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VIETNAM: SOME MACROECONOMIC DIMENSIONS OF DOI MOI

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WORKING PAPERS

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Vietnam: Some Macroeconomic Dimensions of Doi moi

I. Introduction

This paper draws upon macro-data for the period 1983-93 to examine key policy variables conditioning Vietnam's recent and apparently highly successful transition to a market economy. Following a short survey of the country's economic landscape, the history of reform (doi moi or "new way") is traced from the early 1980s. Three periods are distinguished, the first running from the 1981 to 1988 and spanning, in particular, the reforms decreed by the Party's VIth Congress in 1986 and the ensuing period of very high inflation. The second period, 1988-91, is one of accelerated reform and stabilisation, while the period up to the present can be thought of as one of consolidating a market economy which has yet to be fully completed. In the absence of Vietnamese data on the national accounts such as would normally be available domestic publications or from the World Tables, extensive use is made of World Bank material including time-series on the production structure of the economy, the budgetary structure and the balance of payments. Other, more institutional aspects discussed upon below include the distributional impact of stabilisation and the administrative implications of market reform.

From an analytical perspective, the main questions are as follows. First, was the success of stabilisation after 1989 merely a matter of "getting prices right" or,

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1 The author is indebted to Ashwani Saith and Howard White for comments and to András Krahl for assistance in compiling the bibliography; the usual caveat applies.
to use a particularly apt phrase from Fforde and de Vylder (1990), was it the result of having laid the basis over the previous decade for "making prices matter"? Equally important, "which prices" matter most?. Our argument is that successful stabilisation resulted not merely from improved fiscal-financial discipline but equally, from improved terms-of-trade for food agriculture made good by increased supplies of incentive-goods to farmers.

The second theme of the paper concerns where to locate the Vietnamese experience within the spectrum of market-transition economies (MTEs) containing such diverse constellations as China, Eastern Europe and the ex-USSR. Ostensibly, Vietnam has done less well than China but far better than fully industrialised countries such as Russia; the argument advanced here is that while Vietnam's reform process shares important features with China, the different political conditions under which the reform process was launched in the two countries is crucial to understanding China's superior performance in the 1980s. This 'political dimension' of transition is the focus of the concluding section.

II. Background

In recent years, Vietnam has undergone a unique process of transition from a central planning to a market economy. After experiencing a difficult period of reform and adjustment in the 1980s, Vietnam in the early 1990s has enjoyed rapid, export-led growth with low inflation. Situated in the world's most economically dynamic region, this country of nearly 80 million people—the third-largest "transitional" economy after China and Russia—is well-endowed in natural resources which include
petroleum, ferrous and non-ferrous minerals, timber, marine products and one of Asia's most attractive coastlines. For a low-income country, its social indicators are high with adult life expectancy estimated at 66 years, near-universal literacy and an egalitarian distribution of land assets. Nevertheless, the country is densely populated and still very poor, with 1.1 cultivable hectares per inhabitant (half that of India), a population growth rate of 2.2 percent and a per capita GDP of just under US$200 at 1988 prices, about two-thirds that of China.²

Agriculture accounts for about half of GDP and nearly 80 percent of the population is rural. Most land is now worked on a family basis with state-owned plantations limited to commercial crops and some services provided by the co-operative sector³ In addition to rice, now a major export, livestock, fish and seafood are produced; light manufactures are starting to be exported, particularly in the South. Since the late 1980s, Vietnam has become an oil-exporter which is now its single most important source of foreign exchange; in addition, natural gas deposits on a commercial scale have recently been found. A rapidly growing services sector, mainly informal, accounts for another 25 percent of GDP, about the same share as that of industry. Approximately 60 percent of industry is fully or partly state-owned of which only about 100 or so large firms are centrally managed; most state firms are decentralised and increasingly subject to market forces. The non-state

² See World Bank (1993), p ii.
³ Commercial crops include tobacco, coffee, coconuts, tea and rubber.
industrial sector comprises of co-operatives and a growing number of small and medium family-run enterprises. Regionally, state-owned enterprises (SOEs) are concentrated in the north, the south having remained predominantly a market economy after liberation in 1975.4

Following three decades of war which resulted in over 2 million casualties, destroyed much of the country's physical infrastructure and caused lasting ecological damage,5 Vietnam was subject to a trade embargo in 1977, remaining for the next decade largely cut off from DAC assistance and heavily dependent on the CMEA countries.6 Vietnam then suffered an external shock when CMEA assistance ceased in the late 1980s, leading to an acceleration in the reform process. By the early 1990s relations with most DAC countries were back to normal; by early 1994, formal ties with the multilateral institutions had been renewed and the US trade-embargo lifted. The reform process (aided by the oil-boom) has resulted in accelerated growth with price stability. On

4 An excellent short summary of the country's economic strengths and weaknesses is Van Arkadie (1993), while a more detailed account is provided in UNDP (1990).

5 The estimate of Vietnamese losses is from Post (1994: 332) whose book is a devastating indictment of the war. Interestingly, recent World Bank reports provide supporting evidence: "[One]... health problem which appears related to the war years is the high incidence of cancer among both men and women, and an abnormally high incidence of birth defects. Although Vietnamese health authorities are careful to emphasize that there is no conclusive proof, the incidence of such cancers and deformed babies is highest in areas which were heavily sprayed during the war with the defoliant Agent Orange, one component of which is known to be highly carcinogenic." (World Bank, 1990: 87)

6 CMEA is the Council for Mutual Economic Assistance which was disbanded in 1991. DAC stands for Development Assistance Council comprising is essence the OECD countries.
current predictions, Vietnam will grow at an average annual rate of over 8 percent for the rest of the decade, doubling its per capita income by the turn of the century.  

In some respects, Vietnam's transition to a market economy resembles that of China. In both countries, initial priority was given to agricultural reform; rapid privatisation has been eschewed in favour of making space for private sector growth, particularly in small-scale industry and in commerce; the process of transition has been facilitated by relatively high growth rates; perhaps most importantly, the Communist Party has retained its political monopoly of power thus avoiding political instability which has characterised much of the former Soviet bloc. The latter point seems well-appreciated by the country's ASEAN neighbours in whose interests it is to promote Vietnam's stability and prosperity.  

Clearly, the experience of China and Vietnam differs markedly from that of Eastern Europe and the ex-USSR. Nevertheless, there are crucial differences between Vietnam and China. The most obvious is that Vietnam experienced very high inflation in the early stages of reform, a problem---it is argued---rectified mainly by the adoption of an IMF-style stabilisation package in 1989. To understand the country's "remarkable recent

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7 See World Bank (1993).

8 This point is made by Saith (1991) in Ronnas and Sjoberg (1991).


10 Although China experienced inflation during the liberalisation period in the 1980s, according to Griffin and Khan (1993) the highest rate was 21 percent in 1988.
experience" (Wood, 1989) of simultaneous price liberalisation and stabilisation, the background to reform is examined in more detail below.

