

Vietnam: the Hard Road to Economic Recovery

By Tetsusaburo Kimura

At a meeting on September 2 to celebrate Vietnam's National Foundation Day, Deputy Premier To Huu disclosed that the 1982 winter-spring crop was the biggest in the country's history, following last autumn's bumper crop. He added that Vietnam had all but attained self-sufficiency in food. According to Huu, industrial production in the first half of 1982 recorded an increase of 20% over the corresponding period of the previous year, while exports recorded a substantial 50% increase.

Is the worst over for the Vietnamese economy? This article attempts to analyze the present economic situation in Vietnam primarily with reference to statistics announced by the Vietnamese authorities. Of all socialist states, Vietnam is the most secretive about its economic data. Moreover, the authenticity of the data which it does release is somewhat questionable. It is therefore very difficult to get an overall picture of the Vietnamese economy.

Failure of 2nd Five-Year Plan (1976-80)

After the unification of South and North Vietnam in July 1976, the Fourth Congress of the Vietnamese Communist Party held in December 1976 adopted the country's second five-year plan.

The second five-year plan was an ambitious one aimed at achieving an annual 14-15% increase in the gross social product (GSP), which is comparable to GNP in Free World economies. It was planned to expand national income by 13-14%, gross agricultural production by 8-10% and gross industrial production by 16-18%.

The table shows the plan's annual targets and the actual achievements for each year. It shows that the growth percentage targeted for each year was, in general, smaller than that of the previous year. Each year's target was set by taking into account the preceding year's actual results. This means that actual achievement deteriorated year after year.



Vietnam's agricultural development is struggling to meet government targets.

The annual plan set the gross social product growth rate at 18% for 1977 and 19.5-21.5% for 1978, but the actual growth rate in both years was only 3.1%. After repeated failure to attain the targeted growth rate, the Vietnamese authorities stopped disclosing their growth targets in 1979. Because there was such a big difference between the targeted and actually attained growth rates, the second five-year plan was virtually abandoned in its third year.

Was the failure the result of setting unattainable targets due to overestimating the national capability and economic growth potential?

Partly so, but I would like to cite the following four points as the main causes of Vietnam's failure to achieve the second five-year plan.

First, natural disaster. Following a dry spell in 1977, Vietnam was hit hard by big floods in 1978. The production of rice in husk decreased from 11.9 million tons in 1976 to 10 million tons in 1978. Accordingly, Vietnam had to import food, including rice, wheat and maize. Combined imports of rice, wheat and maize alone reached 1,264,000 tons in 1977, 1,418,000 tons in 1978 and 1,588,000 tons in 1979.

In order to secure stable food production, it became necessary for Vietnam to



Deputy Premier To Hoo of the Socialist Republic of Vietnam

turn the vast land of the south, less prone to natural disasters, into an agricultural base.

Enforced Socialization

The second reason was the excessive haste of Vietnamese authorities in socializing the country. Around the summer of 1977, the Vietnamese authorities began to accelerate the socialization of the south. Even after unification, the distribution channels in the south remained under the control of the overseas Chinese of the Cholon District, and rice produced in the Mekong Delta made its way into the hands of the overseas Chinese instead of the Vietnamese authorities. Farmers in the south did not comply with the collectivization campaign because they had economic relations with the overseas Chinese. The Vietnamese authorities believed that it was necessary to oust the Chinese from the distribution system and place it under their own control in order to secure southern rice production. Consequently, on March 23, 1978, the Vietnamese authorities banned all business activities of privately-owned commerce and industry in the south. In close succession, they replaced the old currency and virtually froze bank deposits. These measures, coming on top of deteriorating Sino-Vietnamese relations, touched off the exodus of the overseas Chinese, that is, the outflow of refugees.

After chasing out the overseas Chinese, were the Vietnamese authorities able to get rice produced in the south as they had hoped? The answer is no. Because the official purchasing price of rice was low, and because industrial products, particularly consumer goods, which farmers could buy with the proceeds from rice sales were in short supply, farmers lost their enthusiasm for rice production.

They did not deliver surplus rice to the government but used it to make rice wine or to fatten pigs, whose sale in the free market brought more money than the sale of rice to the government.

The greatest cause of the 1978 recession was that the Vietnamese authorities destroyed industry and the distribution mechanism in the south. The government was thus no more able to secure rice than before.

The third reason for the failure of the second five-year plan was Vietnam's isolation from the rest of the world. The plan required a total investment of 30 billion dong, half of which the Vietnamese government planned to raise abroad. However, only the Soviet Union was prepared to assist Vietnam, which had violated the Paris peace agreement with its abrupt and sweeping unification of the south by armed force.

