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## **Economic Reform in Vietnam: Coming to the Crucial Point**

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### **Introduction**

Over ten years have passed since Vietnam began pursuing various economic reforms. Such reforms were initiated at first as a breakthrough from Vietnam's critical economic situation that resulted from an attempt to industrialize the whole nation under socialistic strategies that were put into effect after the Vietnam Communist Party brought the South under its sway in 1975. Therefore, in order to gain good insight into the various economic reforms pursued heretofore in Vietnam, we must first have a clear understanding of what the socialist industrialization strategies were, since they laid the groundwork for the various economic reform plans that followed.

### **I. Socialist Industrialization Strategies**

The following is an analysis of the kind of socialism and its distinct features adopted by Vietnam from 1976 onward.

#### **1. Radical Socialist Transformation**

By the time the war for the unification of Vietnam ended in 1975, industry and agriculture in the North were both already fully nationalized and collectivized.

The unification, as a result, led to the coexistence of two types of economic systems: a socialist economy in the North and a capitalist economy in the South.

The Fourth Congress of the Vietnam Communist Party, held in December of 1976, passed a resolution to complete a fundamental Socialist transformation of the South by the end of 1980, which was the final year of the second Five Year Plan.<sup>1</sup> The following is a breakdown of the gross industrial output in 1976 from both the North and the South combined: state sector (including joint-enterprises) 68%; collective sector 10%; private sector 21%.<sup>2</sup> The number of employees working for nationalized (state-owned) enterprises increased from 462,700 in 1975 to 519,200 in 1976.<sup>3</sup> Since the number of industrial workers in 1976 totaled 2,056,000, the statistics show that 25% of these workers were hired by state-owned enterprises. Whereas, the statistics with regard to the national income in 1976 (state sector 27.7%, collective sector 25.1%, private sector 47.2%) indicate that the private sector was the largest income-raising sector in ratio,<sup>4</sup> which also meant that almost all farmers and traders engaged in commerce and industry in the South were not collectivized at the time.

Socialist transformation of the South began from the summer of 1977. Following the "Resolution Regarding Agricultural Development" passed by the Second Plenum of the Central Committee elected in its Fourth Congress, the Central Committee for Agricultural Transformation of the South was newly established, with Vo Chi Cong, Deputy Prime Minister and Minister of Agriculture, appointed as its Chairman. However, due to the strong resistance of the farmers in the South, agricultural collectivization of the South did not succeed. Nationwide production of unhulled rice decreased from 11,830,000 tons in 1976 to 10,600,000 tons in 1977, and to 9,790,000 in 1978, which is a drastic fall of 2,040,000 tons altogether in just two years. And regarding the South alone, the amount declined from 6,370,000 tons to 5,030,000 tons — a drastic fall of 1,340,000 tons.<sup>5</sup> The farmers in the Mekong Delta region not only reduced the production of rice itself, they also sold surplus rice to Chinese merchants in Cholon (the Chinese district in Ho Chi Minh City) instead of the government. Therefore, what the government needed to do to continue proceeding with the existing agricultural collectivization policy and a secure sufficient amount of rice in its hands was to evict the Chinese merchants and take full control of their distribution network.

On the 20th of January 1978, the Central Committee for the Transformation of Private Traders in Commerce and Industry was set up, with Do Muoi, Deputy Prime Minister, as its Chairman.<sup>6</sup>

The establishment of these two new committees was an indication that the party and government leaders were not quite satisfied with the gradual transformation policies enforced by the leaders in the South, such as Nguyen Van Linh.<sup>7</sup>

On the 23rd of March, 1978, a law was passed forbidding any moves toward private enterprise engaged in commerce and industry (which totaled approximately 30,000 at the time) and stating that all private traders engaged in commerce and industry had to affiliate with a state business organization or business co-op, or otherwise move into production work such as, agriculture.<sup>8</sup> Moreover, on the 31st of March, 1978, a proclamation was issued banning all transfer of agricultur-

al products between the provinces in the South, as well as from any of these provinces to Ho Chi Minh City.<sup>9</sup> And on the 3rd of May, 1978, the freezing of all deposits along with the simultaneous changeover to the new national currency was announced.<sup>10</sup> The savings of Chinese merchants were thereby lost and their capital obliterated. Furthermore, these merchants were compelled to undertake agricultural labor in new economic zones (large-scaled reclaimed land in the back country). As a consequence, a great number of them in the South decided to flee their country and become Boat People.

The destruction of the conventional distribution network and the broad limitation placed on the transfer of goods and people led to the loss of the farmers' incentive to produce in the South. Moreover in the North, a movement to expand the size of agricultural co-ops was put in effect. As a result, the average size of agricultural co-ops in the North, which involved 230 participating farming families, 1153 people, and 130 ha of farmland in 1976, increased to 378 participating farming families, 1765 people, and 202 ha of farmland in 1979.<sup>11</sup> However, the lack of improvement in administrative abilities compared to the expansion of the size of agricultural co-ops and their management consequently led to a decrease in production here again.

Although unseasonable weather, which incidentally hit Vietnam for two straight years in 1977 and 1978, can be mentioned as one reason for poor agricultural production, the main reason lies in the strict enforcement of agricultural collectivization during this period.

## **2. Centrally Planned Economic System**

For Vietnam, the centrally planned economic system turned out to be a failure since the central government was not able to supply sufficient amounts of raw materials, energy, and parts to industry. Vietnamese industry engaged in the production of interim goods destined for further manufacture was very low-leveled, thus relying heavily on the import of most raw materials and parts. Nevertheless, agricultural production declined and Vietnam, as a result, had to import 1,500,000 – 2,000,000 tons of food between the years 1976 – 80. In 1979 Vietnam had to import \$369,200,000 worth of food, which equaled approximately 24% of the total expenditure used for imports that year,<sup>12</sup> thus suppressing the amount of imported raw materials and parts. In addition, inadequacies in the transport systems hampered delivery of such imports even after they did arrive, thus making the government unable to provide them fully to industry not only in good quality, but also in proper quantity and in the right timing as previously planned. As a result, the net working rate of state-owned enterprises overall fell short of 50%, and each enterprise was barely able to continue its operation by receiving a subsidy from the government.