III. The DRV Model and Doi moi

Vietnam's version of the traditional central planning model, the "DRV model"\textsuperscript{11} consolidated by Hanoi after formal independence in 1955, was based on state ownership of industry with agriculture organised into collectives and compulsory food deliveries serving to finance accumulation based on heavy industry. It differed from the Soviet model in two crucial respects; first, as in China, much state-enterprise was managed by provincial or local authorities; second, a large informal economy continued to exist along side the state-run sector. In Vietnam, moreover, the decentralisation of enterprise in the North was in response to US strategic bombing operations after 1965. But the American war also made the economy strongly dependent on CMEA aid. More generally, as a number of authors have argued, the DRV model's inherent bias against agriculture and exports was ill-suited to a predominantly rural, low-income country; in consequence, a sizeable informal capitalist economy existed under the DRV model which grew after reunification.\textsuperscript{12}

\textsuperscript{11} DRV stands for Democratic Republic of Vietnam, the official name adopted in the North after independence in 1955; it was changed to the "Socialist Republic of Vietnam" upon reunification in 1975. The phrase "DRV model" is attributed to Fforde and de Vylder (1988).

\textsuperscript{12} See Fforde and de Vylder on the DRV model: Ronnas and Sjoberg (1991) argue that central planning was never very strong as might be expected in a predominantly rural economy, while Van Arkadie (1993) remarks that "historically, [Vietnam's] economy was only to a (continued...)}
Following reunification in 1975, the Party leadership under its General Secretary, Le Duan, attempted to extend central planning to the more prosperous South. The decisive year was 1978. The closing of the petty services sector in the south was resisted by traders, particularly in the Chinese quarter (Cholon) of Ho Chi Minh City. The imposition of collectivisation in 1975 on the Southern peasantry led to a sharp fall in agricultural output. A relaxation of the rules in 1979-80 did little to redress the situation. By 1980, per capita national output was estimated to have fallen by 10% while open inflation had risen to 140 percent in 1980. The situation was aggravated by two further factors: first, the despatch of troops to Kampuchea at the end of 1978 resulted in the drying up of Western aid amounting to about US$350 mn annually; secondly, Chinese aid was withdrawn in 1978 and a brief but fierce border conflict followed in 1979. This conflict, together with the earlier Cholon protests, helped spur the large-scale emigration of ethnic Chinese (the "boat people"). Although CMEA aid was increased, this aid could not make up fully for the hard currency loss. In short, at the end of the 1970s, a reunified Vietnam found itself supporting a large army in the field under conditions of severe foreign exchange shortage, falling production and rising inflation. Vietnam was isolated diplomatically and faced

\[\text{\ldots continued}\]

minor degree under central government control— in contrast to the ex-USSR and Eastern Europe—and therefore has been capable of a more flexible response" (p. 435).

\[\text{\ldots continued}\]

13 Discussions of this period are to be found, inter alia, in Fforde and de Vylder (1988) and Truong and Gates (1992). The figure for inflation is the "free market" price increase reported in World Bank (1993), Table 6.1.
a deep economic and political crisis.

The Vietnamese reform process started slowly. As de Vylder (1993) argues, the spread of the informal economy at the base eroded power at the centre, making the old model unworkable. The Party was divided over reform; in the absence of a coherent strategy, government policy was essentially of an ad hoc nature. The limited reforms of the early 1980s such as the three-contract system in state industry had little effect on output. But as Van Arkadie (1993) points out, the generalisation of the end-product contract system in agriculture laid the foundation for the liberalisation of small scale farming and of artisan crafts and services, providing new economic resilience which would help the economy survive the 1980s. Although CMEA aid helped the economy to grow slowly, exports fell and shortages of consumer goods developed. Crucially, inflation averaged 166 percent per annum for the period 1980-85. The 1985 currency reform

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14 To quote de Vylder, "the failure of the central-planning system to maintain control over resources forced economic agents---individuals as well as agricultural co-operatives---to engage in a reform process 'from below'. 'Fence breaking', to use a Vietnamese expression ... became increasingly common, and the authorities had to tacitly admit that the old development model had become unimplementable." (pp 4-5)

15 See Fforde and de Vylder (1988).

16 There are few figures for National Income for the late 1970s and early 1980s, and what material exists is unreliable. Subject to these qualifications, Fforde and de Vylder (1988: 48) report figures (in US$ bn) of 4.97 (1976), 5.14 (1981) and 5.78 (1983), presumably converted at the official exchange rate, although it is unclear whether these are constant or current dollars. Even if constant dollars have been used, it is clear that growth in the early 1980s was low, and in per capita terms almost certainly negative. However, there does appear to be positive growth after 1984 (the first year for which the World Bank gives figures).
was directed at the symptoms rather than the causes of the monetary overhang and led to a rise in the rate of inflation.

When Le Duan died in 1986, Nguyen Van Linh became General Secretary and the balance of power within the Party shifted decisively towards the reformist wing. It was against this backdrop that the VIth Party Congress, held in December 1986, introduced the doi moi reforms. Although the Party Congress criticized the "bureaucratic state subsidy system" and effectively called for abandoning the classical socialist industrialisation model in favour of agriculture-led growth (Vo Nhan Tri and Booth, 1992), the economy's macro-imbalances grew increasingly severe. In practice, there was little effort to tighten the soft-budget constraint, to implement fiscal reform or to shift resources from non-traded to traded goods; in consequence, although GDP growth was positive, annual inflation for 1986-88 averaged 371 percent.17 Furthermore, the growing difficulties experienced by the CMEA economies made it clear to the Party leadership that Vietnam could not count upon cheap imports and budgetary aid from its allies indefinitely.

**Figure 1: Estimated GDP growth and Inflation, 1985-93**

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</thead>
<tbody>
<tr>
<td>Est. Real GDP growth</td>
<td>5.7%</td>
<td>3.4%</td>
<td>3.9%</td>
<td>5.1%</td>
<td>8.0%</td>
<td>5.4%</td>
<td>5.0%</td>
<td>8.3%</td>
<td>7.0%</td>
</tr>
<tr>
<td>% change price index</td>
<td>192%</td>
<td>487%</td>
<td>317%</td>
<td>311%</td>
<td>78%</td>
<td>28%</td>
<td>83%</td>
<td>17%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: World Bank (1993), Table 2.1, p. 235; starred years are estimates.

In 1988-89, a second and far more radical wave of reforms was initiated, this time with great success.

17 Estimates for inflation are averages of the "controlled" and "free" sectors weighted by their GDP shares.
Starting in January 1989, monetary policy was tightened, positive real interest rates were established and the government cut its fiscal deficit drastically, chiefly by cutting budgetary subsidies to state-owned enterprises (resulting in 800 000 layoffs in three years) and demobilising half a million men (including nearly all the forces returning from Kampuchea).