A prerequisite for Western economic aid was the settlement of compensation for enterprises confiscated by the Vietnamese government. As this was not forthcoming, the industries in the south which used to import raw materials and parts from France and Japan had to reduce their operations. The exodus of the overseas Chinese cut off Vietnam's ties with the Western countries, dealing a heavy blow to commerce and industry in the south. In June 1978, Vietnam joined COMECON (Communist Economic Conference) and reinforced its ties with the Soviet Union and East European countries. However, the Soviet Union could not supply Vietnamese industries in the south with the raw materials and parts they needed.

The fourth reason was Vietnam's confrontation with China and its invasion of Kampuchea. These are probably the biggest factors behind Vietnam's failure to achieve the second five-year plan.

Vietnam's armed forces total 1,020,000 troops, of whom 180,000-200,000 have been sent to Kampuchea and 40,000 to Laos. Vietnam's defense expenditures have ballooned to as much as 50% of its national expenditure, severely constricting investment in development projects.

The New Economic Policy (NEP)

It was after the autumn of 1979 that Vietnam became aware of its economic crisis and began to take steps to get out of the critical situation. At its 6th plenary meeting held in September 1979, the Central Committee of the Vietnamese Communist Party adopted two resolutions—one on "the current situation and urgent tasks" and the other on "the development of the consumer goods industry and regional industries." The latter resolution



Vietnam's Premier Phan Van Dong

was made public in October, but disclosure of the first resolution on "the current situation and urgent tasks" was withheld until January 1980. This was probably because intra-party differences were not settled until then. At any rate, a number of measures aimed at liberalizing economic activity were taken after the autumn of 1979.

A cabinet decision was taken to ease the excessive official inspection which was blocking the movement of goods and commodities in the south between agricultural villages and cities. The government also announced that the farm tax would be fixed for five years and that the quota of agricultural products farmers must sell to the state would be pegged at the existing level for the same period. In February 1980, the government issued a directive to reinforce the "mutual economic contract" while at the same time, a campaign was launched to popularize "production subcontracting." These measures gave farmers greater freedom in disposing of their products, and agricultural production increased.

The NEP was not confined to the agricultural sector. The autonomous rights of state-owned enterprises were also expanded. Many factories began paying their workers piece rates.

In order to stimulate people's enthusiasm to engage in production, the wage system and the price system were revised. In June 1981, the wages of government employees and laborers were raised 100%. The average monthly wage of workers in Hanoi is now apparently 100 dong. As a result of the 350% devaluation in July 1980, the dong's exchange rate was lowered from 2.828 dong to the dollar to 9.070 dong. In autumn 1981, the government raised the official buying prices of agricultural products. At the same time, a series of price hikes, including electric power rates, was effected. The govern-

Table: Annual Growth Targets and Actual Results

	1976	1977	1978	1979	1980	1981	1982
Gross agricultural production (%)	—	16	30.7	—	11.3	6	8
	10.4	-4.9	0.05	6.8	5.9	4.0	—
Food production (million tons)	—	16	16 ~ 16.5	16 ~ 16.5	15	15	16
	13.5	12.9	12.9	13.7	14.4	15.0	—
Production of rice in husk (million tons)	—	13.7	13.5	12 ~ 12.5	—	12.5	13
	11.9	10.9	10.0	10.8	11.7	12.5	—
Number of pigs (million pigs)	9.22	—	11	—	10	—	11
	9.22	9.06	8.82	9.35	10.0	10.46	—
Gross industrial production (%)	—	20	19 ~ 21.7	12	4.7	2.3	5
	12.6	10.0	5.4	-4.5	-5.9	1.9	(20)
Electric power output (million kwh)	—	—	3,900	4,200	—	—	4,035
	2,958	3,473	3,846	3,857	3,640	3,800	—
Coal (million tons)	—	—	7	7.5	—	—	6.3
	5.6	6.2	6.0	5.5	5.3	5.9	—
Cement (1,000 tons)	—	—	1,000	1,026	—	—	962
	737.5	844.6	843.0	704.5	641	—	—
Sugar (1,000 tons)	—	—	160	146.4	—	—	200
	72.8	68.8	80.0	94.0	113.9	151.5	—
Exports (%)	—	55	45	31	23	25	45
	56.3	39.4	5.8	-12.9	-14.3	22.2	(50)

(Notes) 1. Percentage figures represent changes from the previous year.
 2. Upper row represents target and lower row actual result.
 3. Figures in parentheses under 1982 represent actual results of first half of year.