Table 1. Economic Performance (Growth and Inflation)

	1976–80	1981–85	1986	1987	1988	1989
National Income (%)	0.4	6.4	3.3	2.5	5.8	2.4
Agricultural Production (%)	1.9	4.9	4.8	0.3	4.3	5.8
Industrial Production (%)	0.6	9.5	6.1	9.5	12.5	-4.0
Food Production (million tons)	13.4	17.0	18.4	17.6	19.6	21.4
Inflation (%)	21.2	74.2	487	450	425	40

Source: *Tap Chi Cong San*, April 1986 (pp. 14–15), January 1987 (p. 20); February 1989 (p. 41), *Nhan Dan*, May 9, 1989; *Nihon Keizei Shimbun*, June 21, 1989; Tong Cuc Thong Ke, *So Lieu Thong Ke, 1976–89, Hanoi, 1990. pp. 22, 28, and 37.*

### 3. Expectation of Rapid Growth by Placing Priority on Heavy Industries

The amount of investment projected in the second Five Year Plan totaled 30 billion dong (of which 30% was devoted to agriculture and 35% to industry). This level, it was estimated, would raise the national income by 13–14%, agriculture by 8–10%, and industry by 16–18%. Moreover, the total amount of production aimed for in 1980, the final year of this Five Year Plan, was 21 million tons in terms of food, 16.5 million heads of raised hogs, 10 million tons of coal, 5 billion kwh of electricity, 130,000 tons of paper, and 220,000–250,000 tons of sugar.<sup>13</sup>

However, the actual results of the second Five Year Plan, as shown in Table 1, proved that this period was a complete failure, with a total growth of only 0.4% in national income, 1.9% in agriculture, and 0.6% in industry. Moreover, the total amount of production aimed for in 1980 only reached 14.4 million tons in terms of food, 10 million heads of raised hogs, 5.2 million tons of coal, 3.6 billion kwh of electricity, 48,500 tons of paper, and 167,000 tons of sugar.<sup>14</sup>

### 4. Accumulation of the Fund Allotted for Industrialization

The funds used for industrialization put into effect under Stalinist socialism are accumulated through national finances. When looking at the breakdown of national revenue in the 1976–80 period, the statistics show that 61.4% was raised by domestic income (21% of national income) and the remaining 38.6% came from financial aid and loans from foreign countries.<sup>15</sup> The domestic income which totaled 61.4% of the national revenue, comprised various types of tax revenue (9.6%), payments to the Government by state-operated enterprises (49.1%), and miscellaneous sources of income (2.7%). Regarding the types of tax revenue, which totaled 9.6% of the total income raised domestically, 5% was probably raised from the tax placed on agriculture, and the remaining 4.6% from the tax placed on commerce and industry.

The reason why state-operated enterprises were able to make large amount payment to the government was because, on one hand, the price of agricultural

produce, which was used as raw materials as well as a part of the wage of the workers and employees, were kept very low, and on the other, the prices of finished goods were set relatively higher in order to be able to gain a good profit. This is what is known as the "Scissors" system.

In addition to the payment of the tax placed on agriculture, the farmers were obliged to sell a certain amount of rice and other kinds of agricultural produce to the government at very low prices. Before 1980, the prices of these agricultural products purchased by the government were extremely low compared to the prices as sold on the free market. In the case of rice, 1 kg was sold at 2 dong in the free market, whereas the government purchased the same amount at 0.4 dong. The government purchased sugar cane at 68 dong per ton when its market price was set as 300 dong per ton.<sup>16</sup>

In the case of unhulled rice, the government collected 50,000 tons from the farmers as a substitute for the payment of tax placed on agriculture and made obligatory purchases (obligatory contribution from the farmer's point of view) of 1,998,700 tons in the year 1976. In the following year (1977), 900,000 tons were collected as tax substitute and 1,605,200 tons were purchased. Moreover, in 1978, 725,000 tons were collected as tax substitute and 1,445,000 tons were purchased.<sup>17</sup>

Taking into account unhulled rice alone, the adoption of the schere system allowed the state to purchase approximately twice the amount of unhulled rice collected as substitute for the payment of tax placed on agriculture at more or less one-fifth of its market price.

Consequently, the farmers altogether had to supply 21% of the total production of unhulled rice to the state in the form of agricultural tax payment and obligatory contribution in the year 1976, 23% in 1977, and 22% in 1978. Yet, in addition to agricultural tax payment and the obligatory contribution, the farmers even had to bear such expenses set within the agricultural co-op as the social welfare fee and investment cost.

Evidently, the enforcement of a socialist strategy for industrialization using the Scissors system based on agricultural collectivization pressured the farmers' living to an extent beyond imagination. And this, consequently, was the cause of the decline of agricultural productivity.

In Vietnam, one must not forget that energy, raw materials, and parts were provided to state-operated enterprises, especially those engaged in the production of interim goods destined for further manufacture, at very low prices owing to foreign aid, and that this method of economical procurement helped these enterprises greatly to operate with just a small fund and enlarge their profit.

## **II. NEP (New Economic Policy)**

In this paper, the period of Vietnamese NEP will be referred to as the period set for its third Five Year Plan, which was also when the Soviet Union had a great influence on Vietnam's economic planning.

## 1. Sixth Plenum

The changes in Vietnamese economic policies became clear in the Sixth Plenum held by the Fourth Central Committee in September 1979. The Sixth Plenum passed a resolution proclaimed as the "Policy and Attitude Regarding the Development of Industries Engaged in the Production of Consumer Goods as well as Local Enterprises."<sup>18</sup> The details of this resolution can be summed up in the following four points.

