CHAPTER 2

RATIONALE OF REFORMS

The launch of the renovation programme at the Sixth National Congress (1986) was not a sudden or abrupt turn in Vietnam's post-reunification politics. Rather it was the culmination of a considerable historical process of great magnitude and significance. It was not that the Vietnamese leadership was heavily impressed by the international stances or succumbed to the pressures exerted from outside nor was there lurking fear of rebellion within. In fact it was their realisation of the follies of a dogmatic approach. Their own experience was the most important factor in guiding them to go for this phenomenal transition.

The year 1976 was the year of great socialist victory, a great juncture not only in the history of Vietnam but of humankind itself. A small nation humbled the biggest power and mightiest military machine ever produced by humanity with grit, determination, unity and conviction. It was the year of hope and also of pledge. Their belief in the ideology and the long drawn struggle to ensure its victory led them to believe that they had turned the global balance in favour of revolutionary forces. They also believed that the time had come, and the same ideology would help them, to end the miseries of the masses forever who had to sacrifice and suffer so much in that historical struggle.

The expectations of the masses as well as of the leadership were justified. The feat was indeed great and belief in a great future was legitimately held. But as the time passed, conditions started deteriorating and as the decade following the great victory advanced, the problem reached to absurd levels. A rethinking became inevitable because the credibility of the Party came under severe strain. The chapter tries to understand this gap between the expectations and their actualisation, beginning with the contrast of the jubilant 1976 and the desperate mid-1980s. The chapter goes on to elaborate the crisis of the mid-1980s which was largely a creation of the economic policies of the regime. The regime had extended the same model implemented in the North Vietnam prior to the reunification. Though the model suffered from several weaknesses and had proved ruinous to the economy, it was forced on the restive South Vietnam. The forced and hasty application of the model in the South was even more disastrous to the economic health of the country. The deteriorating living conditions of the masses however necessitated a rethinking and some reforms were initiated as early as in 1979 and the measures, though very limited
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in scope, did show positive results. The chapter discusses the limited reversal of policy line in 1979. The positive results of the 1979 reforms, the chapter discusses, prepared the ground for the big reforms to follow later. The reformist measures were too limited in their scope and were not adequate enough to check the deteriorating economy of the country and hence the Reforms in 1986. The problems which exacerbated the crisis were the bureaucratic centralism, lack of economic experience and adverse regional and international conditions which have been discussed in succession. Lastly the chapter mentions the advent of a young reformist leadership to the prominence which was conscious of the crisis of the Revolution and ready to devise ways to overcome the same.

THE CRISIS OF THE REVOLUTION

The crisis of the Revolution was threefold. First the Socialist victory in 1975 had generated high hopes among the people and the revolutionary credo was believed to be undoing their all miseries after the defeat of imperial forces. Secondly, contrary to the expectations, the economic condition deteriorated and people’s living standards in fact started declining. Thirdly, a new class emerged which enjoyed perks and privileges by exploiting the same system. All these put the Party’s credibility under doubt and thus necessitated a review and renovation of old ways.

Euphoria of 1976

Following the fall Saigon in 1975, a National Assembly representing the whole of Vietnam was elected on 25 April 1976. It met on June 24 in Hanoi and on the following day Le Duan, First Secretary of the Vietnamese Communist Party announced that “the Vietnamese revolution has moved into a new stage, the stage of socialist revolution throughout the country”.1 This hard won victory was faced with the daunting task of the reconstruction of the war ravaged economy and national integration. Nevertheless the victors were enthusiastic. Le Duan viewed the international scenario marked with the ascending forces of socialism, national independence, democracy and peace and Vietnam’s victory as an important contribution in this revolutionary upsurge.2 Le Duan asserted, “In the new stage our party, state and people should make the most of the favourable international conditions so as to rapidly heal the wounds of war, restore and develop economy,

1 Keesing's Contemporary Archives, 1976, p. 27917.
develop culture, science and technology, consolidate national defence, build the material and technical basis of socialism in our county, and at the same time continue to stand shoulders with the fraternal socialist countries and all other peoples in the world in the struggle for peace, national independence, democracy and socialism against imperialism headed by US imperialism. The resolution of the Fourth National Congress of the Party held from 14 to 20 December in 1976 reflected the mood of the occasion. The resolution pointed out three main characteristics of the Vietnamese revolution in that stage. First, the country was in the process of advancing from a society with a predominantly small production economy straight to socialism, bypassing the state of capitalist development. Second, the reunified country advanced towards socialism with many great advantages but also with many difficulties owing to war aftermaths and the vestiges of neo-colonialism. Third, the socialist revolution in the country unfolded in a favourable international context; but the struggle between revolution and reaction in the world was still hard and fierce. The Congress put forth the general line for the socialist revolution: “To hold firmly to proletarian dictatorship, to promote the fight to collective mastery of the working people, carry out three revolutions simultaneously: the revolution in relations of production, the scientific and technological revolution and the ideological and cultural revolution, of which the scientific and technological revolution is the kingpin; step up socialist industrialization, which is the central task of the period of transition to socialism; establish the system of socialist collective mastery, and large-scale socialist production, development culture and mould the new socialist people, abolish the regime of exploitation of man by man, do away with poverty and backwardness; unceasingly, uphold vigilance, constantly consolidate national defence, maintain political security and social order, successfully build the Vietnamese homeland into a peaceful; independent, unified and socialist country; actively contribute to the struggle of people in the world for peace, national independence and socialism”.

The economic crisis in the mid 1980s

The euphoria of mid 1970s evaporated by mid 1980s. The enthusiasm of victory had sunk into deep despondency within a decade and at stake was the credibility of the vanguard of that revolutionary credo. In 1976 the government

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3 Ibid, p. 119.

promised a radio, a refrigerator, and a television-set for each Vietnamese family within 10 years, however, the extremely low standard of living of the average Vietnamese hardly improved over the next decade. In the years following the Communist victory in the war against the United States, the physical condition of the average Vietnamese actually declined because of malnutrition, and an increasing percentage of children suffered from low birth weight. During the same period inadequate production of consumer goods combined with chronic budget deficits leading to high rates of inflation exacerbated Vietnam’s myriad social problems. By 1985, the purchasing power of the dong was declining sixteen to eighteen percent a month, and the salaries of workers and cadres could only cover up fraction of a family’s expenses. The price increases were so severe that sales were suspended in some of state stores and there was resumption of foodstuff rationing in addition to rice, which was already rationed. By November 1986 inflation had reached a massive 700 percent. According to one estimate, the number of unemployed was 2.63 million in 1976, 3.2 million in 1980, and 3.52 million in 1984. They represented, respectively, 14.3%, 15.8, and 15.3% of the total employed. Unemployment and underemployment affected approximately half of the industrial and 30 percent of the agricultural workforce. And Vietnam was one of the poorest countries of the world. Its per capita income of US$130 a year was lower than that of Bangladesh’ US$160. These hardships in people lives combined with balance of payment crisis and mounting external debt and heavy cost of military campaigns were simply insurmountable for the regime in Vietnam. A broader picture of the living conditions of people is pertinent in order to comprehend the crisis of revolution.

People’s plight in “the stage of socialist revolution throughout the country”

The decade following the unification did not mean any change in the lives of the Vietnamese. Successive 2nd and 3rd Five Year Plans (FYPs) were not very successful in this respect. During the Second FYP (1976-1980), the living standard of the working people in the whole country deteriorated considerably as a result of the

8 Gareth Porter, n. 5, p. 72.
economic crisis on the one hand, and the continuous price increases, particularly since December 1979, on the other hand. But, while in the North the fall in the living standard was relatively mild as it had been already very low before the Second FYP, in the South its impact was felt much more severely. In a speech delivered in Ho Chi Minh City in mid-1980, Vo Van Kiet admitted that workers and civil servants' wages could not even compensate their own labour costs, let alone the reproduction of their labour force. A Politburo directive in November 1980 acknowledged that production was slumping in several ways, and the livelihood of the labouring people was deteriorating and encountering many difficulties. And as Hoang Tung, a member of the Central Committee and editor of the Party's newspaper admitted in early 1980 that the situation was particularly serious and painful for urban people and wage earners.  

The drastic fall of the living standard of the working people went against the Party's proclaimed policy, which emphasized at its Forth Congress "to improve the people's material ... life [was] the cardinal task of [the] Party and State, and the highest objective of the economic development programme." The socialist victory did not bring about the dramatic improvement in the life style of the people as it had been promised and as was expected rather what followed was a severe socio-economic crisis.