In agriculture, in 1988 a series of decrees---particularly decree 10 in April, 1988---culminated in the replacement of compulsory grain-purchase quotas by free trade at market prices\(^{18}\) and the devolution of usufruct land-rights to the peasantry based on 15-year leaseholds (the length of which in 1994 was extended to 99 years). Restrictions on grain trade between provinces were removed. Grain prices doubled in real terms in 1988-89\(^{19}\) representing a large swing in the domestic terms of trade in agriculture's favour. With some exceptions, prices for industrial goods and services were also freed.\(^{20}\) The exchange rate was unified, the dollar value of the dong rising from 450 to 4500 in the period 1987-89 (and to 15000 in 1991), and consumer-goods imports were greatly liberalised. These measures boosted overall food grain production and created an exportable surplus; by 1989-90, Vietnam had become the world's third largest rice exporting nation after the US and Thailand (Hiebert, 1990). These measures, combined with rapid import

\(^{18}\) A detailed discussion is Le Duc Thuy (1990).

\(^{19}\) Between June 1988 and June 1989, the price of rice went from 50 to 550 dong/kg, while the price of fertiliser and other industrial inputs went up by a factor of four. (World Bank, 1990: 20).

\(^{20}\) The exceptions were fuel, transport and telecommunications prices.
liberalisation, mopped up the monetary overhang; in 1988-89, inflation fell from 310 percent to 79 percent (and to 30 percent in 1990) while GDP growth rose from 5.1 to 8 percent. The World Bank's estimates of GDP growth and inflation for the period 1984-90 are shown above in Figure 1.

IV. Economic Structure

Figure 2 shows estimated GDP by sector for the

Figure 2: Structure of Output, 1984-93 (bn Dong at 1982 prices)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Age &amp; Forestry</td>
<td>80.8</td>
<td>84.4</td>
<td>88.0</td>
<td>86.5</td>
<td>93.5</td>
<td>97.2</td>
<td>96.7</td>
<td>98.7</td>
<td>100.9</td>
<td>107.2</td>
</tr>
<tr>
<td>Industry</td>
<td>41.2</td>
<td>41.3</td>
<td>46.4</td>
<td>45.6</td>
<td>52.6</td>
<td>54.7</td>
<td>55.3</td>
<td>54.2</td>
<td>41.1</td>
<td>57.1</td>
</tr>
<tr>
<td>Commerce</td>
<td>23.4</td>
<td>22.1</td>
<td>23.4</td>
<td>23.4</td>
<td>24.3</td>
<td>25.9</td>
<td>28.7</td>
<td>27.0</td>
<td>20.4</td>
<td>34.6</td>
</tr>
<tr>
<td>Con., transp. &amp; other</td>
<td>6.9</td>
<td>11.3</td>
<td>11.6</td>
<td>15.3</td>
<td>16.2</td>
<td>13.9</td>
<td>14.6</td>
<td>16.8</td>
<td>17.7</td>
<td>18.4</td>
</tr>
<tr>
<td>Net Material Product</td>
<td>10.3</td>
<td>10.4</td>
<td>10.0</td>
<td>17.8</td>
<td>10.0</td>
<td>19.1</td>
<td>16.6</td>
<td>20.0</td>
<td>217.5</td>
<td>235.8</td>
</tr>
<tr>
<td>Non-material &amp; dep.</td>
<td>55.4</td>
<td>50.1</td>
<td>51.1</td>
<td>51.0</td>
<td>51.6</td>
<td>77.9</td>
<td>87.0</td>
<td>95.0</td>
<td>106.4</td>
<td>113.0</td>
</tr>
<tr>
<td>GDP (1982 prices)</td>
<td>211.2</td>
<td>223.2</td>
<td>230.7</td>
<td>230.7</td>
<td>251.3</td>
<td>272.0</td>
<td>266.8</td>
<td>301.0</td>
<td>326.0</td>
<td>348.8</td>
</tr>
<tr>
<td>Est. Real GDP growth</td>
<td>6.7%</td>
<td>3.4%</td>
<td>3.9%</td>
<td>5.1%</td>
<td>6.0%</td>
<td>5.6%</td>
<td>5.0%</td>
<td>8.3%</td>
<td>7.0%</td>
<td></td>
</tr>
</tbody>
</table>

(*) estimated by author

Source: World Bank (1993); Table 2.1, p. 235.

period 1985-93. Note that despite high inflation in the late 1980s, the economy grew steadily over the period. As is typical for socialist economies, the share of industry in 1984 was relatively high while that of services (including construction) was low. The service sector has since grown rapidly, with agriculture and industry growing more slowly. Even after 1985, GDP (and thus growth) estimates are open to question since they are derived from MPS national accounting conventions (which omit "non productive" services) and are based on 1982 price relatives which cannot be said to reflect relative scarcities. Discussions of this problem are to be found in UNDP (continued...)
was 7 percent and agricultural growth averaged 4.2 percent; the latter is positive in per capita terms and not dissimilar to that of its neighbours. The lifting of import restrictions and devaluation combined to produce industrial contraction in 1989; industrial growth appears to have since recovered, spurred by the rapid growth of joint-ventures in such areas as agro-processing and petroleum extraction. Nevertheless, industry is still dominated by SOEs of which possibly two-thirds are thought to be undercapitalised and operating at a loss. \textsuperscript{22}

Doi mói was further consolidated in late 1991 by the Party's Central Committee guidelines calling for an end to state-enterprise subsidies, the use of commercial criteria in credit allocation and the streamlining of government administration (Van Arkadie, 1993).

V. Trade, Foreign Savings and Future Growth Prospects

In 1989, foreign savings comprising mainly of Eastern bloc aid was equivalent to 9 percent of GDP, most of this in the form of subsidised commodity imports; CMEA imports accounted for nearly 60 percent of total imports. But in 1989, aid fell off sharply and the shock was


\textsuperscript{22} Public ownership of industry is nearly universal in the North; in the South the World Bank estimates that about half of industry remained outside the State sector. Le Dang Doanh (1991) estimates that nearly 70 percent of SOEs are inefficient and of these, nearly half might be best shut down. At the time of writing, an instructive debate has broken out in the Saigon press about whether the country's State-owned bicycle plant should be closed given the costs of modernisation and competition from Thailand; the prevailing view is that it should, a curious conclusion if one considers Vietnam's enormous market and highly competitive wage rates.
compounded by the need to pay for oil in dollars. By 1991, CMEA imports amounted to only 5 percent of the total and have fallen since to a negligible figure. Nevertheless, the 1989 reforms minimised the impact of the shock, with devaluation and the liberalisation of domestic prices spurring rapid export growth while positive real interest rates, the institutional reform of the financial sector and particularly of public finances stimulated domestic savings. Between 1990 and 1992, gross domestic savings (GDS) doubled to 11 percent of GDP (see Figure 3), an impressive rise though still considerably lower than that of Vietnam's neighbours.

Because non-CMEA capital inflows have until recently been small, the expansion of import capacity required for growth after 1989 relied entirely in export performance. Over the period 1989-92, export receipts grew on average by about 20 percent annually, enough to finance the boom in consumer good imports and the growth in investment.