- (1) Increase the production of all sectors so that raw materials, energy, and other facilities can be supplied to industries engaged in consumer goods as well as to local enterprises. When raw materials are not supplied from the state, the central authoritative source, these industries engaged in consumer goods and the local enterprises can now find their own source of access and sell the goods so produced in the free market.
- (2) Whether the organizations engaged in production increase their production or not should be the determining factor to the question of nationalizing or collectivizing the management of these organizations. Should the organizations function well under the existing method of management, there would not be any immediate need for nationalization. Moreover, should the enterprises that are administered locally manage themselves well, there would not be any need to enforce centralized state control over them. Collectivization of the South should not proceed too rapidly nor should it be compelled. If the conversion to a nationalized or collectivized form of management is not leading to fruitful results in production, the form of management should be reverted to the former structure and status.
- (3) In order to enable each basic economic unit to exhibit its full productive capacity, each should be planned more carefully with consideration of the use of the market.
- (4) Give the producers and enterprises the incentive to work harder, such as, by allowing them to settle two-way contracts, which help raise the price of agricultural goods and enable the enterprises to exchange their products with agricultural goods, and to freely market the surpluses that remain after completing the tax payment and obligatory contribution to the state.

The above-mentioned key points, in effect, meant that the Plenum's decision to enhance production was to retreat extensively from its conventional stand based on collectivization and the enforcement of a centrally planned economic system.

## 2. Introduction of Product-Contract System (Khoan san pham) and the Raising of Product Prices

As explained below, the Sixth Plenum saw the enactment of many specific measures devised according to the resolution it had passed. In October of 1980, the

government announced the execution of an ordinance to fix the amount of crop output and its price for the period of five years beginning from 1981.<sup>19</sup> The agricultural tax was reduced from 15% to 10%.<sup>20</sup> And in January of 1981, the Secretariat of the Party's Central Committee announced a directive pertaining to the product-contract system.<sup>21</sup> As against the conventional system, which regarded only the contract of production work alone, the new system dealt with the contract settled with the farmers, either by group or individually, which made them responsible for the finishing process of their products as well. For the rice crop, each farming family took charge of three processes: the planting of a paddy of a certain size, taking care of the crops, and the harvest while other types of work, such as the supply of seeds, soil-digging, irrigation, and the extermination of harmful insects were entrusted to the cooperatives. The advantage of this new product-contract system was that the farmers were allowed to be in possession of the surplus exceeding the amount set in their contracts. Nevertheless, if the production fell short of the contracted amount, the farmers had to compensate for the shortage by themselves.<sup>22</sup> The amount set in the contract was said to be 2 tons (100 gia) per hectare for Vietnamese rice and 3 tons per hectare for miracle rice.<sup>23</sup> For instance, one production group working near Ho Chi Minh City was able to harvest 3.5 tons of rice altogether in the summer and autumn of 1981, when their contracted amount was 2.5 tons.<sup>24</sup>

Although the introduction of the product-contract system did help enhance the farmers' eagerness to work, their main concern was the price at which the state actually purchased their agricultural produce. On the 10th of October, the government multiplied the purchase price approximately five times. In Thai Binh, Hanoi, and Hai Phong, the price of 1 kg of unhulled rice, which wavered between 0.52–0.56 dong until then, had gone up to 2.50 dong. In Red River Delta region, 1 kg of corn rose from 0.58 dong to 2.75 dong.<sup>25</sup>

### **3. The Third Five Year Plan (1981–1985)**

Unlike the second Five Year Plan, which was aimed at promoting high growth of especially the heavy industries, the third Five Year Plan was a more realistic plan that dealt mainly with agriculture and the production of consumer goods. Total investment reached 16–18 billion dong, which was more or less equivalent to the actual investment in the years 1976–80. In the third Five Year Plan, the growth rate of total production was expected to be 6–7% for agriculture and 4–5% for industry.<sup>26</sup>

Compared to the previous Five Year Plan, not only did the total amount of investment scheduled to be used in this following period decrease, but the growth aimed for by the end of the period was also set at a lower rate. Especially for industry, the expected growth rate was lowered remarkably, from 16–18% to 4–5%, which was almost one-fourth the rate set in the previous period. Whereas for agriculture the growth rate was lowered just a little, from 8–10% to 6–7%,

showing evidently how greater importance was placed on agriculture compared to industry.

Moreover, the volume of each production aimed for by 1985, the final year of the third Five Year Plan, was smaller than each objective set for 1980, the last year of the second Five Year Plan. For example, the food production was aimed to reach 21 million tons by 1980. However, the same objective set for 1985 was lowered to 19–20 million tons.

The poor results of the second Five Year Plan (1976–80) thus proved that the enforcement of collectivization to control the consumption of farmers, handicraftsmen, and merchants and the attempt to utilize the domestic savings mainly as the investment for further industrialization both turned out to be a failure. It is quite impractical for a country that cannot produce much to force out its small domestic savings for other investment purposes. Therefore, for further economic development, Vietnam had to rely on foreign savings, and one country that became a reliable source of financial aid to Vietnam was the Soviet Union. In the second Five Year Plan, financial support from the USSR reached 1.45 billion dollars.<sup>27</sup> In addition, Vietnam received a total of 1.3675 billion dollars.<sup>28</sup> from a variety of western industrialized nations (DAC nations) during the same five-year period. In other words, foreign aid to Vietnam in the second Five Year Plan totaled 2.8175 billion dollars altogether, which averaged out to approximately 563.5 million dollars per year.

As a result of the invasion of Cambodia, the foreign aid from the Western industrialized nations was reduced to approximately half in the third Five Year Plan (7.069 million dollars in five year, which averaged out to approximately 141.4 million dollars per year). On the other hand, the Soviet Union supplied as much as four times the amount of financial aid it supplied in the second Five Year Plan. Vo Nhan Tri estimated that the foreign aid from the Soviet Union alone in the third Five Year Plan totaled 6.525 billion dollars.<sup>29</sup> This grand-scaled aid from the USSR not only made it possible for Vietnam to improve its level of import but also helped this nation greatly in procuring its reserves for investment.

