

After the War: 25 Years of Economic Development in Vietnam

by Bui Tat Thang

Since the Vietnam War ended in 1975, the Vietnamese economy has entered a period of peaceful development. The current economic conditions are more favorable than at any time since the unification of the country, but, a quarter of a century later the Vietnamese economy still faces many challenges. On the one hand, these challenges include a miserable and backward economic situation, the result of a prolonged 30-year war that requires time and resources to repair. On the other, several recent historical upheavals have taken place, especially the collapse of the Soviet Union and the socialist Eastern European countries, on which Vietnam relied heavily. These events have had important consequences for the economic and social life of humankind in general and have left a profound imprint on the process of Vietnamese economic development in particular. Within this historical context, the process of Vietnamese economic development after the war can be divided into two main periods: (1) the 10-year period of the centrally

planned economy from 1975 to 1985; and (2) the subsequent years of economic reform when Vietnam shifted toward a market-led economy. I will review the most outstanding characteristics of these two economic periods, and on that basis we can try to predict some future developmental trends in the first years of the twenty-first century.

THE CENTRALLY PLANNED ECONOMY 1975-1985

In general, the centrally planned Vietnamese economy was not much different from the Soviet Union's model in terms of its internal mechanisms, and has been poor in its level of development. However, the historically specific characteristics of Vietnam had important consequences for the development of the economy after 1975.

The war, which climaxed with the unification of North Vietnam and South Vietnam in 1975, left not only a legacy of heavy war damage and an extremely impoverished economy, but also institutional structures that

were to have a profound influence on economic policy. In the first years after the war, the government should have focused on economic recovery, the improvement of labor skills, and agricultural and consumer goods production, all of which were seriously deficient. However, economic policy prioritized heavy industry and focused on the "revolution of the relations of production" by extending the model of the centrally planned mechanism in the north to the whole country. This principally entailed the nationalization and centralization of the entire economy. People's personal interests were not protected, and the momentum of economic development was eliminated.

As a consequence, although some industrial facilities were built, especially in electric power, cement production and other sectors, the economy stagnated. In the period from 1976 to 1980, for instance, average GNP was half the rate of population growth and national income grew at about one-fifth. Most economic targets set in the second five-year plan (1976-1980) by the Fourth Congress of the Vietnamese Communist Party were not met, and some economic indicators barely reached a third of their stated targets. From 1981 to 1985, the economic growth rate was slightly higher, but because of the serious national recession from 1976 to 1980, the overall economic situation hardly changed.

At this stage Vietnam was a backward agricultural economy with 80 percent of the population and 70 percent of the labor force living, working, and depending on agriculture or related sectors. Despite the numbers of agricultural laborers, however, annual agricultural production was not enough to feed the people and the average food per

capita (measured in rice) reached only 300 kg per year. The country suffered from persistent outbreaks of famine even though the government imported thousands of tons of food annually. Because consumption was greater than national income, there was a marked dependency on various kinds of foreign aid, and the country ran up significant debts that, by the early 1980s, equaled the

annual national income. Furthermore, with little potential for foreign trade there was usually a deficit in the trade balance. From 1976 to 1985, export turnover could compensate for only a third of the import turnover and gross foreign trade turnover was very low, averaging only US\$1.7 billion per year. The quality of life was poor and getting worse. Daily necessities such as food, consumer goods, transport, and

health and education facilities were seriously deficient. Meanwhile, rampant inflation reduced the value of salaries and real incomes. Overspending of the state budget increased sharply and went from 25 percent to 45 percent of revenues in the years after reunification.

In short, in the 10-year period after the war the centrally planned development of the Vietnamese economy fell far short of expectations. Although some achievements and partial reforms were accomplished, generally the economy failed to develop in any meaningful way. Basically, the level of industrialization remained the same despite ten years of intense efforts to promote heavy industrial development. These raw facts demonstrate that a comprehensive reform of the economy, which would enable it to escape from stagnation and crisis, was long overdue by the mid-1980s.

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**REFORM (*Doi Moi*) OF THE VIETNAMESE ECONOMY:
1986-PRESENT**

After some initially successful experiments and following the promotion of reforms in many socialist countries, the Sixth Congress of the Vietnamese Communist Party (December 1986) marked a significant turning point in the transformation of the Vietnamese economy to an open, market-oriented, and globally integrated model. The aims of these reforms fundamentally were to eliminate the state-subsidized mechanism; to diversify the ownership of publicly owned assets; to encourage and stimulate the development of private organizations, individuals, and economic sectors; to make the best use of potential resources for the development of production and commodity exchange; to enact policies for the integration of Vietnam into the world and regional economies; to speed up foreign trade activities and encourage foreign

direct investment (FDI); to combine administrative reform with the renovation of economic policy; to strengthen state management and macro regulation; and to combine economic growth with general social development to stabilize politics and “maintain socialist targets.”