The economic situation significantly improved during the Third FYP. However during the period in question, there was no stabilization and no improvement whatsoever in the living standard of the fixed-income earners such as workers, civil servants, intellectuals, and pensioners. In spite of the fact that, until the Eighth Central Committee Plenum (June 1985) they had twice received some compensation for the rising cost of living but their real wages kept falling. This was because after each increase of allowance the prices of foodstuffs, clothes, etc. multiplied many times in the free market where people bought most of their basic needs, in addition to a few rationed items of mediocre quality sold in the state-run shops at subsidized prices as well as in the socialist market.

The peasants' living conditions did improve following the generalization of a new 'end-product contract' system but after that many localities began to raise the assigned contract quota. Besides, the peasants had to pay all kinds of contribution

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11 As quoted in ibid, p. 107.
12 Ibid., p. 162.
along with the already high agricultural tax. Ultimately they got only 13 or 15% of the
crop which hardly compensated for their production expenses. During this FYP, about
3 million peasants in the North experienced food shortage every year during the
interval of some months between the two harvests. A knowledgeable special
correspondent of Le Monde wrote in 1984 that malnutrition loomed large as one of
Vietnam’s most serious problems. Altogether, each Vietnamese only took in on
average 1,850 calories a day, while the required minimum was estimated at 2,300.
According to the Party’s journal, malnourished children represented a fairly high
percentage of the total number of children. Dang Hoi Xuan, the then Minister of
Health, admitted in 1986 that the health situation of the people was declining in a
concerning manner. The average weight of newborn infants as well as the weight,
height and physique of students and youths had all declined. The shortage of drugs
had severe. State investment in public health service was too little, amounting to less
than 4 per cent of the total budget expenditures. The deteriorating condition of
hospitals, sanitation had directly and adversely affected the quality of public health
service.¹³

Pham The Duyet, the then Chairman of the Party-controlled trade union, also
acknowledged at the Sixth Party Congress that the wages earned by our workers and
civil servants were not enough to regenerate their strength for continued labour.
They could not make both ends meet; their grownup children were unemployed, and
prices of goods were skyrocketing. This had negatively affected production,
diminished the diligence and creativity of our workers, damaged their morale, and
lessened their confidence in the Party leadership. At the same Party Congress, Duong
Quang Dong, a Veteran Party member, also voiced this cry of alarm: “There is a
severe loss of faith among the people as regards the Party and State. They are
complaining about their sordid poverty and the rising of prices, as well as about their
precarious and insecure fate...”¹⁴

And the privileges of the new class

The drastic fall in the living standard affected only the working people, not the
ruling stratum of the party and the state - the “politocracy” - whose privileges in kind
and services, besides the nominal salary, strongly contrasted with general

¹³ Ibid., pp. 163-64.
¹⁴ Ibid., pp. 163-167.
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destitution. While ordinary people suffered from severe shortages of basic necessities, higher-level cadres had access to plentiful supplies of consumer goods, including motorcycles, at subsidized prices. Bureaucrats also had better access to housing and to education as well as employment opportunities for their children. There was a growing popular perception that the party/state bureaucracy had become a new ruling class with a special privileges based on political-bureaucratic power.

It was in this context, the contrast in the living conditions of the people who were supposedly the root of revolution and had the right of the collective mastery and the privileges of the few who were to act as the vanguard of the revolution, the 6th Congress noted, “This state of things has lessened the confidence of the masses in the Party’s leadership and in the functioning of State bodies.” The Congress also noted the socio-economic difficulties faced by the nation.

- Though there has been some growth in production, it is slow in comparison with the capabilities available and labour spent, with the people's demand for a rapid stabilization of their life, with the need to accumulate capital for speeding up industrialization and strengthening our national defence.
- Production and investment efficiency has been low.
- In general, only half of the designed capacity of enterprises has been utilized with reduced labour productivity and low product quality.
- Our country's natural resources have not been made good use of, and have been wasted at that, especially farmlands and forest resources; the ecological environment is being destroyed.
- Clogged-up circulation, inappropriate distribution of commodities and price hikes are having a negative impact on production, the people's life and society.
- Far from being reduced, the great imbalances in the economy between supply and demand in grain, foodstuffs, consumer goods, energy, raw materials, transport, etc., between income and expenditure, export and import, have become more acute.

16 Gareth Porter, n. 5, p. 72.
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- Socialist production relations have been slowly consolidated. The leading role of the State-run economic sector is weak. Non-socialist economic sectors have not yet been made good use of and transformed.

- Numerous difficulties still beset the life of our people, especially workers and public employees. Many people at work age are jobless or still not fully employed. Many legitimate and minimal requirements of the people's material and cultural life have not yet been met. The countryside is running short of common consumer goods and medicines; housing, sanitary conditions and cultural life in, many areas still leave much to be desired.

Negative manifestations in society have increased. Social justice has been violated. Law and discipline are not strictly observed. Abuse of power and corruption committed by a number of cadres and State employees has not yet been severely punished in time; neither have the activities of those who engage in illicit trade or business.

This state of things has lessened the confidence of the masses in the Party's leadership and in the functioning of State bodies.

To sum up, we have not yet achieved the objective set by the Fifth Party Congress, namely stabilizing in the main the socio-economic situation and the people's life. 17

In fact, there was a generational shift in the post-war Vietnam. Post-war Vietnamese society was populated by a majority of people in their 20s and in lower age group who, compared to older veterans of the first and second Indochina wars, were less oriented to the party, less tolerant of the rigidity inherent in an authoritarian system, and less vary of Western influence. People's confidence in the party's leadership had weakened and old standards of party discipline had broken down. Internal divisiveness intensified while opposition to corruption and incompetence among the cadre escalated dramatically. 18 This situation was grave enough to be admitted by the Party as mentioned above.

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On the whole it was the ruinous economic policies of the regime which had brought the impasse before the people and the regime. It was the dogmatism of the regime with respect to its economics that constituted the crux of the crisis. To quote the observation of an insider, "... the model of development which the Vietnamese leaders chose to follow in 1975/76 was ineffective in that it could not attain its goal; rapid urbanization and industrialization based on the Soviet model of central planning. With a GNP per capita which has never exceeded USD 150, Vietnam has remained one of the poorest countries in the world. Demands for changes inside the country have become more and more pressing. Such internal demands for change constitute the main reason for the reform process which has been going on since the Vietnamese Communist Party’s VIth Congress in 1986 but the process has also been influenced by recent change in the Soviet Union and Eastern Europe. The VIth Congress adopted as its slogan ‘Renewal or Death’.”

The background of the reforms was formed by the factors which precipitated the crisis. And key to the crisis as noted above was a dogmatic economic policy.

DOGMATIC ECONOMIC THEORY AND PRACTICES

The legacies of underdevelopment, foreign occupation, wartime destruction, dependence on foreign aid and the high popular expectations were not the only problems facing the government after 1975. It soon became increasingly clear that a large portion of its problems could not be blamed on colonialism, imperialism, or war, but was in fact the result of the counterproductive economic policies of the Communist Party of Vietnam, which emanated from the Party’s own ideological predilections. The core of the crisis which Vietnam faced, thus, was the economic policies it adopted after the Reunification. In the immediate post war period it was natural for the party leadership to implement the economic model of the credo which had won them victory in the most vicious ever war against imperialism despite their apparent shortcomings. In order to understand the deepening crisis of already a war ravaged economy, which overwhelmed the Vietnamese leadership by mid-eighties to opt for renovation after the abysmal failure of the piecemeal reform efforts, it is

necessary to understand the economic model of North Vietnam which was the applied model of the ideology, the Vietnamese leaderships espoused and fought for. This model was roughly based on Marxism-Leninism in theory and Stalinism-Maoism in practice.

The Legacy of the Stalinist-Maoist Economic Model of North Vietnam

The Vietnamese Leadership implemented the same development model in reunified Vietnam, which they had experimented with in North Vietnam during twenty-five years preceding the reunification. It was this development model which was trusted to be a magic wand removing all economic hardships of the people but which instead led to further deterioration of the economy and decline in the living standards in the country. It was the model which precipitated much of crises Vietnam faced. It is therefore necessary to understand the model and its consequences, which was experimented with in the North and after reunification applied in the South. It was the model which was put on trial and the Renovation meant correcting or doing away with many of the legacies of this model.

North Vietnam's centrally planned economic model entailed that the state determined all important economic activities of the entire country through a system of production plans and goods distribution. There were also strict regulations on pricing and interest rates. The state and the collective enterprises constituted the foundation of the economy, the collectives being heavily subsidized in activities. Large scale private enterprises were not allowed to exist and were incorporated into either state or collective units. The market mechanism operated only in the small scale and the household businesses, that is to say, only in a part of the agricultural, handicraft and consumer goods retailing sectors. Thus the essence of the central planning model of development was rapid industrialisation and collectivisation of agriculture, combined with tight central control of the economy.