#### **4. Improvement in the Quality of Operation and Management of State-Owned Industries**

On the 21st of January, 1981, the government issued Directive 25 (CP. 25), which gave the state-owned industries, as of right, the liberty to produce and manage themselves.<sup>30</sup> In regards to the decentralization of authoritative power, this Directive was effective in various ways. For example, it reduced the number of state-set planning indexes from nine to five and gave industries the freedom to produce according to their individual plans. Moreover, it allowed industries to keep the profit they gained for themselves.

And together with Directive 25, the government simultaneously issued Directive 26 (CP-26), through which it offered the production and management units



more options on the method of payment, which included a contract system and a piecework system. Moreover, other policies toward liberalization incorporated in Directive 26 included the introduction of a variety of incentive systems.<sup>31</sup>

However, the state-owned industries themselves still did not have control over such as pricing, financing, profit-making, and payment to the state. Such decisions were still made by the state, thus making it very difficult for state-owned industries to see improvements in their operation and management. In addition, it was very rare for the state to provide each of these industries all of the necessary raw materials, facilities, and parts on schedule. Moreover, despite the Cabinet resolution (HDBT156) passed in December of 1984, which was also aimed at seeking better conditions in the management of state-owned industries, there still was not much progress.<sup>32</sup>

### **5. Reform in "Prices, Wages, Currency"**

As shown in Table 2, which indicates how much rice has been produced in Vietnam in the last ten years and the amount produced per hectare, specifically in the North and the South, both the annual gross production and the amount produced per hectare did not improve much from 1983 onward. The slackened growth in rice production was attributable to the weakening of NEP, which included the adoption of a contract system due to the lack of support from industry.

Table 3 shows how industry overall developed in Vietnam during the last ten years. It also compares the growth of state-owned industries with such non-state owned industries as the cooperatives and individual enterprises, as well as the difference in growth between enterprises producing interim goods destined for further manufacture (Group A) and those producing consumer goods (Group B). The statistics show that the industrial development from 1982 onward relied greatly on the improvement in the quality of collective and private management and the production growth of consumer goods. On the other hand, this table shows that the growth of state-owned industries that engaged in the production of interim goods destined for further manufacture was comparatively slow. In order to sustain the relatively high growth of agriculture, private enterprises, and local industries engaged in the production of consumer goods, the growth of state-owned industries was required. Although many varying resolutions and directives pertaining to improvement of the operation and management of state-owned industries were released in the latter half of the NEP period, they had not been enforced effectively. The main reason why these government policies did not work well was because they did not include reform of the centrally planned economic system, which was prerequisite for improvement of the quality of operation and management of state-owned industries. But again, such a drastic reform was conceptually infeasible within the framework of NEP.

Therefore, to succeed in improving the quality of the management of state-operated industries, they had to be freed from the protection of the state and be-

Table 2. Rice Production

	Unhulled Rice Production (million tons)	Yield per Hectare (100 kg)	
		North	South
1980	11.65	18.9	22.1
1981	12.41	21.8	22.1
1982	14.39	24.7	25.3
1983	14.74	24.9	27.3
1984	15.51	25.0	29.0
1985	15.87	25.2	29.9
1986	16.00	25.6	30.0
1987	15.10	24.7	28.7
1988	17.00	27.3	31.6
1989	18.93	—	—

Source: Tong Cuc Thong Ke, *Nien Giam Thong Ke*, 1985, 1987, and 1988 editions; Tong Cuc Thong Ke, *So Lieu Thong Ke, 1976-89*, Hanoi, 1990.

come financially independent. And for such independence, the precondition was the freedom to calculate the production costs, to determine proper margins of profit and to set retail prices rationally by themselves. Specifically, the main constituents of the production costs would be the cost of raw materials and the working fund. But regarding the raw materials, most had to be imported from elsewhere. The great difference between the price of these raw materials set domestically and in the world market inevitably made it impossible for Vietnamese industries to calculate the actual cost necessary for fixing the wholesale prices. Therefore, there was an urgent need to fix the exchange rate of the national currency, the "dong," and make its value closer to the exchange rate applied in the market.

The Eighth Plenum of the Fifth central Committee, which was held in June of 1985, decided to adopt a reform measure pertaining to "Prices, Wages, Currency." The details of this reform measure are as explained below.

#### (1) Cost Calculation and Price Raising

In Vietnam, where a centrally planned economic system was applied, effective cost calculation was impracticable. If the industries calculated their costs freely by themselves, the prices of their products inevitably had to be raised. And, in fact, that was exactly what the industries and enterprises started doing.

#### (2) Revision of the Wage Standards and the Abolishment of Payment in Kind

It was impossible to calculate the costs effectively because 70% of the wages were paid in kind (distribution of goods at low prices) at the time. As a result this method of payment was abolished. And due to this measure, the cost necessary to obtain, for example, 1 kg of rationed rice (which was 0.4 dong until then) became 100 times more expensive (40 dong). Moreover, since the cost for obtaining the ration for dependents in the family was included in the wage, the wage inevitably had to be raised to over three times as much.<sup>33</sup>

Table 3. Industrial Development

(1980 = 100)

	Industry	State-owned Industries	Collectives, Individuals	Group A	Group B
1980	100.0	100.0	100.0	100.0	100.0
1981	101.0	99.0	104.0	96.2	103.9
1982	109.8	102.9	120.1	—	—
1983	124.1	114.8	138.1	111.9	131.5
1984	140.4	131.2	151.5	122.3	151.4
1985	157.4	147.8	171.8	135.7	170.3
1986	167.0	156.9	182.1	141.8	182.0
1987	182.9	170.5	201.5	155.7	199.4
1988	205.9	193.3	225.1	161.0	232.9
1989	197.7	185.4	216.5	150.8	225.9

Note: — Unknown

Source: Tong Cuc Thong Ke, *Nien Giam Thong Ke*, 1985, 1987, and 1988 editions; Tong Cuc Thong Ke, *So Lieu Thong Ke, 1987–89*, Hanoi, 1990.

