room for the negotiated price of output to move in tandem with the free market price. Thus it tended to lie above the state price and well below the free market price.
3. In the free market, commodities could be sold at a price set by the sheer force of supply and demand. Prices in this market reflected more accurately the relative scarcity created by languishing production.

An example of the effect of price distortion on the allocation of resources was raised by *Nhan Dan* on January 18, 1984. In the North, electricity was in short supply. Not infrequently, steel plants lost power from brownouts during melting of iron ore. To restart the whole process required the same amounts of chemical inputs, coke, electricity, and labor time as the original attempt. As a result, steel plants had priority in receiving electrical power. However, in one steel plant, 60 percent of its employees who resided within its compound used this scarce resource to prepare food for their hogs. The plant had agreed to buy power in its own name for its employees at an exceedingly low price.

The sugar cane procurement provides another example of the effects of the fixed-price system on factor proportion balance. Tay Ninh was a major sugar cane–growing province. In 1975, sugar cane was grown on 14,000 hectares. As soon as the communist government fixed

TABLE 10 Ratios of Quantities of Main Agricultural Products Procured by the State to Their Production (percentage)

	1976	1980	1981	1984	1985
Pork	46.1	41.7	37.4	43.4	44.6
Beef and buffalo	8.7	3.4	2.6	11.6	10.8
Eggs	11.3	6.2	5.9	5.2	5.0
Freshwater fish	2.7	3.3	5.3	8.8	14.1
Vegetable	10.1	10.8	9.5	8.0	11.5
Beans	31.9	35.3	24.5	37.0	61.3
Peanuts	27.5	23.4	30.0	41.0	41.9
Sesame	12.5	12.5	17.6	32.5	35.1
Tea	53.1	57.6	84.4	68.6	66.3
Coffee	—	44.0	86.9	104.8	95.9
Cigarette tobacco leaves	70.5	64.5	81.8	90.6	73.7
Water-pipe tobacco leaves	66.7	60.9	48.4	29.2	31.8
Hemp	25.0	7.0	33.0	23.0	7.0
Cotton	4.3	22.2	12.0	6.4	5.7
Jute	87.2	89.5	81.8	73.9	71.5
Rush (reed)	82.6	67.7	52.8	53.7	58.5
Camellia	40.6	5.8	7.9	8.6	7.4
Sugar cane	12.5	9.5	11.3	9.4	8.9

NOTE: Dash = not available.
SOURCE: *NGTK, 1985,* Table 139.

a low price on the sugar cane it bought from growers, the latter switched to growing other crops like manioc and soybeans, which could be sold for higher profits. In 1978, the sugar cane acreage decreased to a mere 3,500 hectares. In addition, most growers sold their crops to small, private sugar refineries rather than to state refineries. The share of sugar cane purchased by the state declined from 12.5 percent of total production in 1976 to 9.5 percent in 1980 (see Table 10). As a result, the ratio of refined sugar procured by the state to total refined sugar plummeted from 45.2 percent to 17.4 percent (Table 11). The utilization rate of the state refineries stood at only 30 to 40 percent of capacity.

As production of controlled goods declined precipitously, their demand remained constant and their prices rose in the free market, which reduced the state procurement even more. Between 1976 and 1980, the quantities bought by state procurement organizations decreased in 28 out of 48 major agricultural and industrial goods.[52] State-procured quantities as percent of output fell in 23 out of 39 main products (Tables 10 and 11). These organizations were able to increase their purchases mostly in noncontrolled goods such as fish, vegetables,

TABLE 11 Ratios of Quantities of Main Industrial Products Procured by the State for Domestic Consumption to Their Production (percentage)

	1976	1980	1981	1984	1985	1988	1989	1990
Seawater fish	7.0	22.3	24.1	31.4	30.1	—	—	—
Salt	77.2	86.4	77.4	61.6	62.9	—	—	—
Fish sauce and other sauces	63.0	50.9	47.2	58.9	51.4	—	—	—
Refined sugar	45.2	17.4	46.0	59.2	46.3	26.1	8.4	21.9
Cigarettes	100.5	106.2	73.7	48.3	50.6	—	—	—
Fabric	34.7	22.1	27.5	47.6	41.5	—	—	—
Silk	91.7	92.4	64.1	23.8	41.8	25.5	12.2	17.6
Coarse fabric for mosquito nets	103.1	80.1	48.3	60.6	50.0	51.1	19.7	—
Ready-made clothes	67.9	34.6	24.1	28.3	22.0	21.3	4.1	30.6
Chinawares	—	67.9	39.3	47.8	47.8	27.6	46.1	0.9
Rushmat	103.9	46.5	48.9	49.4	41.2	—	—	—
Soaps	135.5	92.4	87.4	63.9	55.4	33.0	21.8	16.5
Bicycles	94.6	100.1	96.0	84.7	90.2	90.3	63.4	21.1
Paper	39.0	103.4	90.6	84.1	104.3	—	—	—
Bicycle inner tubes	61.7	67.9	78.8	121.5	97.8	—	—	—
Bicycle tires	90.0	71.1	74.2	57.1	52.8	52.3	24.0	20.0
Firewood	—	22.9	25.5	22.5	13.3	—	—	—
Coal	6.6	2.5	3.5	5.7	2.0	—	—	—
Plywood	2.2	3.9	2.2	1.4	1.7	—	—	—
Bamboo	59.5	30.3	11.8	14.3	11.8	—	—	—
Nua (a specie of bamboo)	33.2	19.5	22.9	—	11.4	—	—	—
Bricks	20.9	7.7	3.0	2.5	2.0	0.8	0.5	1.1
Tiles	12.9	8.6	4.3	4.6	2.9	2.1	5.2	6.8
Cement	3.3	5.9	3.6	6.4	3.0	3.9	2.1	2.7

NOTE: Dash = not available.
SOURCES: *NGTK, 1985,* Table 141. *NGTK, 1990,* tables 41 and 147.

fruits, paper, and bicycles. Price differentials between state markets and free markets encouraged pilferage, theft, and fraud, which involved diverting controlled goods to the black market.

The government eventually had to abandon the price control of goods except for a few necessities such as rice, sugar, salt, fish sauce, and cloth.

The three-tier pricing system necessitated price subsidies to employees of the state sector. Government officials, soldiers, state enterprise employees, students, pensioners, and welfare recipients were

TABLE 12 Average Monthly Compensation of Civil Servants and Workers in State Enterprises and in the Private Sector (in dong)

	1983	1984	Percent change
Civil servants			
Average monthly salary, end of 1983	307	307	0
70 percent increase		215	
Average monthly salary, end of 1984	307	522	70
Cash spent on subsidized items	−35	−35	0
Average cash availability	272	487	79
Cost of subsidized items	435	435	0
Total average remuneration	707	922	30
Workers in state enterprises			
Average monthly salary	525	900	70
Cash spent on subsidized items	−35	−35	0
Average cash availability	490	865	75
Cost of subsidized items	435	435	0
Total average remuneration[a]	925	1,300	40
Workers in the private sector			
Total average remuneration	1,500–4,000	2,000–6,000	50

NOTE: a. Excluding work performance bonuses. These bonuses may amount to up to one-third of cash salary. Blanks = not applicable.
SOURCE: *IMF Report, 1985,* Table 26.

issued ration cards to buy these commodities at state prices (Table 12). Members of cooperatives and employees of government contractors paid "cost-recovery prices" for the rations. All others, including those who purchased above the rations, had to buy at free market prices.

The price subsidy was the difference between the state price (below cost) paid by civil servants and what the government considered the cost-recovery price, which was supposedly the procurement cost plus all sale expenses. The cost-recovery prices were different from the negotiated prices. While the latter were used in the exchange contracts between the government and cooperatives (or peasants), the former were applied by the state stores to consumers other than government employees and welfare recipients.

Using the government data obtained by the International Monetary Fund (IMF), it is not clear whether the cost-recovery prices reflected the actual cost of obtaining these goods. Consider Table 13. While the state price in the first column, that for state employees, had been fixed at the constant level since 1980, the 1984 cost-recovery price presented in the second column, the state price for other employees,

TABLE 13 Monthly Subsidy to Government Employees, 1984

	State price per unit within rations (in dong)		December		Monthly rations		Monthly subsidy at state price		Monthly rations at cost-recovery price	
	State employees[a]	Other employees[b]	Purchase in excess of ration (in dong)	Subsidy per unit (in dong)[c]	Head of household (in units specified)	Dependent (in units specified)	Head of household (in dong)	Dependent (in dong)	Head of household (in dong)	Dependent (in dong)
Rice (kg)	0.4	5–6	24	5.1	13	4	66.3	20.4–51.0	71.5	22–55
Pork (kg)	3.0	35–40	200	34.5[d]	0.4–4.2	0.1–0.3	13.8–144.9[d]	3.5–10.4[d]	15–157.5	3.8–11.3
Sea fish (kg)	1.5	25	30	23.5[d]	0.5–4.0	—	11.8–94[d]	—	12.5–100	—
Fish sauce (liter)	1.5	9	30	7.5	0.5–2.0	0.5	3.8–15	3.8	4.5–18	4.5
Sugar (kg)	2.1	25	110	22.9	0.35–2.0	0.1–0.3	8.0–45.8	2.3–6.9	8.8–50	2.5–7.5
Glutamate (kg)	15	200	900	185	0.07–0.17	—	13–31.5[d]	—	14–34	—
Dust coal (kg)	0.04	0.38	—	0.34	7.0	—	2.4	—	2.1	—
Poplin cloth (m)	3.2	32	150	28.8	0.2	0.117	5.8	4.9	6.4	3.7
Soap (kg)	2.6	24	160	21.4	0.08	—	1.7	—	1.9	—
Total subsidy							126.6–407.4[d]	34.9–77	136.7–441.4	36.5–82

NOTES: Dash = not available. Blank = not applicable.

a. Civil servants, workers in state enterprises, students, pensioners, and welfare recipients.

b. Members of cooperatives and workers in the private sector associated with contract work for the government. These prices are intended to be at cost-recovery levels.

c. The subsidy is the difference between the official ration price for civil servants and workers in state enterprises and what the authorities consider official cost-recovery prices.

d. Correction of numerical errors in the *IMF Report.*

SOURCE: *IMF Report, 1985,* tables 23 and 24.

was actually the 1980 free market price.[53] It could not be the procurement price, which had been raised several times since 1980. Thus, there could be an understatement of actual cost of items sold by state stores, hence understatement of the subsidy. In the meantime, for the nine most essential commodities, the monthly subsidy provided to a household with dependents amounted to between 93.2 percent and 98.8 percent of the cost-recovery price of these items. As inflation accelerated, the purchases of subsidized items became increasingly gratuitous. The cost of a nine-item basket at state prices for state employees amounted to only 2 percent of that evaluated at free market prices prevailing in December 1984.

Not surprisingly, the subsidies constituted the single largest expenditure item in the state budget. Its share in total current expenditure soared from 11.1 percent in 1980 to 23.8 percent in 1984.

Ideological Checks. The leadership strived for growth but at the same time clung to the principle of egalitarianism. Long before the events in Eastern Europe, W. Arthur Lewis (1955) expressed the conflict between the two goals as follows: "The less developed countries have awakened into a century where everybody wishes to ride two horses simultaneously, the horse of economic equality, and the horse of economic development. The U.S.S.R. has found that these two horses will not go in the same direction, and has therefore abandoned one of them. Other less developed countries will have to make their own compromises."[54] This observation is confirmed by the recent collapse of many centrally planned socialist economies (and governments).

Nevertheless, the most dominant Vietnam leaders, being doctrinaire Marxists-Leninists, refused to compromise. Economic policies implemented by the Vietnam leaders adhered to their objectives very closely. In their view, during the socialist transformation, class struggle against the capitalist tendencies must be maintained. Consequently, income between classes must be equalized. These overriding considerations called for periodic crackdowns on private businesses. Thus, in spite of the scarcity of virtually all consumer goods, the slightest sign of thriving business immediately provoked a clamp-down lest the income distribution became too lopsided.

The first *danh tu san* (smashing of private capitalists) in the South was initiated during July 1975–December 1976. Shop owners, wholesalers, and retailers of both agricultural and industrial products, the names of whom were on a target list of suspected enemy collaborators, were ordered to declare their inventory and its origin. If the declarations were not satisfactory, the inventories were confiscated. Moreover, if gold and silver were found during the search, they would be seized. Those private businesses not on the list were unaffected. The government also took into possession any unoccupied residences (even if owners were still in the country) and factories whose owners had fled the country. It was during this period that thousands of military officers and government officials of the defeated government of South Vietnam were sent to prison camps throughout the country.

The second phase of the danh tu san started in early 1978. By then, 62 percent of the southern market and 51.4 percent of the national market were still under private control. The free market, which was supplied mostly by the private sector, accounted for 53.9 percent of total retail sales in 1977. (Table 14). The government-controlled daily *Nhan Dan,* which often reflects the changes in the leadership's intention, observed that despite restrictions, "the capitalist economy continued to rule the roost. . . . So long as it [the private sector] exists, the reorganization of agriculture and handicrafts along the socialist line will be very difficult. Similarly, as long as capitalist trade survives, it will be impossible to build a strong socialist trade."[55] Sure enough, on March 23, 1978, by order of the government "all trade and business operations of bourgeois tradesmen [were] to be abolished," while small merchants could "retail those goods not controlled by the state." As a result, 30,000 businesses were closed. Thousands of "bourgeois tradesmen" were forced to relocate to new economic zones to engage in farming and small-scale industries.[56] A new currency was introduced on May 3, 1978. The exchange ceiling was 500 new dong in urban areas and 300 new dong in the rural areas. This was equivalent to the three-month salary of a state enterprise worker and to the one and a half-month salary of a worker in a private firm. To exchange above the limit, money holders had to explain the source of their earnings. Further, the above-ceiling, legally held savings could only be withdrawn if owners agreed to lend it to the government at a fixed interest rate or to invest the money in joint ventures with the government. As trading of gold and silver was strictly prohibited, residents were ordered to declare them in their possession. Furthermore, hoarding of necessities such as rice and fabric was a crime. As usual, the clamp-down was aimed at checking the growth of private wealth and leveling economic differences between classes.[57] In addition, to make the underground economy more difficult to operate, checkpoints were set up everywhere. Marketplaces were

Table 14 Total Retail Sales (in billions of dong)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Total retail sales (at current prices)	1.4	1.5	1.5	1.8	2.4	4.4	11.1	17.5	31.4	65.1	333.9	1,453.5	7,233.2	12,911.0	19,031.2
In organized market	0.6	0.7	0.7	0.8	0.9	1.9	4.5	7.3	13.9	37.9	195.7	826.0	3,587.0	5,060.3	6,307.9
by state stores	0.5	0.6	0.6	0.6	0.7	1.1	3.4	5.2	9.9	26.5	132.8	596.3	2,924.4	4,267.5	5,788.7
by cooperatives	0.1	0.2	0.2	0.2	0.2	0.4	1.1	1.7	3.9	8.4	62.9	229.7	662.6	792.8	519.2
In free market	0.8	0.8	0.8	1.0	1.4	2.5	6.6	10.3	17.5	27.2	132.8	627.5	3,646.2	7,850.7	12,723.3
by individual traders	0.4	0.4	0.5	0.6	0.8	1.4	3.6	5.6	9.5	13.2	64.6	257.6	2,073.6	5,005.8	7,719.2
Total retail sales (at 1982 prices)	10.0	8.9	7.8	7.3	7.9	8.7	11.1	11.7	13.3	15.4	—	—	—	—	—
In organized market	3.6	4.1	4.1	4.2	4.5	4.5	4.5	5.2	6.9	9.0	—	—	—	—	—
In free market	6.4	4.8	3.6	3.1	3.4	4.2	6.6	6.6	6.4	6.5	—	—	—	—	—
Implicit retail price index (1982 = 100)	13.7	16.7	19.8	24.3	29.9	50.7	100.0	149.6	236.3	421.9	—	—	—	—	—
Change in the implicit retail price index (%)	—	21.9	18.6	22.7	23.0	69.6	97.2	49.6	58.0	78.5	—	—	—	—	—

Note: Dash = not available.

Sources: Computed from *NGTK, 1985,* tables 149 and 150. *NGTK, 1990,* Table 150.

constantly raided. The circulation of goods came to almost a standstill. This phase was succinctly depicted by the phrase "ngan song, cam cho" (barricade the rivers, ban the markets).

The clamp-down deepened the depression induced by the socialist transformation shock. It created even greater shortages of consumer goods already made worse by the cutoff of Chinese aid, which had consisted mainly of grain and consumer goods.[58] Unemployment in 1980 was estimated to be at least 15.5 percent of the labor force (Table 5). Paradoxically, the socialist transformation and the crackdowns on the private sector eventually hurt the socialist sector most. They disrupted the supply of important inputs to state enterprises, created mistrust and anxiety among the population, destroyed work incentives and entrepreneurial initiatives, and tended to promote short-term speculation and avoidance of long-term commitments.

