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The most significant outcome of the renovation programme initiated in 1986 was indeed what it was meant for. It ensured a remarkable and stable economic turnaround, one of the most dramatic turnarounds in the global economic history. The realisation of the production targets of staple and non-staple foods, consumer goods and goods for export was the foremost achievement of the reforms.

Agriculture, which constituted the core of the national economy, was accorded top priority in terms of investment, industrial inputs and skilled labour and, more importantly, the agricultural policy was changed drastically. All exchanges between the state and the peasants, at least in theory, were to be in the form of commercial deals on the basis of equality. The management of agricultural co-operatives was improved by revising the end-product contract, the accounting work and by eliminating some subsidies in the distribution of income in order to arouse the peasants’ enthusiasm for work. Land was allotted to the land users comprising of both organizations and individuals for long-term as well as short-term uses with the rights and obligations of land users clearly defined. Peasant households were encouraged to play the main role in agricultural production. The role of agricultural co-operatives was cut down to economic planning and organizing technical services for peasant households. The size of large co-operatives was allowed to be reduced on the request of cooperatives if they suffered mismanagement and stagnation in production. Under the new product contract arrangement, the remuneration plan was announced right at the beginning of the crop and also ensured in principle that farmers ultimately receive approximately 40 percent of the total contract output compared to that of 15 percent earlier.

The impact of all these policy changes, despite challenges, natural hardships and reversals, was very encouraging even during the initial years under study. There was considerable increase in the level of production and Vietnam became a food exporting nation in place of a food-importing nation. From a state of chronic shortage the country moved to produce enough rice for domestic consumption with some reserves and for exports. This helped greatly in stabilizing people’s lives and improving the trade balance.

Similarly the consumer production industries received big boost. The shift in policies with regard to state-run enterprises was phenomenal. The state-run
enterprises were shifted from the system of state subsidization to economic accounting. The purpose was to run the enterprises on the basis of profit and loss. The shift in the mechanism of state economic management required, autonomy in production and business for grass roots economic units along with renovating their operating procedures, which were ensured. The state agencies were restricted from interfering in their routine operations. Relations between state agencies and grass-roots state-run enterprises were subjected to the plans, the socio-economic policies and the state laws, which were binding to both. They could now independently organize their production and could even decide upon their labour and wages policy depending on their performance. In case of profit, they could use the additional funds for developing their production and business. The enterprises assigned with mandatory targets or receiving orders for producing commodities by state agencies were guaranteed of inputs in terms of materials and sale of their products. The state also encouraged direct links among the state-run enterprises, and between them and other economic sectors including the foreign enterprises. Alongside the state-run enterprises the party also strongly encouraged the development of all other economic sectors, especially the small private sector and handicrafts.

The imposition of business accountability on state-run economic units and making them responsible for their own losses was one of the most important managerial innovations. This encouraged greater efficiency in the use of resources, particularly equipment and machinery. Enterprises which proved to be inefficient and incapable of improvement were dissolved or shifted to other forms of ownership.

Although industrial production suffered a temporary decline due to both internal and external factors, it made no small progress in producing a wider variety of goods and in improving the quality of goods, especially those for consumption. State subsidies through capital allocations, prices for basic raw materials, wages and others declined substantially.

The most profound impact of reforms was however seen in the fields of trade and services. The growth rate in services was at its highest from 1988 onward and this raised the index of gross domestic production; while growth in agriculture and industry in general had been poorer since 1986. The sustained high growth rates experienced in the service sector had greatly minimized the unstable effects and softened the vigorous ups and downs in the domain of material production. Moreover
the predominance of the service sector in the overall economy itself was a sign of economic development.

The effects of renovation were reflected instantaneously in the growth rate. An average annual growth rate of 5.2% in GDP and 3.4% in national income for the period from 1986 to 1991 was indeed remarkable amidst shifting policies, international isolation, Chinese belligerence, dwindling support from the Soviet Union and East European allies, loss of their markets and inclement weather conditions. Withstanding the shock of the loss of economic backing of the CMEA countries, which was the mainstay of the Vietnamese economy, was indeed the greatest achievement of the reforms and which established beyond doubt the unlimited potential of the reforms. In fact it was because of reforms that Vietnam could withstand the worst of natural, national and international challenges.

The reforms, as is obvious, were not merely a crisis management mechanism but they entailed far-reaching and fundamental changes in Vietnam’s economic structure. The state controlled economy of Vietnam shifted to the mixed economy. All the sectors of the economy, viz., the state, the collective, the private and the joint, were accorded equality before law and were allowed to compete freely in the market. The uniformity of treatment, however, affected these sectors differently. The state sector was the major tool for economic management of the party and the state and even after the launch of renovation the sector held the dominant position in the economy. The reforms aimed at reorganising the state sector with the objective of deciding the areas of activity to keep under state control and ownership. Businesses providing public goods, services and the necessities of life were to be developed and consolidated. In order to let them work on self-governing basis, the state revaluated their assets and left them in the charge on condition that they would preserve and multiply those assets. For the enterprises which were regarded unnecessary to be kept under the state ownership like light industrial industries, the process of privatisation was started by selling the whole business, or selling shares of it, or leasing the business out to collectives and individuals. The businesses which were suffering losses and facing obsolescence were preferred to be closed or dissolved. A large number of such businesses were closed down. The business management apparatus of the remaining state sector businesses was restructured with the founding of an administrative council and executive managerial board. All enterprises were told to
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maintain cost-accounting and book keeping and the records were kept under the strict control of the state.

Though the contract system initiated in agriculture co-operatives from the end of 1980 halted the dispersion of co-operatives but it led to deeper privatization of production and businesses, which inevitably resulted in reduced role for co-operatives in the economic as well as social life of rural communities. In such circumstances many agricultural cooperatives could not continue to function as economic units. Some were equitized; others that continued to exist performed fewer economic activities. Farmers were even given the freedom to join and not to join co-operatives. The collective sector in agriculture shifted to a wider application of the system of contractual output quotas under which each member household of a co-operative was recognized as an autonomous economic unit with full rights to land utilization. The process almost ensured near ownership of land.