The transformation from a planned to a market economy in Vietnam was therefore very different from what took place in the Soviet Union and the socialist countries of Eastern Europe. In Vietnam, an emphasis on social and political stability went hand in hand with macro-economic stabilization and control of state resources. These issues became very important factors in the creation of a favorable environment for the transformation and development of the market economy in Vietnam.

The result of 15 years of *doi moi* reform is that the Vietnamese economy has rapidly grown and overcome its earlier period of

stagnation. The outstanding achievements of this transformation include its high growth rate and macro-stability, the reduction of inflation, and the rapid increase of export turnover, averaging more than 20 percent annually. As a mark of this new period of growth, after 1989, Vietnam became one of the big three global rice exporters, along with Thailand and the US. If we look at this transformation in more detail, it can be divided into three short periods:

From 1986 to 1991, the most decisive shift to a market economy took place. The government administered a series of market-oriented shock treatments to the economy, liberalizing the price of consumer goods, eliminating the state subsidy for goods, formulating and implementing the policy of the positive effective interest rate, floating the exchange rate, and selling off state-owned enterprises. Nevertheless, the growth rate during this early period of *doi moi* was still low with an average GDP growth rate of 4.5 percent, of which sector I (Agriculture, Forestry and Fishery) was 2.7 percent; sector II (Industry and Construction) 5.7 percent; and sector III (Services) 6.4 percent. During the same period the population growth rate was 2.09 percent, or 2.2 times lower than the GDP growth rate, and inflation was still high at 260.2 percent.

From 1992 to 1996, the economic situation clearly began to show the benefits of the reform of economic policy. GDP increased annually by an average of 8.9 percent, of which sector I increased by 4.8 percent, sector II by 13.9 percent, and sector III by 9.1 percent. Meanwhile, the average population growth rate was 2.15 percent, or 4.2 times smaller than the growth of GDP, and inflation averaged 10.9 percent. In short, this was a period of stable growth across all sectors of the economy, comparable with the high growth rate of East Asian NIEs (Hong Kong, South Korea, and

Singapore) in the take-off period of the 1970s and 1980s, and China and other dynamic Asian economies in the 1980s and 1990s.

Although the average per-capita GDP was still low because of the high economic growth rate, there were nevertheless some improvements. In 1996, for instance, per-capita GDP increased 1.6 times against the pre-*doi moi* 1985 figure. The number of poor households, as measured by Vietnamese poverty standards, has also been sharply reduced, decreasing to

19.3 percent from 28 percent from 1993 to 1996 (or by 2.8 million

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households containing more than 13 million people). Infrastructure has been improved and most families have electric power. National communications have developed rapidly; the postal system serves more than 75 percent of the rural population and covers 90 percent of the country. The mass media reaches nearly all rural areas, and about 50 percent of agricultural households have a radio set, and 20 percent own a television.

A library system has been developed, and education and health care have greatly improved. The traffic system, fresh water supplies, and many other areas have also significantly improved.

From 1997, however, the economy was strongly affected by the regional financial and monetary crisis that hit most of the economies of Southeast Asia that year. As a result, economic growth from 1998 to 1999 decreased to half what it was from 1995 to 1996. The economy has deflated, markets have stagnated, and products cannot be sold. Even before financial and economic crisis hit the region, however, signs of a slowing of the economy's growth rate had appeared, so it is unlikely that the Asian crisis was the sole reason for Vietnam's recent problems. Recent studies have suggested that structural and institutional factors within the Vietnamese economy are the main reasons for this slowdown, factors

related to Vietnam's under development and its incomplete transformation process. The poor state of markets, especially the capital, monetary, and labor markets, and the shortage of qualified and experienced business people have all surely contributed to the current situation, as has the dearth of economic managers with the professional knowledge and skills to manage and control both the macro- and the micro-economies and to process information and forecast markets accurately. Therefore the transition to a market economy in Vietnam is not fully complete. The economy is still at a very low level of development and infrastructure and law are much more backward than those found in many other regional and global countries.

It is necessary to speed up the current reforms of Vietnam's economy so that the country can share in the recent rapid recovery of the regional economies. It is estimated that the short-term prospects for the economy will continue to be affected by the regional financial and economic crisis. FDI will be slow in returning to Vietnam, and international competition for investment capital and

markets may become more intense. The weaknesses of the Vietnamese economy, its inefficiency, backward production technology, weak competitiveness, low savings rate, and inadequate domestic investment, have not fundamentally been overcome, and growth rates in recent years have returned to more moderate levels. The present targets for the year 2000 national plan aim to merely maintain the growth rate of 1999 and to halt the declines of the past few years. In the middle to long-term, however, and with more efforts toward economic reform, there is every prospect that the business environment will improve, that domestic resources will be utilized, and that foreign investment will return to Vietnam. Vietnamese economic development will make great strides and contribute positively to the dynamic development of East and Southeast Asia in the first years of the twenty-first century.

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