The state monopolised foreign trade. Due to historical circumstances, Vietnam’s trade relations had been mainly with the former Soviet Union and the East European countries through bilateral treaties. Foreign trade companies under the

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22 Vo Nhan Tri, n. 10, p.1.
control of the state would implement these trade treaties, and the profit and loss account of foreign trade was entirely taken care of by the state.\footnote{Vu Tuan Anh, n. 23, p. 4.}

The finance of the State was not separate from that of the state-owned enterprises. The State undertook to compensate for losses incurred by state owned enterprises by means of subsidies and when these enterprises chalked up a profit, the profit was channelled back to the state budget. All productive activities were subsidized by the state through its provision of raw materials and other inputs of production, machinery, and equipment imported with aid funds and credit loans and sold at low prices to state owned enterprises. For this reason, the budget deficits and foreign debt would have increased along with any increase in output.\footnote{Ibid.}

Such policies were however not conducive to motivating individuals and companies to boost enterprising economic activities. The economic institution had no room for private individuals' creativity and business dynamism. Thus, although income distribution was egalitarian and all members of society were assured the basic necessities of life, there was, however, no incentive for its people to use their talents or assiduity in work to make bigger contributions to the country.\footnote{Ibid., pp.4-5.}

However, speaking at the outset that the system discouraged individual initiative and creativity is gross understatement of the problem. In fact the egalitarianism, the model espoused, in practice caused greater anomalies. Its impact on the various sector of economy was anything but assuring.

Dennis Duncanson notes that in 1954, the party imposed its dictatorship in the provinces transferred to it at Geneva by the same cautionary brutality to deter opposition on the pretext of land reform, as had been employed by the Chinese Communist Party a year or two before, in China. Also in the same way as in China, it then forced collectivization through within four or five year; and managed to do so without much trouble in spite of the acknowledged unpopularity of the measures.\footnote{Dennis Duncanson, "Vietnam: a new turning -point?" The World Today, 40(5); May19 84, p.199.} In the pretext of land reforms, a large number of people were executed, of which included, according to an official record, fifteen thousand innocents who had wrongly been classified as landlord despots. However the policy of giving land to the tillers for which the Central Land Reform Committee resorted to 'an anarchic campaign of terror' was only the first stage of a larger scheme. At the second stage the small-scale
individual peasant economy had to be transformed into a large-scale socialist agricultural economy based on the collective ownership of peasant cooperatives. Finally the socialist agriculture based on the collective ownership of the peasants had to be transferred into one based on the ownership of the whole, i.e. nationalization of land. The co-operativisation process in the North Vietnam had been envisaged through three stages: the temporary and permanent mutual aid or labour exchange teams, the elementary or semi socialist cooperatives and the advanced or socialist cooperatives. However peasants were pushed from one stage to another before they could settle in one stage by using subtle manoeuvres and crude coercion though the party had proclaimed voluntarism, mutual benefit and democratic management as the three principles of the movement for agricultural cooperation. In the advanced agricultural producer’ cooperatives (AAPCs) all means of production became common property and each member was paid solely according to the labour performed for the cooperative. Simultaneously to cooperativisation, successively measures were taken to merge the initial small agricultural cooperatives into larger ones. The remuneration paid to a cooperative member was not sufficient for him to meet his family needs. As a result the cooperative members devoted more attention to their family plot than the cooperatives. The family plot, which represented only 5 per cent of the collective property granted to the co-operative member as an usufruct, generated of 54.3 per cent his total income in 1975 whereas 95 percent of the co-operative’s property brought him only 34.6 per cent.29

Faced with the situation in which even during times of pressure many cooperatives could mobilize only 70% to 75% of their members who worked with low efficiency, many AAPCs thought of a way out by allowing their production brigades to subsequently sign “the three point contract” with individual peasant households. By subcontracting land and other production means to households, they hoped to encourage their members to work harder, for their award was directly related to the result of their work. But these contracts with households were severely condemned by the Party’s chief ideologue, Truong Chinh, in November 1968. He asserted, “The idea that any method of production that increases the social production is acceptable is not the view of... the Party. Indeed, in the agriculture of the North today there are only two production formulae: collective production and individual production. The former

29 Vo Nhan Tri, n. 10, pp. 2-17.
moves toward socialism ... the latter create an economy of small commodity production. This economy, every day and every hour gives rise to capitalism." Truong Chinh's stand was adopted as official Party policy at that time, and for the following ten years household subcontracting was ideologically taboo. 30

Overall impact was just opposite the proclaimed goal of higher productivity and production in agriculture. Compared with 1958 the staple food production increased by only 10.9 per cent whereas the population grew by 63.6 per cent in 1975. 31 As a result the total staple food production per capita declined through years.

Parallel to collectivisation in agriculture, the Party advocated the stepping up of the socialist transformation of private industry and commerce. The Party decided to make use of the national bourgeoisie for a certain period of time in order to boost the country's economy with the goal of gradually utilizing, restricting, and transforming it. In the elementary form state capitalism private enterprises worked with raw materials supplied by the government and selling the manufactured goods to the latter. The advanced form of joint state-private enterprises in which the means of production and capital funds were transferred to the State and the former owners received for their capital a fixed interest rate of 6-8 per cent per annum for industrial enterprises. These joint state-private enterprises, except for the fact that the former owners were drawing a fixed interest were not much different from state-owned enterprises. In spite of that a few years later all joint state-private enterprises were incorporated into the state sector. Even the handicraft was subjected to co-operativisation. The process started from late 1958 onwards and was reportedly basically completed at the end of 1960. The blind emphasis on concentrated production and unified management ran counter to the scattered and localized nature of the handicraft sector. 32

Together with the completion of the socialist transformation of private capitalism and the handicraft sector, the Party carried out the programme of socialist industrialization, which put an overemphasis on heavy industry. Undue emphasis on heavy industry far exceeded the material and financial capability of the national economy, even if foreign aid was taken into consideration and greatly constrained the growth of agriculture and light industry, and ultimately hindered the growth of the industry itself. The official data however showed dramatic growth in the industry and

30 Ibid., p. 17.
31 For details see ibid., p. 18-21.
32 Ibid., pp. 28-33.
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handicraft sector. Since 1960, the gross industrial and handicraft production increased by 89.4 in 1965 and 236.2 per cent in 1975. In spite this in 1975 North Vietnam was still an overwhelmingly agrarian economy; industry (excluding capital construction) accounted for only 27.9 of the produced national income whereas agriculture and forestry represented 40.4 per cent.\(^{33}\)

North Vietnam’s economy was heavily dependent on foreign aid particularly from the Soviet Union and the People’s Republic of China (PRC). The industrialisation and successful military campaign of North could not have been possible without all-round military, monetary, material, and manpower support of the Soviet Union and PRC. The critical importance of foreign aid can be realized from the share of foreign economic aid in total budgetary revenues, which ranged from 21.5 per cent to 26.5 per cent during the 1960-64 period, which rose to between 42.3 per cent and 68.9 per cent during the war years 1965-72. In the second reconstruction period (1974-75) it varied between 54.9 per cent and 60.6 per cent.\(^{34}\)

On the whole, the Stalinist-Maoist strategy of economic development of North Vietnam during 1958-75 gave rise to an irrational economic structure in many respects, and serious imbalances at the macro-economic level. Agriculture could not keep up with the needs of national economic development and this was an important factor limiting the overall economic development. Light industry was also unable to meet the basic needs of the people in both rural and urban areas while heavy industry was developed in a lopsided manner at the expense of agriculture and light industry. This also adversely affected the development of communications and transport; commerce and service trades. Further the irrational economic structure resulted in generally low economic efficiency and labour productivity, which ultimately led to a decline in the people’s standard of living. However the economic crisis was, at that time, somewhat masked by large injections of foreign economic aid. Despite this immediately after the communist military victory in the South (April 1975), the Party leadership tried to impose at all costs the Northern model of development upon the South, and this ‘northernization’ of a restive South brought about disastrous results.\(^{35}\)

\(^{33}\) Ibid., pp. 32-38.
\(^{34}\) Ibid., p.39.
\(^{35}\) Ibid, pp. 44-46.
'Northernization' of South