### (3) Currency Reform

The 14th of September, 1985 is marked as the day the Vietnamese government put redenomination downward into effect. On the following day (the 15th), the government devalued the exchange rate of the dong to U.S. dollars to a great extent and dong was equivalent to fifteen U.S. dollars. However, on the black market the dong still lingered around 40–50 dong to one U.S. dollar right after the devaluation.<sup>34</sup>

The reformed measures pertaining to “Prices, Wages, Currency,” which can be considered the prerequisites for improvement in the quality of operation and management of state-owned industries, consequently led to severe inflation. According to AFP reporter Laurant Maillard, the inflation between September 1985 and September 1986 evidently reached 700%.<sup>35</sup>

Being the kind of inflation too severe to remain as it was, the government then had to reintroduce the once-abolished ration-ticket system, to restrict the purchase of such as meat, nuoc mam, sugar, soap, and other items sold at state-owned stores, at the beginning of 1986 (January 10 to be exact). In other words, the ration-system had to be enforced again instead of being abolished, although it was contrary to the expectations of the reformers.<sup>36</sup>

Due to the negation and discontinuance of collectivization and nationalization and the introduction of a product-contract system regarding agriculture, which began with the decisions made in the Sixth Plenum, and thanks to the various positive effects brought forth by the so-called NEP and the increase in financial aid from the Soviet Union, Vietnam after all was able to achieve the goals of the third Five Year Plan almost fully, if not more. The growth rate turned out to be 6.4% in national income, 4.9% in agricultural production, and 9.5% in industrial manufacturing.

Nevertheless, the improvement in the quality of management of state-owned industries did not actualize as it was sought in NEP. As a result, these industries were not able to support agriculture and the production of consumer goods, and they became the general cause of stagnation of overall production. These poor results, on the other hand, made it clear that the improvement in the quality of management of state-owned industries was only possible by breaking away from the conceptual framework of the centrally planned economic system entirely.

Thus, as a prerequisite for such an improvement, the government advocated and put into effect the reform measures pertaining to "Prices, Wages, Currency" in 1985. However, these measures led to severe inflation and the rise of conservatives opposing the economic reforms in effect.

As the opening of the Sixth Congress neared, the radicals in favor of reform and the conservatives continued to argue over the question of whether Vietnam should abolish the centrally planned economic system and its framework altogether and lead its way in seeking a feasible solution to improve the quality of management of state-owned industries, despite the danger of causing further inflation and economic turmoil.

### **III. Direction and Future of Doi Moi (Renovation)**

Economic reform in Vietnam, in other words, meant the reform of state-owned industries and the abolition of the centrally planned economic system itself. In order to implement such radical changes, there was a need to renovate (*doi moi*) the Vietnamese way of thinking toward socialism.

#### **1. Sixth Congress**

The *doi moi* line decided in the Sixth Congress can be summed up to the following points.

First, the Congress determined that the period of transition to socialism would be a relatively long process in Vietnam and that, during this period, the non-socialist economic constituents, being such as privately operating farmers, stores, and workers, as well as the enterprises under capitalist management and the socialist economic constituents, such as state-owned industries, cooperative enterprises, and collectives, would have to stay in coexistence for quite some time and inevitably be obliged to support each other as mutual partners.<sup>37</sup>

Second, the Congress decided to root out the centralized bureaucratic nature in management which relied heavily on the use of state subsidies and shift the mechanism of economic management into a socialistic self-supporting accounting system. And instead of operating according to the commands made by the State, management based strictly on economic principles was determined to be more desirable.<sup>38</sup>

Third, food, consumer goods, and exports were once again considered the three

main sectors that needed the most support in terms of working force and material supply during the next period of the Five Year Plan (1986–90). These three sectors were already taken up as the main points of concern in the previous Fifth Congress. However since no practical measure was actually implemented then to make any apparent progress in their development, they once again became a main issue in this next Congress.<sup>39</sup>

Fourth, the Congress decided not to limit foreign economic ties just to the Soviet Union and the members of Comecon, and it sought to expand better relations with other countries belonging to the Third World, as well as with the industrialized nations. Moreover, the Congress determined that the import amount had to correspond with the export amount, and thus it decided to increase exports. One specific measure that is attributable to this decision is the start of exports of agricultural produce to eastern parts of the USSR.<sup>40</sup> Nonetheless, closer economic relations with the Western industrialized countries and the ASEAN nations soon became an inevitable matter for Vietnam, due to the stagnation and worsening of the Soviet economy.

The Sixth Congress appointed Nguyen Van Linh, the person who took charge of successful economic reforms in Ho Chi Minh City, as the Secretariat-General.

Yegor Ligachev, a member of the Soviet Politburo who attended the Sixth Congress of the Communist Party in Vietnam as the Soviet representative, mentioned that “We are satisfied to see that the Communist renovation line advocated in Vietnam is in conformity with the creative spirit of the line advocated in the 27th Congress of the Soviet Communist Party.”<sup>41</sup> The victory of the radical faction in favor of reform probably would not have been gained without the support of the new Soviet leadership. Moreover, Politburo member Ligachev also commented after the end of the Sixth Congress that “the Soviet Union will be supplying financial aid of 8–9 billion rubles (approximately 11.7–13.2 billion dollars) to Vietnam within the period of 1986–90. This newly-set amount of financial aid from the USSR to Vietnam is double the amount supplied in the preceding five-year period.”<sup>42</sup>

## 2. From NEP to Economic Reform

After the Sixth Congress, the Vietnamese Communist Party and the government started implementing specific measures, devised along the *doi moi* line, one after another. The following are some that are considered to be of especially great importance for the economic reform in Vietnam.