The First Reform: The New Economic Management Mechanism

The economic debacle initiated a great debate within the CPV. The conservative faction attributed the failures to the lack of discipline (that is, the slow pace of collectivization). Other factors frequently cited by officials were the consequences of the thirty-year war, natural calamities, the U.S. trade embargo, border conflicts, and insufficient foreign aid. Understandably, the economic cost of the occupation of Cambodia was rarely mentioned.[59]

From September 1979 until 1988, virtually all debates centered around the deficiency of the old supply system and the need for a new economic management system. The old system was candidly criticized by *Nhan Dan* in various issues. In the words of a government economist, "The subsidy-based system, which had been in force for the last few decades, did great harm to the economic efficiency of the enterprises, and encouraged a bureaucratic management 'to produce at any price.'"[60]

Various Central Committee resolutions from September 1979 on had called for the following reforms: abolition of the administrative supply system in general and subsidies in particular; reduction in the number of obligatory quotas; contracts between cooperatives and their members on the basis of piece rate; permission for members to lease land from cooperatives and sell the resulting crops in the free market;

adoption of profit and loss accounting for state and joint state-private enterprises; production and financial autonomy for these enterprises; the use of material incentives and sanctions; and wages to be tied to productivity, quality, and labor efficiency. Household enterprises were authorized to employ up to ten outsiders and to sell their products to state-run trading firms or marketing cooperatives at negotiated prices. Enterprises were also authorized to look for their own markets in certain circumstances and to sign contracts directly with foreign customers using self-procured foreign exchange. Depositors were entitled to quick, unlimited withdrawal from accounts at banks, savings institutions, and credit cooperatives. Economic return on capital investment was to be the most important criterion of the banks' credit activities. The CPV and government officials were prohibited from interfering with cooperative rights of self-control. In the state and joint state-private enterprises, the director was to have greater power over personnel matters and the usage of wage funds. Enterprises were supervised by the next higher echelon only: the responsible ministry in the case of CREs, and people's committees, at appropriate levels, for LREs. The districts now became the locus of planning authority. All prices, except a small number of essential commodities whose prices would be fixed by the central government, would be set by the local authorities and primary production installations. Enterprises, offices, and economic establishments, however, were strictly forbidden to raise prices arbitrarily or to sell their products and materials in the free market.

The implementation of the New Economic Management Mechanism (NEMM)[61] had been rather slow and spasmodic, as it was up to provinces and cities to carry it out.[62] By 1985, only a handful of provinces like Hai Phong, Long An, Tay Ninh, and An Giang had experimented with the abolition of subsidies with some success. In these provinces, in-kind subsidies were abolished. In August 1985, the payment of wages and salaries to workers of state enterprises, to cadres, and to government employees was made wholly in cash instead of partly in kind as it had been previously. However, workers and government employees were compensated by an equivalent raise in money income computed at current market prices.[63] At the same time, a one-retail-price system was adopted to prevent hoarding of rationed goods. As was expected, the reform encountered resistance from the conservative leaders and middle-ranking party members. As *Nhan Dan* put it, the subsidies system "has become a habit, a pattern of thinking, a lifestyle." The refusal of the cadres to carry out Premier Dong's 1979 directive on the abolition of checkpoints is a case in point. These checkpoints were only finally eliminated in May 1987. And it was only in June 1985 that the Central Committee's eighth resolution (Fifth Party Congress) actually announced the end of the administrative supply system.

In spite of intended reforms, Vietnam's leaders were fully committed to the concept of dominant control of the market by the state—in their language, "market management." They wanted to "actively transform and closely control the free market" and to ban private dealings in commodities controlled by the state.[64] State procurement organizations were set up to buy essential consumer goods and to sell them through state stores. Production contracts were used to ensure that the needed quantities would be met on a regular basis. Ownership of marketing and trading cooperatives was expected to secure the predominance of the state in the trade sector.[65] The government perceived a market dominated by capitalist producers and traders as tending to chaos and instability. It considered state ownership, collectives, and mixed ownership as the key to management of the market.[66] The market in which goods and services were traded by these three types of ownership was termed "organized." By contrast, the free market was seen as "disorganized." Even in 1986, the CPV still blamed undisciplined markets and the lack of socialist transformation of private trade for the sagging state of the economy and the wide fluctuation in prices.[67] To manage the disorganized market, government officials might visit privately owned firms unannounced to inspect their assets and product inventory.[68] The preoccupation with market management by government officials indicated that the first economic reform was only halfheartedly implemented.

The economy picked up slightly after the introduction of limited liberalization measures in late 1979 as the government control of the economy was relaxed. Different forms of incentives were tried. Improvement in agricultural production was immediate. As a result, foodgrain procurement by the government increased, thanks to higher procurement prices, which were raised 134 percent in 1980, 208 percent in 1981, and almost 90 percent in 1985 (Table 9). The industrial sector was slow in responding to the reform as it still reeled under the impact of the 1978 socialist transformation. The depression deepened in 1980 even after the announcement of liberalization measures due to these measures not being implemented and to the lag effects of the 1978 crackdown and the Cambodian and the Chinese wars. It was not until 1982 that the economy truly picked up (see Table 3). Table 15 shows that,

TABLE 15 Impact of Reforms (Average annual percent change)

Indicator	Pre-reform (1976–1979)	First reform (1980–1985)	Second reform (1986–1990)
Real GDP per capita	−0.9	2.1	1.8
Agricultural output per person employed	−10.7	−0.8	0.8
Industrial output per production worker			
S&JSP enterprises	−5.7[a]	−0.3	6.6
Industrial output per person employed	3.2	2.8	8.8
S&JSP enterprises	−5.0	2.5	6.6
Cooperatives	28.7	−1.8	8.2
Private sector	−2.9	5.1	6.5
CREs	−0.6	0.3	8.8
LREs	6.1	4.5	7.5
Heavy industry	−4.9[a]	−3.8	11.7
Light industry	−0.5[a]	11.3	7.6
Output per investment dong	−7.6	−1.2	10.2
Agriculture	−5.6	2.7	17.2
Industry	−11.1	3.1	7.6
Heavy industry	−14.9	−3.2[b]	—
Light industry	−5.1	24.8[b]	—
Agricultural output	2.9	5.4	3.7
Industrial production	6.6	6.1	6.1
S&JSP enterprises	2.6	5.2	6.9
Cooperatives	27.2	7.5	−6.9
Private sector	−4.1	9.5	18.0
CREs	2.5	3.1	9.1
LREs	7.0	8.3	4.5
S&JSP enterprises	2.9	9.9	3.4
SS&HIs	10.7	7.8	5.0
Heavy industry	2.5	4.4	8.4
Light industry	5.8	7.5	5.1
Employment	2.8	3.6	3.1
Agriculture	2.0	3.1	2.9
State sector	27.0	8.7	−3.4
Cooperatives and private sector	1.7	3.0	3.0
Industry	1.7	3.8	−2.3
CREs	3.1	2.9	0.4
LREs	4.4	3.9	−2.7
S&JSP enterprises	7.9	2.9	0.3
Cooperatives	−1.6	3.9	−15.3
Private sector	4.1	4.9	10.4

(continued on next page)

TABLE 15 *(continued)*

Indicator	Pre-reform (1976–1979)	First reform (1980–1985)	Second reform (1986–1990)
Investment	10.6	7.5	−3.7
Agriculture	13.1	7.2	−5.3
Industry	17.8	2.6	−0.5
Transportation	6.7	9.3	−3.6
Trade	−11.4	23.0	−10.0
Other sectors	7.0	17.6	−1.7
Investment			
CREs	12.3	3.7	−1.2
LREs	9.1	17.4	−5.5
Transportation			
Freight transport[c]	14.4	6.0	1.5
Passenger transport[d]	6.7	−3.1	12.1
International trade			
Export	14.7	14.2	30.7
Import	14.3	3.7	8.5
Trade deficit	14.8	0.0	−13.1
Inflation	21.1[e]	62.7[e]	141.0[f]
Real budget deficit[g]	—	75.4[h]	—
Wages and other payments	—	52.8[h]	—
Procurement prices of agricultural products	13.7	75.5	—
Real volume of retail sales	−10.0	13.5	—
Organized market	5.1	14.3	—
Free market	−21.1	14.5	—
Total liquidity	—	50.9[h]	224.0[i]
Inflationary gap divided by liquidity	—	57.3[h]	—
Unemployment rate (%)	17.6[j]	15.0[k]	20.0[i]

NOTES: For CREs, LREs, S&JSP enterprises, and SS&HIs, see note in Table 3. Dash = not available.

a. 1976–1980.
b. 1980–1982.
c. Millions of tons-km.
d. Millions of people-km.
e. Change in the implicit retail price index.
f. 1988–1991.
g. Budget deficit deflated by implicit retail price index, 1982 = 100.
h. 1980–1984.
i. 1988–1990.
j. 1976.
k. 1980–1981.

SOURCE: Tables 1, 3, 4, 5, 7, 9, 14, 19, 22, 23, 24, 28, 33, and 34.

overall, the reform made a positive impact on the economy. Real GDP per capita rose faster during 1980–1985 than pre-reform. The reform benefitted the private sector more, however, than the state sector. Rapid revival of private enterprises and increased local autonomy of cooperatives led to the privatization of the South's economy, which the IMF reported to be about 80 percent in 1984.[69]

A word of clarification is in order. If by privatization we mean private ownership only, then the concept could be misleading and could hamper our understanding of Vietnam's policy. For Vietnam leaders wholeheartedly supported cooperativization. In their framework, there were only two sectors: socialist and nonsocialist. A low-level cooperative member could still own his or her land but had to surrender its use to collective management. Thus collective control of property was crucial in the present stage of socialization, not private ownership, although in the long run the latter eventually had to be abolished. For now, to aid the analysis, we shall adopt the terminology used by the General Statistical Office and designate the private sector as the nonsocialist sector in which individual owners still control their private businesses. In this definition, for the whole nation during 1980–1984, the average ratio of sales made in the free (nonsocialist) market to total retail sales swelled to 58 percent (Table 14).

The diminishing state control accompanied by the gradual shrinking of the state sector in terms of retail sales, coupled with unbalanced supply and demand, prompted a sharp rise in inflation in 1984. Using data in Table 14, it can be shown that, for 1977–1984, the negative correlation coefficient (−0.80) between the implicit retail price deflator and the share of organized market in total retail sales is significant at a 5 percent level (with the depression year 1980 being deleted from the time series).[70] It implies that, in the adjustment to the new equilibrium, as the state control decreased, the proportion of products that were subject to price control would become smaller; hence the number of goods whose prices fluctuated with demand in the free market increased, raising the average price. For those leaders who were not familiar with inflation as a reflection of short-run dynamic adjustment when the economy was liberalized, rising prices signaled wrong policies.

Furthermore, individual owners still produced 32.7 percent of (socialist) national income in 1985 (Table 16). If the service sector were included, the ratio would perhaps be higher, as many of its activities were less amenable to state control. By the conservative leaders' standard,

TABLE 16 National Income by Ownership (in millions of 1982 dong)

	1980	1981	1982	1983	1984	1985
National income	120,130	122,930	133,790	143,360	155,280	164,110
Socialist sector	63,280	65,190	71,460	77,790	92,540	110,420
State and joint state-private enterprises	27,660	28,090	28,740	29,320	34,830	40,000
Cooperatives	35,620	37,100	42,720	48,470	57,710	70,420
Nonsocialist sector (individual owners)	56,850	57,740	62,330	65,570	62,740	53,690

NOTE: National income in socialist accounting excludes nonmaterial service and depreciation.
SOURCE: *NGTK, 1985,* Table 14.

progress on income equalization had not been made; as the Sixth Plenum observed, "the disparities in the income of different sectors of the population remain too great."[71] They watched the privatization with apprehension and began to press for a crackdown on private businesses. Under way in early 1983 was a preliminary tightening in the form of a tax collection drive against "traffickers, speculators, and dishonest entrepreneurs."

By 1985, a full-scale crackdown was in effect. One of its goals was to achieve cooperativization of agriculture by the end of the year. The government had predicted that 75 percent of all farmland and peasants nationwide would be organized into production teams. In the South, the actual figure for 1985 was only 54.4 percent.[72] Another goal was to reduce undeclared wealth and stifle the black market, which was thriving with rationed goods. Under the ration system, abuses were rampant. Many who were not qualified to buy rationed goods at extremely low prices nonetheless possessed the ration cards. In Quang Nam-Da Nang Province alone, 26,000 people held ration cards illegally. Many people became wealthy through dealing in rationed goods, and a large amount of cash was circulating outside the state banking system. In September 1985, a new currency was issued and the exchange limit was 1,500 new dong for an individual and 2,000 new dong for a family. Because of a lack of new banknotes of small denomination, the government allowed the use of the 10-dong bills in place of 1-dong bills, enabling the wealthy to protect part of their holdings. Since the time limit for the exchange was a matter of hours, many legitimate private enterprises and state stores were deprived of large amounts of cash they held as operating expenses. The currency conversion was aimed at forcing the amount of cash held by the private sector to return to the government-controlled banking system. The currency reform stunned private businessmen and threw the economy into a deep turmoil. One official privately confessed that "typhoon number 5 hit the North but the currency 'reform' devastated the entire country." The private sector's labor productivity plummeted 15.3 percent in 1985. The resulting greater shortage of consumer goods led to an annual inflation rate of 106 percent in 1985 and 700 percent from November 1985 to July 1986.[73] The exchange rate in the black market was pushed beyond the 1,000 dong/US$ mark. The cost of living for government employees became so high that in-kind subsidies had to be restored in January 1986, only five months after they were abrogated. Drought, pests, and typhoons, among other things, reduced foodgrain production by 800,000 metric tons in 1987 while population rose by more than a million people. For the first time since the takeover of South Vietnam, hunger and famine became a distinct threat.

In sum, economic liberalization, which promoted competition and market processes, rewarded the private sector and anything connected with it for its efficiency and penalized the state sector for its rigidity, inefficiency, and wastefulness. No wonder that this caused alarm and consternation among the conservative faction, who favored building production relations first.

The first reform put emphasis on structural changes that would raise productivity. These changes did no go far enough as the multiple-pricing system, multiple-exchange rates, and ideological checks still remained in force. Macroeconomic stabilization merely reacted to the changes and was constrained by a limited transformation into the market system.

The third five-year plan (1981–1985) reflected the change in thinking in the Politburo. This time, top priority really was given to agriculture and food production, followed by consumer goods and exports. Agriculture was to grow at an annual rate of 7.6 percent, industry by 6.7 percent, and export by 26.8 percent. The food production target was 19 million metric tons with 16 million metric tons of it rice in 1985. The results of the plan implementation were mixed. While rice production reached the target level and industrial output surpassed its target, agricultural production and exports attained only about two-thirds of their targets.

Agriculture. The agricultural production surged in 1979, then its growth slackened in 1980–1981 as the impact of cooperativization was still being felt. Le Thanh Nghi, vice premier in charge of planning and a member of the conservative faction, complained in 1981 that the socialist transformation was too slow in the South.[74] A compulsory cooperativization followed, but the drive was no more successful than before. In the Mekong Delta the ratio of peasant families joining the cooperatives in 1985 was a mere 3.7 percent (risen from 2.0 percent in the preceding year) compared with 28.5 for the South and 67.4 for the whole country.[75] In the South, resistance to the cooperativization drive was immediate and steep, particularly in the southeast region and the Mekong Delta. Official data show a drop of 3.5 percent in rice acreage and of 13.4 percent in rice production in the South in 1981. Similar falls in these measures are 9.6 percent and 9.3 percent, respectively, for the southeast region, and 3.9 percent and 4.6 percent, respectively, for the Mekong Delta. The situation was even worse for other staples. For the country as a whole, the total area of food crop cultivation contracted from 7.02 million hectares in 1980 to 6.83 million hectares in 1985 (Table 2). Between 1982 and 1983, 100,000 hectares of rice fields were taken out of production, which, however, was more than compensated for by greater average rice yield (Table 2).[76]

An example in the application of the contract system introduced by liberalization reform in 1979 will shed some light on the problem. The Hai Phong agricultural sector experienced major setbacks in production for years. Rice yield in Hai Phong went down from 2.5 metric tons in 1976 to 2.2 metric tons in 1980. Cooperative members were not working a full day, did not devote full attention to the land, often did not plant crops at the right time, and abandoned good arable land. Production fell so low that output per worker was not enough to compensate for spent effort. In addition, abuses, corruption, and theft were prevalent within cooperatives. In 1980, as a part of the reform package, land owned by cooperatives was contracted out to members on a piece-rate basis. In addition, the scale of operation was reduced to twenty or thirty hectares with fifty or sixty workers. A jump in productivity followed. Members now worked ten to twelve hours a day. Carelessness and apathy disappeared. As expected, land worked under contract (accounting for 37 percent of all arable land) was in good care. It was sown timely with quality seeds and in the right density. Rice yield went up sharply. On the other hand, the collective land was left poorly attended and output thereby plummeted.[77] Collectivization appeared to have dampened individual incentives, preventing effective utilization of labor and material resources.[78] A well-known agronomist found that in the North, peasants who were members of cooperatives produced 52 percent less than the private farmers.[79]

Starting in 1979, the government allowed state refineries to buy cane at negotiated prices. The planted acreage immediately expanded to 7,600 hectares in 1980. As greater quantities of cane were sold to the state refineries, their capacity utilization rate rose to 75 percent. By 1981, the ratio of sugar cane procured by the state to total output had gone up to 11.3 percent. As a by-product of greater plant utilization, the amount of gasoline inputs needed to run the state sugar refineries was reduced on the average by 20 percent.[80]

Foodgrain production decreased steadily from the 1976 level until 1979–1980, after which it recovered at a modest speed. Rice production, except for a brief sharp rise in 1982, grew at a sluggish pace thereafter. Growth in production, employment, labor productivity, and capital productivity in agriculture jumped after reform. But during 1983–1985, as the economy was under the weight of another crackdown, the agricultural sector once again slowed down to a crawling pace after a brief surge in 1982. Labor productivity declined by 14.8 percent in 1985.

Besides collectivization, agricultural stagnation, undoubtedly, could also be attributed to inclement weather and inadequate supplies of fertilizers and pesticides. Devastating drought, typhoons, floods, severe winter spells, and pests battered Vietnam every year throughout the postwar period except 1982 and 1986. However, as serious as the drought and floods of 1977 were, the damage of 320,000 metric tons of rice accounted for only 27 percent of the total fall in rice production.