Policy changes before 1989 did not negatively affect the growth of the collective units in industry and handicrafts. The state subsidy system staying in operation guaranteed a stable supply of raw materials and other inputs of production at prices fixed by the state, and the market to take up the output of co-operatives had also been worked out before hand. When low-interest loans and low priced materials were withdrawn from state and collective enterprises in 1989, all businesses had to compete in the market, and the collective economy shrank considerably. Large majority of co-operatives were forced to shut down or were privatised. A similar situation was seen in the collective economy in trade, services, and other sectors.

The new policy that recognised the household as a self-governing economic unit whereas earlier only agricultural co-operatives were regarded as self-governing economic unit led to major socio-economic transformations in rural areas. Land was apportioned to farm households for different periods of time. While formerly the co-operatives organised labour and made business decision, now households also took these tasks. Buying and selling between farm households on the one hand and co-operatives and state-run businesses on the other were no longer regarded as commercial dealings on a vertical basis, but as between equals and based on market principles. Except in the high mountainous areas, the household economy in most rural areas flourished.

In the non-agricultural sector, the private sector was allowed to operate within socialist oriented commodity economy. Not only the private sector could deal in any
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production and trade activity except those forbidden by law of the land, but also licenses were issued to foreign business organizations. However, in the absence of the clear rules of the game, the private sector suffered initially which was to a great extent rectified in 1989 and 1990. The Vietnamese leadership introduced a more comprehensive legal system in order to regularize the economy and eliminate insecurity. With these policy changes towards private businesses, the economic activities of the private sector saw a dynamic growth. The family economy, though having a low productivity, expanded rapidly as it offered good possibilities for creating jobs and providing a decent income to the poor. As a result of these policy reforms there occurred structural change in the economy soon afterwards with more and more labour force moving into the private sector.

The state also encouraged joint ventures between state enterprises and businesses of other forms of ownership and saw them as an effective tool to regulate the non-state sector. In 1988 the government decree on joint business and economic integration officially accepted and stimulated the diversification of domestic joint ventures. At the same time the law on foreign investment defined “joint venture” as one of three main forms of business organisation. The joint businesses, which the authorities referred to as a separate economic sector, i.e., the state–capitalist sector, became widespread and this kind of business showed clear sign of becoming increasingly important in the future mixed economy.

Reforms in essence implied the changeover from a centrally planned to a market-oriented economy. The power of market as a medium of economic development was ultimately acknowledged and recognised. The role of the state as planner and regulator of economic development was restated. The unrestricted direct intervention of the state in economic activities was restrained and the all-comprehensive planning was replaced by an indicative one. In the same vein the role of the state as the monopoly entrepreneur was curtailed and its role in the redistribution of national wealth was reduced and the decisive role of the market in the distribution of the productive resources was accepted. Nonetheless, the market economy was not a market economy of the capitalist system. It was the initial establishment of a mixed commodity economy operating according to a market system under the state management.

The switchover to the market oriented economy necessitated wide-ranging changes in the economic structure of the country. These were norms enforcement
measures for the market economy to operate. In the whole set of measures, the conversion of an administrative pricing system to a market pricing was the central one. The pricing system was changed from one extreme of total monopolised control to the other extreme of prices set by free market forces without state intervention. Along with price reform, the renovation of the policy on distribution and the expansion of external economic relations accelerated the establishment of a nationwide unified market linked to the world market, thus helping to facilitate the supply-demand relationship and to reduce the differences in commodity prices between different areas of the country.

In the financial sphere, the tax system was amended and expanded; the practice of book-keeping and statistics was enforced which resulted in accumulation of higher budget revenue; expenditure was reduced on subsidies; financial autonomy of grassroots enterprises was broadened; investment grants were restricted and investments through credits were expanded; the national finance was separated from that of businesses in the state sector; and state expenditure was curtailed for reducing the budget deficit. The state reduced its reliance on issuing new paper money to compensate for the budget deficit. Instead, it circulated state treasury bonds to borrow from domestic sources.

In the banking sector, two state owned banks were added to the three existing ones with the mandate of operating on commercial basis. Commercial banks were allowed in different forms of ownerships; some of them were based mainly on the participation of state units, others on a mixture of state and private units, while the rest were entirely private. Even foreign banks were allowed to participate in joint-venture banks. All the banks were self-managed and functioned as business enterprises.

The monetary policy reforms mainly focused on counter-inflationary measures. A series of devaluations brought the official rate of the dong closer to the free market rate. To overcome the prolonged inflation in the economy, the monthly interest rate was raised which attracted the savings of the population and businesses leading to increase in bank deposits. Parallel to the sudden raising of interest rates, the state carried out a strict control of the expansion of bank credits and allowed state-owned businesses to remunerate their personnel in accordance with the results of their undertakings and other means. These measures checked the galloping inflation. At the same time, the interest rates for bank deposits were raised and the exchange rate was
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liberalized and allowed to find its own level in the currency market. Multiple dollar exchange rates were unified and the rate applied to international trade was devaluated to real level. Such changes greatly increased incentives for export and import. They also provided for the smooth transferability between the Vietnamese dong and foreign currencies within the country. Vietnam introduced also convertible currency and despite that the inflation rate remained under check. Curbing inflation to a considerable extent was a major achievement of the renovation.

Laws had continuously been reviewed and renewed to keep abreast of the market economy. There were promulgated a series of legal documents such as laws on private businesses, on share holding companies, on foreign investment, on banks and credit cooperatives and other matters relating to business activities in accordance with the spirit of the right of all citizens to do business.

Renovation was neither possible nor complete without political reforms. In particular for the economic development the mobilisation of the intellectual power was needed which was not possible without freedom of thought and debate both within the party and in the rest of society. The reforms sought to encourage wider and more open debate and to satisfy the widespread desire for greater freedom. In this context reforms in the Communist Party of Vietnam, which occupied the driver's seat in the whole exercise, was crucial. The reforms focussed on confining the role of the party as the conscience keeper of the revolution responsible for shaping broad social and political policy framework and shifting the responsibilities of routine governance to a body of elected and appointed officials. While disaggregating the party and governmental functions, restoring a balance in the political trinity of the party, the state and the people and was stressed. At the same time efforts were made to empower local organizations.