By 1992 Vietnam's exports were worth US$2.5 bn and are estimated to be US$2.9 bn in 1993. Moreover, exports are diversified, rice (US$420 mn) and petroleum (US$790 mn) making up less than half their total value in 1992; other exports are rubber, coffee, fruit, marine products and light manufactures. The two most important import categories are capital-goods and refined petroleum products. The rapid growth of trade has meant that Vietnam is now a highly open economy; in 1992, the share of trade in output was 55 percent, close to level of South Korea.

Prospects for continued export growth are good.

23 It should be noted that unregistered trade is thought to be a significant fraction of the total, particularly cross-border trade with China and trade through Cambodia with Thailand.
Figure 3: Projected GDP Growth and Aid Requirements

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</thead>
<tbody>
<tr>
<td>GDP growth (%)</td>
<td>5.1</td>
<td>6.0</td>
<td>8.3</td>
<td>7.0</td>
<td>8.0</td>
<td>8.2</td>
<td>8.4</td>
<td>8.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Gross Investment</td>
<td>11.4</td>
<td>11.6</td>
<td>12.0</td>
<td>13.8</td>
<td>16.7</td>
<td>20.0</td>
<td>22.0</td>
<td>24.8</td>
<td>26.8</td>
</tr>
<tr>
<td>Gross Nat. Savings</td>
<td>6.8</td>
<td>9.5</td>
<td>11.2</td>
<td>7.2</td>
<td>9.8</td>
<td>12.7</td>
<td>14.4</td>
<td>17.2</td>
<td>19.0</td>
</tr>
<tr>
<td>CA deficit</td>
<td>-4.6</td>
<td>-2.1</td>
<td>-0.8</td>
<td>-6.6</td>
<td>-6.3</td>
<td>-7.3</td>
<td>-7.6</td>
<td>-7.6</td>
<td>-7.8</td>
</tr>
<tr>
<td>Exports</td>
<td>25.1</td>
<td>28.2</td>
<td>33.5</td>
<td>30.8</td>
<td>31.1</td>
<td>31.8</td>
<td>32.5</td>
<td>32.9</td>
<td>33.0</td>
</tr>
<tr>
<td>Imports</td>
<td>24.9</td>
<td>26.9</td>
<td>30.9</td>
<td>33.8</td>
<td>34.4</td>
<td>36.5</td>
<td>38.0</td>
<td>38.8</td>
<td>38.8</td>
</tr>
<tr>
<td>Trade deficit</td>
<td>0.2</td>
<td>1.3</td>
<td>2.6</td>
<td>-3.0</td>
<td>-3.3</td>
<td>-4.7</td>
<td>-5.5</td>
<td>-5.9</td>
<td>-5.8</td>
</tr>
</tbody>
</table>

(*) estimate
Source: World Bank (1993); Table 1.4, p. 18

Although Vietnamese rice yields are comparable to those of southeast Asia as a whole, they are only about 60 percent of Southern China's; this gap will narrow as rural access to fertiliser and credit improves.\(^24\) Equally, Vietnam's oil output is forecast to treble by the year 2000, and natural gas exploration has revealed commercial-size deposits.\(^25\) But although the rapid growth of exports has so far prevented import-compression, if the ICOR rises as the share of investment in GDP grows, foreign savings may be needed.

As noted in World Bank (1993), there is an apparent inconsistency between Vietnam's high rate of growth and its low share of investment; recent figures imply an ICOR

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\(^{24}\) According to the World Bank (1993), current paddy yields in Vietnam average 2.8 tonnes per hectare compared to south-China figures of 4.6 in Guizhou and 4.2 in Yunan provinces respectively. Access to inputs, particularly fertiliser and improved incentives to use them have been key constraints.

\(^{25}\) Vietnam expects to increase its crude oil output to 7.1 mn tonnes in 1994. Two new fields (Rong, Hai Hong) have been tapped and will come onstream in 1994 according to PetroVietnam's Director; output in 1993 was 6.3 mn from the Bach Ho field, the only one currently producing. Production by year 2000 may reach 20 mn tons. (Agence France Presse, 15 Feb. 1994).
of only 2:1. Three points are pertinent in this respect. First, investment efficiency probably has risen both as a result of reform and because the share of private investment in the total has grown. Second, major investment projects undertaken in the mid-1980s in areas such as oil exploration and power generation have recently come on stream. Third and probably most important, much of the country's export-led growth has come from the labour intensive agricultural and agro-processing sectors.

Figure 3 shows the World Bank's estimate of the financial requirement implied to sustain an average growth rate of just over 8 percent until the final years of the decade (all values after the first row being percent shares of GDP). Assuming a gradual rise in the ICOR to 3, a rise in GDS to just under 20 percent and continued export growth at its current rate, foreign savings equivalent to 8 percent of GDP would need to be found by the end of the period. After allowing for private inflows, the Bank forecasts an annual aid disbursement requirement of about US$1.0 bn by 1997. Because of the significant lag between commitment and disbursement, the implied commitment figure for 1994 is thought to be of the order of US$1.5 billion of which about US$200 mn would be needed to meet rescheduled existing debt service. In short, making generous

---

26 In 1992, the private sector accounted for 54% of total gross fixed capital formation (World Bank, 1993: 6).

27 According to the Far Eastern Economic Review (1994), Vietnamese economists argue the country will need about US$ 20 bn in total foreign assistance between now and the year 2000 in order to double per capita income. This is about twice the estimate of the World Bank.
assumptions about the ICOR, the rate of export growth and the availability of foreign savings, the Bank's view is that Vietnam's rate of growth is constrained essentially by the domestic savings rate. Hence, priority must be given to the reform of public finance, the growth of private financial intermediation and, in general, the creation of a favourable climate for foreign investment.\textsuperscript{28}

In 1993, further developments have boosted the country's growth prospects. In September, Vietnam cleared its arrears of US$142 mn. with the IMF. A month later, the World Bank and the Asian Development Bank pledged loans worth US$800 mn for infrastructure development, while the IMF provided a US$223 mn credit. In November, 1993, a further 1 bn. in pledges came from a meeting of aid-donors in Paris, of which the Japanese pledged more than half.\textsuperscript{29} At present, Vietnam's only major outstanding debt is to the ex-USSR which in 1989 stood at US$11 bn but which at the current rouble exchange rate is almost negligible.

VI. Public Finance

In 1985, the government was running an overall deficit equivalent to over 12 percent of GDP financed by Central Bank borrowing of 7.1 percent and CMEA aid of 4.9

\textsuperscript{28} Vietnam has a liberal foreign investment law and is currently simplifying its application by creating the State Committee for Co-operation and Investment (SCCI); see Vietnam Investment Review (1994), p 2.