To find out whether collectivization, fertilizer, and weather had any effect on grain yield, we define the following variables: grain yield per hectare (*GYPH*) = grain output divided by the area of grain cultivated; similarly, rice yield per hectare (*RYPH*) = rice output divided by the area of rice cultivated; fertilizer availability per hectare (*FAPH*) = total fertilizer availability divided by grain area of cultivation; a dummy variable for cooperativization (*COOP*) where *COOP* = 1 for 1976–1988 and *COOP* = 0 elsewhere. Land confiscation and arbitrary distribution had occurred from 1976 until August 1988 when the decooperativization law was promulgated. Using data in Table 2 for

1976–1990 (with four observations missing), the following two equations were estimated:

$$(1)\quad \ln GYPH = 0.111 + 0.172 \ln FAPH - 0.101 COOP$$
$$[2.31]^{*} \quad [21.2]^{**} \quad [-7.04]^{*}$$
$$\bar{R}^2 = 0.988,\ F = 420.5^{**},\ D\text{-}W = 2.00$$
$$(2)\quad \ln RYPH = 0.056 + 0.192 \ln FAPH - 0.107 COOP$$
$$[0.91] \quad [18.5]^{**} \quad [-5.85]^{**}$$
$$\bar{R}^2 = 0.984,\ F = 313.7^{**},\ D\text{-}W = 1.92$$

ln denotes the natural logarithm. Figures in brackets beneath the coefficients are t-statistics. A single asterisk represents significance at the 5 percent level, double asterisks, at the 1 percent level. $\bar{R}^2$ is the coefficient of determination adjusted for degree of freedom, *F* the F-statistics, and *D-W* the Durbin-Watson statistics. The residuals of the equations are approximately normal and random by the run test. However, the latter may not be applicable as the sample size is small.

Equations (1) and (2) indicate that the grain yield functions have a smaller intercept during the collectivization period, which implies that collectivization did lower expected grain yield. They also provide clear evidence of the positive effects of fertilizer availability on grain yield and rice yield. The two factors explain 99 percent of the variation in the expected yields. The weather can be considered a random factor which explains only 1 percent of the variation in the expected yield.

Industry. The effect of the first reform on industry was tempered initially by the Cambodian war and the border war with China, and later by the 1985 crackdown. In 1981, food and foodstuffs experienced another shock as a result of the cooperativization drive in agriculture. Metallurgy suffered a setback mainly because of the Sino-Vietnamese war, which destroyed much of the Thai Nguyen Iron Steel complex (which had been restored and expanded by the Chinese in 1976). This industry's output decreased at an annual rate of 5.9 percent during 1980–1985. The liberalization measures announced in 1979 did not have an effect on production until the depression ended in 1982. By then, all industries recovered from the socialist transformation shock and resumed growth. But, in terms of output share, the construction material and textile industries expanded at the expense of food and foodstuffs (Table 17).

TABLE 17 Industrial Production by Branches (in billions of dong at 1982 prices)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Gross industrial output	65.30	69.30	77.00	74.66	66.93	67.59	73.48	83.03	93.95	103.26	109.63	120.55	137.82	133.31	137.51
By industrial branches															
Energy, combustibles	3.66	—	—	4.37	4.21	4.53	4.89	5.42	5.48	6.04	7.05	7.35	7.80	11.22	15.07
Metallurgy	1.76	—	—	2.72	1.46	0.96	1.03	1.15	1.21	1.35	1.59	1.69	2.06	2.05	2.31
Machinery	8.95	—	—	13.75	9.09	9.24	9.88	11.01	12.35	14.61	16.20	18.52	23.85	20.71	20.86
Chemical industry	6.68	—	—	7.89	6.33	6.33	6.98	8.00	9.66	11.26	10.87	12.09	12.99	12.21	13.63
Construction material, glassware, wood, forest products, cellulose, and paper	11.23	—	—	12.48	15.96	15.10	16.17	17.95	19.36	18.99	20.80	22.63	24.50	21.11	22.86
Food and foodstuffs	21.81	—	—	16.69	16.62	18.22	19.80	22.33	25.59	28.87	29.71	32.42	36.57	38.30	36.01
Textile, apparel, leather products	8.95	—	—	14.18	10.68	10.48	11.87	14.01	16.57	17.77	18.82	20.39	23.44	21.98	21.26
Printing	1.44	—	—	1.13	0.25	0.26	0.26	0.27	0.33	0.39	0.45	0.50	0.79	0.70	0.80
Other industries	0.83	—	—	1.45	2.34	2.47	2.61	2.90	3.40	3.93	4.06	4.84	5.83	5.04	4.69

NOTE: There may be some slight error due to computations being based on the index in *NGTK 1990*, Table 26. Dash = not available.
SOURCES: Estimated based on *NGTK, 1985*, tables 82 and 83; *NGTK, 1990*, Table 26; and the *IMF Report*, 1985, Table 3.

43

After 1980, although employment and capital productivity grew faster than before, growth in production and labor productivity slowed down a little, even though the absolute rates were still high at 6.1 percent and 2.8 percent, respectively. The private sector in industry stood to gain most from the reform both in terms of growth in production and labor productivity as well as in employment. By contrast, the socialist sector, CREs, and heavy industry were not able to take advantage of the opportunity opened by the reform. The output per worker employed by S&JSP industrial enterprises made a significant turnaround. However, although the enterprises' total employment now grew at one-third of the pre-reform rate, large jumps in their employment of administrative personnel pulled the growth in labor productivity down to less than that of the private sector. Despite a gain in employment, growth in output and labor productivity of industrial cooperatives now were only two-sevenths and one-seventh, respectively, of that of the preceding period. Both labor and capital productivity of heavy industry kept on declining, albeit at a smaller rate. Output growth of industrial CREs registered a small improvement. Nevertheless, their labor productivity remained nearly stagnant. Further, employment growth slackened and investment grew at less than one-third of the rate in the preceding period. We would expect the LREs to thrive after reform. Despite an enormous jump in investment growth, however, the performance of industrial LREs was rather disappointing. Although their output growth made a slight gain, their labor productivity growth lessened. This was mainly due to the sluggish locally run component of S&JSP industrial enterprises. Light industry performed extremely well. Notwithstanding a drastic fall in investment, its labor and capital productivity soared.

The government apparently tried to check the growth of CREs' investment, particularly after 1980, as we see the growth in investment of the CREs slowed down from 12.3 percent during 1976–1979 to 3.7 percent during 1980–1985. In the S&JSP industrial enterprises, however, there existed a growing trend among heavy industry and CREs to staff more administrative personnel. The ratio of administrative personnel to total employment in these industries, which started out lower than those in the light industry and LREs, by 1981 had surpassed the latter (Table 18). By contrast, light industry and LREs tended to hire more production workers (Table 19). One suspects that the central government used the enterprises under its control to solve the problem of unemployment and underemployment by adopting a system similar to that of the socialist countries.[81]

For the whole economy during 1976–1985, capital productivity fell

TABLE 18 Ratios of Administrative Personnel to Total Employment in S&JSP Industrial Enterprises (percentage)

	1976	1980	1981	1984	1985
All S&JSP industrial enterprises	15.7	18.6	19.4	19.9	19.2
Heavy industry	13.3	19.2	20.4	20.1	19.6
Light industry	18.9	18.0	18.1	19.6	18.6
CREs of S&JSP industrial enterprises	15.4	18.7	19.4	21.2	20.2
Heavy industry	14.4	19.7	20.9	20.4	20.5
Light industry	16.8	17.0	16.9	20.3	19.6
LREs of S&JSP industrial enterprises	16.2	18.5	19.3	19.3	18.1
Heavy industry	10.9	18.3	19.6	19.7	18.3
Light industry	21.1	18.8	19.0	19.0	17.9

NOTE: For S&JSP enterprises, CREs, and LREs, see note in Table 3.
SOURCE: Computed from *NGTK, 1985*, tables 98 and 99.

TABLE 19 Production Workers in S&JSP Industrial Enterprises (in thousands)

	1976	1980	1981	1984	1985	1988	1989	1990
Total	437.7	523.5	508.6	581.2	738.0	843.9	782.0	743.9
Heavy industry	258.4	298.9	283.5	320.4	390.6	412.4	382.8	346.0
Light industry	179.3	224.6	225.1	260.8	347.4	431.5	399.2	397.9
CREs	263.6	278.9	268.0	304.7	393.5	432.5	406.3	400.3
Heavy industry	169.5	176.0	164.5	192.5	242.8	258.9	240.7	234.6
Light industry	94.1	102.9	103.5	112.2	150.7	173.6	165.6	165.7
LREs	174.1	244.6	240.6	276.5	344.5	411.4	375.7	343.6
Heavy industry	88.9	122.9	119.0	127.9	147.8	153.5	142.1	111.4
Light industry	85.2	121.7	121.6	148.6	196.7	257.9	233.6	232.2

NOTE: For CREs, LREs, and S&JSP enterprises, see note in Table 3.
SOURCES: *NGTK, 1985*, Table 99. *NGTK, 1990*, Table 51.

at an annual rate of 3.4 percent while labor productivity rose at an annual rate of 2.8 percent. At least two reasons can be cited for the fall in overall capital productivity: (1) Capital stock was insufficiently replaced and maintained, partly because of lack of foreign exchange, partly because of the trade embargo particularly with regard to American-made machines, and partly because of the absence of skilled personnel, who fled in large number to other countries after the takeover. As a result, the operating capacity of industrial enterprises during 1976–1985 ranged between 30 to 50 percent. Much equipment was left idle for want of spare parts and experienced operators as in the case of a fleet of road construction equipment left behind by foreign contractors. (2) There was a growing imbalance in factor proportion due to rapid addition to capital stock without commensurate increase in inputs, which, in turn, stemmed from relative price distortion or simply poor planning. Lack of raw materials or complementary inputs forced many factories to run at abnormally low utilization rates. One of the most well-known cases is the large Bai Bang Paper Mill (Vinh Phu Province) donated by Sweden, which started operations in 1982 but still did not have enough paper pulp to work at full capacity. The Pha Lai thermo-electric plant, although completed in 1986, had yet to wait for copper cables to carry electricity to destinations. State sugar refineries operated below 40 percent of capacity because of the lack of sugar cane induced by low procurement prices, as mentioned earlier.

When plants and equipment persistently worked well below normal capacity, output would be small compared with their evaluation, resulting in low growth in capital productivity. In such unfavorable supply conditions, given the current relative resource endowment, capital-intensive projects tend to be less efficient than the more labor-intensive ones. Thus, a doctrinaire pursuit of a typical socialist strategy emphasizing the former inevitably led to greater waste of scarce resources than one emphasizing the latter. And that was not all; improvement in labor productivity tended to slow down when the economy operated at low-capacity utilization with aging capital stock. This can be seen by comparing industrial output per person employed between the pre-reform period 1976–1979 and the reform period 1980–1985 (see Table 15).

Inflation. Inflation has been a serious problem in postwar Vietnam. It accelerated from 18.6 percent in 1977 to 106.3 percent in 1985 (Table 20). The government did not devise specific monetary and fiscal game plans to deal with the problem. It preferred the direct intervention approach. Just as taxes and government spending were designed to achieve political objectives, money was injected to satisfy plan targets and other government needs with little regard for economic consequences.

There are many causes of the current inflation: reduction in foreign aid, shrinking production, paralysis in output distribution, insatiable and uncontrolled investment demand, a grave budget deficit, excessive cash injection, and paradoxically (in the short run), economic reforms. The first three topics have been dealt with in the preceding section. In this section, the discussion is limited to the remaining topics.

The state bank kept an annual cash plan and watched the amount of cash injected into the economy. Most of the time, however, the planned cash targets were exceeded by a considerable proportion. Table 21 shows

TABLE 20 Percent Change in Retail Price Indexes

	1977	1981	1985	1990	1991
All markets					
General index	18.6	66.0	106.3	67.4	67.6
Food	26.1	44.7	96.2	68.2	54.6
Other consumer goods	6.6	129.4	91.8	55.8	70.6
Agricultural inputs	18.6	33.4	98.9	—	—
State-run market					
General index	1.1	101.3	112.5	—	—
Food	0.5	61.2	124.6	—	—
Other consumer goods	1.9	165.7	110.3	—	—
Agricultural inputs	0.0	22.3	120.9	—	—
Free market					
General index	38.0	47.6	116.6	—	—
Food	43.0	47.8	65.3	—	—
Other consumer goods	23.8	49.7	64.4	—	—
Agricultural inputs	24.4	152.0	216.6	—	—

NOTE: Dash = not available.
SOURCES: *NGTK, 1985,* Table 158. *NGTK, 1990,* Table 154.

TABLE 21 Cash Plan (in millions of dong)

	1980	1981	1982	1983	1984
Cash absorption	10,404	18,795	37,465	68,528	104,329
Official retail sales	6,527	12,650	26,325	46,856	71,428
Taxes and other contributions	923	2,430	4,831	10,742	16,350
Public services	645	1,260	2,450	3,854	5,491
Increase in savings accounts	1,486	1,610	2,016	3,914	5,854
Other	823	845	1,843	3,162	5,206
Cash injection	10,832	20,750	42,767	72,984	111,486
Wages and other payments	3,997	7,640	12,836	22,612	27,582
Withdrawals of deposits of cooperatives	397	1,130	3,693	8,154	10,095
Withdrawals from savings accounts	1,236	1,530	1,781	3,101	4,760
Pensions and social security payments	843	1,650	2,805	4,956	7,126
Procurement	3,752	7,520	18,304	27,727	53,685
Other	607	1,280	3,348	6,434	8,238
Change in cash in circulation	428	1,955	5,302	4,456	7,157

SOURCE: *IMF Report, 1985,* Table 35.

the net cash injection from 1980 to 1984. On the injection side, two major components were wages and subsidies, and procurement. Retail sales by state stores played a dominant role in absorbing cash (70 percent of the total absorption). Taxes became gradually more important, but savings contributed practically nothing to absorbing the excess cash. The percent change in cash at the end of each year (see Table 21 for change in cash in circulation) is highly correlated with the percent change in the implicit retail price deflator shown in Table 14 ($R^2 = .98$).

A weakness in the cash plan is that it does not relate macroeconomic variables to cash or liquidity. An alternative concept is the inflationary gap, which is based on the following relation:

$$\begin{aligned} G &= E + EX + OI - R - IM - OA \\ &= BD - TD + (OI - OA) \end{aligned}$$

where

G = inflationary gap
E = expected government spending
R = expected government revenue
EX = export
IM = import
OI = other injections
OA = other absorptions
$BD = E - R$ = budget deficit
$TD = IM - EX$ = trade deficit

Assuming that the inflationary gap is accommodated by ΔM, where M is the stock of money, so that

$$\Delta M = BD - TD + (OI - OA),$$

and if velocity of circulation is constant,[82] then the expected inflation is

$$i^* = \frac{\Delta M}{M}.$$

The variable, i^*, thus computed and seen in Table 22 as the inflationary gap/liquidity ratio, is highly correlated to the implicit retail price deflator ($R^2 = .83$).

As the above relation makes clear, part of the plan to fight inflation requires an increase in imports and a decrease in exports. This, however,

TABLE 22 Inflationary Gap (in millions of current dong)

	1980	1981	1982	1983	1984
Monetary injection					
Government expenditure	11,468	18,800	46,500	58,727	80,800
Export	810	3,629	5,144	6,509	7,839
Increase(+) or decrease(−) in bank credit	1,182	16,290	34,345	10,795	29,858
Financial transfers (purchase of foreign exchange)	0	0	0	0	0
Total	13,460	38,719	85,989	76,031	118,497
Monetary absorption					
Government revenue[a]	8,315	13,800	27,000	41,327	61,500
Import	3,140	12,507	14,367	16,110	21,045
Increase(+) or decrease(−) in time deposits and capital account	0	5,096	22,194	1,348	847
Financial transfers (sales of foreign exchange)	0	0	0	0	0
Total	11,455	31,403	63,561	58,785	83,392
Inflationary gap	2,005	7,537	23,250	19,156	36,822
Total liquidity[b]	7,373	14,569	26,805	36,698	53,667
Inflationary gap/liquidity (%)	27.2	51.7	86.7	52.2	68.6

NOTES: Exchange rates used to convert import and export recorded in dollars into dong are: 2.39, 9.05, 9.76, 10.55, 12.06.
a. Some of the foreign grants might have been used as revenue. However, no data are available. Thus, the inflationary gap may be exaggerated to the extent that the foreign grants have been used to cover part of the budget deficit.
b. Total liquidity = currency in circulation + demand deposit + savings deposit.
SOURCES: Computed based on the *IMF Report, 1985*, tables 4, 5, 36, and 37 and on *NGTK, 1985*, tables 162 and 167.

conflicts directly with economic growth objectives. Fortunately, the trade deficit remained almost constant during 1980–1985. Thus, only the budget deficit (Table 23), *OI*, and *OA* can be manipulated by the government. The three main factors in government spending are wages, subsidies, and procurement; and two major factors in government revenue are retail sales by state stores and taxes.[83] *OI* includes an increase or a decrease in bank credit. Bank credit can increase when the state bank finances the budget deficits and overdrafts of state enterprises, and *OA* contains change in time deposits and capital accounts.

TABLE 23 Consolidated State Budget (in millions of dong)

	1980	1981	1982	1983	1984
Revenue	8,315	13,800	27,000	41,327	61,500
Tax revenue	1,865	3,500	9,500	15,300	20,000
Transfers from state enterprises	6,450	10,300	17,500	26,027	37,500
Other nontax revenue	0	0	0	0	4,000
Expenditure	11,468	18,800	46,500	58,727	80,800
Current	8,293	13,900	33,000	39,177	54,700
Capital	3,175	4,900	13,500	19,550	26,100
Overall deficit (−)	−3,153	−5,000	−19,500	−17,400	−19,300
Financing	3,153	5,000	19,500	17,400	19,300
Domestic	244	−676	2,430	1,597	4,081
State bank (net)	244	−676	2,430	1,597	2,081
Bonds	0	0	0	0	2,000
Foreign loans and grants (gross)[a]	2,909	5,676	17,070	15,803	15,219

NOTES: Consolidated state budget in this table refers to budget of central government, provincial governments, and local governments.
a. Owing to lack of detailed data, foreign grants are not included in the revenue.
SOURCE: *IMF Report, 1985,* Table 4.