(Source) Annual Report on Trends in Asia
 USSR, Foreign Trade
 Compiled from SVRN, Số liên thông kế
 USSR-East Europe Trade Association, Monthly
 Survey, July 1982, page 45

ment buying price of rice was raised five-fold from 0.52-0.72 dong per kiloliter to 2.5-3.5 dong. The buying prices of maize, potatoes and other farm produce were also quintupled.

As is evident from the above, the NEP consisted of the two policy measures of liberalizing production activities and distribution systems in order to encourage production and of raising the government's purchasing prices. Partly because of favorable weather and primarily because of the effects of the NEP, food production has increased as shown in the table. Will this increase in agricultural production lead to an increase in industrial production and successfully pull the Vietnamese economy out of its present critical state?

Looking to the Future

In March 1982, the Vietnamese Communist Party held its Fifth Congress and adopted the third five-year plan (1981-85). The third five-year plan aims at increasing annual agricultural production by 6-7%, gross industrial production by 4-5%, and national income by 4.5-5%. The growth target for gross agricultural production set in the third five-year plan is two-thirds that of the second five-year plan. Similarly, the third plan's growth target for industrial production is one-fourth and that of national income one-third that of the second plan's. Judging from past achievements, even these figures are somewhat high. Although the targeted growth rate for gross agricultural production in 1981 was set at 6%, the actual

growth rate was 4%. The actual growth of gross industrial production in 1981 was 1.9% as against the targeted 2.3%.

Although the third five-year plan is far more realistic than the second one, it appears to have two problematical points. One concerns the development of agriculture. The question in this regard is whether or not population growth can be cut from 2.4% to 1.7%. Another question is to what extent the Vietnamese authorities have taken into account possible crop failure from natural disasters, agriculture in Vietnam being greatly affected by the weather. The most important question concerning agriculture, however, is whether or not the NEP, which brought about the recovery in food production, will continue in the future. The Communist Party contains a large number of hawks who persistently urge acceleration of socialization. The Fifth Party Congress ended in a compromise between the advocates of stepped-up liberalization and the hawks. Party leaders will resist liberalization because it spells a decline or loss of their power.

The second point is that investment in basic construction projects will not increase substantially under the third five-year plan any more than it did under the second. The third five-year plan requires investment amounting to 16-18 billion dong (in old currency), which is equivalent to the amount actually invested during the second five-year plan period (about 17.8 billion dong). Judging from the fact that the second five-year plan projected investment of 30 billion dong, the smaller investment envisaged in the third

plan arouses speculation that Soviet economic aid to Vietnam has decreased sharply since the second plan. It is said that Vietnam asked the Soviet Union to provide it with \$6 billion worth of economic aid to finance the third five-year plan. It may be surmised that, unable to obtain as much economic aid from the Soviet Union as it had wished, Vietnam cut back on the development investment envisaged in the third five-year plan. Basic construction investment is defrayed from the Central Government's treasury. The curtailment of development investment probably became inevitable when Vietnam could not obtain as much economic aid as it had wished from foreign countries and defense expenditures continued to grow.

The agricultural production increase resulting from the NEP suggests that the Vietnamese economy is now past its worst phase. However, the development of the manufacturing industry to sustain agriculture is essential if the economy is to get on the track to full recovery. The gross industrial production growth rate is low compared with that of gross agricultural production. Increased investment in basic construction projects is necessary for the development of industrial production. But the bloated defense expenditure hampers an increase in investment in basic construction projects. Moreover, the Vietnamese economy requires expansion of exports and diversification of export customers and import sources.

In order to place its economy on the full-recovery road, Vietnam must settle the Kampuchea problem and end its isolation from the rest of the world. ●

Tetsusaburo Kimura, 49, is Director of the Current Affairs Department of the Institute of Developing Economies (Ajia Keizai Kenkyusho), and one of Japan's leading experts in Vietnamese problems. He was stationed in Saigon from April 1966 to May 1968 at the peak of the Vietnamese war to study the socio-economic history of contemporary Vietnam. From March 1974 to March 1976 he conducted research on the history of the Vietnamese Workers Party and socialist construction of Vietnam at the Centre de Documentation et de Recherche sur l'Asie Sud-Est et le Monde Insulindien (CEDRASEMI). He has authored various books on Vietnam including "New Indo-China War" (Tokyo, 1980) and "Contemporary History of Southeast Asia" (Tokyo, 1982).