### (1) Cabinet Decision 217

On the 14th of November, 1987, the decision to enlarge the autonomy of state-owned enterprises was made in the Cabinet meeting. What this decision meant was that while the state continued to guarantee the supply of raw materials and reserve the right to designate the destination of products made under obligatory production, the nationalized enterprises were now able to set up their own produc-

tion plans. Deputy Prime Minister Tran Duc Luong mentioned his intention to reduce the rate of obligatory production to 30 – 50% of the entire production output by these nationalized enterprises.<sup>43</sup> Although these enterprises were still obliged to report their entire production plan to the authorities, the part that required approval was limited to just the plan pertaining to obligatory production. With regard to the payment that was incorporated into the national budget, the government still had the right to decide its amount. However, this amount was limited to a certain ratio of the profit gained by these enterprises, and additionally this ratio was fixed for the next three to five years. Moreover, as to wages, only the minimum wage was set by the state, and now these enterprises were able to set the upper limit and the wage table freely by themselves. These enterprises were also given the freedom to decide on the price of their products, except those specified by the state which were still set by the government. As a result, the plan indexes that the state-owned enterprises had to follow were reduced from five to three: (i) quantity and quality of main products, (ii) product sales volume, and (iii) amount of payment incorporated into the national budget. And with regard to all other matters beyond the range of the above three indexes, including the product items unspecified by the state, these enterprises were able to set up and implement their own policies and solutions. Through these specific changes, the degree of autonomy of state-owned enterprises can be said to have enlarged significantly. Nevertheless, the top three executives of each enterprise, namely the head, the deputy head, and the chief accountant, were still appointed by the state. Moreover, it was still obligatory for this appointed head to confer with the Party Committee specializing in enterprises on all matters related to management.

## (2) Foreign Investment Law

On the 9th of January, 1988, Vietnam promulgated the Law on Foreign Investment. Since Vietnam already had joint enterprises established with the Soviet Union, this law can be well understood to have been geared at increasing investment from other foreign sources, such as the Western industrialized countries, ASEAN nations, and those referred to as the NIEs. This law also allowed enterprises to be set up with only foreign capital (foreign investment 100%) and guaranteed that foreign-affiliated enterprises would not be nationalized. Other provisions of this law included those regarding the limit placed on the income tax imposed on those enterprises, which was set as 15 – 25% of their profit, the acceptance of two years of tax exemption, and the freedom of profit remittance to the investment sources abroad. It is very likely that interaction with foreign-affiliated enterprises will serve as a good opportunity for Vietnam to seek practical methods to improve the quality of operation and management of domestic enterprises.

## (3) Restrictions regarding Non-Nationalized Sectors of the Economy

On the 19th of July, 1988, the Politburo declared the “Resolution regarding the Renovation of Policies and the Control System applied to Non-nationalized Sectors of the Economy.”<sup>44</sup> Through this resolution, the Politburo, on behalf of

the Party and the government, officially admitted that non-nationalized sectors existed as a constituent part of the national economy in the form of such as family units, individual units, private management units, and group units, and that they all played a positive role in the development of the Vietnamese economy. This resolution placed no restrictions on the size of private enterprises engaged in industrial production and allowed them to decide and acquire as much working force as they needed according to their production size and technical level. In July of 1988, the state approved the establishment of a private enterprise called BIMIMESCO, which specialized in the production of such as toys and electric torches, designed for export. This enterprise is said to be hiring over 100 employees.<sup>45</sup>

#### (4) Politburo Decision 10

On the 12th of April, 1988, Politburo Decision 10, which was aimed at renovating the general conditions of management in agriculture, was promulgated.<sup>46</sup> This decision contains three points as mentioned below that may be of interest here.

(i) Reorganize the cooperatives where production is stagnant due to poor management by subdividing them into smaller units. Moreover, looking from the point that this decision did not touch on the transfer of producer groups in the South (elementary level cooperatives) into regular cooperative bodies, it is fair to say that the state has actually abandoned the idea of agricultural collectivization.

(ii) A new contract system called the "unit price contract system" was introduced. This new system specified the quota per unit area of land and gave the farmers the freedom to market the surpluses on their own after completing the obligatory contribution of their produce specified as the quota. Moreover, this Politburo Decision extended the length of land leases from five to fifteen years.

(iii) Politburo Decision 10 advocated the "Principle of Choosing the Type of Profession Best-Suited For" and adopted the concept of work on ability-basis and specialization in agricultural villages. This principle, as a result, led to extended application of the system of bid and tender. The land provided to each cooperative was divided into two parts. The part that was entrusted to the cooperative was a minimum piece of land necessary for production, which was normally 1 sao in size. The other part was entrusted to the farming family with sufficient working force, equipment, and competency in management, which was selected through a bid and tender system. And the system of bid and tender no longer applied just to rice-producing land, but also to ponds, grassland, water-surface areas, etc. Furthermore, specialists in fish breeding, stock raising and handicraftsmanship started to appear in farm villages.<sup>47</sup>

Decision 10 is enlivening the farm villages in Vietnam. Nevertheless, together with a variety of merits, it also produced several points of demerit at the same time. As a matter of course, the gap between the rich and the poor is becoming more and more evident in these villages. Families such as those headed by a war widow cannot make use of the new contract system. In addition, the expenditure the cooperatives allocate for social security has been cut back. Due to these reasons, their standard of living became even worse than before.

### 3. Overcoming the Inflation and Reforming the Economy

During 1988, a variety of resolutions, decisions, and laws regarding economic reform were passed and promulgated by the Politburo or in Cabinet meetings or through other authoritative sources. However, this does not mean that all of them were properly enforced. Some literally stay just as a piece of official statement without creating any effect in reality. And this is where the basic difficulty of economic reform in Vietnam lies. The following portion is intended to examine the level of progress of economic reform from the standpoint of production, using the economic indicators and statistics released by the Government of Vietnam.

#### (1) Overcoming Inflation

As mentioned earlier, the most difficult problem with the economic reform in Vietnam has long been renovation of the management of state-owned enterprises. The main reason why there has been no effective solution to this problem lies in that these nationalized enterprises continued to receive a large amount of subsidy from the state to cope against inflation. But it was this subsidy that became the biggest source of budgetary deficit and also the cause of inflation itself.