Hence, inflation can be brought under control by some combination of the following measures:

1. restraining the wage increase
2. abolishing subsidies
3. checking the increase in procurement prices or cutting back on the quantity procured
4. boosting retail sales revenue of state stores by increasing prices or the quantities sold
5. raising taxes
6. improving discipline in investment
7. slowing down the generation of bank credit
8. expanding time deposits

The government had tried to achieve 1, 2, 4, and 5. In the face of galloping price inflation, the government found it extremely hard to hold down money wage increase. Curbing the growth in subsidies was more successful. The rate of increase in subsidies fell sharply during 1980–1983 (Table 24). However, that proved to be short-lived as will be seen later. Measures 3 and 4 are tied together. The state stores could not

TABLE 24 Current Expenditures in the State Budget (percent change from previous year)

	1981	1982	1983	1984
Wages & salaries	80.7	1.6	67.7	63.5
Subsidies	226.1	116.7	10.8	80.6
Administrative expenses	—	144.7	13.9	73.0
Medical care	—	181.3	22.2	37.7
Education & scholarship	—	190.2	8.7	42.0
Total current expenditure	67.6	137.4	18.7	39.6

NOTE: Dash = not available.
SOURCE: *IMF Report, 1985*, Table 31.

raise quantity sold without increasing the quantity purchased. The stores could, however, raise the selling price well above the procurement price. But this would impinge on their price stability objective. Since 1977, the government had repeatedly raised the procurement price for agricultural commodities as an incentive measure for peasants (Table 9). Again, this implied higher government spending. Taxes had also risen, but they still formed too insignificant a proportion of the budget to be much of an anti-inflation weapon.

The government also failed in the remaining measures. Provincial and city governments were free to launch any new investment projects or to establish new corporations or joint ventures to engage in production for export. Many of these projects were neither carefully evaluated nor their execution well coordinated with other local authorities. Duplication of projects tended to diminish the potential economies of scale, thereby raising cost, while competition for limited funds forced the state bank, although it was being quite accommodative, to ration among borrowers. Eventually, many projects were left unfinished. Instead of abandoning them, many managers tried to hold on to them by lengthening their gestation period. But the more they were prolonged, the more materials were wasted or lost through theft and pilferage. Insatiable demand for investment was prevalent in socialist countries, and Vietnam was no exception. Without an appropriate interest rate structure and screening procedure for profitable projects, it would be hard for these countries to eliminate waste and inefficiency.

In anticipation of the abolition of subsidies, provinces doubled the employees' wages and salaries twice after 1981. Subsidies were reinstituted in 1986 after only a brief abolition. Bank credit expansion could not be stopped simply because once additional cash was injected into

TABLE 25 Indicators of Price Movements (annual percent change)

	1980	1981	1982	1983	1984
Value of goods to the internal market	29.7	190.6	93.5	51.7	52.2
Industrial products	−4.8	159.6	132.8	37.1	51.3
Agricultural products	112.3	225.7	57.6	72.0	53.2
Value of general retail sales	35.7	96.2	95.8	88.4	51.6
State sector and cooperatives	0.7	126.4	100.4	76.0	52.8
Private sector	76.6	56.1	92.5	98.2	50.8
Cash plan					
Official retail sales	17.4	93.8	108.1	78.0	52.4
Wages and other payments	6.9	91.1	68.0	76.2	22.0
Monetary data (end of year)					
Total liquidity	15.2	97.7	83.9	36.9	46.2
Cash in circulation	16.3	64.1	106.0	43.2	48.5
Monetary data (annual average)					
Total liquidity	10.8	59.3	88.6	53.5	42.3
Cash in circulation	15.9	37.7	90.1	63.7	46.3
Velocity					
Total value of general sales over cash in circulation	7.5	8.9	8.5	11.1	11.3
Official retail sales over cash in circulation	2.1	2.5	2.6	3.2	3.3

SOURCE: *IMF Report, 1985,* Table 25.

the private sector, it failed to return to the government banking system. Tran Duong, former governor of the state bank, acknowledged that during 1978–1980, currency in circulation had been issued at an annual rate of 30 percent. During 1980–1984, currency in circulation grew at an annual rate of 50.7 percent (Table 25). It should be emphasized that the principal causes of liquidity expansion were bank financing of the budget deficits and credit to state enterprises.

Lack of confidence by the public in the income equalization policy and erroneous interest rate policy hindered the expansion of savings and time deposits. Table 26 shows that the government banks paid at most 4.32 percent a year for deposits by cooperatives, at most 12 percent for savings deposits, and at most between 24 to 36 percent for time deposits. The lending rates were just a little higher than the deposit rates. With inflation averaging 60 percent a year during 1980–1984, the negative real interest rates discouraged savings by individual depositors. It was advantageous for state enterprises and cooperatives to borrow money, buy raw materials and inventory of finished goods, wait for the price to rise, sell them, and pay back the loan and receive a

TABLE 26 Interest Rates (in percent per annum unless otherwise indicated)

	1980	1981[a]	1982[b]	1983	1984
Lending rates for working capital					
S&JSP enterprises					
Under the plan	2.68	2.68	5.0–6.4	5.0–6.4	5.0–6.4
In excess of the plan	2.88	2.88	6.5–6.8	6.5–6.8	6.5–6.8
Cooperatives	4.32	4.32	6.0–12.0	6.0–12.0	6.0–12.0
State distribution and procurement	5.76	5.76	6.0–7.9	6.0–7.9	6.0–7.9
Private sector	8.64	8.64	12.5–36.0	12.5–36.0	12.5–36.0
Lending rates for capital construction					
S&JSP enterprises	0.72	0.72	3.6–4.3	3.6–4.3	3.6–4.3
Cooperatives	2.88	2.88	4.7–9.0	4.7–9.0	4.7–9.0
Private sector	5.04	5.04	12.0–14.0	12.0–14.0	12.0–14.0
Deposit rates					
S&JSP enterprises	1.08	1.08	1.8–2.5	1.8–2.5	1.8–2.5
Cooperatives	2.16	2.16	4.32	4.32	4.32
Savings deposits[c]	3.60	6.60	12.0	12.0	12.0
Time deposits	6.00	9.00	12.0–24.0	12.0–24.0	24.0–36.0
Credit cooperatives					
Lending rates	—	—	—	—	6 per month
Deposit rates	—	—	—	—	6 per month

NOTES: Dash = not available. For S&JSP enterprises, see note in Table 3.
a. Effective January 1.
b. Effective November 1.
c. No interest is paid on savings deposits of less than 200 dong; instead, holders of such deposits automatically participate in a monthly lottery.
SOURCE: *IMF Report, 1985,* Table 6.

handsome profit without engaging in production. Consequently, the addition to deposits slowed to a trickle (Table 27). At the same time, the negative interest rate encouraged a high rate of spending among consumers, which was reflected in the rising velocity of money (Table 25).

As would be expected, inflation worsened as the state sector, which was at a disadvantage in the competition with the private sector, groped to adjust to the new economic mechanism. Given our simple framework presented earlier, the inflation's immediate causes can be quickly identified. Old ways die hard. The government failed to contain the growth of wages and subsidies. The administrative supply system was as alive as ever. Procurement prices of agricultural products rose at an annual rate of 75.5 percent. The budget deficit in real terms increased at an

TABLE 27 Balance Sheet of the Banking System (percent change from previous year)

	1981	1982	1983	1984
Assets				
Credit	140.6	123.2	17.3	40.9
Fixed capital	51.8	157.9	17.9	52.6
Working capital	187.4	113.6	17.2	16.1
Liabilities				
Deposits	216.3	182.4	13.1	19.2
State enterprises and cooperatives	400.2	224.5	7.2	17.4
Government entities	134.6	76.6	36.0	18.7
Saving deposits	12.0	39.7	66.1	35.8
Cash in circulation	64.1	106.0	43.2	48.5

SOURCE: Computed from the *IMF Report, 1985*, Table 36.

annual rate of 75.4 percent. While growth in investment of CREs was cut by one-third, that of LREs, which tended to finance most of their investment with loans from the state bank rather than with taxes, almost doubled. It was not surprising to find total liquidity growing at an annual rate of 50.9 percent. The incentive induced by liberalization contributed to greater supply, as evidenced by rising output and retail sales. However, demand was expanding much faster than supply, the development of which was still constrained by institutional rigidity, price distortions, and policy deficiency. As a result, the expected inflation rate, as measured by the ratio of inflationary gap to liquidity, can be estimated at 57.3 percent for 1980–1984, which is reasonably close to the actual inflation rate of 62.7 percent for 1980–1985.

At the core, the price stability during 1977–1985 was the absence of a coherent macroeconomic policy and independent monetary authority. Apparently, there was very limited understanding among policy makers of the link between the monetization of the budget deficits and inflation. The Vietnam state bank (VSB) had no choice but to accommodate passively the financing requirements of the government and state enterprises. To be sure, the government had the cash plan, but there was almost a total lack of credit and interest policy.

External Sector. Throughout 1976–1985, exports amounted to only 30 percent of imports. Handicrafts, light industrial products, and agricultural products accounted for almost three-fourths of total export. Export of handicrafts and light industrial products reached a peak in 1979 and declined gradually thereafter. The reduction in their share in total export was exactly offset by an expansion in the share of agricultural products. Exports of handicrafts and light industrial products suffered from poor quality, inappropriate pricing, and failure to meet foreign specification and delivery schedules. Agricultural product exports consisted mainly of rubber, tea, coffee, fruits, vegetables, and groundnut, most of which went to the nonconvertible currency area. Sea products such as shrimps increased in importance as convertible currency earners. The export of coal to the convertible area became stagnant because of falling production, largely caused by lack of investment in new mining equipment, and because of an increase in internal demand by thermo power plants. Wood products were exported mainly to CMEA (Council for Mutual Economic Assistance) countries.

Almost half of total imports was in energy, raw materials, and spare parts. Equipment and machinery accounted for 30 percent of the imports. The rest consisted of consumer goods.

Trade deficits increased on the average by 14.8 percent per year during 1976–1979 but remained almost unchanged afterward (Table 28). The portion of deficits incurred in the nonconvertible area was sustained partly by a large amount of grant-in-aid from CMEA countries and partly by "labor cooperation agreements" whereby Vietnamese laborers were sent to work in factories in the Soviet Union and other Eastern European countries.[84] Trade deficits incurred in the convertible area became external debt. The latter totaled US$1.6 billion at the end of 1984 of which 40 percent was in arrears.

An annual import and export plan was implemented within the overall annual plan. Before 1980, import-export activities had been concentrated in about twenty central import-export corporations (CIECs) and thirty-five local trading companies (LIECs), which either produced goods themselves for export or bought them from producers. The former were owned and supervised by the Ministry of Foreign Trade; the latter, by local governments such as Ho Chi Minh City.

Since 1980, the government has tried to stimulate exports by granting exporters bonuses in local currency and the right to use foreign exchange. A bonus of 2 percent to 10 percent of export values was given to the CIECs for the amounts that met the plan targets and another bonus of 3 percent to 5 percent for the amounts exceeding the plan targets. In addition, these companies had the right to use part of the foreign exchange for the export levels meeting the plan targets and 100 percent of the foreign exchange for those exceeding the targets. The

TABLE 28 International Trade (in millions of U.S. dollars)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Export	222.7	322.5	326.8	320.5	338.6	401.2	526.6	616.5	649.6	698.5	—	—	1,038.4	1,946.0	2,404.0
Heavy industry and mineral products	35.7	55.1	49.8	36.6	36.9	68.6	58.5	46.1	53.1	62.9	—	—	66.9	354.8	616.9
Handicrafts and light industrial products	86.1	150.2	129.3	171.3	160.5	161.4	205.1	220.2	230.1	235.5	—	—	383.8	571.3	635.8
Agriculture	75.3	83.0	101.8	81.6	116.2	122.9	171.2	233.7	247.0	271.2	—	—	349.2	742.2	783.2
Forest products	6.2	15.7	30.5	14.8	13.7	19.4	34.7	38.8	37.0	40.5	—	—	59.3	86.7	126.5
Sea products	19.4	18.5	15.4	16.2	11.3	28.9	57.1	77.7	80.5	82.6	—	—	178.0	188.2	239.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	5.8	—	—	—	—	—
Import	1,024.1	1,218.4	1,303.2	1,526.1	1,314.2	1,382.2	1,472.2	1,526.7	1,745.0	1,857.4	—	—	2,756.7	2,565.8	2,752.4
Equipment	241.5	297.4	421.8	584.8	547.5	510.8	417.7	420.7	417.6	504.6	—	—	770.5	682.0	618.4
Spare parts	61.8	66.9	69.4	60.3	78.5	95.3	115.7	102.1	109.0	108.9	—	—	188.5	178.3	134.5
Energy and raw materials	549.2	568.1	500.0	466.4	370.6	491.4	642.5	809.4	908.8	898.3	—	—	1,376.8	1,377.2	1,589.6
Consumer goods	171.6	286.0	312.0	414.5	315.4	239.2	204.9	134.6	212.9	270.8	—	—	420.9	328.4	409.8
Other	0.0	0.0	0.0	0.1	2.2	45.5	91.4	59.9	96.7	74.8	—	—	0.0	0.0	0.0
Trade balance	−801.4	−895.9	−976.4	−1,205.6	−975.6	−981.0	−945.6	−910.2	−1,095.4	−1,158.9	—	—	−1,718.3	−619.8	−348.4
Official exchange rate[a]	2.05	2.05	2.05	2.02	2.39	9.05	9.76	10.55	12.06	15.00	30.0[c]	368.0[d]	2,600.0[e]	3,900.0[f]	6,430.0[g]
Exchange rate for remittances from abroad[b]	—	—	—	—	—	12.00	40.00	60.00	100.00	150.00	300.0[h]	504.0	—	—	—
Commercial rates															
Export	—	—	—	—	—	—	—	—	—	—	285.0–435.0	—	—	—	—
Import	—	—	—	—	—	—	—	—	—	—	85.0–285.0	—	—	—	—
Black market rate[a]	—	—	—	—	—	60.00	80.00	150.00	175.00	720.00	645.0	1,290.0[i]	4,600.0[e]	4,300.0[j]	6,480.0[g]

NOTES: Official exchange rate on October 31, 1991, was 11,000 dong/US$. Official rate on July 28, 1992 was 11,300–11,500 dong/US$ and the black market rate on the same day was 11,900 dong/US$.
Dash = not available.
a. Dong per U.S. dollar.
b. From convertible currency areas in dong per U.S. dollar.
c. November 1986.
d. December 5, 1987.
e. November 11, 1988.
f. August 4, 1989.
g. November 1, 1990.
h. Ho Chi Minh City.
i. March 1987.
j. September 13, 1989.
SOURCES: *NGTK, 1985,* tables 162, 164, and 167. *NGTK, 1990,* Table 155. Philip P. Cowitt, ed. (1987) *1986–1987 World Currency Yearbook.*

56

LIECs were allowed to retain 70 percent of export earnings (in foreign currency) for the export levels meeting the plan targets and 90 percent for the levels exceeding the targets.

Liberalization policy also authorized LIECs to import or export any commodity and to set freely the domestic price of imports and exports. The above incentive scheme set off such intense competition among the LIECs for a limited supply of export goods that it drove up domestic prices, making it difficult for the state to realize its procurement plan for the domestic market. To remedy this situation, the government in 1983 allowed CIECs to monopolize the export of twenty-five items. The LIECs in Ho Chi Minh City were put under the supervision of a new organization called Import-Export Company (IMEXCO), which coordinated all foreign trading activities. But in 1984, the LIECs were once again permitted to export all available commodities including the twenty-five that had been the monopoly of the CIECs. The LIECs now may import only commodities appearing on the list approved by the Ministry of Foreign Trade. However, whereas the CIECs must obtain approval for any change in prices, the LIECs may freely set prices of import and export commodities.

During the first reform, Vietnam adopted a multiple-exchange rate system and exchange control. In addition to the official exchange rate, a preferential exchange rate was applied to foreign tourists and funds remitted from abroad (Table 28). Tourist expenditures in Vietnam amounted to US$59 million in 1989. Vietnamese expatriates sent to their families US$150 million in 1989. The government permitted a number of government agencies and state enterprises to collect these funds, which were used to import consumer goods for sale to foreign tourists in specialty state stores. Before 1989, because of the shortage of consumer goods, the government encouraged Vietnamese abroad to send these goods in packages. These goods could be sold in the black market at very high prices, and sellers still received a handsome profit after paying stiff tariffs to customs. It can be safely stated that without the aid from relatives and friends hundreds of thousands of families in the South would not have survived. In fact, people who had relatives abroad enjoyed a better standard of living than those who did not. From 1989 on, as consumer goods became more abundant in Vietnam, the government favored U.S. dollars. But so long as the foreign exchange rates for remittances abroad were well below those on the black market, people would bypass the official transfer channels and use hundreds of underground ones that paid the black market rates. Thus, if there were

TABLE 29 Effects of Multiple Exchange Rate System: One Commodity, 1982

	Import	Export	Transfer of US$10
Exchange rate	10 dong/US$	80 dong/US$	60 dong/US$
Cost of item	100 dong	800 dong	
Revenue of cash transfer			600 dong
Domestic price	800 dong	800 dong	
Opportunity cost of cash transfer			800 dong
Profit/loss(−)	700 dong	0	−200 dong

NOTE: World price of commodity per unit = US$10. Blank cells = not applicable.
SOURCE: Author.

any significant differences between the exchange rates for imports, exports, and remittances, we can assume that people would engage in arbitrage to make a profit. It was no wonder that many state enterprises were themselves using export receipts to import unauthorized consumer goods such as automobiles, TV sets, VCRs, and the like in violation of government regulations.