The party management was made more flexible. The party also adopted modern organisational skills and management techniques and emphasised induction of trained/skilled party managers. The efforts were made to make the party more publicly accountable through the activation of internal control mechanisms and empowering a long dormant media to aggressively watch party behaviour. The party sought to reinvigorate control department mechanisms at all levels with the aim of using them as ombudsmen-like structures to process the mass of complaints and accusations triggered by the policy of public scrutiny of the sacred. Mass organizations were enlisted as adjuncts to the process of monitoring party discipline.
The National Assembly was transformed from a rubber-stamp assembly to an active legislative and representative body. It was vested with adequate authority in order to fulfil its enhanced responsibility. It was vested with the task of establishing a fully codified system of government based on the principle of constitutionalism, replacing what had been in effect, government by party fiat. With the adoption of these measures the assembly started to act like an orthodox legislature. Though the party continued to fix policy lines but the assembly had the full responsibility and necessary authority for implementing them. The Council of Ministers and people's committees at various levels took basic steps in renewing their mode of operation, performed better in governing and managing the state by means of the law, and succeeded in solving many major economic and social problems. Bureaucracy was made more accountable and responsive. Corruption in bureaucracy was dealt with firmly. The work of courts and procurators' offices were further enhanced.

The emerging order was characterised by high local autonomy, empowerment of middle-level cadres and the expansion of horizontal connections. The collapse of the central planning system created an administrative vacuum that allowed state cadres at all levels to use their administrative positions to mobilise and reallocate resources. These government officials became the main actors in the process of law-making and law implementation in their areas.

The armed forces were streamlined to a substantial extent; at the same time, attention was given to consolidating reserve forces and enhancing the quality of the militia. Defence enterprises and the army's economic organizations had taken initial steps in switching over to the new management system and thus contributing for national defence and participating in national construction.

Mass organizations and their relationships with the party and the state were reorganized. No longer they had to function as subordinate agencies of the party and nor as the schools of socialism. They were organized along occupational trade union lines and their role was to defend the interests of their members.

A critical press was promoted which was conceived as the voice not only of the party but also of the people. Journalists were encouraged for the first time to investigate the cases of wrong-doing by prominent state and party cadres, to reveal the oppression visited on the public by the state apparatus, and to expose the unvarnished social and economic realities of Vietnamese life. Parallel to the enlargement of
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freedom to the press there was also greater freedom for writers and artists to reflect in their works current economic realities, as well as their personal visions.

A new culture with the democratic content of dissent and protests also surfaced in Vietnam and there was marked openness about showing disaffection with the regime. Thus though Vietnamese did not have a multiparty system, but they did come to enjoy a democratic way of life. The pressure for reform came from within the country and not just from the party.

All these reforms impacted the social life; life in general became easier with food shortages becoming a matter of past, adequate supply of clothing, better housing and faster means of communication. Overall there was an expansion of employment and greater variation in the opportunities available. People had the freedom to carry out business in accordance to the law, the right to ownership of legitimately earned income, participation in the making of major decisions by the party and the state, broader access to two-way flow of information. In the field of education and training, reforms were carried with clear definition of the aims, contents, methods and structure of the educational system. The quality of public health service was maintained despite numerous difficulties. The initial promotion of democracy in cultural, literary and artistic activities brought about favourable conditions for creative work.

Simultaneously there was a change in the values hitherto used in evaluating the social positions of the trades and professions as well as of individuals in society. The number of people engaged in business, trade, and in the service sector, formerly not held in esteem by society, began to increase and also gained in social esteem. Small and medium-sized private businesses received a stimulus from the state and they began to draw in young people who previously would have preferred to work in the state-managed economic sector or state-run offices.

The similar changes were visible in rural areas too. Rapid changes occurred in the division of labour, trade structure, forms of economic sectors and services in rural areas along with emigration, transfer of labour, income differentiation and so forth. These changes were very conspicuous in the areas adjacent to towns and cities and in the plains as well. Thus while in the past, the rural economy moved around agricultural co-operatives, now economic activities in the countryside involved many individuals, households, and collectives, with households playing the main role.

While the socio-economic implications of the reforms in terms of achieving economic growth with stability can certainly be regarded as positive and worthwhile,
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A gloss over of the trial and tribulations during the reforms would be great injustice in evaluating the great efforts which underlie the whole process of reforms. Reforms once initiated faced enormous challenges and in the course the decision makers faced debilitating dilemmas. To begin with there was no real road map available for the reformers to follow. They moved by discarding what were hindering the path of progress and adopting means which could help them. But in the process the leadership faced a serious divide within. On the one side were the reformists and on the other were the conservatives, who vowed by the fundamentals of Marxism-Leninism and they leaped at any crisis to discredit the reformists. The divide between the old guards and the young reformists preceded the launch of renovation and persisted along the same. And the divide was not entirely ideological; there were vested interests, particularly bureaucracy and military which resisted the reforms. The reformist leadership moved on but their task was colossal. On the one hand they faced a total chaotic economy with uncontrolled inflation, persistent foreign exchange deficits, cyclical agricultural failures, food shortages and weakening of the ability of the central government to command necessary resources through taxation and on the other continued isolation from the West amidst dwindling support from the Soviet bloc which later on vanished completely.

Nonetheless the clear victim of the divide was political reforms. Initially following the Soviet model of glasnost (openness) Vietnam had moved more quickly on political than economic reforms. But with mounting problems and the hardening stance of the conservatives the reforms changed direction and concentrated more on economic reforms. Vietnam deliberately discarded the Soviet model in favour of the approach to reform that had been pursued by China. The change in approach was consolidated and hardened by the political turmoil in Eastern Europe and crackdown on pro-democracy movements in China in 1989. Although there were few signs of a popular movement calling for democracy or pluralism in Vietnam, the party's strong reaction to events in Poland and China suggested that it feared such a movement getting started in Vietnam. The opposition to pluralism gained decisive edge in 1989 and a slowdown in political reform was clearly perceptible. First newspapers were urged to moderate their criticism of the government which was followed the Central Committee officially rejecting the demand for multiparty system and insisted that only minor steps toward liberalization be taken. Linh's September 2 National Day speech confirmed that democratization, at least for the time being, was to be directed
at the economic domain and not toward renovation of the political system. Even the mass organisations were not allowed the autonomy they were touted to get. The independence of the press at the end also continued to be circumscribed by high-level political interference.