\textsuperscript{29} The country's main trading partners are (in descending order) Singapore, Japan and Thailand. For a detailed account of recent aid pledges, see Far Eastern Economic Review (1984). In particular, the aid pledge from the Japanese was seen as a major achievement by the Vietnamese.
While the overall deficit fluctuated over the period 1985-89, that portion not covered by aid continued to be monetised; in 1989 (highlighted in the figure) Central Bank financing actually rose to 8.1 percent of GDP. The main change after 1989 was that government savings turned positive, mainly because of rising current revenue. By 1991 the overall deficit had fallen to 2.5 percent, the bulk of which was financed by overseas borrowing. Compared to 1989, there were reductions in wages, salaries, and subsidies to SOEs, bringing the current account into slight surplus. Government capital expenditure was halved, while Central Bank financing was virtually eliminated. In the words of the World Bank, "the elimination of bank financing of the government has been a key underpinning of the anti-inflation program" (World Bank, 1993: 8). It is noteworthy, moreover, that stabilisation after 1990 continued despite a substantial decline in the availability of foreign finance. But as argued below, while the reduction in monetary emission was essential in consolidating stabilisation, inflation was initially brought under control by real factors; e.g., improved terms of trade and the rapid supply response of food-agriculture.

On the revenue side of the budget, improvement occurred in part because of rising oil revenues but also because of significant progress made in raising the contribution of the SOE sector. Nevertheless, the weakness of the central government fiscal system is

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30 Figure 4 combines tables taken from different World Bank reports covering 1985-88 and 1989-92; while the headings in the original tables are the same, the basis of calculation may differ and the data may not be strictly comparable. The figures for central and regional authorities are consolidated.
striking; non-SOE tax revenue in the mid-1980s averaged only about 2.5 percent and currently amounts to less than

Figure 4: Consolidated Budget Summary, 1985-92

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</tr>
</thead>
<tbody>
<tr>
<td>Current Revenue</td>
<td>14.4</td>
<td>10.5</td>
<td>11.6</td>
<td>11.4</td>
<td>16.0</td>
<td>16.1</td>
<td>14.8</td>
<td>18.6</td>
</tr>
<tr>
<td>Tax (private)</td>
<td>2.3</td>
<td>2.3</td>
<td>11.6</td>
<td>3.2</td>
<td>4.5</td>
<td>4.4</td>
<td>4.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Tax on SOEs</td>
<td>11.2</td>
<td>7.6</td>
<td>2.1</td>
<td>6.9</td>
<td>7.5</td>
<td>6.4</td>
<td>8.8</td>
<td>10.8</td>
</tr>
<tr>
<td>Other</td>
<td>0.8</td>
<td>0.6</td>
<td>9.5</td>
<td>1.3</td>
<td>4.0</td>
<td>5.2</td>
<td>1.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Current Expenditure</td>
<td>18.0</td>
<td>10.8</td>
<td>12.1</td>
<td>15.1</td>
<td>17.8</td>
<td>16.1</td>
<td>12.5</td>
<td>14.7</td>
</tr>
<tr>
<td>Wage &amp; Salaries</td>
<td>1.3</td>
<td>0.7</td>
<td>0.9</td>
<td>1.8</td>
<td>5.3</td>
<td>4.0</td>
<td>2.3</td>
<td>na</td>
</tr>
<tr>
<td>Other incl. Subsidies</td>
<td>16.7</td>
<td>10.2</td>
<td>11.2</td>
<td>13.2</td>
<td>13.5</td>
<td>12.8</td>
<td>10.7</td>
<td>na</td>
</tr>
<tr>
<td>Govt. Current Savings</td>
<td>-3.6</td>
<td>-0.3</td>
<td>-0.5</td>
<td>-3.7</td>
<td>-1.8</td>
<td>0.0</td>
<td>2.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Capital Exp.</td>
<td>8.2</td>
<td>4.2</td>
<td>3.5</td>
<td>3.8</td>
<td>6.7</td>
<td>5.6</td>
<td>3.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Primary Balance</td>
<td>-11.9</td>
<td>-4.5</td>
<td>-4.0</td>
<td>-7.5</td>
<td>-8.5</td>
<td>-5.6</td>
<td>-0.8</td>
<td>-1.7</td>
</tr>
<tr>
<td>Interest</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>2.9</td>
<td>2.4</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-12.0</td>
<td>-4.7</td>
<td>-4.1</td>
<td>-7.7</td>
<td>-11.4</td>
<td>-8.0</td>
<td>-2.5</td>
<td>-3.8</td>
</tr>
</tbody>
</table>

Source: World Bank (1990) Table 2.6 and World Bank (1993); Table 1.2

5 percent of GDP.  

This state of affairs is due in part to the relative financial autonomy enjoyed by local and provincial authorities, the most important consequence of which is that central government has little power to redistribute income from richer to poorer provinces. Moreover, the disproportionate burden of taxation borne by relatively

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[31] In de Vylder's words: "Non-payment of taxes remains endemic, and the actual tax rates are still subject to negotiation, and outright evasion. Corruption is widespread. Also, taxes collected by provincial and local governments on behalf of central government are often only partly transferred to higher levels." (de Vylder, 1993: 57).
few of the larger SOEs keeps the tax base narrow and limits SOE investment capacity, thus making their privatisation more difficult in the long run. At present, government is attempting to simplify tax legislation and broaden the tax base. Clearly, fiscal reform is an urgent priority if Vietnam is to reverse the deterioration in health and educational provision, particularly in rural areas, and to modernise and expand its economic infrastructure which---whatever the availability of aid---will need to be financed in part from local resources.

VII. Money and Credit

Like other centrally-planned economies, Vietnam had a monobank system (ie, all banks were effectively subsidiaries of the Central Bank) where money was essentially passive, credit allocation mirroring physical targets in the plan. Substantive reform of the financial system began at the VIth Party Congress in 1986 which called for the development of financial intermediation and effective control of money and credit by the State Bank of Vietnam (SNV), the Central Bank. In 1988, four new banks were created to take over commercial banking function;32 subsequently, joint-stock banks were allowed to operate and by 1992, a number of major foreign banks had opened branches in Vietnam.

Following the parcelling out of commercial banking functions, further reforms were effected in 1989, the most important being the establishment of reserve requirements for all commercial banks with the SNV, the introduction of effective control by the SNV on

32 These were the Bank for Foreign Trade, the Bank for Construction and Investment, the Agricultural Development Bank and the Industrial and Commercial Bank.
commercial bank credit and the indexation of nominal interest rates to the rate on inflation in the previous quarter (i.e., the adoption of positive real interest rates). Figure 5 shows real monthly interest rates, gross national savings (GNS) and inflation.  