In principle, the official exchange rate was used in both import and export transactions. However, the right of exporters to use foreign exchange allowed them to receive an exchange rate higher than the official rate. For instance, consider 1982. The exporters could turn in their U.S. dollars to the government and receive 9.60 dong for each dollar. Or they could use these dollars to import raw materials that could be sold at a price that resulted in 80 dong/US$, the black market rate. The effective rate for export then was 80 dong/US$ compared to 9.60 dong/US$ for importers. If we count bonuses for exports, the effective exchange rate was even higher than 80 dong/US$.

The multiple-exchange rate system as set by Vietnam had serious shortcomings. It tended to encourage importation by state enterprises and encourage expatriates to send goods instead of U.S. dollars to their relatives at home. Two simple illustrations will show how this works. They are based on the fact that import and export activities are state monopolies.

Suppose a commodity with strong demand both in Vietnam and overseas has a world unit price of US$10 and a domestic price of 800 dong. Suppose further that the exchange rates for imports, exports, and money transfer from abroad are 10 dong/US$, 80 dong/US$, and 60 dong/US$, respectively (see Table 29). To simplify the calculation

TABLE 30 Effects of Multiple Exchange Rate System: Two Commodities, 1982

	Import (commodity M)	Export (commodity X)	Transfer of US$10
World price	US$10	US$5	
Exchange rate	10 dong/US$	80 dong/US$	60 dong/US$
Domestic price	800 dong	400 dong	
Receipt of cash transfer			600 dong
Cost	100 dong	400 dong	
Opportunity cost of cash transfer			800 dong
Profit/loss(−)	700 dong	0	−200 dong

NOTE: Blank cells = not applicable.
SOURCE: Author.

without loss of generality, we can ignore transportation and other transaction costs. The cost of importing and exporting an item is 100 dong and 800 dong, respectively. It is clear that the importer will make a 700-dong profit while the exporter receives none. If an expatriate sends $10 home, his relative will receive 600 dong. The expatriate could have sent the item home for his relative to sell for 800 dong. Thus, he loses 200 dong.

One can object that there is hardly an item that Vietnam wants to import and is capable of exporting at the same time. It is true that the country tends to import energy, spare parts, fertilizer, and capital goods and export agricultural products, handicrafts, and light industrial goods. Modifying the above example to take into account differential products and prices does not pose any problem.

It is reasonable to assume that, for a country still in an early stage of development, a primary product (commodity X) earns less in the world market than a finished product (commodity M) using the former as an input. Thus, an import item costs, say, US$10 and an export item, US$5; likewise for their domestic prices (see Table 30). With the same structure of exchange rates, identical profit and loss follow. It goes without saying that, other things being equal, such a multiple-exchange rate system would defeat any attempt to improve export capability or to develop import substitutes.

Another issue was constant overvaluation of dong compared to major foreign currencies under the official exchange rate. This discouraged not only sales overseas but also the supply of exports by local producers, since the latter could only be paid low domestic prices for their products.

In the meantime, using the share of exports and imports in the total trade value (imports plus exports) as the weights, one can calculate the average of the official exchange rate and the export rate to be 28.12 dong/US$ in 1982 (which incidentally implies a GDP per capita of US$144). This rate was not an equilibrium rate, however, as it was based on a disequilibrium trade structure. A rate that would encourage exports and eliminate the trade deficit should be close to 80 dong/US$.

Neither did exports gain from the limited liberalization of the first reform, as its growth rate remained essentially unchanged between the two periods. Besides the quality control and management problems, the government was unable to get rid of the multiple-exchange system. It also failed to devalue the dong fast enough in response to accelerating domestic inflation and worldwide appreciation of the U.S. dollar. Growth in imports, however, appeared to slow down, which resulted in an almost constant trade deficit.

The Tax System. Tax revenue accounted for one-fifth of domestic revenue in 1978. The remaining came from transfers of surplus from state enterprises. Tax revenue as a proportion of GDP in 1980 was only 5.6 percent.

The tax system in unified Vietnam was similar to that of North Vietnam before 1975. The progressive farm income tax was based on the average income per capita from land of a given peasant household and was paid in kind. The average tax rate for 1976–1980 was about 6.2 percent of annual paddy output. However, the taxing power resided with the hamlets and village committees, which tailored the tax rate according to the quality of land determined by the committees. The government admitted that this practice generated anomalies and resentment among the peasants. In 1983, the new system of land tax based on area and land quality replaced the above. Cultivated land was classified into seven categories according to an average yield ranging from 1.5 metric tons per hectare to more than 5 metric tons per hectare of paddy. Three fixed rates were levied on three types of land—delta, midland, and mountain—for all seven categories of land. The average tax rate had been expected to increase to around 10 percent of annual output.[85] By 1985, however, the rate was just 6 percent (Table 31). The North paid a higher rate than the South. The rate was less for the southeast region than for the west highland, less for the Mekong Delta

TABLE 31 Agricultural Tax Rate by Region, 1985

	Foodgrain output (1,000s of metric tons)	Tax in paddy (1,000s of metric tons)	Tax rate (percentage)
Vietnam	18,200.0	1,092.9	6.0
North	7,592.7	542.3	7.1
Mountain and midland region	2,319.4	139.1	6.0
Red River delta	3,386.9	280.0	8.3
Old Region 4[a]	1,866.4	123.2	6.6
South	10,607.3	550.6	5.2
Central Coast	1,976.1	104.2	5.3
Highland West	559.2	19.9	3.6
Southeast region[b]	1,086.0	34.1	3.1
Mekong Delta	6,986.0	392.4	5.6

NOTES: a. Includes Thanh Hoa, Nghe, Tinh, and Binh Tri Thien.
b. Includes Ho Chi Minh City (Saigon).
SOURCE: Computed from *NGTK, 1985,* tables 28 and 144.

than for the northern mountain and midland region. The difference in actual tax reveals the extent of the collection problem. Clearly, discipline and compliance was better in the North than in the South.

To encourage peasants to join cooperatives, privately owned land was subjected to a surtax ranging from 1 percent to 7 percent of total paddy output (equivalent to 10 percent to 60 percent of total tax obligation of a household). The tax rate was raised drastically to 60 percent following a Politburo directive in April 1987.[86] In any case, the failure of the government to supply peasants with agricultural inputs and consumer goods in return for rice output as stipulated in the exchange contracts amounted to an added tax burden of up to 9 percent of the total foodgrain output.

For the industrial and commercial sector, the income tax rate for private producers was 12 percent, but the private shopkeepers had to pay an 18 to 20 percent rate.[87] A differential commodity tax rate ranging from 5 to 15 percent and business tax on sales profit ranging from 3 to 10 percent were used to discourage the production, transportation, and distribution of nonessential goods. Tax exemptions were widely used to encourage the formation of production and distribution cooperatives and to stimulate the handicraft industry. Thus, the tax rates varied greatly between localities depending on cadres in these areas.[88] Income-distribution considerations figured prominently in the tax revision in 1983.[89]

TABLE 32 Ex-post Point Elasticities of Various Taxes with Respect to Income (GDP)

	1981	1982	1983	1984
Tax revenue	1.5	1.9	1.1	0.7
Turnover tax	—	—	1.9	—
Profit tax	—	—	0.8	—
Commodity tax	—	—	1.0	—
Wholesale tax	—	—	0.5	—
Agricultural tax	0.1	5.0	1.4	0.0
Transfers from state enterprises	1.0	0.8	0.9	1.0
Budget expenditure	1.1	1.7	0.5	0.9
Capital expenditure	0.9	2.0	0.8	0.8

NOTE: Dash = not available.
SOURCE: Computed from *IMF Report, 1985,* Table 30.

Although the agricultural tax, which amounted to only 5.5 percent of total revenue in 1980, increased in importance over time, the turnover tax paid by the state enterprises and their profit transfers still formed the backbone of the state's budget revenue. Together, they accounted for 71 percent of total revenue in 1982–1983. Moreover, the ex-post point elasticity of the turnover tax with respect to income (GDP) in 1983 was 1.9 while that of profit transfer from the state enterprises (PTFSE) was only 0.93 on the average between 1981 and 1984. The income elasticity of the agricultural tax varied a great deal during the same period. This reflected a number of problems such as inaccurate data, poor collection management, the adverse effects of the new tax policy, and resistance by peasants to paying higher taxes during the tax drive in 1983–1984. In fact, the income elasticity of total tax revenue, agricultural tax, government spending, and capital spending (for which data are available) all moved in the same direction as GDP, except PTFSE, which behaved countercyclically (Table 32). Apparently, since state enterprises and state stores set prices according to the government's order, the government was free to determine their profit level. In this way, the government made up for tax revenue shortfalls during slumps. Thus, PTFSE became a cushion against the fluctuation in tax revenue.

Transportation and Infrastructure. Even with the reform, the transportation sector suffered a major setback during 1979–1982. The amount of goods transported declined by 8.6 percent a year on the average during this period (Table 33). The amount of goods shipped multiplied by km traveled also decreased by 1.6 percent per year. Besides economic

LE 33 Freight Transportation

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
freight transport il. of tons)	44.3	54.6	57.0	52.4	42.3	39.3	39.2	49.6	51.3	53.7	54.2	55.3	54.1	43.4	54.9
ownership															
&JSP enterprises	25.3	27.8	34.9	33.7	29.0	26.4	26.0	34.7	35.0	36.5	36.7	37.6	37.0	31.3	26.7
Non-S&JSP	18.9	26.8	22.1	18.7	13.3	12.9	13.2	14.9	16.4	17.1	17.6	17.7	17.0	12.1	28.2
Cooperatives	11.1	13.9	15.0	18.3	13.3	12.9	13.2	14.9	16.4	17.1	—	—	—	—	—
Individuals	7.8	12.9	7.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—
management															
CREs	15.0	16.1	16.2	13.7	11.1	10.3	10.4	14.9	11.8	12.5	12.5	13.0	13.5	10.7	9.2
LREs	29.2	38.5	40.8	38.7	31.1	29.0	28.8	34.7	39.5	41.2	41.7	42.4	40.5	32.7	45.7
mode of transportation															
Railways	5.9	5.9	5.5	4.5	3.5	3.1	3.2	4.2	4.1	4.1	4.1	4.0	3.9	2.4	2.3
Roadways	26.1	33.7	34.5	32.0	25.9	23.2	22.6	28.0	30.0	31.3	31.1	32.1	30.7	23.7	32.5
Waterways	10.8	13.1	14.7	14.1	11.6	11.3	11.9	15.3	14.7	15.7	16.4	15.8	15.4	13.2	16.0
eaborne shipping	1.4	2.0	2.2	1.8	1.3	1.3	1.5	2.0	2.5	2.6	2.6	3.4	3.1	4.1	4.1
Other	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
freight transport . of tons-km)[a]	6.6	9.0	9.4	9.7	9.8	7.9	8.6	11.8	11.5	12.7	12.1	13.3	13.0	12.8	12.6
ownership															
&JSP enterprises	5.8	7.6	8.4	9.0	9.2	7.3	7.9	11.0	10.6	11.8	11.2	12.3	12.0	12.0	11.3
Non-S&JSP	0.8	1.4	0.9	0.7	0.6	0.6	0.6	0.7	0.9	0.9	1.0	1.0	1.0	0.7	1.3
Cooperatives	0.3	0.4	0.4	0.3	0.6	0.6	0.6	0.7	0.9	0.9	—	—	—	—	—
Individuals	0.5	1.0	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—
management															
CREs	4.7	6.5	6.8	7.3	7.9	5.9	6.5	9.2	8.6	9.3	8.5	9.2	8.8	9.1	8.5
LREs	1.9	2.5	2.5	2.4	2.0	2.0	2.1	2.5	2.9	3.4	3.6	4.1	4.2	3.6	4.1
mode of transportation															
ailways	0.9	1.0	1.0	0.9	0.8	0.8	0.7	0.8	0.8	0.9	1.0	1.0	1.0	0.7	0.8
oadways	1.4	1.7	1.7	1.6	1.3	1.2	1.2	1.4	1.1	1.5	1.5	1.7	1.7	1.4	1.6
Waterways	1.4	1.7	1.9	1.9	1.6	1.6	1.7	2.2	2.1	2.2	2.3	2.4	2.3	1.8	1.8
eaborne shipping	2.9	4.6	4.8	5.4	6.2	4.3	5.0	7.4	7.1	8.1	7.4	8.2	8.0	8.8	8.3
ther	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0

: Dash = not available. For CREs, LREs, and S&JSP enterprises, see note in Table 3.
s multiplied by distances traveled.
ES: *NGTK, 1985*, tables 120, 121, 124, and 125. *NGTK, 1990*, tables 130 and 132.

depression, the restriction on the mobility of goods played a major role. During this period, necessity goods beyond minimum personal requirement were prohibited from being carried across provincial lines. As a result, freight shipping by all modes of transportation declined precipitously. The restriction on the movement of goods was not lifted until 1987. In addition, by 1980 the cooperativization drive had totally eliminated personal ownership of the commercial means of transportation.

Passenger transportation was even more depressed. The number of passengers decreased on the average by almost 1 percent annually during 1976–1985 (Table 34). Despite the unification between North and South Vietnam, which allowed visits by relatives from both parts, the number of passengers multiplied by km traveled remained almost unchanged. Even during the reform years 1980–1985, the number of passengers and the number of passengers times distances traveled fell at an annual rate of 7.2 percent and 3.1 percent, respectively. A major factor bringing about this decline was the requirement that everyone have a pass for any trip outside his or her town of residence.

Deficiency in transport facilities was another factor contributing to the bottleneck. Investment in the transportation sector at 1982 prices decreased on the average by 4.1 percent a year during 1977–1981. It rose sharply in the next three years but declined again in 1985 (Table 4). Lack of investment in trucks, trains, and new tracks prevented expansion to accommodate greater needs. Most railroad tracks were too old and narrow (1 meter) to carry heavier loads at faster speeds. Only 11 percent of Vietnam's 86,000 km of roads had a hard surface, and those that did have one deteriorated rapidly. Similarly, bridges, already of poor quality, were in disrepair. Ports could handle only half of the country's needs. Air transport was so inadequate that its share in total transport was negligible.

These problems were compounded by shortages of energy and spare parts. Lack of road and bridge maintenance was mainly due to lack of inputs (asphalt) and equipment. As mentioned earlier, road-building equipment was left unused for want of spare parts. Consequently, rail and motor vehicle freight transport showed little improvement during 1976–1985. Indeed, it fell further during the reform years. The average distance that a ton of goods was carried by motor vehicle has diminished continuously since 1976. For railroads, although the mileage increased during 1976–1985, the amount of goods carried decreased on the average by 3.1 percent per year. The share of railway and motor vehicle freight transport in total freight transport (ton-km) shrank from 34.9 percent in

Table 34 Passenger Transportation

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Number of passengers (in millions)	524.6	845.7	765.3	654.2	447.7	339.6	355.3	347.4	406.0	378.5	388.3	417.0	418.8	349.0	581.5
By management															
CREs	44.6	48.4	42.4	37.0	35.4	23.0	20.0	23.1	25.3	20.6	22.4	25.4	19.0	12.8	11.9
LREs	480.0	797.3	722.9	617.2	412.3	316.6	335.3	324.3	380.7	357.9	365.9	391.6	399.8	336.2	569.6
By mode of transportation															
Railways	44.4	46.6	41.1	35.5	33.8	21.7	18.7	21.2	23.7	19.4	21.1	24.1	17.8	11.7	10.5[b]
Roadways	468.5	765.0	678.8	578.6	370.7	285.7	299.1	285.6	339.3	317.5	327.4	354.6	360.6	300.8	448.5[b]
Waterways	11.7	34.1	45.4	40.1	43.2	32.2	37.5	40.3	42.7	41.6	39.7	37.8	40.3	36.2	121.8[b]
Sea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.1	0.1	0.5	0.1	0.3	0.4[b]
Number of passengers (mil. of people-km)[a]	15,568.2	22,412.7	20,703.0	17,369.4	13,795.0	10,835.6	12,123.5	12,527.8	14,318.0	13,486.9	15,057.5	16,402.1	14,876.7	11,369.7	15,496.4
By management															
CREs	3,203.9	4,532.2	4,935.8	4,661.2	4,753.1	3,280.5	3,228.2	3,566.8	4,208.4	3,913.2	4,466.2	5,163.8	3,807.0	2,345.7	2,616.7
LREs	12,364.3	17,880.5	15,766.2	12,708.2	9,041.9	7,555.1	8,895.3	8,961.0	10,109.6	9,573.7	10,591.3	11,238.3	11,069.7	9,024.0	12,879.7
By mode of transportation															
Railways	3,154.6	4,237.8	4,701.1	4,396.7	4,487.7	3,029.7	2,962.9	3,069.7	3,628.0	3,358.7	4,196.0	4,854.0	3,505.5	2,098.2	1,913.0
Roadways	12,053.6	17,234.7	15,006.3	11,966.8	8,459.5	6,999.9	8,220.9	8,269.0	9,176.0	8,867.2	9,743.9	10,386.8	10,239.5	8,208.3	11,181.9
Waterways	310.7	881.2	952.9	942.1	786.4	736.1	870.8	887.5	1,130.0	1,086.3	1,053.0	1,073.4	1,051.4	1,013.7	1,986.3
Sea	49.3	59.0	42.7	63.8	61.4	69.9	68.9	70.6	72.0	79.7	64.6	87.9	80.3	49.5	56.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	231.0	312.0	95.0	0.0	0.0	0.0	0.0	358.5

Notes: For CREs and LREs, see note in Table 3.

a. Number of passengers multiplied by distances traveled.

b. Slight numerical errors from *NGTK, 1990,* Table 138.

Sources: *NGTK, 1985,* tables 128, 129, and 130. *NGTK, 1990,* tables 137 and 138.

1976 to 18.8 percent in 1985. The difference was entirely made up by seaborne shipping, which handled almost two-thirds of the freight transportation in 1985.