In 1975, after the conquest of South Vietnam where party rule was even less likely to be welcome, a fact that even the Politburo occasionally admitted in the open, prudence was all the more necessary. The pretext of land reform could no longer be pleaded because, as was widely known, agricultural land had already been parcelled up into smallholdings. The party had long been aware that political constraints inherent in progressive socialist revolution slowed economic growth. The 1976 Fourth Congress did not repudiate collectivization. Indeed, it reaffirmed Marxist-Leninist faith that collectivization could make 'new socialist men' of the vanquished southerners, and it endorsed a still more radical measure that would mask denial of ownership over smallholdings. It was the transportation of 4 million peasants from one part of the country to another. 'Transportees' were to join the hundreds of thousands of town-dwellers evicted from the cities of the south in close-settled housing, in which it was said it would be easier than on the old collectives to move labour from one activity to another and in which traditional village communities could be obliterated, An industrialized agriculture which mixed frugal, if backward, 'socialist men' from the north with the technically advanced, if socially decadent, 'bourgeoisies' of the south, would facilitate social control; and the southerners could not complain of discrimination-in-defeat if the victorious northerners were treated no better. 36

Following the Geneva Accords (July 1954) for next two decades the economies of North and South Vietnam had evolved in quite different directions. The former was based on an attempt to construct socialism while the latter was set on the capitalist path of development. The Hanoi leadership intended to immediately impose at all costs its Stalinist-Maoist model of development on the South without taking into account the latter's social, economic, and psychological characteristics. From May 1975 onwards, Vietnam embarked upon the socialist revolution while at the same time, trying to complete the remaining tasks of the elimination of the comprador bourgeoisie and the non-comprador bourgeoisie and the vestiges of feudal landlordism in the South. In the 1976, according to a Vietnamese source, large sections of the monopolistic business organisations of the comprador bourgeoisie had been dismantled and on the other hand all the commercial and industrial firms, banks

36 Dennis Duncanson, n. 28, pp.199-200.
and transport companies belonging to the comprador capitalists and businessmen who left the country after 30 April 1975 were confiscated by the State. The proclaimed goal of nationalizing those enterprises, which contributed largely to expanding the State sector, was to increase their production and operations. However, their production and business operations did not increase; on the contrary, they seriously declined particularly because of mismanagement.  

The Second Five-Year Plan (1976-80) for the reunified country listed socialist transformation in the South as one of its fundamental tasks. However the large-scale cooperativisation of agriculture and the irrational quota procurement prices fixed by the State caused great dissatisfaction among the Southern peasants. Primarily because of these reasons agricultural production declined sharply in 1977 and 1978. Heavy industry as usual received greater emphasis at the cost of agriculture and light industry resulting in severe shortages. On the other side again a brutal campaign was launched for socialist transformation of medium and small enterprises this time and no distinction was exercised for non-comprador bourgeois. In May 1978, Hanoi also introduced a new currency for the whole country. It was a move further to clampdown on private businesses. The amount of cash that could be exchanged for new banknotes was strictly limited. Overall the coercive socialist transformation, overhasty elimination of non-socialist economic sectors, lack of material incentives, and economic mismanagement precipitated an economic crisis. During 1976-80 the gross value of agricultural output rose by an average of only 1.9 per cent a year. The average annual increase in the gross industrial output was only 0.6 per cent. Poor economic performance in agriculture and industry was naturally reflected in the evolution of the national income. From 1976 to 1980 it increased by only 0.8 per cent whereas the population grew by 9.2 per cent. With no improvement in economic conditions, and isolated by the West, Vietnam’s dependence on the CEMA countries particularly on the USSR remained heavy. The latter’s aid was the mainstay of its economy and its trade was mainly restricted to these countries. Further, the war in Kampuchea and the Chinese attack worsened Vietnam’s plight.  

THE REVERSAL AND POSITIVE RESULTS

By early 1979, it was clear that the economic policies followed in Vietnam since 1976 were not reducing the serious problems being faced by the newly unified
country. The industrial sector had ceased to grow; food production was erratic; GNP was barely equal to that of 1976; and population growth had actually lowered the per capita GNP figure. Consequently, the Sixth Plenum of the Communist Party Central Committee, meeting in August 1979, retreated from the policy of a rapid socialist transformation of the economy and implemented instead a policy of reform marking more and less reversal of the earlier policies. Overall, the new policies emphasized the necessity of (1) maintaining the five economic sectors that is, State, collective, joint State- private, capitalist, and individual sectors, particularly the private sectors; (2) providing material incentives to enhance production and to boost exports; and (3) granting more autonomy to province and especially district levels.

The Party overhauled its agriculture policy and advocated a series of measures which included fixed prices for all procurement quotas in order to stimulate production, stabilizing the agriculture tax for five years, allowing them to sell the remainder of their produce after the deduction of procurement quotas and agricultural tax either to state trading agencies at mutually agreed prices or in the free market, encouraging family-sized units to produce and sell their goods at market prices; and allowing individual households to cultivate land unused by the co-operatives and retaining the harvest in full. The contractual quota system already tried out in pilot projects by a number of agricultural cooperatives was widely applied in every farmer's household.

In industry, the state authorised state-owned enterprises to freely operate beyond the assignment of state plans. Alongside production liberalization, the state continued to maintain monopoly in a limited number of goods, gave more freedom to the circulation and exchange of commodities, and proceeded with two major price readjustments, one in October 1981 and another in October 1985, to narrow the gap between state-fixed prices and market determined ones. Businesses were permitted to buy and sell raw materials and other inputs of production, and machinery and equipment in the free market. In foreign trade the state loosened its control, and more and more companies operating at the local and branch levels allowed to directly export and import goods themselves. The new policies also laid great emphasis on boosting the handicrafts and small-scale industry in the local economy, especially in

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39 R B St John, n. 20, p. 305.
40 Vo Nhan Tri, n. 10, pp. 81-82.
41 Ibid., p. 82.
42 Vu Tuan Anh, n. 23, p. 6.
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producing consumer goods in place of giving priority to large-scale heavy industry.\(^{43}\) More importantly it was considered that some types of state-produced goods that could be better produced by the handicrafts and small-scale industry and private capitalists; they must be boldly assigned to the latter.\(^{44}\)

As a result of reforms voluntary commercial relations evolved along with the existing central planning system. State-owned and collective units, which earlier had no self-governing rights and dealt with related units on a vertical basis with state organs higher up in the hierarchy, now developed horizontal relations, that is, relations between other units based on market requirements and were authorised to make decisions regarding activities beyond the assignment of state plans. The capital goods market was formed and consumer goods market turned more attractive, with a wide variety of domestic and imported goods catering to consumers’ tastes and requirements. Seizing the opportunities of a more liberal climate, small family and other private enterprises had sprung up to participate in the fast-growing economy. Macro-economic reforms compelled institutional changes. Reforms in prices, wages, fiscal and monetary policies were discussed at policy-making bodies, and major readjustments were affected in trade and price liberation and in reducing the budget deficits.\(^{45}\)

Thus, the new policies advocated at this Plenum – in agriculture as well as in industry and handicrafts – more or less reversed the previous ones, particularly in the domain of socialist transformation.\(^{46}\) It was the first change in economic policies calling for increase in business efficiency: liberate economic activities, change the priority given to large-scale heavy industry and instead encouraged small and medium sized consumer goods industry, and heeded the interests of individual workers. This brought about a number of concrete changes in various areas of the economy. New ways of making the economy function were tested and implemented where found appropriate, and the state greatly reduced its direct bureaucratic interventions in the economic domain.\(^{47}\) The country’s pragmatic leadership had frequently called for bung ra – an explosion in creative initiative to develop the country. In the ensuing years, private initiative indeed boosted agricultural and handicraft production. Under

\(^{43}\) Ibid., p. 5-6.
\(^{44}\) Vo Nhan Tri, n. 10, p. 91
\(^{45}\) Vu Tuan Anh., n. 23, p. 6.
\(^{46}\) Vo Nhan Tri, n. 10, p. 92.
\(^{47}\) Vu Tuan Anh, n. 23, p. 5-6.
the impulse of material incentives, even the traditionally stagnant state sector did show some vitality.\textsuperscript{48}

After September 1979, the Central Committee called for a variety of reforms, including abolition of the administrative supply system in general and subsidies in particular, allowing members to lease land from cooperatives and sell the resulting crops in the free market, and the use of material incentives and sanctions. Household enterprises were authorized to hire up to ten employees and to sell their products to state-run trading firms or marketing cooperatives at negotiated prices. Enterprises were also permitted in certain circumstances to develop their own markets and to conclude contracts directly with foreign customers using self-generated foreign exchange. Local authorities and primary production installations were authorized to set all prices with the exception of a small number of essential commodities whose prices would still be fixed by the central government. At the same time, enterprises, offices, and economic establishments were strictly forbidden to raise prices arbitrarily or to sell their products and materials in the free market.\textsuperscript{49}