Though political reforms were jettisoned midway but many theoretical issues persisted which needed resolution. The determination of the domains of the state and the market and the role of the state in the new dispensation was such a basic theoretical issue. The direct planning was replaced by indicative planning raising the question how to define the state's role in planning and regulating economic activities for strengthening economic restructuring and development. There was also the practical problem of the poor ability of the state apparatus to manage the upcoming economic order as the personnel lacked knowledge and experience of an open economy. In the reform process the state also needed to have the power to regulate and correct market failures, for example, to redistribute income and alleviate poverty, but was constrained by its ability to allocate a bigger share of the gross domestic product to the state budget. The role of the state as an entrepreneur was also a matter of debate.

There was also no clarity on the course of democratisation, which initially appeared an inseparable part of the renovation programme. One line of argument was that as Vietnam had accepted the long term existence of a multi-sector economy and should therefore allow pluralism in the party-system and ideology as well. The party's argument was that there was no need for a multiparty system in a socialist society, because a single party could be "truly democratic." The basic assumption of the Vietnamese leadership was simple that economic development could be obtained only within a stable political environment. The Vietnamese Communist leadership was firmly committed to a political system under tight one-party control and tried to manage and deflect pressures for a multiparty system.

The party not only maintained its monopoly but also retained the old central planning model. Its continued existence was an anomaly in the market-type relations. This was despite the fact that the party admitted that central planning had been a failure. There was also no clear picture with regard to the type of market economy Vietnam wanted to build. While liberalisation went on, there was no long term perspective. Vietnam's choice of development model was in the process of churning.
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There was emerging the trend of combining public ownership, the planning mechanism and the market system.

The development approach also presented such dilemmas. Vietnam’s policymakers seemed to be at the crossroads of decision making processes with regard to two historical prototypes of successful economic growth: growth based on natural resource endowments and growth based on human resource development. The answer to this question again presented the choice of an industrialisation strategy from among the export oriented, the domestic market oriented, and the combination of both orientations of development. The well-known successful export-led growth model of the Asia’s newly industrialising economies certainly looked fascinating to Vietnam but with Vietnam’s population of about 70 million people, the domestic market-oriented model looked more promising in meeting the basic needs of the population.

So, at the end Vietnam’s one of the biggest challenges was to choose from numerous existing development models or come up with something else that was more appropriate to it and set its own pace to propel itself forward in this fast changing world. This led to another debate, i.e., over the future development model. The leadership was of the view that the path of economic growth should be entirely anthropocentric, which means that it should happen for the welfare of all citizens, all generations. This anthropocentric ideology was in contrast to the so-called growth model pursued by a number of industrialising countries. Its proponents argued that some needs of the present generation or even some groups of the population might have to be sacrificed temporarily to enable the country to attain economic growth quickly.

Though in the spirit of renovation and in pursuance of the same the state apparatus was subjected to change but the reversal of political reforms process in 1989 left problems unattended and at the same time the introduction of the market economy created its own problems for governance. The party despite Linh’s reforms initiatives remained a rigid and remote organization. Leadership change remained the prerogative of a small inner circle of party elders. Corruption and abuses of powers continued to blot the party’s record. Media scrutiny, internal control and vigorous prosecution of offenders made only partial headway towards eradicating party scofflaws. When the membership rolls were cut by 20 per cent to eliminate the most egregious violators of party laws and the least desirable cadre, the party in the end
suffered a serious shortage of worthy young, technically able, educated and - most of all - willing candidates.

Although the National Assembly became a forum for lively debate and occasionally got divided sharply on a draft law, a close vote was more likely to indicate conflicts between the interests of the party leadership and those of the party-state bureaucracy than to reflect genuine autonomy from the government. On issues that pitted the power of the state against non-party interests, the number of truly independent voices in the Assembly remained small. Moreover the party continued to recommend the candidates for the 100 electoral districts around the country making a mockery of the autonomy of the assembly. These candidates were generally members of the Central Committee or government ministers, who were to be compulsorily elected to hold their jobs and therefore were allowed to win elections automatically.

Executive and management operations of the state at the macroeconomic level were not firmed up. Many laws were needed. Quite a few laws and decrees which were promulgated lacked strict and uniform implementation. Many criminals could not be brought to trial, if they occurred, were slow and superficial. The organization of judicial bodies remained unsatisfactory.

There were overlaps in the division of functions and responsibilities between the legislative, executive and judicial arms and in their relationship to each other. The delineation of management powers and responsibilities between the central and local levels was inadequate and did not conform to the changes in the management system.

The body of State employees had undergone only limited training in legal and professional knowledge; they lacked experience in State organization and management, especially as a new socio-economic management system was replacing that based on bureaucratism and state subsidies; their working efficiency remained low. Government apparatus remained cumbersome in terms of organization and staff, and failed to meet the needs of a renovated management system and the mode of operation of the state. Organizational restructuring and streamlining of staff numbers was superficial and ineffective in some cases. Many organizations failed to define clearly their functions and tasks and were not clear about the mode of operation and organizational development. Even with respect to the defence forces, there was slackness in finding the way to combine a national defence strategy with the socio-economic strategy.
The increasing economic and political power of middle ranking cadres as a result of the collapse of central planning system, undercut the hierarchical authority structure of the socialist period. This constrained the ability of the central government to regulate relationships among government agencies, between government agencies and businesses, and between government agencies and society.

The switchover to mixed economy generated many negative phenomena. These included reckless chasing after profits at any cost resulting in violations of the law, deception, bribery, counterfeiting, smuggling, tax evasion, serious encroachment upon socialist and citizens' property, bankruptcy and capital misappropriation, etc. These also included the tendency to engage in commerce rather than in production, the indiscriminate commercialization even of cultural, health, educational and state administrative institutions, the slackening of state regulation, discipline and laws, and an increase in social injustice. The situation related to law and order remained lacklustre. The security forces, on the whole, had not been built into a truly solid force and fell short of meeting the demands of the new situation.