Figure 5: Real Interest Rates, Savings and Investment

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</tr>
</thead>
<tbody>
<tr>
<td>Real Monthly Lending Rate (%)</td>
<td>-8.6</td>
<td>-5.8</td>
<td>-5.8</td>
<td>1.2</td>
<td>0.0</td>
<td>-0.2</td>
<td>3.3</td>
<td>2.7</td>
</tr>
<tr>
<td>GNS (% GDP)</td>
<td>-1.7</td>
<td>-1.1</td>
<td>-2.0</td>
<td>5.1</td>
<td>6.8</td>
<td>9.5</td>
<td>11.2</td>
<td>7.2</td>
</tr>
<tr>
<td>% change price index</td>
<td>487%</td>
<td>317%</td>
<td>311%</td>
<td>76%</td>
<td>29%</td>
<td>83%</td>
<td>17%</td>
<td>10%</td>
</tr>
</tbody>
</table>

(*) Maximum monthly lending rates on working capital for selected months  
Source: World Bank (1990) Table 4.2; World Bank (1993) Table 1.3.

The indexation of interest rates appears to have been particularly effective. In the first half of 1989 household savings deposits increased fivefold while the supply of credit to SOEs fell sharply, releasing credit for the private sector (World Bank, 1990: 28). Starting in 1991, the SNV also established a consistent framework for setting monetary targets in line with projected net foreign assets and credit to government and the economy; in consequence, each commercial bank now has a lending limit or ceiling; since 1993, ceilings can be traded in a secondary market. Also, since 1989, SOE arrears to the banking system and inter-firm debt has remained below 5 percent of GDP in sharp contrast to the situation in the

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33 A stylised version of the World Bank view is that positive real interest rates caused a switch from consumption to savings sufficiently large to help bring inflation under control. If this is correct, we would expect a significant relationship to exist between the real rate of interest and GNS. Using OLS, GNS has been regressed on the real interest rate for the same time-period; the X-coefficient is found to be highly significant ($t = 6.1$) and $R^2 = 0.81$.  

21
ex-USSR and parts of Eastern Europe. To improve intermediation, the SNV has announced that it is to begin issuing transferable long-term bonds and that a secondary market will be opened.

VIII. Foreign Trade

Figure 6 summarises the Balance of Payments for the period 1988-92. Although imports grew, exports grew more quickly resulting in a fall in the current account deficit in 1992—although non-registered imports which may as high as US$300-400 mn. Rice and petroleum have been singled out to show their share in total exports and rate of growth; the category 'other' (chiefly marine products and forestry and agricultural products) grew nearly as quickly. The crucial contribution, however, was the growth of petroleum which in 1992 was equivalent to over 5 mn tonnes, and which some analysts forecast could grow to 20 mn tonnes by the end of the decade.

On the capital account several points are worth noting. Errors and omissions are positive suggesting that an unregistered net capital inflow exists, mainly to finance unregistered imports. Direct foreign investment

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34 Estimated arrears are 100% of GDP in Russia and 80% in Rumania. Furthermore, "in other transition economies, arrears have arisen ... as workers get paid regardless of firm performance. In Vietnam, a significant part of compensation [in SOEs] is related to profits [paid in the form of bonuses] ... In this environment, then, it is not surprising that any debt overhand is largely absent." World Bank (1993:12)


36 Because the World Bank figures distinguish convertible and non-convertible (i.e., rouble) area transactions only on the current account, it has been necessary to construct the capital account using 'guesstimates' about the origin/destination of individual items.
Figure 6: Balance of Payments (Convertible Area) 1988-92

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<tbody>
<tr>
<td><strong>Current Acct</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>465</td>
<td>978</td>
<td>1256</td>
<td>2010</td>
<td>2475</td>
</tr>
<tr>
<td>- of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paddy</td>
<td>0</td>
<td>316</td>
<td>272</td>
<td>225</td>
<td>420</td>
</tr>
<tr>
<td>Petroleum</td>
<td>79</td>
<td>200</td>
<td>390</td>
<td>581</td>
<td>798</td>
</tr>
<tr>
<td>Other</td>
<td>386</td>
<td>462</td>
<td>594</td>
<td>1204</td>
<td>1257</td>
</tr>
<tr>
<td>Imports</td>
<td>-603</td>
<td>-985</td>
<td>-1208</td>
<td>-2218</td>
<td>-2535</td>
</tr>
<tr>
<td>Services &amp; Transfers</td>
<td>-334</td>
<td>-225</td>
<td>-73</td>
<td>-486</td>
<td>52</td>
</tr>
<tr>
<td>Current Account</td>
<td>-196</td>
<td>-218</td>
<td>-121</td>
<td>-278</td>
<td>-8</td>
</tr>
<tr>
<td><strong>Capital Acct</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net short term</td>
<td>-96</td>
<td>-478</td>
<td>-73</td>
<td>-367</td>
<td>-41</td>
</tr>
<tr>
<td>DFI</td>
<td>0</td>
<td>100</td>
<td>120</td>
<td>220</td>
<td>260</td>
</tr>
<tr>
<td>Errors and Omissions</td>
<td>26</td>
<td>67</td>
<td>-5</td>
<td>143</td>
<td>6</td>
</tr>
<tr>
<td>Overall Balance</td>
<td>-70</td>
<td>-311</td>
<td>42</td>
<td>-4</td>
<td>225</td>
</tr>
<tr>
<td><strong>Net Financing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- change in NFA</td>
<td>0</td>
<td>-105</td>
<td>-169</td>
<td>-276</td>
<td>-464</td>
</tr>
<tr>
<td>- net IMF</td>
<td>3</td>
<td>-6</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- changes in arrears</td>
<td>70</td>
<td>416</td>
<td>198</td>
<td>278</td>
<td>239</td>
</tr>
</tbody>
</table>

Source: World Bank (1993), Tables 3.1 & 3.2; own calculations

(DFI) has grown rapidly and is likely to accelerate with the recent lifting of the US embargo, as is aid, and this is reflected in the increase in net foreign liabilities (ie, negative NFA).

One indirect effect of the capital inflow worth mentioning is the recent appreciation in the real exchange rate (RER). Between 1989 and early 1992, the nominal exchange rate moved broadly in line with inflation; since then, although inflation has abated, the nominal rate has declined. The obvious danger is of "Dutch disease"---ie, the diversion of investment from the tradable goods sector into non-tradables---particularly if petroleum exports grow as forecast. Hence, care must be taken to change the nominal exchange rate in line with relative inflation. At the same time, a
petroleum boom would provide the state with the resources needed to rebuild and extend infrastructure needed to 'crowd in' investment. Public spending on the rehabilitation of rural roads, for instance, is crucial for the further development of agriculture and forestry; in short, the dangers of Dutch disease can easily be exaggerated.

Finally, it should be noted as a matter of economic logic that one cannot both warn against the dangers of Dutch disease and suggest that stabilisation in Vietnam has been largely a result of getting the exchange rate right. Doubtless the freeing of the exchange rate has stimulated non-oil exports, but the growth of oil exports in the early 1990s is above all the result of major investment undertaken in the mid-1980s, and the rate of future export will be determined largely by the rate at which the output from new fields comes on stream.