Positive Results of the Reforms initiated in September 1979

The implementation of the resolutions adopted at the reformist 6th Plenum of the Party Central Committee (4th term) held in September 1979 and the subsequent Fifth Party Congress showed encouraging results. During 1976-80 in industrial and agricultural production, the decline of the years 1979-80 was curbed, and since 1981, notable progress was made. The average annual increase in agricultural output rose to 4.9 per cent as against 1.9 during the 1976-80 period. The average annual output food grain rose from the 13.4 million tons during the 1976-80 period to 17 million tons during the 1981-85 period. The average annual increase in industrial output was 9.5 per cent compared with 0.6 per cent in the 1976-80 period. The average annual increase of the national income was 6.4 per cent compared with 0.4 per cent in the previous five years. As regards the building of the material-technical infrastructure in the five years 1981-85, several hundred relatively large-size projects and thousands of medium and small projects, including a few major ones relating to electricity, gas and oil, cement, engineering, textiles, sugar, water conservancy, communications, etc were completed. There was increase in productive capacity: 456,000 kw of power, 2.5

\textsuperscript{49} R B St John, n. 20, p. 305-306.
million tons of coal, 2.4 million tonnes of cement; 83,000 tons of yarn, 58,000 tons of paper; 309,000 hectares were irrigated, 186,000 water-logged hectares were drained, 241,000 hectares were reclaimed: Extraction of oil and gas started. The various branches of the national economy took on another 4 million workers. 50

These achievements were more remarkable in the backdrop of the Chinese aggression and Vietnam’s taxing military engagement in neighbouring countries. The results were very encouraging, despite as in the Sixth National Congress it was admitted that the implementation of the Fifth Congress Resolution lacked resoluteness. 51 The successes contributed in creating an atmosphere for a comprehensive plan for reforms later. The impact of this change was sought to be implemented in the Third Five-Year Plan.

The Third Five-Year Plan (1981-85): Limited Successes and the Deepening of Crisis

The Fifth Party Congress convened in March 1982 confirmed and expanded the decisions taken since the Sixth Plenum in September 1979. In the political report to the Congress, the report mapped out a socio-economic strategy to be carried out during the Third Five-Year Plan. The strategy focussed on meeting the most pressing and essential requirements of everyday life viz. grain and foodstuffs, clothing, medical care, housing, transportation, childcare, and other essential consumption needs, carrying on building the material and technological basis of socialism, with emphasis on boosting agriculture, consumer goods production and exports among others. 52

In the Third FYP agriculture was given paramount importance and a right mix of agriculture, consumer goods industry, and heavy industry in a rational agro-industrial structure was emphasised. At its foundation was a fundamental shift as at the Sixth Plenum the key importance of small-scale production was affirmed and the door was opened for the household economy to make use of all its dispersed potential to produce much needed food and handicraft consumer goods. Following this Plenum the term auxiliary was dropped and it was asserted that the household economy should henceforth be considered as an integral part of the socialist economy. 53

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50 Communist Party of Vietnam, n. 17.  
51 Ibid.  
52 Vo Nhan Tri, n. 10, pp.125-127.  
In the Ninth Plenum (December 1980) the decision was taken for expanding and perfecting the product-based contract system in agriculture. The system represented one of the most important changes in the Party's agricultural policy during this FYP. In this system peasant team or individual peasant signed a contract directly with the co-operative for farming on its land, linking remuneration directly to the quality of work. The responsibility for fulfilling the contract lied with the household, which allocated work based on relations within the household. The responsibility for production, therefore, shifted down from the level of the cooperative to the production team, and from the production team to the peasant family which, in principle, took over the last three tasks formerly performed by the co-operative, namely, transplanting of rice seedlings, tending the crop and harvesting. This end contract system provided incentives for increased output, by setting a production quota for the co-operative, a quota that was determined on the basis of the productivity of the land during the previous three years. If production fell short, the producers had to make up the deficit in the following year, except in the case of natural disaster or exceptional circumstances. If there was a surplus, they could keep it, sell it on the free market, or to the State-trading agencies at negotiated prices. For agricultural products, free market prices and negotiated prices were considerably higher than state-fixed procurement prices, so that with the new end -product contract system peasants had the opportunity to increase their income.  

The “end-product contract” system was indeed a stimulus for agriculture production. However under the plan, the collectivisation programme was given fresh thrust in the South with the aim of completing in the main agricultural co-operativisation in the Mekong Delta by the end of 1985 with production collectives as the most common form. It was the decision by the regime to move rapidly toward socialist transformation without an extended period of transition, a decision that resulted not only in an economic crisis in the late 1970s but also in a dangerous level of political and social malaise in the southern provinces.  

Since 1983, the co-operative members lost their zeal to work even on the basis of the “end-product contract” system, and returned part of the land operated under this contract system to the co-operatives. In fact they had incurred losses under this

54 Ibid., pp. 132-133.  
55 Ibid., p. 130.  
contract. After fulfilling all their numerous obligations, they finally got only 16-17 per cent or even 13 per cent in some places – of the contract output, which far from compensated them for their production expenses. They preferred to concentrate their efforts on their own private plot instead, which was much more profitable.\(^{57}\)

Giving top priority to the agriculture implied that the State should have concentrated significant investments on this branch of the economy, but in reality this was not the case at all. Despite the official rhetoric it was industry and not agriculture, which got the lion’s share of state investments during the third FYP. In 1985, for instance, agriculture accounted for only 23.8 per cent whereas industry had 40 per cent of the total gross investment in the material production sector, compared with 22.8 and 51.6 per cent respectively in 1981. To regard agriculture as the foremost battlefront also implied that the State should advocate a policy which favoured the peasants interests, but in fact this was not so. Agricultural tax, for instance, usually amounted to 12-14 per cent for the actual crop and not 10 per cent as officially fixed which was twice as high as the industrial-commercial tax rate. Apart from agricultural tax, co-operative members were liable to the corvée (fifty working days for each of them) and had to make all kinds of contributions, which were, in fact, taxes in disguise. Moreover, the state-fixed quota procurement prices in the “two-way contract” system were so low that in spite of their increase, they did not cover all the production expenses, whereas the prices of industrial inputs actually sold to the end users were much higher than those fixed by the central government. Thus, the Party’s rhetoric was not reflected in either investments or in the incentive policy towards agriculture.\(^{58}\)

During the Third FYP period the total staples output increased by 21.3 percent. The per capita staples production evolved as follows: 273 kg in 1981; 299 kg in 1982; 298 kg in 1983; 303 kg in 1984; and 304 kg in 1985. According to a Vietnamese author, the 304 kg per capita staples output reached in 1985 testified to great efforts, yet it was a very low figure, which was a bare minimum and approached the limits of hunger. As a matter of fact, every year there were nearly 3 million peasants who experienced food shortages during the gap between the harvests. Accordingly to a Vietnamese expert, the necessary per capita food staples output should have amounted to 300 kg for current consumption, and at least 50 kg for

\(^{57}\) Vo Nhan Tri, n. 10, p.134.
\(^{58}\) Ibid., pp. 135-136.
reserves. Consequently, with a population of 59,872 thousand inhabitants, Vietnam’s food production should have been at least 21 million tons but in fact it produced only 18.2 million tons in 1985.\(^{59}\)

Like agriculture the emphasis laid by the Fifth Party Congress on boosting light industry was not seriously implemented. In the stage of the transitional period, to develop agriculture and the consumer goods industry, in the Party’s view, was to lay the foundation of heavy industry. And, reciprocally, the primary purpose of building in a rational way the essential heavy industries was to boost agriculture and the consumer goods industry. However, despite the Party’s rhetoric the heavy industry failed to serve agriculture and light industry in good time during the period under the review. In reality there was no departure from the dogma of the preeminence being given to heavy industry.\(^{60}\)

During this period the Party continued to advocate the conversion of capitalist industrial enterprises into “joint state-private enterprises” or other forms of “state capitalism”. With regard to small-scale industry and handicrafts, the party advocated either collective forms of operation or preservation of individual ownership depending on the particular features of each trade. Like collectivization, this transformation of private industry and handicrafts was to be completed in the main by 1985. The attempt was to do away at once with non socialist economic sectors and to rapidly turn the private capitalist sector into a state-run sector. Stress was laid on changing the ownership of the means of production, but the sentiment of problems relating to management, organization, and the system of income distribution was overlooked. In order to achieve these objectives campaigns, often coercive, were resorted to.\(^{61}\)

Socialist transformation of industry had very disappointing results. After the socialist transformation had taken place, the reconverted enterprises fell into stagnation; their production had decreased, the quality of their projects had diminished, and their cost of production had increased. The state run enterprises were managed worse than the collective enterprises; and in turn the latter were managed worse than the individual private enterprises as far as productivity and quality were concerned. In 1983, Le Duan singled out the state sector for its failings noted that the

\(^{59}\) Ibid., pp. 137-138.

\(^{60}\) Ibid., p. 140.

\(^{61}\) Ibid., pp. 141-142.
state run enterprises operated at only 50 percent of their capacities because of the shortage of energy and materials.  

