

Executive Summary

This year is the 50th anniversary of the end of World War II and marks the 20th year of the end of the Vietnam War. During these 20 years, Vietnam has faced a very difficult situation both in domestic and foreign affairs. However, on succeeding in the Doi Moi (renovation) program, Vietnam has been enjoying a high GDP growth rate from the beginning of the 1990s. In addition, Vietnam has achieved stabilization of its macroeconomy. This year liaison offices were set up both in Hanoi and Washington by Vietnam and the United States respectively. As a result, the political and economic relations of both countries have moved closer together. Vietnam is now beginning to move toward higher economic growth for the year 2000.

Vietnamese economic development policy should take into account two external factors: one is the industrial and the investment strategy with international division of labor in East Asia in sight, and the other is the manufacture of consumer goods and light industry products to be marketed in the Greater Indochina Economic Region. The former is currently pursued by the Vietnamese government and the latter has great future potential. Specifically, the Communist Party must clearly recognize the need for deregulation through the reforms and restructuring of state-owned enterprises (SOEs), development of private sectors and export-oriented industrialization with the help of foreign capital.

Vietnam, which has been enjoying a high economic growth of over 8% per annum since 1992, has a stable social structure. Important components of the present stability include: (1) agricultural society, (2) macroeconomic aspects, and (3) politics. But each of the components has certain areas of concern as outlined below that could lead to instability in the future.

The percentage that agriculture and forestry account for in Vietnam's GDP is in decline but stability of agricultural society is essential for economic growth since 80% of the entire population belong to the agricultural districts and rice and other farm products are important export items that earn foreign currencies. On the other hand, shortage of capital among farmers and underdevelopment of agricultural processing and breeding technologies are apparent. Provision of finance for farmers, improvement of processing technology of agricultural products and development of markets must be undertaken immediately. Another problem is that the differences in incomes between the North and South, and between the urban areas and rural villages

are gradually widening. The smooth industrialization of Vietnam to enable the economy to absorb surplus labor forces from farm villages will be a key.

Macroeconomic stabilization was partly achieved in 1993 when inflation abated but this indicator jumped back up to a double-digit figure of 14.2% again in 1994. Moreover, the reform and restructure of SOEs is carried out inefficiently because subsidies in one form or another continue to be given out persistently, forming a structural impediment. The role of SOEs has been developing faster than that of private sectors in recent years with growth of the oil sector that has contributed to macroeconomic stabilization. State-owned enterprises said to be about 6,000 in number, hold the key to the success of Vietnamese economic development. There are certain groups which are reluctant to have the SOEs privatized.

As for politics, there are, among others, anti-establishment movement, conflict on economic management and activities of religious groups. The conflict on economic management within the party, in particular, is a critical issue that could determine whether the economic development policy will become inward or outward. Whether political issues come to the surface or not depends on how successful the economic policy will be in promoting industrialization.

Under existing international environments, the economic development of Vietnam can only be achieved within the framework of the international division of labor in East Asia. Export industries must be nurtured with the introduction of foreign capital, centered on export-processing zones of the Southern, Central and Northern regions. The state-owned enterprise reform should not lead to stock holding by the government but the economic liberalization policy must be further promoted via deregulation to make the country strong enough to withstand international competition. Needless to say, it should not degenerate into a squabble within the party.

Another area to be addressed is the arrangement of the legal system, which would provide the institutional infrastructure necessary for promoting economic development. Although the Vietnamese government has decided to establish the first stock market in Hanoi and Ho Chi Minh City in early 1995, the legal governing framework has not been finalized yet. Also important and urgent is the improvement of currently insufficient economic infrastructures such as roads, bridges, port facilities, power supply and the like.

The fundamental problem of Vietnam, though, is to establish a clear vision of the economic development policy. The right direction is the acquisition of international competitiveness through economic liberalization. The direction should not turn inward toward protection of SOEs.