The state of economy though the main thrust of the renovation, was also beset with problems. The growth rate was good but not good enough. That hardly compensated for even the low consumption needs of the growing population. Moreover the growth rate was not stable; there were periods of deep recessions intervening the good years. Overall Vietnam remained an agricultural country with agriculture contributing a larger share to national income. In fact there was no true economic development in Vietnam during the whole 1990s. The strain on the society was eased by increased food production and easy availability of consumer goods, mainly smuggled. The industrial production actually declined as a result of higher interest rate and market determined prices of inputs, which raised production cost. There were several shocks, indigenous, natural and external which derailed the pace of growth but it was the close monitoring of the situation by the leadership and shifting gear as required which saved Vietnam from the fate of its European counterparts.

Despite primacy being given to agriculture, the share of agriculture and forestry in the gross state investment was very low. Even this relatively small investment was not allocated rationally and generally yielded poor economic results. Farmers were not provided with adequate industrial inputs or consumer goods and were burdened by heavy extractions by the state. The unequal terms of trade between
the agricultural products sold by the farmers and the industrial inputs bought by them from state-trading agencies also did not improve. These factors manifestly contributed in dampening peasants' enthusiasm for work because they went against their legitimate economic interests. As a result, the country's per capita production of staple foods remained low and there were sharp rises in the prices of staples and non-staples and periodic food shortages occurred in many localities. Similarly the share of consumer goods industry along with handicrafts in state investment remained low compared with that of heavy industry.

The renovated mechanism of state economic management and autonomy provided to state-run enterprises were difficult to implement. The prices were irrational and highly unstable as a result of four-digit inflation. This made the application of economic accounting in individual enterprise extremely difficult. Despite repeated exhortations to shift from state subsidization to economic accounting, the share of state subsidies for basic consumer goods, exports and to cover losses of public enterprises in the total budget expenditure did not fall.

Renovating the management of state-run enterprises required renewed methods of central planning. In this connection, it was decided that the state agencies at all levels should completely assign the function of production and business management to grass-roots state-run enterprises, and stop managerially controlling their production and business. However in practice the party did not abandon centralized planning in favour of managerial decision-making at the factory level in state enterprises. The new economic management system, which had initially taken shape, remained incomplete, short of many laws and policies to ensure that production and business operated in the right direction. The macro-economic management and regulation by the state at all levels also revealed many weaknesses, failing to discharge consistently and effectively the function of directing, controlling and regulating the economic sectors. Many production establishments, especially those in small industry, handicrafts and local state-run industry faced problems due to outdated equipments, low-quality products, high production costs, lack of markets and capital, and competition from foreign goods.

The collective units fared the worst as the most economic resources were transferred to the private sector. Previous small-scale collective producers became small private entrepreneurs or chose to work for others. Although the state maintained
that the collective sector was important in the long-term development of the socialist-oriented economy, the fact was that this sector stagnated.

The development of the private industrial capital on the other hand suffered from a very fundamental handicap, i.e., the absence of an entrepreneurial class. The number of private companies remained less. Moreover, they were concentrated in cities and most of them were very small in size. The growth of private sector was being hindered by the unstable macro-economic environment, high inflation rate, restricted credit and unstable prices. Shortcomings in the legal area were also discouraging. Banks were not able to provide long-term loans to private enterprises because of limited financial resources. The competition posed by foreign goods imported and smuggled was another limiting factor.

The privatisation policy also faced difficulties and engendered fresh problems. The managers and employers of state-owned enterprises were not enthusiastic about this prospect because that could adversely affect their current jobs and benefits, especially when their enterprises were performing well and making profits and they were drawing good income. The closing of the unviable state sector units caused the problem of creating new jobs for the workers who had lost their job.

The shift to the market economy was also confronted with a number of operational hitches. The financial policies failed to create favourable conditions for boosting production and generating revenue. Tax evasion and budget deficits remained big problems. The management of the market showed many weak spots - smuggling and counterfeiting were rampant and persistent. The market price mechanism resulted in price fluctuations and unfavourable prices for agricultural products. The financial reform, owing to the disunity in implementation and other inadequacies led to galloping inflationary spiral and price escalation. In the absence of a solid theoretical basis of taxation, frequent readjustments and continuous fine-tuning was required. That created an unfavourable environment for businesses and adversely affected saving and consumption. Budget deficits and the lack of a clear division of fiscal responsibility between the central and local authorities were other problems of the financial system.

In the banking sector problems persisted owing to the lack of a framework for property and collateral debt recovery, inconsistencies in the interest rate policy, the weak capital base of the state-owned banks and the lack of bankers and competent banking staff to implement the structural change. The banking system was also
unprepared to handle large foreign transactions and its legal system was incapable of enforcing contracts once the expectations of foreign investment materialized after Vietnam's withdrawal from Cambodia.

Vietnam lacked an appropriate monetary policy too. Problems such as the establishment and management of financial market, the determination of the demand for paper money and demand and supply balance in the monetary market remained unresolved. The counter-inflationary measures had given rise to declining production and employment redundancies.

Weak infrastructure continued to impede Vietnam's development. The country lacked basic infrastructural amenities such as ports and roads and as a result its existing factories produced far below their capacity. The weak infrastructure in particular affected the scope for foreign investments. Vietnam tried to attract foreign investments and promote market economy but the infrastructure and mindsets were not ready for the efforts.

Unemployment remained a major problem, not unusual for a reforming economy undergoing structural overhaul. The unemployment problem aggravated by the demobilization of the armed forces and by the return of workers from abroad after the abrupt cancellation of their contracts in European CMEA countries and in Iraq. The growing income disparities in the society weakened the formerly close-knit communal relations, particularly those of rural communities. In particular, the erosion of the role and position of economic community organisations such as agricultural co-operatives and small industrial and handicraft organisations created serious difficulties. Corruption and black marketing coupled with the gradual withdrawal of the State support in critical areas like employment, education and health care created a growing population, particularly the most vulnerable among them like children, poor women, the disabled and the elderly, that found difficult to survive the onslaught of market forces. The reforms not only aggravated social inequality but also caused greater regional disparity. In general, the economy was in much better shape in the South than in the North, a disparity that persisted.