Grain facilities are important when production is uncertain. However, warehouses, most of which are built of bricks and bamboos, could not maintain grain for an extended length of time. The loss due to excessive humidity, rats, termites, weevils, and theft and the loss during transit and in the threshing and milling altogether accounted for 20 percent of the total output.

The combination of the deterioration in the capital assets of the transportation sector and the lack of adequate drying and storage facilities led to maldistribution of grain and inability to provide relief to needy areas.

The transportation sector was untouched by the first reform. Indeed, freight and passenger transports contracted in all modes. Just as happened in China after its economic reform, this sector became a major bottleneck in the economic development of Vietnam.

Although potential electrical capacity was great—thanks to enormous investment in hydroelectric dams in Hoa Binh, Tri An, and Da Nhim—the actual supply of electricity has been woefully inadequate because of lack of transmission lines and switching stations. Communication systems were quite antiquated by any standard and very limited.

The Second Reform: Renovation (*Doi Moi*) and Its Obstacles

Alarmed at the annual inflation rate of 700 percent in 1986, the reformist Sixth CPV Congress led by Nguyen Van Linh, the new general secretary, introduced the second wave of reform. It announced that private holdings of land and decooperativization in farming would be allowed. Provinces were permitted to form their own trading organizations and to deal directly with foreign governments and companies. They were given greater power than before in pursuing the objective of provincial self-sufficiency.

The implementation of the second reform was slow at first. Party bureaucrats had been hesitant about *Doi Moi* (Renovation). Only when twenty-one people died of starvation in Thanh Hoa Province and famine threatened the central part of the country in March 1988 did the Vietnam leaders finally realize that they had to push hard for reforms or millions would perish. The Politburo decided to return the land confiscated from the peasants during 1975–1983.[90] It downgraded the role of agricultural cooperatives and allowed farmers to perform individually most tasks in the rice-growing cycle.[91] It also restricted the role of state farms and state cooperatives and allowed peasants to lease the land they tilled on a long-term basis. Landownership still belongs to the state, but the peasants have the right to transfer the lease to someone else. After paying tax and rent to the government, they can sell output on the free market. Private merchants have the same right as the government to buy from peasants. Individuals are free to set up their own enterprises including banks, credit cooperatives, gold stores, and restaurants. Cooperative form, of course, is preferred to individual venture, and material production to service. Price subsidies to state workers and employees and financial subsidies to inefficient state enterprises were about to be finally abolished. However, a near uprising by army soldiers in January 1989 against the cut in the rice price subsidy led to its reinstitution "specially" for them. In January 1991, Hanoi issued a new law on private business, recognizing its right to set up businesses (Article 1) and protecting the right of ownership of the means of production (Article 4). The individual must file an application with the local people's committee in accordance with the Council of Ministers' regulation.

Past restrictions on the mobility of goods and people have been largely removed. People are free to use their resources for profit. Managers of state enterprises alone have the power and responsibility to make them profitable. Before, workers could not be fired except in the case of a violation of state regulations. Now, workers have to sign labor contracts and can also be fired if the contracts are violated. Wage payments depend on workers' productivity. The state laid out a minimum wage law for workers. If, by adhering to minimum wage law, an enterprise cannot survive, then its directors must be replaced, have the production plan altered, or be allowed to go bankrupt.

Since mid-1988, price control and price setting by the government have been abolished for most goods. Only the most essential inputs such as electricity, gasoline, oil, coal, iron, steel, cement, timber, and printing papers are still subject to price control by the government. The private sector is encouraged to the maximum. The government made plans to do away with the system of price subsidies and the state monopoly on grain and foodstuffs, aiming at establishing a single price system and a single exchange rate. A new foreign investment law, which is one of the most liberal in Southeast Asia, was promulgated in January 1988.

It helped to attract hundreds of millions of dollars of foreign investment to Vietnam. The state also planned to concentrate its investment chiefly on developing infrastructure and some key projects in agriculture and industry—particularly food industry, the consumer goods industry, the export industry—and a number of welfare programs.[92]

The reform was incorporated in the fourth five-year plan (1986–1990), which followed the same priority order as the previous five-year plan, that is, (1) agriculture and food, (2) consumer goods, and (3) exports. The number of large development projects was cut to twenty-seven with no new projects to be started in 1987 and 1988 except those in the first three priority programs listed above. Again, targets for the plan period were generally too optimistic. They included 7 percent growth in GDP per annum, 22 to 23 million metric tons of grain in 1990, 11 percent annual growth in industrial output, 14 percent annual growth in exports, and an 80 to 85 percent utilization rate by 1990. The economy mostly failed to perform according to plan. Real GDP grew at an average annual rate of only 3.9 percent. Foodgrain production reached only 21.5 million tons in 1990. Industrial output rose at slightly more than half of the target rate. The utilization rate remained at 50 percent, the same level as during the first reform. Only export growth more than doubled the plan target. Nevertheless, the second reform offered a brighter prospect in most areas except employment and investment (see Table 19). The drop in the latter resulted from the contractionary policy adopted to fight inflation.

Agriculture. Many state-run agriculture, forestry, and fishery enterprises operated at a loss. Agricultural cooperatives still faced serious problems. Work credits were still given arbitrarily. Grain and income were still distributed equally, ignoring the differential work efforts. Cooperatives and their members still had to shoulder too many social welfare burdens. Cooperative income was used in granting supplementary allowances to the cadres performing tasks for the CPV, for the government, and for mass organizations. Cooperative funds were used by the village branch of the CPV and the people's committee to defray other expenses. All this contributed to a loss of enthusiasm among peasants for cooperation. In addition, state-run agricultural units suffered from irrational and inefficient land usage. Their marginal output per dong's worth of fixed assets decreased over time from 1.57 dong in 1985 to 0.6 dong in 1986, and 0.45 dong in 1987.[93] This led to the revolutionary directive 47 from the CPV Politburo in August 1988, which decreed an end to collectivization and a return to private landownership for farmers.

Throughout 1988, because of the shortage of grain, the fast-rising price of grain, foodstuffs, and gold drove up other prices. Localities had to continuously adjust the retail prices of various commodities, including those sold on rations; and this led to the readjustment of wages to catch up with the rising costs of living. The retail price index went up by 393 percent for the year. The terms of trade between the chemical fertilizer sold by the state and the paddy bought by it were steadily declining from 1 to 3 in 1985 to 1 to 2.5 in 1987 and to 1 to 2 in 1988. As a result, the state had to spend much more money to purchase paddy and to raise wages for its employees.

The growth in gross agricultural output almost stalled in 1987, accelerated afterward, but fell again in 1990. On the whole its labor productivity gradually recovered from the cooperativization drive initiated in 1985. However, it fell again by 25.5 percent in 1990. Employment in agriculture increased at 2.9 percent annually. Investment in agriculture plummeted in 1986, 1987, and 1989 to a level below that of 1976. And agriculture's share in total investment declined from 18.6 percent in 1985 to 12.4 percent in 1989 (Table 4). Because of this, agriculture's capital productivity rose sharply at an average 17.2 percent per year compared with 2.7 percent in the first reform.

Industry. Since 1989, efforts have been made to shift from centralized, rigid planning to guidance planning in which production activities are linked to market demand and consumption. Now only 30 to 50 percent of output will be subject to legally binding plans or state orders. The remaining proportion of output will be handled by the enterprises themselves. In other words, the enterprises are on their own for finding suppliers and customers. These functions were previously handled by the state. State orders through contracts are used as a lever for implementing the plans.

The reform forced adjustment on 3,300 S&JSP industrial enterprises that accounted for about 57 percent of total industrial output during 1986–1990. With the ending of subsidies, they found themselves short of capital, unable to renovate their product lines. At the same time, beginning in 1989, they faced stiff competition from a flood of cheap and better quality smuggled goods from China and Thailand. The state enterprises entered a deep sales slump. Unsold inventory as of May 1989 amounted to 1,200 billion dong or 17 percent of total retail sales in 1988. They had to lay off hundreds of thousands of employees. The state sector hit its lowest point in 1989. These firms could not even pay the employees remaining on the payroll for almost three months. Eighty percent of the S&JSP enterprises were in serious difficulty, and at least 30 percent of them were in bankruptcy. On the average, each state-run enterprise operated at only half of its capacity.

Nevertheless, for the whole period 1986–1990, output in S&JSP enterprises rose faster than during the first reform. So did the enterprises' labor productivity. The reason for the spectacular gain in productivity was the release of redundant labor in the state enterprises and cooperatives.

The centrally run enterprises were doing better both in terms of output and labor productivity compared to the first reform. CREs suffered less than LREs mainly because of the sharp rise in oil output in both 1989 and 1990. The share of CREs in investment appeared to reverse the falling trend during 1980–85 (Table 4). The locally run enterprises performed less well compared to the first reform in terms of output. However, they performed well compared to the first reform in terms of labor productivity. This is because their employment decreased by 2.7 percent annually.

Heavy industry did much better in this reform than the previous one, while the opposite occurred for light industry.

The cooperatives were thrown into turmoil by the economic liberalization. Their output decreased by 36.4 percent and their labor productivity by 4.6 percent. Their employment fell by one-third, and this trend even accelerated in 1990 with a declining rate of 41.7 percent. In other words, there was a virtual disintegration of the industrial cooperative system.

The best performance was made by the private sector although the law permitting the establishment of private firms was only issued in 1991. Output of the private sector jumped 18 percent annually. The growth of its labor productivity was about the same as that for the S&JSP enterprises. Employment in the private sector rose at 10.4 percent per year, however, while that of the state sector declined by 3.4 percent per year. This implies that there was much surplus labor in the state sector. In fact, the redundant workers accounted for 18 to 20 percent of the total number of laborers in the product sector.[94]

In general, gross industrial output rose faster during the second reform than during the first. However, output in most industries suffered from a deep recession in 1989. Labor productivity in industry rose at 8.8 percent, three times as fast as in the first reform. Capital productivity in industry rose by 7.6 percent per year. Employment in industry, however, declined by 2.3 percent. Investment had been quite depressed following the crackdown in 1985 and only picked up after the government really implemented the second reform in 1989. The negative annual average rate in Table 15 reflects the influence of these years. The declining investment is the main cause of the industrial stagnation and slowdown in labor productivity and the lack of competitiveness in relation to the imported goods.

Inflation. The government has always recognized that inflation has been mainly caused by an excessive budget deficit. But it had not realized that the budget deficit became monetized through the printing press. The VSB does not have an independent authority but acts only as agent for the government and receives funding directly from the state budget. The budget allocations were made to state enterprises through the state bank, which were not repaid as in the case of a true loan. In addition, the VSB allowed credit overdraft from enterprises, which encouraged overspending and so further exhausted the limited cash availability. Hence, cash went out but never returned, as mentioned earlier. Consequently, the VSB was constantly short of cash and found itself unable to honor withdrawals from corporate depositors, much less to settle debts owed to exporting organizations and cooperatives timely. Although it was illegal to keep excess cash, the cash squeeze forced enterprises to hoard up to 50 percent of their total cash inflow. At the same time, the high lending rate caused by shortage of funds and price instability discouraged borrowing for investment. This created a paradoxical situation in which the budget deficit amounted to 6.1 percent of real GDP (1988–1990 average) with the VSB printing money at a rate of 30 percent to 50 percent a year, yet enterprises complained of tight money!

In 1988, the government set up specialized commercial banks to take over the lending function of the VSB. Unfortunately, these attracted only a small fraction of the money held by the public, and they lent 90 percent of their funds to S&JSP enterprises. In addition, private companies were charged 4.5 to 6 percent interest a month on loans from state banks compared to the 1.5 to 2.6 percent or less rate received by state enterprises. To fill the need of depositors as well as private entrepreneurs, hundreds of credit cooperatives (CCs) were created in 1989. The government allowed interest rates on deposits to rise above the inflation rate, which attracted an amount of savings deposits equivalent to US$400 million in 1989 alone. Many new private enterprises survived and grew thanks to these CCs. But there was no banking law (until too late, that is, until October 1989) regulating them or protecting the depositors, and no insurance corporation to insure the deposits. They paid 10 percent a month on deposits compared with 8 percent a month by the specialized banks. The CCs also competed with one another in a cutthroat manner. For instance, Thanh Huong Credit Cooperative offered 15 percent a month on deposits. They could not find business borrowers who could afford the expensive loan rates. Fraud and embezzlement were rampant since they were not under supervision by any government agencies. A portion of credit financed by CCs was used for smuggling goods from China and Thailand. The exposé of Thanh Huong and Xacogiva set off a run on all CCs. Most found themselves insolvent and unable to pay depositors. This created a crisis of confidence, pushing the price of gold up by 35 percent and pulling the dong down by 54 percent against the American dollar. The loss amounted to 700 to 800 billion dong (about half of the budget deficit). It caused the collapse of 2,000 small private businesses that had borrowed money from CCs. In an attempt to repay depositors, authorities recalled the loans, forcing these businesses to turn over equipment purchased with the loans.

Following the collapse of the credit cooperative industry, bank credit was curtailed. Overall investment was on the decline. However, as the tax rate decreased, the public financed their investments with money previously hoarded (cash and gold) equivalent to another US$150 million.

As a fiscal measure, the government reduced administrative expenditures through a massive layoff of 10 percent of central government personnel and 20 percent of provincial cadres, elimination of subsidies to state enterprises, suspension or scaling down of construction works, and stricter tax collection.

Gold and U.S. dollars are the two indicators of inflation most watched by the public. To influence the market for these items, the government legalized the gold trade and actively bought and sold U.S. dollars and gold. It imported twelve tons of gold to relieve the pressure on gold prices.

These stabilizing monetary and fiscal measures contributed to lowering the inflation rate from 393.8 percent in 1988 to 34.7 percent in 1989.

These measures, notwithstanding, had little effect on the budget. First, profit transfers and turnover tax revenue collected from 15,000 state enterprises fell substantially as 31 percent of them had gone out of business. Second, actions by state enterprises and government retrenchment pushed the unemployment rate to an estimated 20 percent of the labor force (although official employment figures may not show this). To relieve unemployment pressure, the government applied reflation policies. In 1990, it exempted revenue collection in some areas, provided more credits, and reduced the rate of interest. As the state enterprises owed the VSB 3 to 4 trillion dong (twice the budget deficit), the government had to reschedule the debt payments and extend the loan period. In addition, to counter the adverse effects of the abolition of price subsidies, the government guaranteed a minimum standard of living so that in-kind allowances for welfare recipients rose.[95] Thus, the budget deficit as a proportion of GDP reached a peak in 1988 with 7.1 percent. But because of reflationary measures, the ratio declined only slightly to 6.5 percent in 1990 (David Dollar [1992]). And inflation surged to 67.5 percent in 1990.

In 1991, the government held to a tight-money policy by not issuing new banknotes but financing the budget deficit through domestic borrowing and foreign loans, chiefly by preferential credit loans. This, coupled with a bumper rice crop and successful intervention in the gold and foreign exchange markets, helped keep inflation down to 17.5 percent.

External Sector. Before 1990, 80 percent of exports went to Soviet Block countries in the form of barter trade under bilateral agreements. Two-thirds of exports were in agriculture including forestry and one-third in light industrial goods, primarily clothing. The largest export agricultural products were beans, peanuts, timber, and frozen shrimp with total revenue of about US$207 million. Light industrial goods accounted for US$65 million. Coal was next with US$29 million.

Even prior to the collapse of the communist governments in the Soviet Union and Eastern Europe, exports declined by 17 percent in 1988 and the fall in imports doubled that percentage. Exports to convertible areas increased by only 8 percent in 1988, but those to nonconvertible areas decreased by 40 percent. It signified that the CMEA market for Vietnamese exports had already been changing and had become uncertain.

In 1990, aid and loans to Vietnam were reduced sharply. Import of raw materials, fuel, and equipment depended on soft loans from those countries. The Soviet Union provided about 80 percent of total funds used in Vietnam. Since 1990, the CMEA countries have demanded hard currencies for their exports. At the same time, payment of interest and principal on foreign debt became due, subjecting the government to even greater pressure to earn convertible foreign exchanges.

The gradual loss of the nonconvertible market and the sudden reduction in aid and loans forced the government to find new markets in the convertible area. This meant appropriate structural and policy changes.

Previously all exports had to be handled out of Hanoi. Since 1987, firms have been permitted to deal directly with clients in capitalist countries. If clients are not found, exports have to go through one of the government-controlled trading companies. In 1989, the government further liberalized the trade sector by abolishing most export and import quotas, allowing the import and export prices to be set by the market, abandoning multiple-exchange rates, and adopting realistic exchange rates.

During November 1988–August 1990, the dong was devalued nine times, or about 80 percent, to bring the official rate of 6,200 dong/US$ close to the free market rate of 6,500 dong/US$. In the same period, the difference in the inflation rate between Vietnam and the United States was about 91.4 percent. This indicated that the dong should have been devalued further by 5 to 10 percent. In spite of this, exports to the convertible areas more than doubled in 1989 and increased by more than one-third in 1990. Imports from the convertible areas also rose but by a lesser rate than exports in 1989. Imports from convertible areas went up by 23 percent in 1990 while those from nonconvertible areas had declined continuously since 1987.

Overall, the rate of growth of exports more than doubled during 1986–1990 compared with the 1981–1985 period. Imports also increased but at a rate less than a third of exports, leading to a spectacular plunge in the trade deficit.

The need for earning hard currency also led to the decision to export rice in 1989 and 1990 even though acute food shortage still affected millions of people.[96]

Thus, rice, crude petroleum, and marine products, since 1989, have emerged as the most important single export items while petroleum and fertilizer continue to be important import items.

Taxation System. Agricultural tax collection remained unsatisfactory owing to nonuniform implementation of the tax code. Some localities had violated the tax collection and policies. Some had lowered land classification criteria. Others granted exemptions and tax reductions at variance with state regulation to those taxpayers who were not entitled to receive them. Some local cadres even refused outright to pay taxes.