The gross industrial output of industry and handicrafts, reckoned in 1982 constant prices increased by 57.0% in 1985, compared with 1980; it rose to an average annual rate of 9.5 percent, a noteworthy achievement compared with the previous crisis period. Nonetheless the per capita output of some essential industrial products was still very low. Moreover, the per capita output of some products in 1985 was even below that of 1976. At the same time, the labour productivity in the industrial sector was low and production costs were high and the quality of goods – which had been already bad - was getting worse everyday as far as a certain number of products were concerned. Finally, during this FYP, the specific importance of industry in the Produced National Income, reckoned in 1982 constant prices, was still relatively weak: in 1985 it represented only 28.2 per cent of the total, compared to 25.6 percent in 1981, whereas that of agriculture constituted 50.8 per cent and 52.1 per cent respectively.

Since the economic crisis of the Second FYP, the economic situation significantly improved during the Third FYP. The Produced National Income increased by 36.6 per cent in 1985 compared with 1980. Its annual average increase reached 6.4 per cent whereas the population grew by an average of 2.2 per cent during the same period. Despite that during the period in question, there was no stabilization and no improvement whatsoever in the living standard of the fixed-income earners such as workers, civil servants, intellectuals, and pensioners. The peasants' living conditions had improved during the first three to four crops following the generalization of the “end-product contract” system. After that, however, many localities began to raise the assigned contract quota and consequently reduced the marketable agricultural surplus. In addition to this, the peasants had to pay all kinds of contribution, besides the already high agricultural tax, and ultimately they got only 13 or 15% of the crop which hardly compensated them for their production expenses. In other words, in Socialist Vietnam, the peasants, who were supposed to be the close allies of the ruling working class, were, in fact, more exploited than under the
previous "semi-feudal and colonial" regime, during which, after paying the land rent to the landlord they eventually got about 20% of the crop.  

Failing economy and the realisation of the need of wider reforms

On the whole, since unification, the SRV followed a centrally planned path toward the transformation of the country's economy, with stress being placed on the achievement of this goal through the socialization of the means of production. This path led to rapid industrialization with heavy industry base following the Soviet model, and collectivization of agriculture with tight control of economy. By the early 1979, it was clear that the economic policies followed in Vietnam since 1976 were not reducing the serious problems facing the newly unified country, hence the first turn around in 1979. The policy changes of September 1979 helped the economy overcome the recession of the fiscal year 1979-80, with the result that Vietnam ensured relatively high rate of growth. Despite this, the economy continued to be beset by many weaknesses resulting in the precarious living conditions of the people. The state continued to maintain as in former times its administrative management and its subsidization scheme towards state-owned businesses, with scant heed to economic efficiency, and failed to provide for stability in the macro-economic environment. There was a growing fiscal deficit, a high rate of inflation, readjustment instruments such as taxation and bank credit were not employed in time, and so forth. The private sector in industry gained the most while the socialist sector and heavy industry were less able to take advantage of the opportunities opened by the reforms. The transportation sector, in particular, was untouched by the reforms and, similar to what had happened earlier in China, eventually became a development bottleneck in Vietnam. The growth in imports appeared to slow, but exports failed to gain from the limited liberalization with export growth remaining essentially unchanged between the two periods. Finally, inflation worsened as the state sector, which was at a growing disadvantage in the competition with the private sector, groped to adjust to the new economic mechanisms.  

Furthermore, the state sector continued to enjoy subsidies financed by long-term loans from the former Soviet Union. The former Soviet Union and East European Countries continued to supply raw materials and

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64 Ibid., pp. 160-163.
66 Vu Tuan Anh, n. 23, p. 6-7.
67 R B St John, n. 20, p. 306.
inputs of production and remained a stable market for Vietnam’s exports. To free itself for greater growth, more comprehensive reforms were required and there was the pressing need to overhaul the strategy of economic development advocated since the reunification, with the realisation that the central planning model was not helping anymore and made a strategic shift in the overall economic policy.

LACK OF EXPERIENCE IN ECONOMIC AFFAIRS

Dogmatism however was not totally deliberate. It was also due to the compulsions of international conditions. And at the practical level it was due to the lack of experience in economic affairs. Vietnam’s history saw incessant wars waged till the mid-1970s to safeguard the country’s independence and unity. Partially on account of this, many generations of Vietnamese had missed out on the opportunity to learn and accumulate experience in the field of economics. North Vietnam’s centrally planned economy was based on that of the Soviet Union and other socialist countries though this model was greatly altered by war circumstances. In South Vietnam an economy with a colonial structure continued to survive, and it relied on preferential aid and assistance from the powers that participated in the war. After the unification of the country in 1975, Vietnam was intent on working out a path of development suited to its own unique conditions, and this it did largely by trial and error. And it was the same spirit which led to the realisation in mid-1980s that higher outputs would be possible if Vietnam’s social and economic resources were used more efficiently.

Furthermore, the government lacked the management skills and administrative capacity to run efficiently the economy. Post-reunification, frequent changes in economic policy heavily ideology oriented, played a major role in retarding SRV’s economic development. The consequence was the deterioration of SRV’s economic performance. Soaring inflation also forced the SRV to intersperse periods of doctrinaire policies with periods of more liberal policies to enable the economic recovery. Cumbersome government procedures and policies prevented the private sector from allocating resources to help the economy grow, Instead the public sector was allocated with poorly trained ideologically motivated and underused employees who drained Vietnam’s resources and necessitated increasing subsidies to the state enterprises. The difficulty of implementing projects under this system discouraged

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68 Vu Tuan Anh, n. 23, p. 7.
69 Ibid., pp. 1-2.
many foreign donors, such as Sweden, from putting more resources in Vietnam. The invasion of Cambodia made the matter worse.\textsuperscript{70}

The post-reunification treatment of South Vietnam compounded the problem. During the war, a trained manpower to operate sophisticated weapons existed and this pool of talent could be used for economic endeavour. The SRV leaders continued to operate on the premise that Redness is preferable to Expertise and to treat a great many countrymen of theirs in the southern part of the country as enemies of the people and in the process barred them from doing what they knew best as managers, engineers, and university professors, doctors etc. Hundred of thousand Vietnamese crossed the seas causing a brain drain of tragic proportions which proved difficult to compensate.\textsuperscript{71}

**BUREAUCRATIC CENTRALISM**

The central factor in the malfunctioning of the Vietnamese economy and the opening of a serious gap between the privileged few and the general public was the tendency, beginning in the early 1960's, for wide disparities to develop between the official prices on goods sold by the state and the free-market prices for the same goods. By the early to mid 1980’s, the prices of production supplies - such as raw materials, electricity, and coal - that the state provided to enterprises were as low as one-tenth of the market prices. The result of this enormous disparity in prices was that a large percentage of these materials ended up being resold by state personnel for large profits. The same was the case with the imported goods. The differential between official and free-market prices enabled officials who controlled goods to line their own pockets, distribute raw materials to cadres and workers, and still claim enough profit for their own unit to earn a commendation from the state. In 1981, the State Inspection Commission discovered that two-thirds of the production of the 626 units they investigated during a single quarter used to generate profits for their cadres and workers in these ways. As the gap between official and parallel market prices grew, the profitability of diverting imported goods from official channels rose and fewer goods flowed from the official channels.\textsuperscript{72} Five years later, the SRV officially reported that only 30 to 40 percent of the goods produced by the state consumer goods industries and collective handicraft enterprises, whose production expenses were

\textsuperscript{70} Q Dinh, n. 21, p. 533.  
\textsuperscript{71} Ibid., p. 534.  
\textsuperscript{72} Duong Quoc Thanh, n. 19, p. 534.
subsidized by the state, passed through the state trade network. Meanwhile, the state trade bureaucracy - a pyramidal structure with five different levels - central, city or province, ward or district, sub-ward or village, and business cooperative - used the two-price system to make money on the goods that passed through their hands.\(^{73}\)

The VCP later referred to its traditional Stalinist system of economic management as the "bureaucratic centralism and state subsidies system". Under the system, state-owned industrial enterprises were given no responsibility for planning their own production or procurement. The Central Planning Commission imposed detailed production plans, complete with dozens of binding norms, on hundreds of individual production units, provided all the materials to the enterprises, took all their profits, and subsidized their losses.\(^{74}\)