The Congress held at the end of 1988 set the goals for 1989 as: (i) to reduce the budgetary deficit produced in 1988, (ii) to renovate the administrative mechanism so that there will be no need to use the national budget to compensate for any loss created in food production, import and export, and production management, and (iii) to abolish the policy to control the flow of foreign capital and adopt a floating exchange rate system for the dong. On the 14th of November, 1988, one U.S. dollar was equivalent to 368 dong. But on the 26th of December, one U.S. dollar was equivalent to 3000 dong.<sup>48</sup>

As the year changed to 1989, the exchange rate applied at the free market tended to maintain its balance with the official rate, which was 4900 dong to one U.S. dollar at that time. And in July the rate finally stabilized at around 4200 dong to one U.S. dollar. Prices recorded a monthly price rise rate of 9.2% in February. Prices continued to rise at a slower rate until May, when they started to drop.<sup>49</sup> In the Congress held in December, 1989, Prime Minister Do Muoi reported that "1989 can be marked as a successful year in checking the increase of new currency issue, which continued for a long period of time, and due to this effect, the price rising rate, which went up to 14.2% per month in 1988, dropped to 2.8% per month this year."<sup>50</sup> Thus, 1989 can be noted as the year when the aggressive inflation in Vietnam was tentatively controlled. Together with the measures to recuperate from the budgetary deficit, the state implemented other inflation control measures, such as the sales of gold, to obtain more circulating currency and increased the monthly bank account interest rate (deposit fixed to three months) to 12%.<sup>51</sup>

#### (2) Industrial Production

In the Congress held in June, 1989, Prime Minister Do Muoi announced that



the industrial production in the first half of that year (January – June) dropped by 2.4% compared to the same term in 1988. With regard to the breakdown, the production of interim goods destined for further manufacture dropped 7.2%, the production of consumer goods dropped 0.5%, the production by state-owned industries dropped 4.8%, and the production by non-state owned industries dropped 0.4%.<sup>52</sup> The reason for this slump was due to the tight-monetary policy, which made the enterprises minimize their purchase to only a minimum of what they needed. Many enterprises thereby suffered from increased overstocking and a lack of working funds. Another big reason for the slackening of sales was that the products made in Vietnam could not compete with the foreign goods that had been flown into the country due to implementation of the open-door foreign policy, which led to a liberalization of imports. Moreover, the enterprises still continued to refuse to take back defective products, and this can also be considered as one cause of the economic dullness. The lack of working funds not only caused a stagnation of production but also led to the delay or even the non-payment of wages and salaries.

According to the most recent statistical reference, the industrial production dropped 4%, whereas agricultural production and national income both increased by 5.8% and 2.4% respectively in the year 1989.<sup>53</sup> With regard to industry, the production of interim goods destined for further manufacture dropped 7%, the production of consumer goods dropped 4%, and the production by state-owned industries dropped 5%, while the production of collective/individual industries increased 4%.<sup>54</sup>

In the Congress held in June, 1990, Prime Minister Do Muoi reported the outcome of the industrial production in the first half of this year. According to this report, the production by central state-owned industries increased 13%, whereas the production by local state-owned industries and small industries, including those engaged in handicraftsmanship, both decreased by 5.3% and 7.9% respectively, compared to the same term in 1989. Since the production in the same term in 1989 was a drop in the rate compared to the same term in 1988, the increase of 13.6% in 1990 should be considered as a recovery of industry instead of an increase in production. Moreover, the reintroduction of subsidies is a point that cannot be dismissed as contributing to the recovery of industrial production.

### (3) Agricultural Production

As the farmers started expressing their strong discontent on the ratio used for the exchange of agricultural produce with industrial products, which was apparently very disadvantageous to them, the Vietnamese government put into effect a series of price revision plans in October, 1987, which included revision of the ratio applied for the exchange of unhulled rice to one of the interim goods destined for agricultural production and a raise of the contract-free purchase price of these items.<sup>55</sup> Due to the increase in the supply of such interim goods and the fruitful results of these price revision plans that started becoming evident from 1988, food production reached 21.44 million tons in 1989, and this successful out-

Table 4. Trade in Vietnam

(Unit: million rubles)

	Total Amount of Export (A)		Total Amount of Import (B)		Balance
1976	222.7	132.9	1,024.1	577.5	801.4
1980	338.6	225.9	1,314.2	755.1	975.6
1981	401.2	235.6	1,382.2	947.8	981.0
1982	526.6	337.1	1,472.2	1,087.9	945.6
1983	616.5	381.3	1,526.7	1,140.5	910.2
1984	649.6	407.9	1,745.0	1,232.6	1,095.4
1985	698.5	425.8	1,857.4	1,408.1	1,158.9
1986	822.9	438.9	2,155.1	1,659.4	1,332.2
1987	854.2	487.9	2,455.1	1,953.7	1,600.9
1988	1,038.4	590.7	2,756.7	2,028.5	1,718.3
1989	1,820.0	844.0	2,443.7	1,798.3	623.7

Source: Tong Cuc Thong Ke, *Nien Giam Thong Ke*, 1987, 1988, and 1990 editions.

Note: (1) (A) is the export to socialist countries and (B) is the import from socialist countries.

(2) In dollars instead of rubles, the export in 1988 is estimated to be approximately 1.1573 billion dollars and the import in 1988 is 3.0964 billion dollars.

come enabled Vietnam to export as much as 1.45 million tons of rice that same year.<sup>56</sup>

The effect of the adoption of a unit price contract system will probably last for another year or two, provided that (i) the supply of fertilizer and agricultural chemicals will increase and (ii) the price of agricultural produce will be raised. Even after the adoption of a unit price contract system, the share of the farmers is still surprisingly low, being limited to only 40%. As such, the farmers are strongly demanding a reduction of the agricultural tax from the present 12% to 8%.<sup>57</sup> Moreover, due to the strong dissatisfaction with the way the profit gained from the produce is presently distributed, it is very likely that the farmers will also soon start demanding a reduction in expenses, which the state exploits from them under such names as the contribution for social welfare and administration fees. Moreover, as a measure to encourage cultivation, of such as Dnyen Hai in Ho Chi Minh City, the state started offering farmers title deeds on land use that lasts for thirty years from the 9th of June, 1989.<sup>58</sup> The farmers' demand for autonomous rights and land ownership is likely to grow stronger and stronger from now on. And as the state starts taking more measures to meet these growing demands, the smaller the purpose for establishing agricultural cooperatives will be. In fact, there is already a tendency toward cooperatives changing into organizations that only engage in the sales and purchase of input goods for agriculture and agricultural produce.