IX. Stabilisation and the Internal Terms of Trade

While Vietnam has clearly achieved a remarkable success in moving from hyperinflation to stable growth in a period of less than two years, it must be stressed that external and internal equilibrium did not result solely from trade liberalisation, devaluation and the restoration of fiscal-financial balance. As de Vylder (1993) points out, stabilisation was not so much the result of "getting prices right" as the outcome of a long process of reform which, despite mistakes numerous setbacks, created the conditions for "making prices matter". As de Vylder (1993:7) notes:

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37 This useful distinction was first made by de Vylder and Fforde in their introductory summary to their 1988 book; at the time, reform was under way but stabilisation had yet to occur.
the standard Bretton Woods prescription---to begin with macrostabilisation... was not followed in Vietnam, where reforms at the micro level, including changes in the incentive structure, actually preceded coherent attempts at macrostabilisation.

Nowhere is this more important than in food-agriculture where the 1988-89 reform was accompanied by a favourable shift in terms of trade; in the absence of prior reforms, it unlikely that food-agriculture could have responded to price-incentives. Figure 7 shows the relationship between annual changes in food-agriculture's terms-of-trade (defined as the foodgrain price index over the index of other consumer goods) and the annual quantity change in foodgrain output. Starting in 1985, agriculture's terms of trade improved continuously except for 1988. Foodgrain output changes appear to follow
terms-of-trade changes with a year's lag. This response appears crucial to understanding why the economy continued to grow despite external aid withdrawal and internal monetary and fiscal contraction. Note that there are two periods of improved terms-of-trade and output corresponding roughly to the first and second phases of doi moi; the distinctive feature of the second phase was that import liberalisation provided new incentive goods, mopping up excess liquidity resulting from higher peasant incomes. In effect, the supply of imports helped 'make good' the terms-of-trade improvement. One should add, though, that there has since been a deterioration in food-agriculture's terms-of-trade, in part because of the bumper rice-harvest of 1992 (de Vylder, 1993).

Again, the comparison with other attempted market transitions is apposite. In the ex-USSR particularly, repeated attempts to reform the economy were almost certainly futile given the severe shortage in the supply of wage-goods and the failure to remedy this by liberalising agriculture, raising farm-gate food prices

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38 Using OLS, foodgrain output in period t has been regressed on domestic terms-of-trade in the preceding period, or: 
\[ \Delta Q_t = a_0 + a_1 \Delta TOT_{t-1} \]; \( a_1 \) is significant at the 95% level (\( t = 2.4 \)) and \( R^2 = 0.53 \).

39 It would be misleading to suggest that the World Bank has not made this point; as pointed out in World Bank (1990), favourable terms-of-trade for food can produce an immediate output response offsetting the 'cost' of fiscal discipline.

40 At the time of writing (May, 1994), rice prices have again fallen because of a bumper harvest bringing sharp protests from peasant growers and suggesting the need for Government to dampen fluctuations in foodgrain terms-of-trade; eg, a buffer stock scheme.
and providing agricultural incentive goods.\footnote{Most recently, Gaidar's attempted IMF-style "shock therapy" in 1992 resulted in deep recession and did little to curb inflation. For an illuminating critique, see Ellman (1992).} The Vietnamese appear to have learned this lesson in the course of the 1980s.

X. Poverty

A number of observers have documented the rising incidence of poverty, particularly in rural areas, and warned against the danger of moving too far and too quickly in the direction of free-market. According to one estimate, rural unemployment is 5 mn and urban unemployment is 3.5 mn (some 20% of the labour force); at the Party's Fourth Plenum in January, 1993, Do Muoi reported that the incidence of disease and illiteracy was rising.\footnote{See Far Eastern Economic Review (1994).} As noted in World Bank (1990), the general problem is that then state is too poor to provide universal free health and educational benefits without the participation of private sector.\footnote{In education, grades 1-3 are free while grades 4 and above cost the equivalent of US$0.15-0.40 per month indexed to inflation. Payment in kind is allowed; textbooks too are sold at between US$ 0.15-0.40. In health, the basic fee per consultation ranges from 7 to 25 cents. An appendectomy costs US$3.40. People able to provide a certificate from their village or neighbourhood committee that they are too poor are treated free of charge. IUDs and other forms of contraception not only are free, but a positive incentive of US$ 1-5 is given.} Rising prices and frozen salaries for teachers and health workers are threatening services. In the words of Alec Nove, "one hopes that the (correct and necessary) commitment to encourage markets will not go too far, that the very poor are not left without a necessary minimum of support and
relief". 44

It must be stressed that the nature of the problem differs markedly from that in the ex-USSR and Eastern Europe. In the industrialised centrally-planned economies, although there was no state-run social security system per se, such benefits—including everything from medical care and pensions to housing and holidays—was the responsibility of the workplace; hence, a recurring theme in this debate has been how to make social benefits "portable" if SOEs are to be closed down or extensively rationalised through privatisation. By contrast, much of the Vietnamese workforce even prior to the reforms of the early 1980s was employed outside the formal state sector; even in the SOE sector, benefit provision has been minimal compared to Eastern Europe.

A closer analogy is that of many LDCs in the 1980s, particularly in Latin America. There, the spread of poverty had two distinct aspects. First, high inflation eroded the real wage of unorganised labour—including typically a large component of the rural landless—while peasants experienced a deterioration in the domestic terms of trade. 45 Second, IMF-sponsored stabilisation usually meant cutting public sector spending, thus discriminating against government-dependent employees, particularly those at the lower end of the white-collar scale. (The latter aspect helps explain the middle-class


45 In general, a wage rise in the formal sector can be passed on the form of higher prices; Government's use of the inflation tax thus benefits industry to the extent that there is a redistribution from informal sector wages to profits with Government (arguably) benefiting from seigneurage.
nature of "IMF riots" which erupted in the mid-1980s.) In Vietnam, this process went through distinct phases. First, the inflationary surge of the 1980s hurt a wide swathe of the population ranging from food-producers to government employees; it also accelerated the development of "moonlighting" in the informal sector and encouraged the spread of corruption simply to survive. Second, the adjustment process itself involved large-scale redundancies in parts of the state sector and a wage freeze in most of the civil service including rural health workers and teachers, a situation made worse by the accelerated deterioration in public infrastructure.

However serious this deterioration, it is important to note two further features of "adjustment" which have helped ease the burden. First, Vietnam—like most largely peasant societies—preserves an extended family structure the traditional function of which is insurance provision. 46 Second, and most important, throughout the period of high inflation the economy continued to grow; this contrasts sharply with the Eastern European experience of collapsing welfare provision combined with severe economic contraction. Not only did the economy grow, but stabilisation was accompanied by a favourable shift in terms of trade for the peasantry. Finally, stabilisation has been swift and the economy has since prospered. It seems likely that if current growth is maintained—and particularly if priority is given to

46 It is the concentration of capital in urban areas and the transfer of labour into wage employment which erodes the extended family system, as writers since Adam Smith have pointed out. The state then finances welfare benefits largely to ensure the smooth functioning of the labour market, but as competition becomes globalised, both capitalists and workers become increasingly less able to pay for such provision. This is the essence of O'Connor's (1972) prophetic thesis on the "fiscal crisis of the state".
investment in infrastructure and "human resources" as aid donors have stressed—the unfavourable distributional consequences of inflation and stabilisation in the 1980s will soon be offset by redistribution out of incremental national income generated in the 1990s.