The subsidization of state enterprises and the distribution of consumer goods to urban workers and cadres at subsidized prices was a major source of massive budget deficits which was responsible for the Vietnam's high inflation rate in the late 1970's and 1980's. The budget deficit was relatively stable between 1976 and 1980, averaging an estimated $2.6 billion dong. But beginning in 1980, it increased to an estimated 5 billion dong, and then averaged nearly 19 billion dong for the next three years. The subsidy bill increased by nearly four times after 1981 to become the largest single item in the budget, save defence expenditures. As of 1987, state subsidies consumed nearly one-third of the budget. Vietnamese central budget expenditures were consistently 25 to 30 percent greater than revenues during the 1976-84 periods, so state subsidies were clearly the direct cause of its deficits and of the weakening of the Vietnamese dong. The second source of inflation was an economic bureaucracy that continued to grow uncontrollably. By the 1980's, each province had from 34 to 40 offices of central state organs, with hundreds of subordinate sections. Le Duc Tho declared in 1984 that the state's table of organization could be cut by one-half to two-thirds without reducing its effectiveness.\(^{75}\)

In addition to weighing heavily on the state budget, this huge apparatus manifested a debilitating bureaucratic authoritarian political style and structure. A system of patron-client relations, which had developed during the 1960's and 1970's,

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\(^{73}\) Gareth Porter, n. 5, p. 73.
\(^{74}\) Ibid.
\(^{75}\) Ibid., p. 74.
protected officials who were taking advantage of subsidized prices to make money. What came to be known as the "umbrella" system involved officials at every level of the bureaucracy. Sponsorship by a high-level party official brought a lower-level cadre quick promotions, salary increases and special privileges, as well as protection from punishment for blatant corruption and thievery.76

The VCP leadership long relied heavily on secrecy, closed party ranks and the manipulation of information to avoid pressures for changes in personnel or policy. An atmosphere of compulsory optimism about the party's general line was fostered by promoting those cadres who flattered their superiors; those who complained were dismissed as "demagogic," and passed over or even subjected to more serious forms of retribution. By the early 1980's, when a party leader visited a province, the cadres accompanying him routinely asked local party committee members not to report negative aspects of the local situation.77

Clearly, the first generation of party leaders, who were nearing retirement age in the early 1980's, failed to come to grips with the failure of Vietnam's economic management system during the decade after Hanoi's victory over the South. In the early 1980's, the Politburo showed more concern about the renewed vitality of the bourgeoisie in the South - the result of the liberalizing reforms there - than about the problem of dismantling bureaucratic centralism.78 In the early and mid-1980's, the strangulation of the economy of the Socialist Republic of Vietnam by bureaucratic controls, the growth of serious social inequalities due to the power of the state and party bureaucrats, and the distance between the party and people caused alarm within the sections of the Vietnam Communist Party membership and in its leadership organs. Only at the Eight Central Committee Plenum in June, 1985 did the VCP leadership identify "bureaucratic centralism" as the biggest hindrance to development.79

INTERNATIONAL FACTORS

Though the basic reason of Vietnam's faltering economy was the Party's self-defeating internal economic policy but Vietnam's economic predicament was no less a result of international isolation of Vietnam. Extremely hostile neighborhood, West's

76 Ibid., p. 75.
77 Ibid., pp. 74-75.
78 Ibid, p. 72.
79 Ibid, p. 75.
embargo and critical dependence on the Soviet Union were not only draining the economy but also making it a dependency of a different order.

**Economic hardships caused by Hostile Neighbourhood**

Foreign policy decisions also impacted directly on the economic performance of the Vietnamese economy in the immediate postwar era. By 1977, the People's Republic of China had cut off almost all aid of any consequence to Vietnam while its increased military aid to the Khmer Rouge encouraged the latter to step up attacks against Vietnamese border provinces. In response, Vietnam invaded Kampuchea on December 25, 1978; and on February 17, 1979 China in turn launched an invasion against Vietnam. The adverse effects of the related conflicts with China and the Khmer Rouge on Vietnamese economic development were considerable. The northern six provinces of Vietnam were largely destroyed by the Chinese invaders. The conflicts with China and Kampuchea also diverted a large percentage of the population from development activities to the nonproductive military activities and resulted in the displacement of large numbers of Vietnamese citizens. Finally, in response to the invasion of Kampuchea and the resulting pressure from the United States government, the capitalist countries cut off almost all economic assistance to Vietnam.\(^80\) The pressure on finances was bound to be enormous. At the end of the Vietnam War, Hanoi commanded 600,000 armed forces.\(^81\) After the invasion of Cambodia, its forces numbered 1,227,000. The cost of maintaining the world's fourth largest military establishment\(^82\) was certainly enormous. According to Radio Beijing, the military share in the State budget was 41.4% in 1977, 40.4% in 1978, and 47% in 1979. After 1980, 50% of the state budget went to the military establishment.\(^83\)

**Political and Economic Isolation of Vietnam**

Since 1979, with the exception of Sweden and Finland, no Western countries provided economic assistance to Vietnam. Worse still, the trade embargo imposed by the United States almost succeeded in preventing Vietnam from having ordinary business relations with Western countries. Vietnam was able to count on the help of the Soviet Union and the East European countries in building its economy – but this

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\(^80\) R B St John, n. 20, p. 305.
\(^81\) Tetsusaburo Kimura, n. 7, p. 1048.
\(^82\) William J. Duiker, n. 56, p. 107.
\(^83\) Tetsusaburo Kimura, n. 7, p. 1051.
help had unfortunately not been very effective. Another point to note is that foreign aid constituted a considerable proportion of the state budget then, and its reduction in 1979-80 thrust to the fore the weaknesses of the outmoded practices of the existing economic institution.

Vietnam's dependence on foreign aid and assistance

North Vietnam and later SRV could sustain their military campaigns despite their bad economics because of foreign assistance. North Vietnam's economy was heavily dependent on foreign aid particularly from the Soviet Union and the People's Republic of China (PRC). The share of foreign economic aid in total budgetary revenues ranged from 21.5 per cent to 26.5 per cent during the 1960-64 period, which rose to between 42.3 per cent and 68.9 per cent during the war years 1965-72. In the second reconstruction period (1974-75) it varied between 54.9 per cent and 60.6 per cent.

Reunification did not bring any major change in Vietnam's economic relations except for the worse as Chinese assistance to Vietnam ceased completely by July 1978. After the termination of Chinese aid and the US refusal to help in Vietnam's rehabilitation, Vietnam's ties with the Council for Mutual Economic Assistance (CMEA) and particularly with the USSR grew rapidly. On 28th June 1978, Vietnam formally joined CMEA. Since then, the development of a comprehensive and long-term cooperation between Vietnam and the other CMEA countries became the cornerstone of Vietnam's international relations. With USSR Vietnam signed an agreement on economic and technical assistance for the 1976-80 period. On 3 November 1978 the two countries signed the "Friendship and Cooperation Treaty" with a twenty-five year validity period and six documents promoting economic, scientific, and technological cooperation between two countries.

During the 1976-80 period, total Soviet exports to Vietnam amounted to 1,713.3 million rubles whereas total Soviet imports reached only 650.8 million rubles. Consequently, the USSR had to grant Vietnam easy credits to cover the trade imbalance. During the Second FYP the Soviet Union, according to Nguyen Lam, the then Vice Premier and Chairman of the State Planning Committee, provided rubles 500 million (US$757.7 million) in economic assistance each year that was 2,500

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84 Duong Quoc Thanh, n. 19, p. 26.
85 Vu Tuan Anh, n. 23, p.5.
87 Ibid., pp. 98-99.
RATIONALE OF REFORMS

million rubles or US$3,787.5 million for the 1976-80 period. Besides The USSR, Vietnam also received economic aid from other CMEA countries. Despite the loss of Western aid, the share of foreign economic aid (grants as well as loans) in the total budgetary revenue was very significant. They made up 44.8, 34.5, 32.0, 40.8, and 40.6 of the total budgetary revenues respectively in 1976, 1977, 1978, 1979.88

The greater part of Vietnam's exports was naturally oriented towards the CMEA countries, particularly towards the USSR: 67.3 percent of the total in 1980, compared with 59.7 per cent in 1976. As for exports destined for Western industrialised and Third world countries, they represented 16.8 per cent and 5.8 percent respectively in 1980, compared with 29.3 percent and 11 percent in 1976. Vietnam's imports on the other hand was reported in 1980 to consist of 57.6 per cent from the CEMA countries, 24 per cent from the Western industrialized countries, and 12.7 per cent from Third World countries compared with 56.4 per cent, 32.8 per cent, and 10.8 per cent respectively in 1976. In fact the trade embargo imposed by the United States in May 1975 was one of the important reasons for Vietnam's relative economic isolation from the West.89

The dependence on the CMEA countries only grew during the next five years. The greatest part of Vietnam’s exports remained oriented towards the CMEA countries, particularly the Soviet Union: 71.6 per cent of the total in 1985, compared with 64.3 per cent in 1981. As for exports destined for the western industrialized and Third World countries, they represented 9 per cent and 18.6 per cent respectively in 1985, compared with 13.4 per cent and 18.7 per cent in the 1981.Vietnam’s imports were reported in 1985 to consist of 81.1 percent from the CMEA countries, 12.1 per cent from western industrialized countries, 4.1 per cent from Third World countries, and 2.7 per cent from international organizations, compared with 71.4 per cent; 2.2 per cent; and 6 per cent respectively in 1981.90

This extraordinary dependence on the CMEA countries and in particular on the Soviet Union was a great handicap to the economic development of Vietnam and once these socialist countries embarked on economic reforms themselves the squeeze was devastating for the SRV. Hence a course correction became compulsory for Vietnam.