Nguyen Huu Tho, vice chairman of the Council of State, complained that taxes were too high to be conducive to production. The State Assembly Budget Committee reported that some taxes, such as the turnover tax, had been collected several times. In the case of turnover tax, every time a product is produced or sold, a tax was collected. The same good was assessed different taxes depending on how many times the good turned over before the final sale. Thus, it created a tendency for taxes to pile up on top of taxes, putting a heavy burden on the consumers. The government realized that the economy needed a tax break. In 1989, taxes were cut in most sectors such as agriculture, industry, construction, transportation, trade, and service. Most food products and other consumer necessities had taxes reduced by up to 70 percent. Tax on commodities is now collected only once between the production and sale. The government also abolished multiple taxes under which a private business that had paid a commodity tax also had to pay a business tax. The new measure would reduce business tax by two-thirds, and taxes on restaurants and other service industries by as much as half. Nominal tax on agricultural production based on the same seven categories of land previously referred to is now much lower.

In an effort to simplify the tax collection, the government is experimenting with the value-added tax that could be used to replace the turnover tax. It is also considering substituting the tax on agricultural production with a land use tax.

Transportation and infrastructure. Freight transportation was affected by the deep recession. It declined almost 20 percent in 1989 (Table 33). In 1990, the nonstate sector recovered splendidly while the state sector stayed in the doldrums. Almost the same story can be told for CREs compared with LREs. All modes were affected except seaborne shipping, as it started from a very small base.

Passenger transportation suffered the same fate as freight transportation except that the former declined two years in a row beginning in 1988 (Table 34). The CREs continued a steep descent even through 1990 while LREs, after a setback in 1989, came around in 1990. All modes of transportation were affected without exception.

In 1991, Vietnam had about 3,059 km of railroads, 85,000 km of roads with 11 percent paved, 17,702 km of navigable inland waterways, 100,000 passenger cars, and 200,000 trucks and buses. Its fleet of merchant marine of 89 ships (1,000 gross tons and over) totaled 643,877 dead weight tons (dwt), including 73 cargo and 8 petroleum tankers. Electricity is still in acute short supply, especially during the dry season when hydroelectric power plants face water shortages. Brownouts are frequent in Ho Chi Minh City. Telecommunication systems remain poor; for example, the country has twenty-five telephones for every 10,000 persons.[97]

Obstacles to further reform. Despite initial success in the second reform, serious obstacles to economic development remain:

1. *Lack of a uniform commercial code to protect the private sector against wanton government seizure, to regulate business transactions and the management of enterprises, and to prohibit unfair competition and monopolistic practices particularly from state enterprises.* The latter problem has been serious for small overseas Vietnamese investors. Foreign investors have repeatedly complained about conflicting rules and regulations set up by different authorities that make it impossible for the businesses to operate in a legal environment. In addition, there was a great gap between the written law and its implementation. As a result, no one knows for sure what the ground rules for foreign investment and transfer of capital are.
2. *Inadequate institutional structure and environment for the government to intervene indirectly through macroeconomic policies.* For instance, the banking system is still primitive. The financial and capital markets remain undeveloped. A financial market will open new channels to finance enterprises, the government, and financial institutions. The market will reward efficiency and impose its own sanctions if the government and state firms overspend. Thus, a financial market must be developed if the state is to apply effective stabilization policies.
3. *A fragmented political structure in which provinces are given too much discretionary power.* This is derived from the erroneous policy of regional development in which each province is encouraged to be self-sufficient in food and necessities, thereby preventing it from specializing according to its comparative advantage.[98]
4. *Lamentable lack of economic and managerial skills among cadres in charge.*

5. *The collapse of the Comecon barter trade arrangement and the loss of significant economic aid from the Soviet Union in the face of the continued trade embargo by the U.S. together with the great quantity of smuggled goods and devastated state enterprises, particularly garment and handicraft industries.* It was estimated by government officials that two-thirds of smuggled goods came through Cambodia. The smuggled goods accounted for 60 percent of goods available in the market. It cost tons of gold and hundreds of millions of U.S. dollars. The requirement of provinces to be financially self-sufficient forced many cadres to provide protection to smuggling operations with which 72 percent of the state-run installations became involved.
6. *The withdrawal of troops from Cambodia and their subsequent demobilization, the drastic but necessary retrenchment in government employment and payrolls, and the return of thousands of Vietnamese guest workers from Eastern Europe aggravated the already worsened unemployment situation.*
7. *Underdevelopment of infrastructure.*

Conclusion

The above analysis suggests a number of factors that contributed to the development crisis in Vietnam. They are a misguided emphasis on heavy industry at the expense of agriculture and consumer goods, forced collectivization in agriculture, the inefficient and rigid administrative supply system, the pricing distortions including overvalued dong and inappropriate interest rates, a tax system heavily biased in favor of distribution and cooperativization, neglect of transportation facilities, insatiable investment demand, excessive growth in money and credit, and a morbid fear of ideological deviation.

Underlying the above policies was the belief that building production relations was necessary for building the productive forces with the attendant penchant for control and deep aversion for economic inequality.[99] Vietnam leaders now freely acknowledge this error. After some time groping for the solution to the crisis, the leaders could claim that "we have seen the way out."[100] They then tried to build the productive forces before the production relations. Thus *Doi Moi* was born. Reform toward a market economy has produced positive results and has visibly lessened the crisis. Most indicators show marked improvement in the second reform over the first, particularly in terms of growth in labor and capital productivity, and in export (Table 15). It is the result of the reverse of the policy blunders listed above. Now, agriculture, consumer goods, and exports have been emphasized. Agriculture has been decooperativized. The administrative supply system with its subsidies has been abolished. One price system is the government's aim, including a single realistic exchange rate. The interest rate structure is more appropriate. The tax rate has declined across the board to encourage production. Excessive investment demand by state enterprises has been curbed. Unequal distribution of income has been tolerated, at least for the time being, as a means to generate incentive to work and to invest. The government's tendency for control has been lessened, recognizing that the state sector has been less efficient than the private sector.

However, the reduction in the size of the state sector has not been significant. That is why the state budget remains in a grave deficit with the consequent annual inflation of 68 percent in 1991. This level of inflation will tend to put pressure on the government to implement a contractionary fiscal and monetary policy that will further exacerbate the already serious unemployment situation.

At present, the leadership are willing to accept many institutions and policies that they previously despised as decadent capitalist practices. They have agreed to divest failing state enterprises by selling shares to citizens.[101] They plan to open stock exchanges to facilitate the trading of these stocks. They would most probably refrain from applying ideological checks. But not all CPV members are convinced that they are on the right track. This explains the sluggishness in the implementation and scattered sabotage of the reforms. Some sort of struggle has been going on between the liberal and the conservative factions, but it is not a struggle about objectives but about the means to achieve these objectives. It is crucial to understand that no fundamental change in worldview was effected by the reforms as confirmed by the much expected Seventh Party Congress in June 1991. The CPV and the government repeatedly reaffirmed the obligation to pursue the socialist path of economic development. Thus, while they acknowledged that everywhere socialism was in crisis, they avowed that they would not forsake it. In the seventh meeting of the Politburo in Ho Chi Minh City on August 24, 1989, Linh declared that the class struggle and the struggle between capitalists and communists still went on. Do Muoi believed that "socialism is the inevitable trend of development of history."[102] Similarly, on the one hand, they admitted that democratization was necessary to make the government more efficient; on the other hand, they adamantly refused to abandon the principle of "democratic centralism" which gives the CPV a monopoly on decision making.

There is no contradiction between economic reforms and communist objectives. The leadership views the reform as "the period of transition to socialism" and the economy under reform as "the multisectoral commodity economy based on socialist orientations operating with market mechanism under state management."[103] "Multisector" refers to the private capitalist sector, the collective sector, and the state sector. But private capitalist firms will be severely limited in size because "the state may set up joint ventures in many different forms with the private sector inside and outside the country to create a form of state capitalist economy."[104] A wholly owned private firm is excluded from key industries among which are raw material extraction, heavy industry, electricity, gas, water, communications, banking, and imports and exports. It has to borrow money at higher rates than state enterprises. But the loans needed may not be there because of the perennial capital shortage. A private enterprise has to rely on the owner's savings or on loans from relatives and friends. That is why most of the 350,000 private domestic businesses that have sprung up since the beginning of the second reform are small, employing 20 to 30 workers. Only a handful employ more than 1,000 workers.[105] But the latter may not exist as wholly private businesses for long. If the firm engages in a business that is of interest to the state and if it grows in size, it becomes a target for joint venture. For, although state capitalism provides "the most effective procedure aimed at developing production forces [and] carrying out industrialization and modernization," it is also an effective instrument against "the capitalist force" and "the important force of a small-scale commodity economy."[106] Hence, at the end of the transition stage, if this plan is implemented, a typical private capitalist firm will likely be small and insignificant, because all firms that are growing and having an impact on the economy will have been transformed into state capitalist firms. In fact, this aspect of the development strategy is hardly different from that which had been adopted before 1986. The end results are the same, namely large-scale socialist production with the state sector and the collective sector dominating the private capitalist sector. The only difference is that the current means are more effective.

It is easy to be caught in the fever of transitional "innovation" or "reform," particularly if one is a foreign investor. Indeed, the government will respect and do its utmost to attract foreign investors with deep pockets. The investment contracts would be honored, especially the nationalization clause. But even that may not be so sure. If the government sees a foreign company operating in a forbidden territory (such as banking) as making excessive profit or causing damages to domestic firms by legitimate competition, the law and regulations can change quickly. Just take the case of foreign banks recently. In January 1992, the government allowed them to repatriate all US$15 million of capital after establishing branches in Vietnam. In May, the new regulation said they could only repatriate 30 percent of the sum.[107] For the Vietnamese-born foreign investors, the situation is worse because there is no countervailing power that could be brought against the Vietnamese government. Even if they are making a reasonable profit, they will still be asked by local cadres to contribute some proportion of after-tax profit (sometimes up to 20 percent) to some social projects. Honoring an international agreement signed between governments has never been a forte of the communist government. Reliability in honoring a contract between the government and a private foreign investor has yet to be proven. For those who have put their lifetime savings into some projects, it is not easy to pick up the marbles and leave. Thus, a stock market will be deeply appreciated by many investors. The government has particularly encouraged the overseas Vietnamese to invest at home. But for them, investment in Vietnam at this time entails a considerable risk.

The bottom line, in my view, is that one should look at the leadership's long-term objectives. And here one can say with confidence that the more things change the more they remain the same. In the meantime, however, as the reform will probably last as long as the production forces remain underdeveloped and this may be for years yet, if not decades, and as the government is learning to rule by law, the socialist system in Vietnam, barring some catastrophic external shocks, will become less rigid, less totalitarian, and more open for many years to come.

Notes

1. Le Duan, "The Vietnamese Revolution—Fundamental Problems, Essential Tasks" in Le Duan, (1977) p. 232. Also the documents of the Third Party Congress, vol. 1, p. 55.

2. *Vietnam Courier* offers the reasons for adoption of the Amendments to Legislation on Industrial and Commercial Taxes (1983): "The old legislation on industrial and commercial taxes is no longer adequate. . . . The tax scale discriminated insufficiently between small and big enterprises, hence its insufficient regulatory role in the distribution of incomes. . . . The scale of the tax on profits gained by enterprises is also revised for the same purpose. This aims in particular at regulating income distribution in specially lucrative sectors (trade and catering services). Small producers and owners of small enterprises are exempted. Only income superior to the *average* salaries and wages of government employees and workers in state-run enterprises in the same branch of activity are taxed." (emphasis added) (no. 5, 1983, p. 14). In his speech at the Sixth Plenum (July 1984), Le Duan stated: "Distribution must boost production and on this basis one will distribute and redistribute the national income in a rational way, establishing basic relationships in the economy, particularly between the incomes of various strata of the population." *Vietnam Courier,* no. 10, 1984, "On the Renovation of Economic Management," p. 4.

3. Le Duan (1977), p. 275.

4. Le Duan's Political Report of the Central Committee before the Third National Congress of the Vietnam Workers' Party, Documents, vol. I (Hanoi: Foreign Language Publishing House, 1960), pp. 65–66. In his *Selected Writings* (1977), "We must lead the peasantry and agriculture immediately to socialism, without waiting for a developed industry, though we know very well that without the strong impact of industry, agriculture cannot achieve large scale production and new relations of agricultural production cannot be consolidated," (pp. 497–98), and "To start the process of socialist construction by establishing the system of collective ownership [in agriculture] . . . is peculiar only of the process of our country's historical development." (p. 501). Also for Duan's quotation of Lenin's view on cooperatives, see his *Selected Writings,*

p. 496. The Maoist view is interpreted by Andrew Vickerman (1986), "As well as facilitating mechanization, collectivization could partially substitute for it in the short-run by maximizing the output and productivity potential of traditional inputs and technology." (p. 9).

5. Truong Chinh admitted this "errors of leftist infantilism" in a speech before the First Party Congress in Hanoi. *Nhan Dan*, October 20, 1986.

6. Vo Nhan Tri (1990), p. 33.

7. Vo Nhan Tri (1967), p. 200; (1990), p. 2.

8. Hoang Van Chi (1964), p. 166; and Vo Nhan Tri (1990), p. 2.

9. Nguyen Tien Hung (1977), p. 58.

10. Max Spoor (1987), p. 341.

11. Pham Van Dong (1955), pp. 64–65; and Nguyen Lai Vien (1967).

12. For instance, output rose 16 percent in 1958 but fell 19 percent in 1960. For data source, see B. R. Mitchell (1982), p. 183.

13. While in the South the rice output gradually increased from 1955 and culminated in 7.5 million metric tons in 1975, almost three times as high as the 1955 level.

14. Vo Nhan Tri (1990), p. 27.

15. Vo Nhan Tri (1967), pp. 224–29, 314–15.

16. Ibid., pp. 239–41, 447.

17. See Democratic Republic of Vietnam (1975), p. 69.

18. GMP is GNP minus service output plus material inputs, with depreciation being canceled out in the calculation as GMP includes depreciation.

19. Democratic Republic of Vietnam (1975), p. 69.

20. "The Second Resistance 1965–1972," *Vietnamese Studies*, Economic Policy and National Liberation War, Hanoi, 1980.

21. Vo Nhan Tri (1990), p. 33.

22. Max Spoor (1985), p. 347.

23. Ibid., Table 2, p. 357.

24. See Adam Fforde and Suzanne H. Paine (1987), Table 58, pp. 180–81.

25. Ibid., Table 61, p. 184.

26. Max Spoor (1987), pp. 346–47.

27. Computed from Vo Nhan Tri (1967), pp. 253–54, 346, 447–48.

28. Figures for South Vietnam were calculated from data in Nguyen Anh Tuan (1987). Spoor (1987) underestimates the foreign aid amount during 1955–1960. Spoor's figure is 1,554 million dong compared with the official figure 2,468.3 million dong given in Tri (1967) on page 555. Thus the aid-to-budget ratio amounts to 43.1 percent instead of 27.2 percent from Spoor's figure. With the possibility that aid may be unreported, the aid/GNP ratio could be higher than 11.3 percent.

29. See Fforde and Paine (1987), Table 111, p. 213.

30. In the following sections, I rely on two main sources of data. The first comes from *Nien Giam Thong Ke, 1985* and *Nien Giam Thong Ke, 1990* (Statistical Yearbook, abbreviated as *NGTK*), the two latest editions of this yearbook published by the General Statistical Office of the Socialist Republic of Vietnam (SRV) in April 1987 and 1992, respectively. The second comes from the International Monetary Fund (IMF) report, *Vietnam—Recent Economic Development*, prepared

by S. Kohsaka, L. Mendras, and J. P. Guzman, June 12, 1985. Their data are also based on those provided by SRV authorities. The two sources complement each other since many important tables of the *Nien Giam Thong Ke (NGTK)* do not contain data for the 1976–1979 period while the IMF report does. In addition, this edition of *NGTK* drops some measures of interest that are reported in the IMF's document.

31. "Political Report of the Central Committee to the Fourth Party Congress," *Nhan Dan*, November 11, 1976. "Resolution of the Sixth Plenum of Central Committee (Fourth Party Congress)," *Nhan Dan*, October 9, 1979. "Phuong Huong, Muc Tieu Chu Yieu Phat Trien Kinh Te, Xa Hoi Trong 5 Nam 1986–1990," ("Directions and Major Social and Economic Targets for 1986–1990") Report by Vo Van Kiet to the Sixth Party Congress on December 18, 1986. Note that the long-term absolute priority was still heavy industry.

32. Council of Ministers, "Fundamental Tasks of the Five-Year Plan 1976–1980 and Concrete Tasks of the 1978 Annual Plan," January 1978.

33. Many canals in this irrigation network were later abandoned as they allow aluminous water to flow into rice fields. The failure was due to too much zeal on the part of local cadres and lack of careful study, planning, coordination, and technical competence on the part of the central government.

34. See Pham Van Dong, "The Nation's New Tasks," *Vietnam Courier*, no. 41, October 1975, p. 3; Truong Chinh, "Toward Completion of National Reunification: The Substance, Objectives, and Urgent Problems to be Solved,"—A Political Report to the Political Consultative Conference on National Reunification, at the first session held on November 1975, *Vietnam Courier*, no. 43, December 1975, p. 4.

35. Pham Van Dong, "Build and Defend Our Socialist Fatherland," *Vietnam Courier*, no. 77, October 1978, p. 5.

36. The reasons for the abrupt change of policy cited by the government include chaos in the markets, enormous price instability, and high unemployment created by fast deteriorating economic conditions. See Council of Ministers, "Fundamental Tasks of the Five-Year Plan 1976–1980 and Concrete Tasks of the 1978 Annual Plan," January 1978.

37. The Hoa controlled some of the most essential and lucrative industries in the South such as rice milling, rice distribution, textiles, food processing, scrap iron, and import-export trading companies. They were suspected of being loyal to Peking, hence they became security risks to Hanoi. They were also known to have opposed the socialist transformation. They were not the only targets, however, as the Campaign to Transform Private Industry and Commerce was applied to all businesses regardless of ethnic origin of ownership. They suffered mainly because they held a disproportionate number of private industrial and commercial businesses that were considered vital to the economy.