Other important areas of social welfare such as compulsory education and public health care also encountered no small difficulties because of restricted financing by the government. Average health spending became meagre and drop out rates from schools were on the rise. The low paid teaching jobs were not attractive enough for talented youths and the quality of teachers was not of desirable standard.
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Universities, colleges, vocational training schools and general education schools were lagging in getting reorganized.

A significant portion of population continued to face food shortages. Peasant housing in some areas remained in a rudimentary state. Cultural life in many rural areas did not see any improvement. A sizable segment of the population continued to live below the poverty line and number of malnourished children remained significant. Corruption while continued, conspicuous consumption on part of some people emerged as a social irritant. And the high population growth rate was wiping out many of economic gains.

Economic development also showed the beginning of environmental degradation even in the initial years of reforms. The environmental pollution had not acquired alarming proportions but there was concern about future as serious environmental deformation caused by deforestation, soil erosion and degeneration, the disturbance of ecological balance in a number of pockets and so forth did emerge as major problems.

The biggest challenge to Vietnam’s renovation programme nonetheless emanated from its external relations. It faced an extremely hostile international scenario. The success of renovation at first instance solely depended on the resolution of the Cambodian crisis but the choices for Vietnam were very difficult. Withdrawal of troops from Cambodia appeared a recipe for security disaster but at the same time the involvement was too heavy a burden to bear. Vietnam needed crucial breakthroughs in its international relations to get out of this quagmire. It was helped in its efforts by circumstances and in a way was compelled to take a different policy course. The collapse of socialism and the East-West rapprochement led to the end of the cold war. Though the Soviet withdrawal from the region left Vietnam hard-pressed but it also prepared ground for normalization of relations with ASEAN and China. Now the conflicting parties could think in pure economic terms as the political issues were pushed to the background. The crumbling of the satellite Communist regimes in Eastern Europe and later of the Soviet Union made the Vietnamese leadership to realize that they could no longer count on political, let alone economic support from the Soviet Union and that the rigorous pursuit of economic reforms was the best survival course.

The Vietnamese leadership moved away from an ideologically dominated perspective emphasizing both Vietnam's independence and the division of the world
into communist and noncommunist camps to a non-ideological view stressing the world's complex economic interdependence and Vietnam's need to play a role. As is true of the high priority given to economic considerations in domestic policy changes, the need for undertaking change for the sake of economic salvation was abundantly evident in the dramatic shifts that occurred in Vietnam's foreign policy. Corresponding to this revised world view, the Politburo formulated a new concept of security which stated that security must be comprehensive. According to this, economic development and relations with other countries were considered more important than military security. Diversified relations, multilateralism and an open door policy in order to attract capital, technology and experiences in economic management from foreign countries and participation in the world economy were features of this new concept.

In actual course any breakthrough depended on the resolution of the Cambodian crisis. ASEAN, China, the US and the western countries all had put Vietnam under tremendous pressure to leave Cambodia. The Soviet Union also in its bid to normalise relations with China was pressurising Vietnam to withdraw. Despite stiff resistance from within and undertaking substantial risk Vietnam made headway in the direction and as the first step in this direction withdrew troops from Cambodia in September 1989, a year earlier than the planned deadline, without being sure that pro-Vietnamese government in Phnom Penh would survive. It was a calculated risk to get rid of massive economic burden on this account and to break the economic isolation as the withdrawal of Vietnamese troops from Cambodia was the precondition for normalization of relations with China, the ASEAN and other countries. The decision was a difficult one. Conservative forces within the Politburo argued that withdrawal would jeopardize Vietnam's security by easing the way for a hostile Cambodian regime to come to power. The view was however countered successfully by Politburo liberals who insisted that such dangers were remote compared to the imminent peril of Vietnam's economic collapse should the heightened international trade and aid that withdrawal was expected to encourage failed to materialize.

Initially the ASEAN and China were skeptical of the whole process and doubted the authenticity of the troop's withdrawal from Cambodia. The international response to the Vietnam's withdrawal was far short of its expectations and once a while it threatened the position of liberals and temporarily undermined the Politburo's
impetus to continue the reform process. But with the passage of time Vietnam's good intentions were firmly established and a comprehensive settlement was reached by the Paris Peace Conference in October 1991 which became the starting point of favourable relations between Vietnam and China on the one hand and with the ASEAN on the other. And more concretely and immediately the peace dividend from the withdrawals of troops from Cambodia and Laos was considerably contributed to the objectives of renovation.

In particular hostility with China was the biggest distraction for Vietnam's pursuit of renovation. A conciliatory mood appeared on both sides in 1989 when Vietnam proposed complete military withdrawal from Cambodia but the normalization of relations was in fact facilitated by many factors which included the improvement of relations between China and the Soviet Union, Vietnam's desperate need to break out of international economic isolation and the stabilization of the military situation in Cambodia. The process of rapprochement had been initiated by Vietnam earlier with its withdrawal of troops from border and stopping of anti-Chinese propaganda. Starting from November 1987, the Vietnamese leadership has been encouraging informal border trade. Despite sharp naval conflicts over the Spratly Islands in March 1988, such trade continued and there were considerable cooperation among border officials. The border trade went beyond confidence building measures to become major part of the economies of Vietnam and of southern China. It was the mutually beneficial trade relations, which appeared crucial for the prosperity for South China and North Vietnam, both distant in terms of the reach of other foreign countries, which became the crucial facilitator for normalization of relations between these two countries.

Besides economic factors, there was also ideological meeting ground between these two countries. Indeed there was little confidence left in the correctness of Marxism-Leninism in either of the countries but it was clear that Vietnam’s position was closest to China in terms of both general situation and direct political influence. No country at that time was more similar to China in its general political and societal situation than Vietnam and none more similar to Vietnam than China. After Tiananmen massacre in June 1989 China re-considered its regional policy. Given the fickleness of the United States and the West, it found Southeast Asia an important and more stable market. Vietnam on the other hand could hardly embark on its
development plans without having peace with China. Besides access to the latter’s market meant vast business opportunity for Vietnam.