#### (4) Open-Door Foreign Policy

Basing on the figures of Table 4, of all the exports made in the years 1987 and 1988, the exports to socialist countries, totaled 57% each year. In 1989, however, the export to socialist countries covered only 46% of the total, which was a reduc-

Table 5. Accumulation Rate and Distribution of Investment

(%)

	Accumulation Rate	Share in State Investment			
		Industry	Group A	Group B	Agriculture
1976	15.0	31.9	21.4	10.5	22.3
1977	17.9	31.5	24.0	7.5	29.5
1978	18.6	32.2	22.0	10.0	27.2
1979	17.7	35.9	25.9	10.0	26.8
1980	18.3	41.2	29.7	11.5	21.8
1981	11.0	41.7	35.0	6.7	29.5
1982	10.0	53.2	45.3	7.9	17.7
1983	12.0	40.4	32.4	8.0	19.1
1984	14.0	36.0	26.7	9.3	26.7
1985	15.0	34.9	—	—	25.8
1986	12.0	35.7	—	—	24.5
1987	9.0	43.5	—	—	20.0
1988	9.0	45.4	—	—	22.8
1989	8.0	52.8	—	—	26.7

Source: Regarding the years 1976–79, Tong Cuc Thong Ke, *So Lieu Thong Ke, 1976*, Hanoi, 1980, p. 41. Regarding the years 1980–85, Vo Nhan Tri, *Socialist Vietnam's Economy, 1975–85*, An Assessment, Institute of Developing Economies, 1987, p. 59. Regarding others, Tong Cuc Thong Ke, *So Lieu Thong Ke, 1976–89*, Hanoi, 1990, p. 97.

Note: — Unknown

tion of approximately 10% compared to the previous years. Instead, this 10% was incorporated into the increase of export to capitalist countries that same year. And with regard to imports, the imports from socialist countries, which marked 79.6% of the total imports in 1987, dropped to 73.6% in 1989.

The speed of progress of economic reform in Vietnam is greatly dependent on the number of contracts of ventures of foreign capital that have actually been settled. Since the promulgation of the Foreign Investment Law, the number of foreign-affiliated projects totaled over 130, and over 1 billion dollars has altogether flown into Vietnam so far. However, a very large portion of these projects are related to oil business and processed marine product industry, and the actual amount of investment in the manufacturing industry is quite small.<sup>59</sup> In order to be able to attract more foreign investors to the manufacturing industry, such measures as changing the pricing system, improving the quality of management of nationalized enterprises, and recovering the linkage between the domestic and world markets would be some of the necessary steps for Vietnam to take, along with the development of a firm and healthy infrastructure.

## Conclusion

Production increase and industrial development only become possible when people's desire to gain fair treatment for their work efforts is sufficiently met. However,

Vietnam consequently was not able to provide such satisfaction to its people during the ten years of Vietnam's economic reform. The people feel that they receive the right amount of consideration for what they do when they live in a free market world. But in Vietnam, a healthy economic mechanism as such is only evident in one part of the whole. The domestic market is still far from being able to link directly to the world market. Business entities belonging to such as the nationalized sectors are still receiving a large amount of subsidy and protection from the pricing system set advantageously toward them. The reform measures implemented from 1988 onward can therefore be said to have been only successful in curbing the inflation.

Since financial aid from such socialist countries as the Soviet Union, will be curtailed, Vietnam's reliance on advanced capitalist countries will further deepen. The reasons behind this is because investment depends solely on the amount of foreign savings. In the process of developing the level of contact and linkage with the world market both in width and depth, Vietnam will eventually be able to see its economy working healthily under the principles of a free market. As shown in Table 5, the portion of the national budget allocated to investment due to the effect of economic reform measures is becoming smaller and smaller every year, when looking at it in proportion to the national production income<sup>60</sup> rather than its absolute amount. In this trend, high growth cannot be expected in the future. Economic reform also implies a change in the method of capital accumulation. The main accumulating body should be transferred from the state to individual enterprises and farmers. And in order to make this possible, implementation of a drastic economic reform measure regarding the ownership system would become necessary at the very end.

As of now, there is still a strong sense of rejection among the leadership of Vietnam on the political reform that is in process in the Soviet Union and Eastern Europe. The strategy for economic reform taken by the Vietnamese leaders is aimed at achieving success in socialist industrialization by incorporating the workings of a free market mechanism partly, and only up to an extent, so that they will not have to give up their goals based on socialism and by utilizing the foreign savings they collect within the limits of their self-control. Thus, they are being very careful about political reform that will lead to social turmoil and become an unexpected impediment to the ongoing economic progress. Nevertheless, it is a question whether Vietnam will be able to continue treating economic reform and political reform as two separate concepts, when the domestic market comes into linkage with the world market and sees each and every sector taking part in free economic activities, which are indeed some of the conditions essential for the development of an economy.

Whatever the reasons may be, one thing that is true about the economic reform in Vietnam is that it is a long process. At the present moment, Vietnam has only come to a point of overcoming several difficulties, and the goal still seems quite far ahead. Yet the present circumstances allow Vietnam no time to rest. Problems

such as revision of the pricing system and improvement of the management system of state enterprises are just a few of the many crucial matters that Vietnam must seek effective solutions to urgently.

## NOTES

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45. *Yearbook: Trends in Asia*, 1989 edition, p. 244.
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47. *Nhan Dan*, October 24, 25, 1988.
48. *Yearbook: Trends in Asia*, 1989 edition, pp. 248 and 250. On the 14th of November, 1988, the dong was devalued from 368 dong to 2600 dong to one U.S. dollar, but the exchange rate applied at the free market was 5000 dong to one U.S. dollar.
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