38. Vo Nhan Tri (1990), p. 79.

39. *Nien Giam Thong Ke, 1985* (Statistical Yearbook), Tables 27 and 28, pp. 128–29.

40. Agronomists at the Department of Agriculture in Ho Chi Minh City (Saigon), however, put yield for the delta between 1.50 and 1.80 metric tons/ha. during the 1978–1980 period; cited by Lam Thanh Liem (1988), p. 2.

41. Truong Chinh (1986) and a Vietnamese economist Nguyen Xuan Lai (1984) acknowledged these to be primary causes of the decline in agricultural production.

42. Melanie Beresford (1989), p. 198.

43. Nayan Chanda, "Vietnam's economy: Bad but not worse," *Indochina Issues*, no. 41, Oct. 1983, p. 4. See also Beresford (1989), p. 184. Total Chinese aid from 1973 to 1979 was US$100 million as agreed between the two countries in March 1992. See Foreign Broadcasting Information Service, *Daily Report, East Asia*, henceforth, FBIS-EAS-92-043, March 4, 1992.

44. "Political report of the Central Committee to the Fourth Party Congress," *Nhan Dan*, November 11, 1976.

45. Economics sections, "Reform on Economic Management," *Nhan Dan* July 18, 1985.

46. "Cau Chuyen Quan Ly" ("Management Story"), *Tin Sang* (Morning News), October 31, 1980. Also "Experience of Ho Chi Minh City on Economic Management" *Nhan Dan*, May 20, 1984.

47. Nguyen Hong Son, "Renovation of Management in State-Owned Enterprises," *Vietnam Courier*, no. 4, 1988.

48. Le Duan and Pham Van Dong (1975), pp. 11–12.

49. *Nhan Dan*, May 15, 1984, reports the sad decline of a tea plantation because of the procurement price being lower than the production cost.

50. *Far Eastern Economic Review* (hereafter *FEER*), August 20, 1976; February 4, 1977; March 3, 1978, 8.

51. Business people quipped that "*Muoi con dau do khong bang mot loi noi nho.*" It means, "Ten red seals are not as effective as a small suggestion" —a suggestion that indicated some kind of reward, usually monetary, for cadres in charge. The quip rhymes better and is more epigrammatic in Vietnamese.

52. *Nien Giam Thong Ke, 1985*, Table 155, p. 247.

53. Tam Cong, "Bac Tu Thac Mac" ("Uncle Tu's Question"), *Saigon Giai Phong* (*Saigon Liberation*), November 19, 1980.

54. See W. Arthur Lewis (1955), pp. 379–80.

55. *Nhan Dan*, April 13, 1978, quoted in Chanda, "Hanoi Takes Grip on the South," *FEER*, May 26, 1978, p. 81.

56. Nayan Chanda, "Hanoi Takes Grip on the South," *FEER*, May 26, 1978, p. 78.

57. Nayan Chanda, ibid., p. 81.

58. Beresford (1989) claimed that Chinese aid totaled 38 percent of all foreign aid to Vietnam in 1977, (p. 184).

59. The state budget is not itemized to show defense expenditures in the version made available to the IMF. The budget does not even appear in the *Nien Giam Thong Ke, 1985.* Refusing to give specific figures on the cost of defense, Nguyen Lam, a former planning chief, in an interview hinted only that "it is a heavy burden." (*FEER*, February 27, 1981, p. 32). Although the money cost of the occupation of Cambodia may be small, the economic cost could be significant. The consensus among observers, however, is that wars with China and Cambodia did not create Vietnam's economic problems, but merely exacerbated

them. See Paul Quinn Judge, "A Cultivated-Earth Policy," *FEER*, November 19, 1982.

60. Nguyen Xuan Lai (1983), p. 34.

61. The Sixth Plenum of the Central Committee of the CPV (July 1984) coined the name of reform in its discussion. See *Vietnam Courier*, no. 9, 1984, p. 3.

62. In the Third Plenum of the Sixth Central Committee, Nguyen Van Linh, considering implementation of the reform to depend on certain conditions still to be created, stated: "That is why these forms of economic management can only be applied on an experimental basis where conditions permit." (*Vietnam Courier*, no. 11, 1987, p. 6).

63. *Nhan Dan*, May 21, 1985 and June 3, 1985.

64. *Vietnam Courier*, no. 9, 1984, p. 5.

65. See Lewis M. Stern (1987b).

66. See Lewis M. Stern (1987a).

67. Here in view of its long-term objectives, the CPV does not consider its messages to be contradictory, as is seen by Stern (1987a), pp. 482–83.

68. "Hop Tac Kinh Doanh—Mot Hinh Thuc Cai Tao Gan Voi To Chuc Va Quan Ly Tu Thuong," ("Joint Venture—A Reformed Arrangement Applied to Private Business Organization and Management"). *Nhan Dan*, July 2, 1985. By December 1985, the socialist Vietnam did not yet have a penal code, a civil code, a code of penal procedure, or even a labor code. See *Vietnam Courier*, nos. 9 and 10, 1983, and no. 9, 1985. There was a great deal of arbitrariness on the part of cadres in their execution of government orders. Citizens had no legal protection against wanton property seizures and arrests since tribunals and prosecutors were the same office and the retention of private defense attorneys was not allowed. This created an atmosphere of apprehension and uncertainty among private businessmen, to say the least. People expressed their lack of confidence in the government behavior through the pun, "Bung ra roi lai bung vao nhu choi." *Bung ra* and *bung vao* denote explosion and implosion of ideas and initiatives, respectively. Figuratively, they signify the oscillating policies between liberalization and tightening. The pun means that "tightening may follow liberalization as easily as in a game."

69. Tan Teng Lang (1985), p. 39.

70. The implicit retail price index is obtained by dividing the total retail sales in current price by those in constant price. The retail price index provided by NGTK was constructed for the whole economy (both organized and free markets). It was computed using a Paasche formula with the weight of the price of rice being 25 percent. However, the weights of other major products are unknown. Also, the coverage was not explained in the edition I have.

71. *Vietnam Courier*, no. 9, 1984.

72. *Nien Giam Thong Ke, 1985*, Table 81, p. 132.

73. See Philip P. Cowitt, ed. (1987), p. 543; and Murray Hiebert, "The Grim Reaper," *FEER*, May 26, 1988, p. 18.

74. Nayan Chanda, "Cracks in the Edifice," *FEER*, December 4, 1981, pp. 84–85.

75. *Nien Giam Thong Ke, 1985*, Table 79, pp. 129–30.

76. The Russian Bolsheviks during 1918–1920 experienced the same shrinkage in area sown provoked by the harsh collectivization; see Stephany Griffith-Jones (1981), p. 31.

77. "Hai Phong After a Crop Under the New Method of Management," *Nhan Dan*, November 25, 1980.

78. Hoang Van Chi (1962) argues that rice is less amenable to the discipline of collectivization than other cereals and that collectivization will lower the rice yield. Fforde and Paine (1987) also seem to agree with this view (pp. 102–12).

79. Murray Hiebert, "The Tilling Fields," *FEER*, May 10, 1990.

80. Phung Huu Hat, "Sugar Cane and Sugar After the New Procurement Policy," *Tin Sang* (*Morning News*), December 19, 1980.

81. For instance, Hungary's system had been epitomized by the expression, "Hungary has the best unemployment benefits in the world called salaries."

82. The monetary gap analysis assumes (1) no change in GNP, (2) the only source of increase in the money stock is implied in the gap, (3) constant velocity of circulation, and (4) no change in foreign exchange balance. See Douglas C. Dacy (1986), pp. 30–31.

83. It is noteworthy that Truong Chinh, an influential Politburo member, attributed rising inflation to persistent budget deficits. See his "Political Report of the CPV Central Committee to the Sixth Party Congress," December 18, 1986, FBIS–APA–86–245, p. k15.

84. William J. Duiker (1985), p. 74.

85. *Vietnam Courier*, no. 5, 1983, p. 13.

86. However, according to Lam Thanh Liem (1988), the tax rate on a peasant family's income could range from 65 percent to 85 percent depending on local cadres (p. 3).

87. See Max Spoor (1985), p. 6.

88. "Hop Tac Kinh Doanh—Mot Hinh Thuc Cai Tao Gan Voi To Chuc Va Quan Ly Tu Thuong" ("Joint Venture—A Reformed Arrangement Applied to Private Business Organization and Management"), *Nhan Dan*, July 2, 1985.

89. *Vietnam Courier*, no. 5, 1983, p. 14. Also see note 2.

90. Murray Hiebert, "Seeds of Revolt," *FEER*, November 17, 1988.

91. Murray Hiebert, "Socialist Stagnation," *FEER*, July 28, 1988.

92. FBIS-EAS-89–110, June 9, 1989, p. 55.

93. FBIS-EAS-89–132, July 12, 1989, p. 69.

94. FBIS-EAS-89–120, June 23, 1989, p. 47.

95. FBIS-EAS-89–139 July 21, 1989, p. 73.

96. FBIS-EAS-89–057, March 27, 1989, p. 75; FBIS-EAS-89–064, April 5, 1989, p. 59; FBIS-EAS-90–212, November 1, 1990, p. 54. *Nhan Dan* cited the case when the South exported rice while the North had to import it. It admitted that rice was exported even in difficult times when U.S. dollars were needed to import fertilizer and pesticide ("Rice Issue Again," FBIS-EAS-89–109, June 8, 1989, pp. 68–69). By the same token, the reduced supply of rice in the domestic market boosted farmers' income, which allowed them to purchase excess inventory of industrial goods.

97. Central Intelligence Agency (1992).

98. Various government documents emphasize provincial autonomy and

initiatives in plan implementation based on the principle of "democratic centralism." For instance, the SFYP (1976–1980) and the 1978 Annual Plan state: "Each district ascertains the food balance and implements production plan within the district; each province carries out its duty to regulate and balance the food demand with its supply within the province, makes sure to solve the food needs and exerts effort to procure foods for the central government. The latter is responsible only for regulating and supplying food to large cities, large industrial complexes, and the military." The Political Report of the Central Committee read by Truong Chinh at the Sixth CPV Congress (December 18, 1986) states: "The division of managerial responsibility must guarantee the ownership right of three levels: the right to policy-making of the central government regarding the key areas and problems of strategic significance to ensure the balanced development of the whole economy; the right of local authorities to take initiatives in the execution of socio-economic managerial responsibilities within its jurisdiction; the right of production and business autonomy of the basic economic units and the ownership right of the labor collectives." The misguided goal of food self-sufficiency led many provinces to convert their land to grow rice although the soil is better suited for other crops. This also led to regional autarky in which, in both 1989 and 1990, the rice surplus provinces treated the deficit provinces as foreign countries and demanded hard currency. An ironic situation then developed whereby some provinces exported rice while others suffered from acute rice shortage. But most serious of all, the autonomy allowed the provinces to sabotage, to ignore, or at least to delay the reform programs introduced by the central government. Thus, in 1989, Vietnam leaders resisted the IMF pressure to abolish subsidies to state enterprises. They preferred a step-by-step, experimental approach, measuring the reaction by provinces rather than adopting an all-out reform.

99. *FEER* reports an innovative man being arrested for making too much money (see Murray Hiebert, "Reform Plans Lack Bite," July 28, 1988).

100. Nguyen Van Linh's remark, FBIS-EAS-88–002, January 5, 1988.

101. There is, however, a cap in the number of shares one can buy.

102. Speech before the National Assembly, FBIS-EAS-91–145, July 29, 1991, p. 67.

103. Nguyen Van Linh, Political Report to The Seventh CPV Congress, FBIS-EAS-91–123–5, June 26, 1991, p. 24.

104. Ibid., p. 19.

105. Murray Hiebert, "Red Capitalists," *FEER*, February 20, 1992.

106. Vo Tran Chi, 13th member of the Politburo, speech before the Seventh CPV Congress, FBIS-EAS-91–140, July 22, 1991, p. 70.

107. Murray Hiebert, "Shifting Sands," *FEER*, July 20, 1992.

References

Beresford, Melanie, (1989). *National Unification and Economic Development in Vietnam.* New York: St. Martin's Press.

Central Intelligence Agency, (1992). *The World Fact Book 1992.* Washington, D.C.

Chi, Hoang Van, (1962). "Collectivization and Rice Production," in P. J. Honey, ed., *North Vietnam Today.* New York: Praeger. pp. 117–27.

———, (1964). *From Colonialism to Communism.* London: Pall Mall Press.

Chinh, Truong, (1986). *Tap Chi Cong San,* no. 8, p. 10, quoted in Vo Nhan Tri (1990), p. 80.

Council of Ministers, "Fundamental Tasks of the Five-Year Plan 1976–1980 and Concrete Tasks of the 1978 Annual Plan," January 1978.

Cowitt, Philip P., ed., (1987). *1986–1987 World Currency Yearbook.* Brooklyn: International Currency Analysis.

Dacy, Douglas C., (1986). *Foreign Aid, War, and Economic Development—South Vietnam, 1955–1975.* Cambridge: Cambridge University Press.

Democratic Republic of Vietnam (DRVN), (1975). *La République Démocratique du Vietnam.* Hanoi: Éditions En Langues Étrangères.

Dollar, David, (1992). "Vietnam: Successes and Failures of Macroeconomic Stabilization," in Borje Ljunggren and Peter Timmer, eds., *The Challenge of Reform in Indochina.* Forthcoming.

Dong, Pham Van, (1955). *Réalisations et Tachés Intermédiates.* Hanoi: Éditions En Langues Étrangères.

Duan, Le, (1977). *Selected Writings.* Hanoi: Foreign Language Publishing House.

Duan, Le and Pham Van Dong, (1975). *Towards a Large Scale Socialist Agricultural Production.* Hanoi: The Foreign Language Publishing House.

Duiker, William J., (1985). *Vietnam Since the Fall of Saigon.* Ohio University Monographs in International Studies, Southeast Asia Series, no. 56.

Duong, Tran, (1983). *35 Nam Kinh Te Viet-Nam.* Hanoi: Social Science Publisher.

Griffith-Jones, Stephany, (1981). *The Role of Finance in the Transition to Socialism.* London: Frances Pinter.

Far Eastern Economic Review (FEER), various issues.

Fforde, Adam, and Suzanne H. Paine, (1987). *The Limits of National Liberation.* London: Croom Helm.

Foreign Broadcasting Information Service. *Daily Report, East Asia,* (FBIS-EAS). Washington, D.C., various issues.

Hung, Nguyen Tien, (1977). *Economic Development of Socialist Vietnam, 1955–80.* New York: Praeger.

International Monetary Fund, (1985). *Vietnam—Recent Economic Development.*

Lai, Nguyen Xuan, (1983). "Economic Development, 1976–1985." *Vietnamese Studies,* no. 71 (New Series no. 1), pp. 22–64.

———, (1984). "Questions of Agrarian Structures and Agricultural Development in Southern Vietnam," *Vietnamese Studies,* (New Series no. 5), pp. 30–36.

Lang, Tan Teng, (1985). *Economic Debates in Vietnam, Issues and Problems in Reconstruction and Development (1975–84).* Singapore: Institute of Southeast Asian Studies.

Lewis, W. Arthur, (1955). *The Theory of Economic Growth.* Homewood, Illinois: Irwin, 1955.

Liem, Lam Thanh, (1988). "Ket Qua Cua 13 Nam Xay Dung Nen Kinh Te Nong Nghiep Xa Hoi Chu Nghia O Viet-Nam (1975–1988)," mimeograph. National Council for Scientific Research. Paris.

Mitchell, B. R., (1982). *International Historical Statistics.* New York: New York University Press.

Nhan Dan (People), various dates.

Nien Giam Thong Ke, 1985 (Statistical Yearbook) (abbreviated *NGTK, 1985*). Hanoi: General Statistical Office, April 1987.

Nien Giam Thong Ke, 1990 (Statistical Yearbook) (abbreviated *NGTK, 1990*). Hanoi: General Statistical Office, April 1992.

Spoor, Max (1985). "State Finance in the Socialist Republic of Vietnam." Paper presented at the "Postwar Vietnam: Ideology and Action" conference. University of Sussex, England, 1985.

———, (1987). "Finance in a Socialist Transition: The Case of the Democratic Republic of Vietnam (1955–1964)." *Journal of Contemporary Asia, 17,* no. 3, pp. 339–65.

Stern, Lewis M., (1987a). "The Scramble Toward Revitalization." *Asian Survey, 27,* no. 4, April, pp. 447–93.

———, (1987b). "The Vietnamese Communist Party During 1984 and 1985: Economic Crisis Management, Organizational Reform and Planning for the Sixth National Party Congress." *Asian Profile, 15,* no. 3, June, pp. 267–79.

Third National Congress of the Vietnam Workers' Party, (1960). *Documents, Vol. I.* Hanoi: Foreign Language Publishing House.

Tri, Vo Nhan, (1967). *Croissance Économique de la République Démocratique du Vietnam (1945–65).* Hanoi: Éditions En Langues Étrangères.

———, (1990). *Vietnam's Economic Policy Since 1975.* Singapore: Institute of Southeast Asian Studies.

Tuan, Nguyen Anh, (1987). *South Vietnam: Trial and Experience, A Challenge for Development.* Athens, Ohio: Center for Southeast Asian Studies.

Vickerman, Andrew (1986). *The Fate of the Peasantry, Premature Transition to*

Socialism in the Democratic Republic of Vietnam. Monograph Series No. 28. Yale University Southeast Asia Studies.
Vien, Nguyen Lai, (1967). "The Battle of Rice." *Vietnamese Studies,* no. 13, pp. 5–35.
Vietnam Courier, various issues.
Vietnamese Studies, various issues.

ICEG Academic Advisory Board

'92