The beginning of the end of hostile relations with the non-communist Southeast Asian states started with Vietnam’s new outlook on foreign policy as part of the renovation programme and the changed perception of the ASEAN leaders, who viewed Vietnam as a country, which they could cope with after the Soviet disengagement. The threat perception further eroded by Vietnam’s withdrawal from Cambodia. While security concerns guided the mind of the political leadership, the business lobbies of the surging ASEAN economies were looking at new opportunities for investments and trade in the Indochinese region which offered vast natural resources and abundant cheap labour. The business lobbies seemingly convinced the political leaders that a rapprochement was in the best interests of all. Thailand took the lead which was followed by other members of ASEAN. Besides Vietnam’s admission of commonality of interests in the region and concretely its decision to accept refugees who were willing to return were viewed by the region as an important sign of Vietnam’s willingness to address regional issue. And as expected, with political settlement, mutual trade started to expand and investments in Vietnam began to pour in. All these paved the way for fast integration of Vietnam in the regional economy.

Nonetheless the US imposed trade embargo continued to hamper Vietnam’s development prospects. Vietnam could not do any business with the West, Japan and Australia. Nor could Vietnam get the foreign aid and investment and access to the world economy. Vietnam made its imperative clear by complying with the US conditions for normalization. It withdrew troops from Cambodia, participated in a comprehensive peace settlement, and pledged further support on the POW/MIA problem and allowed discussion on the American children emigration issue. On the American side too the prospect of good business the Vietnamese market offered was dawning upon. It was observed that the new foreign investment code was one of the most liberal in Asia and provided lucrative opportunities for trade and investments for nations not constrained by embargo. By the end of 1991 the picture started to look positive though it took longer for normalization of relations with the United States.

On the economic front Vietnam had undertaken decisive measures to make the economy more outward-oriented. The open-door policy in trade relations with the world and regional markets were effected through trade liberalization and export
promotion by abolishing most import and export quotas, reducing or even exempting taxes and encouraging the import of raw materials and other inputs of production as well as basic necessities. This change for the better was also seen in Vietnam's trade balance. Its highly deficient trade balance was gradually cut down and finally was annulled in 1992. This was despite of the loss of the Soviet and East European markets which made the bulk of Vietnam's trade. This loss was compensated by the change in the direction of Vietnam's trade to Asian markets. Vietnam also had a relook at multilateral funding agencies. With a complying Vietnam many of these agencies responded positively including the IMF. All these positive developments were taking place amidst the US imposed trade embargo. This reflected the pull of doi moi.

The most noteworthy thing about the renovation in foreign policy was that the breakthroughs in international relations were facilitated not only by the ultimate withdrawal of the Vietnamese troops from Cambodia which was done by overcoming heavy protests within and considerable risks in its stake outside but with little success initially but by other factors in which the renovation itself was the most crucial one. As time passed, doi moi itself started to facilitate the breakthroughs Vietnam needed so badly in its international relations. The lucre of an opening economy with vast potential for growth enticed the foreign investors and traders and their states in turn. As the Vietnamese economy opened, it generated tremendous opportunities for trade and investments which were alluring not only to ASEAN but even to China and the USA. China in particular saw the potential of economic growth of its remote southern provinces by having border trade with Vietnam. Thus initially while Vietnam needed breakthroughs in its international relations badly in order to facilitate renovation, the renovation itself as it unfolded facilitated most of the breakthrough in the international relations.

The Vietnamese reforms were also a case of the global realisation of the reality that international relations were to be guided by economic rather political and strategic concerns. The countries which realised the new reality earlier were beneficiaries and those which ignored or could afford to ignore did that at their own peril. Vietnam stumbled on this reality because it had all along moved with deep commitment to the good of its people and it could sense the writing on the wall. This was also facilitated in a way by the dualism of views within the party. The party always allowed diversity of views to prevail within and the organisational dialectics
allowed the party towards synthesis of new perceptions of realities and on the whole making good for the country and the people.

The Vietnamese leadership was off course able to read the writing on the wall but it did not copy the remedies exercised elsewhere. The reforms it undertook were guided by the specificities of the Vietnamese conditions and it moved ahead with reforms by synthesising differing views. As a result, as reforms unfolded reflected many distinctive characteristics. To start with, there was balance between the pulls from the grassroots upward and from the centre downward. The harmony contributed to mutual understanding and perception of the need to readjust economic policies where they were not in sync with reality. This helped the reforms to attack the basic foundations of the old socio-economic model without producing the kind of deep recession that had taken place in some other former centrally planned economies undergoing economic restructuring. The resultant scenario was an exception of sort. Unlike the socialist countries of Eastern Europe and Asia, which like Vietnam pursued reforms in their economic and political system, Vietnam could escape either economic chaos or political unrest.

The reforms also reflected a harmony between continuity and change, demonstrating the party's inclination towards caution rather than deliberate speeding towards implementation of the reformist agenda. The Sixth Congress assigned the party the task of maintaining stability while proceeding with policy overhaul that would bail the country out of its immediate economic difficulties. Though the reforms were focused on the need for massive change in order to remedy a decade of economic failure, they were also suffused by a crucial measure of commitment to continuity in basic policy, i.e. the one party rule with the goal of socialism.

The need for economic reforms had arisen from the economic area itself, not as a consequence of political upheavals. The change from war-time to peace-time had brought about an increase in demand for the necessities of life. In order to increase output, the obstacles in the economic development had to be removed so that the economy could function more smoothly. In other words, pressing reality thawed out dogma and necessitated a new workable system. As the 1990s approached, Vietnam finally came to terms with its peacetime economic problems. Party leaders, having mastered the art of military struggle in defeating first France and the United States accepted yet another struggle that required the kind of focused resolve previously displayed in wartime.
The nature of Vietnam's reforms was not merely one of switching from an old model that no longer worked to one borrowed from another country. In fact, elements of the old model were discarded and replaced by elements deemed to be more suited to Vietnam's circumstances, and this it did by trial and error. As there was no ready reform scenario or general road map available that Vietnam could use as a guide, it had to work out its own short-cut action plans, treading slowly and tentatively, and ready to shift gear when necessary.