XI. Other administrative reforms

Although we have emphasised the resilience of the private sector in the 1980s and its rapid re-emergence in the 1990s as a consequence of reform, public administration is still highly bureaucratic; as one Saigon publication commented recently, it combines the worst of the French colonial and state-socialist legacies. 47 Van Arkadie (1993) identifies five priority areas for administrative and management reform: strengthening macroeconomic management; consolidating the legal and administrative structure required for the private sector to operate; improving government administration, particularly the decisions of power between central and regional authorities; strengthening enterprise management and making more effective use of foreign assistance.

With the emergence of a market economy, the old planning system organised along vertical lines and focused on physical output target has become redundant.

47 A typical example concerns the recent decision to authorise private chequing accounts from 1 January 1994. Accounts can only be opened in the 3 main cities. Each customer has the right to only 10 cheques at a time; beyond that level the counterfoils of all old cheques must be shown. If a cheque is lost and used by another person, not only must the customer bear the loss but he risks prosecution. If his account is overdrawn, he will be fined 30 percent of the overdraft in addition to paying interest. The customer must write his passport number on the back of the cheque, and sign it in the presence of the recipient...and so on. See Vietnam Banking News "Private cheques issued", January 1994; p. 7.
While the new constitution of 1992 and the subsequent laws on government organisation halved the number of ministries, much remains to be done if government is to become more transparent. In particular, further reductions will need to be made in the number of central and local government employees, currently numbering 1.3 million. A substantial reduction will be required if civil service salaries are to be raised and realistic salary differentials adopted. The current ratio between the lowest and highest salary is 3.5:1 (Van Arkadie, 1993); in consequence, salaries are extremely low and "moonlighting" and corruption are endemic. 48 Moreover, much needs to be done to streamline and simplify administrative procedures. In the field of foreign trade, to take but one example, the growth of unregistered imports is largely the result of the country's complex tariff structure and licensing system involving lengthy delays. Not only do different parts of the state sector have different access to import licences, but there are both national and regional customs inspectors; hence, goods in a bonded warehouse in Ho Chi Minh city destined for a provincial town may be led up for weeks until provincial inspectors arrive. According to one report, over half the consumer goods coming into Ho Chi Minh City are smuggled. 49

The two key bodies charges with reform and

48 The Party has become so concerned at the incidence of corruption, including amongst Party members, that a special Conference was summoned in September, 1993; participants were told that some 2000 cases of corruption had been discovered in the previous 12 months by the Party's own inspectorate (Far Eastern Economic Review, 1994).

retraining are the Government Committee on Organisation and Personnel (GCOP) and the National Institute for Public Administration (NIPA). GCOP carries out studies on government management and makes recommendations; NIPA trains personnel. However, the impact of GCOP appears to be limited while NIPA is understaffed. Both the UNDP and the World Bank have been instrumental in providing technical assistance to strengthen these bodies; in particular, both the UNDP's country-based Management Development Programme (MDP and the World Bank's Economic Development Institute have contributed to high level economics training while a major UNDP programme is being mounted to strengthen GCOP and NIPA and to help government in the development of new legal and administrative procedures. As pointed out in World Bank (1990), ideally management reform should precede factor market reform in order to set the proper basis for reallocating factors between enterprises.

In general, the lengthy process of administrative reform required to effect the transition to a market economy is an aspect frequently overlooked is the literature. As one recent ODI publication puts it (Stevens and Kennan, 1992), letting administrative reform lag too far behind economic liberalisation has led to severe difficulty not just in Eastern Europe; there are lesson to be learned from the political turbulence which followed "rapid liberalisation" in such countries as Chile (1973), Sri Lanka (1977), Ghana (1983) and the Philippines (1986).

XII. Conclusions

What can be learned of relevance to other MTEs from Vietnam's experience? Obviously any generalisation must
be subject to a strong caveat; as various authors have noted, Vietnam is predominantly rural, the DRV model in the North was relatively decentralised and, despite the best efforts of the Party, is it arguable that the model ever took hold in the southern half of the country. Equally, Vietnam experienced a protracted war and was not fully demobilised until 1979, thus blurring the distinction between a wartime command economy and one under central planning. In this sense, the best analogy with the classical socialist model might be "war communism" in the USSR followed by structural adjustment under NEP.

Vietnam is arguably "less successful" than China in the sense that although agricultural reform started at about the same time---1979 in China versus the early 1980s in Vietnam---in the ensuing period Vietnam has experienced slower growth and far higher inflation. One reason for this may be that Chinese reform was more comprehensive; i.e., once China had decided to decollectivise agriculture, it moved very quickly (Griffin and Khan, 1993). Again, inflationary pressure in China remained lower throughout the 1980s because of the high rate of domestic savings, in part made possible by its early reform of the capital market in general and state finances in particular. 50 And of course China, unlike Vietnam, was not burdened in the 1980s by the recent devastation of war and the problems of national

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50 A comprehensive account of the Chinese financial reform is provided in the two papers by Bowles and White (1982); an early discussion of financial reform in Vietnam is Spoor (1988). De Vylder (1993: 34) argues that further reform in this sphere is now crucial: "The lack of development of a capital market is probably the most serious obstacle to a continued marketisation of the Vietnamese economy".
unification.

A point frequently overlooked—and in our view of key importance—is that China and Vietnam differ markedly in their recent political histories, a difference which can be stylised as follows. China in the late 1970s was emerging from the trauma of the Cultural Revolution. The death of Mao enabled the pragmatic wing of the Party to regain control under Deng Xiaoping, the same wing which 15 years earlier had reversed the worst economic excesses of the Great Leap Forward. In the early 1980s, therefore, China had a strong, reformist leadership whose legitimacy derived from its opposition to the Cultural Revolution and its commitment to economic change. The legitimacy of the Vietnamese Party, by contrast, derived from its success in the long war to unite the country. In the economic sphere, Le Duan and his followers were wedded to Soviet orthodox practice and Vietnam was to be the "outpost of socialism in Southeast Asia". As late as 1978—at a time when the Chinese Party was experimenting with what would become the household contract system—the Vietnamese Party was attempting to collectivise peasant land-holdings in the south of the country. In China, the reformist wing of the Party came to power upon the death of Mao in 1976; in Vietnam, the reformists had to wait another decade. In short, however one characterises the difference in the style and pace of reform of the two countries in the course of the 1980s, politically, their respective points of departure for market-orientated policies could not have been more different. This is perhaps the overarching reason for the different speed and performance, but

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converging trajectories, of the Chinese and Vietnamese transition to market-led growth.

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References