88 Ibid., pp. 100-102.
89 Ibid, p. 104.
90 Ibid., pp. 159-160.
Mounting Debt and Balance of Payment Crisis

The total outstanding of Vietnam's external debt was reported to amount to nearly US$3 billion by the end of September 1980, of which 54 per cent was owing to the CMEA countries. The total servicing cost of this debt reached US$204 million in 1980, that is, and equivalent of 52.1 per cent of total merchandise exports.91

The total outstanding of Vietnam's external debt reportedly amounted to US$6,640.7 million at the end of 1985, with outstanding debt to the convertible and non-convertible areas US$1,713.6 million and US$4,716 million respectively. Interest in arrears and imputed interest on arrears amounted to US$ 211.1 million. Vietnam's external indebtedness represented an extremely heavy burden on the balance of payments, but since 1980 the proportion of scheduled debt service that had been paid decreased sharply.92

Reforms in Soviet Union

Political reforms in the Soviet Union had some impact on Vietnamese thinking. Until the era of “perestroika”, VCP leaders had taken the pre-reform USSR as the model for a socialist system in terms of its economy and politics. Once the Soviets themselves concluded that the Soviet model of proletarian dictatorship had been the product of a system of “bureaucratic state socialism” based on a mistaken concept of socialism, Vietnamese leaders were able to think more critically about their own political institutions.93 At the Sixth National Congress Moscow’s delegation was headed by Y. Ligachev, CPSU Politburo member and confidant of Gorbachev and throughout the Congress numerous public statements from both the Vietnamese and the Soviets pointed out how similar the strategy adopted by the Congress were with those recently adopted by the CPSU.94

Miraculous growth in ASEAN states

Not only the perestroika and glasnost in the Soviet Union but also the rapid developments in the Southeast Asian region would have presented examples for emulation.95 Vietnam was surrounded by Asian neighbours enjoying unprecedented economic prosperity.96 While the Vietnamese economy was languishing, its

91 Ibid., pp. 104-105.
92 Ibid., p. 160.
93 Gareth Porter, n. 5, p. 81.
95 Ganganath Jha, n. 9, p. 375.
96 Ronald J. Cima, n. 18, p. 786.
neighbours in ASEAN were undergoing miraculous growth. The free market policy was turning these nations from the underdeveloped state of sleepy existence to the vibrancy of developed economies. The contrast of the prosperity and poverty was too stark to avoid in the Southeast Asia.

CHANGE OF GUARDS

The reforms could not have been a reality unless there would not have a change in the leadership. It was a great coincidence that at the time of the Sixth VCP National Congress, the leadership turned to Nguyen Van Linh, then 71, to fill the post of party secretary general left vacant by Le Duan’s death six months earlier. The retirement of Truong Chinh (State Council chairman and party secretary), Pham Van Dong (premier), and Le Duc Tho from the Politburo ‘for reasons of age and health’ at the Congress virtually eliminated the first generation of party leaders from the Politburo. Pham Hung was the sole first generation leader remaining in the body.97 Protestations to the contrary, the three had no choice but to step down in view of the dismal performance of the economy during the 1980 to 1986 period.98 In fact the first generation leaders were deeply imbued with the orthodox Soviet view that “commodity relations,” i.e., the exchange of commodities and money on the basis of supply and demand, were merely remnants of pre-revolutionary society and should be done away with as soon as possible. Collusion between dishonest state cadres and bourgeois traders was viewed as a manifestation of the threat from class and national enemies rather than as evidence of the degenerative nature of the bureaucratic subsidizing system itself. The state’s highest priority was the elimination of private trade. The majority believed that the state had the power to prevent the tendency of free market prices to increase spontaneously by broadening the role of the state in commerce and increasing efforts to punish and deter speculation and smuggling.99

Politburo members Vo Van Kiet and Nguyen Van Linh, both of whom were part of a younger generation of party leaders, disagreed with this point of view. Linh, who succeeded Kiet as secretary of the Ho Chi Minh City Party Committee in late 1981, supported the bold economic experiments that Kiet had already initiated there, such as the state-private import-export companies that employed Chinese traders with overseas networks. Both Kiet and Linh maintained that the socialist transformation of

97 Gareth Porter, n. 5, p. 79.
99 Gareth Porter, n. 5, p.76
the capitalist trade had been a serious mistake, and argued that a large part of the reason why the state could not meet the needs of the masses for consumer goods was that it was violating economic laws in its pricing policies and its administrative controls over production and distribution. They viewed the increases in prices on the free market as a reflection of objective economic laws, which administrative measures aimed at curbing "speculation and smuggling" were powerless to counteract.\(^{100}\)

Kiet and Linh called for urgent and far-reaching changes in the economic management mechanism. They advocated rapid dismantling of the system that provided ration cards for state cadres and workers and low-priced supplies to economic and political units. Tinkering with the system of subsidies, they argued, would only encourage more speculation on price differences and contribute to the cycle of rising prices, the abolition of the system was the only way to stabilize prices and get control of corruption. Finally, they advocated giving state enterprises the freedom to go to the free market for raw materials and allowing small-scale capitalist enterprises to supply state and collective industry as well as to compete with them in production, in order to make the state sector more efficient.\(^ {101}\)

The Politburo did not accept any of their proposals and instead supported conservatives who argued that to encourage a free market in supplies and a competing small capitalist sector would enhance the economic status of the urban bourgeoisie and the elimination of the system of supplying goods to workers and cadres at subsidized prices would create great hardships and for those who depended on the state for their livelihood. Linh's subsequent removal from the Politburo in 1982 coincided with the shift of the VCP leadership toward a harder line on the private sector. In June 1985, however, Linh was re-elected to the Politburo at the Eighth Central Committee Plenum - the only Vietnamese party leader to ever make such a political comeback.\(^ {102}\)

Linh's election as the new Secretary-General at the Sixth National Congress can be construed as a relative triumph of the pragmatist-reformist branch of the old guard. This brought about a wind of "renovation" which was penetrating the labyrinth of the Vietnamese polity.\(^ {103}\) At the Sixth VCP National Congress in addition to Linh's election, the introduction of four new faces into the Politburo (Tran Xuan Bach, 

\(^{100}\) Ibid.  
\(^{101}\) Ibid.  
\(^{102}\) Ibid.  
\(^{103}\) Vo Nhan Tri, n. 10, p. 183.
Nguyen Thanh Binh, Doan Khue, and Mai Chi Tho) and the elevation of Foreign Minister Nguyen Co Thach and Dong Si Nguyen from candidate to full membership helped to move the debate on economic policy in the direction of liberalism. The appointment of reformer Nguyen Van Linh to lead the party, and the promotion of other comparatively young reform-oriented leaders - while representing more of an incremental change than an obvious watershed for the passing of leadership from one generation to the next - reflected, nevertheless, the aspirations of a new Vietnamese generation's intent on social and economic change. It also signaled the end of an era governed solely by revolutionaries who emphasized security at the expense of social welfare and modernization. The shifts experienced at the highest levels were accompanied by changes in the composition of the Central Committee. The percentage of party and state functionaries – provincial party secretaries, economic specialists, and technocrats – increased at expense of central level party and government officials and military officers.

The Political Report to the Congress reflected the impact of this generational change in the leadership: it argued that it was impossible to abolish private trade except by making the state trade sector “outperform” it. The report further warned that an irrational price policy would not stop goods produced by the state from flowing into the free-market economy by devious routes, and that artificially low procurement prices would simply cause peasants to withhold grain from the state. It called for the application of a single price policy, with temporary exceptions for the purchase of farm produce and the retail sale of consumer goods. They also called for the replacement of the legal economic norms governing the operations of state enterprises with indirect economic instruments, such as contracts between the state and the enterprises. They also called for free trade in supplies between the state sector and the private and collective sectors, and the application of a single price system to all kinds of goods – not just those considered to be of lesser importance.

\[\text{Footnotes:}\]

104 Gareth Porter, n. 5, p 79.
105 Ronald J. Cima, n. 18, pp. 788-789.
106 Gareth Porter, n.5. cit. p. 79.