Another outstanding feature of Vietnam's reforms was that they were carried out amidst extreme political and economic isolation. External economic support for the reform process was negligible. Aid and credit from the East European countries and the former Soviet Union countries were cut off from the time these countries began their own perestroika. Powerful international financial institutions such as the World Bank, the International Monetary Fund and the Asian Development Bank provided no assistance except for consultations. Aid from bilateral government agreement had been channelled mostly for social purposes. Furthermore, the economic blockade and embargo against Vietnam and the involvement of the country in various political and military conflicts, had compelled it to consume many resources that could otherwise be used to fuel its economic growth and development. The absence of a secure and friendly international environment had been a great challenge for the reforms to succeed. Against such a bleak background, the fact that Vietnam managed to remain an independent and united country was remarkable.

The reforms were also the process of combining the opposite ideas and systems. The market economy was allowed to flourish along with strengthened state capitalism. Plurality and freedom of expression were also allowed but under the undisputable authority of the Communist Party. The economy as it evolved was described by the party as the initial establishment of a mixed commodity economy operating according to a market system under state management. The basic assumption of the Vietnamese leadership was that economic development could be obtained only within a stable political environment. Priority was therefore given to reforms in the economic field. Economic reforms necessarily meant that the state would have a lesser role to play in the economy and thus also to create a social basis for more radical political changes towards a multi-party system. The 7th Congress ending the vacillation over political reforms confirmed the goal of a socialist democracy. The closest the congress document came to defining socialist democracy
was to describe that as a political system in which the people were the master, the state was the manager, and the party was the leader. The sense of this was that the party was policy planner, monitor of programs, and moral goad; the state was the implementing instrument. This was again a concept of democracy which tried to combine elements of democracy with one party rule. Anyway the policy of gradual political reform had popular support in Vietnam. Nonetheless the irreversible process of political rearrangement emerged in the spirit of renovation and for the sake of renovation, which meant delimiting the functions of the party, expanding the role of the government, decentralisation, enacting a body of proper statutes, ensuring the rule of law and enlarging the scope of freedom.

The overall harmony and harmonization were the result of a process of synthesis between deep entrenched dogma and the need for change which involved an intense struggle between the old and the new. At times it appeared voices of reforms would be curbed. But what is the most remarkable aspect of the reforms is that during the same period of heightened trial and turbulence the process gained its foothold. The concept could be seen well entrenched in the proceedings of the Seventh Congress and the subsequent Assembly session. They made reforms ideologically correct. In the months prior to the congress, the long-term fate of this crypto-capitalist device appeared doubtful; but when the Congress went through, it was clear that the commitment was irreversible.

The model of the market economy which Vietnam evolved could not be a replica of the Western countries, Japan or newly industrialized countries. Indeed it bore the most common characteristics of a market economy while maintaining the specific traits determined by its own concrete conditions. The initial years of the renovation led to the evolution of a market economy which was a multi-component economy in which the state sector was limited to such key branches and fields, which were necessary for regulating and stabilizing socio-economic conditions, and to those which were unprofitable for other sectors to deal in. Private, individual and family economy was encouraged to develop without limitation in fields which were not forbidden by the state. It was an economy of diverse markets, such as of currency, capital, labour, means of production and consumption, services. In this economy prices, rates of exchange and interest rates were determined by the market, under the State's regulation. The economy was open to intercourse with regional and world market. The State's role was to provide orientation and control of
the economy through the instruments of planning, finance, currency and laws, not through commands.

One of the fundamental features of the reforms and which was vital to the reforms process was the extraordinary resilience of the Communist Party of Vietnam. The party proved itself to be the most resilient in the whole communist world and faced virtually no challenge to its authority. It was true that owing to the extreme economic difficulties, the credibility of the party was certainly at stake initially but the leadership was never unaware or in a dismissive mood or in smugness. They were constantly watching the scene with concern and were always ready to explore new ways as discussed above. The problem with them was finding that alternative vision. The reforms, though limited in scope, had started as early as 1979. They went for full scale reforms both in political and economic domains. It was only after 1989 when the Eastern European Communist regimes started to collapse, the Vietnamese leadership feared a domino effect, and put break on political reforms. They were reasonable in asserting that economic recovery could not be ensured in an unstable political order.

On the other plane, the party itself was an arena for debating reforms and there had always been a balancing act. It allowed democratic ethos to spread, the National Assembly in particular became a platform for lively debates. It was indeed the prestige of the Communist Party and its symbiotic relationship with masses that it was able to hold its sway. There was no organised dissent in Vietnam as they emerged in other socialist countries. Even unlike China Vietnam never came across a situation where it had to use mass scale violence to terrorise democratic voices to silence. As opposed to what happened in East Europe and the Soviet Union, organised dissent in favour of dramatic political change was virtually absent in Vietnam. No alternative political force emerged to challenge the Communist Party.

The analytical-historical narrative of Vietnam’s exceptional turnaround would not be complete without the mention of the extraordinary leadership of Nguyen Van Linh. It was his unconventional leadership which provided sustainable foundation to reforms. Soon after being elected General Secretary of the Vietnamese Communist Party he positioned himself as a clearheaded and forward-looking leader committed to reforming the economy as well as the party. As a leader he showed resilience and adaptability, an unorthodox approach to policy making and forthrightness with regard to accepting the limits of the political system and the inability of the party apparatus, leadership and the governmental machinery to effect rapid and real changes. In
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particular remarkable was his contemplative approach to problem solving and devising new ways. He emphasized the consideration of the theoretical core of any issue and the need to rethink presumptions about strategies, policies and practices. Unlike his predecessors he was neither dogmatic in his approach to problems and nor ill at ease with a style that jettisoned prevalent paradigms and sought alternative courses for sorting out nagging economic and organizational issues including recruitment and training of party and government personnel.

Underlying the flexible approach of the party and the accommodating and unorthodox style of Linh was indeed the concern for the plight of the people. Despite rudimentary institutionalization of democracy, the sense of accountability cannot be discounted on the part of the leadership. It may surprise a hardcore democrat that the leadership though detested and did not allow real pluralism, was neither immune to peoples’ pressure nor indifferent to their concerns. It certainly indicated that the leadership derived its strength only from the support of the masses and was not really alienated from them.