The grand vision of Vietnam's revolutionaries has soured. The economy has spent years in a state of entrenched crisis. Now the Vietnamese Communists have embarked on radical reforms. But can they avoid the malaise of the other former centrally-planned economies, asks Graham Larcombe.

The fall of Saigon in 1975 was one of the significant events of this century. With the defeat of the South Vietnamese regime, the Vietnamese had aspirations to rebuild their country in a form "ten times more beautiful" and to reconstruct their society according to socialist principles. Despite the suffering and disruption in the north and south, there was also a sense of optimism that independence from foreign domination would enable the country to unify and recover from the devastation of 30 years of war.

The north, the Democratic Republic of Vietnam, had begun the process of socialist transformation of the economy in the 'fifties, following a model of development that emphasised central planning, the collectivisation of agriculture and giving priority to heavy industry. With this experience, the task of transforming the 'capitalist' south was not seen as too arduous, particularly given the fact that the revolutionary forces had militarily defeated the world's most powerful nation.

Fifteen years later, the vision of a prosperous and reconstructed Vietnam has soured. The country remains one of the poorest twenty countries in the world. The economy has been in chronic crisis with inflation soaring to 300% in 1987. Unemployment statistics are unreliable, but estimates range from between 13% and 20%. This excludes underemployment, with people accommodated in tasks with very low productivity. Economic growth follows a stop-go pattern and, in recent years, has been declining.

Of course, an overriding feature is the economic and
social consequences of war. Not only are they paying for defeating the US militarily, they have also paid heavily for their intervention in Cambodia, through isolation by the West, and cessation of aid and trade opportunities. But the development strategy pursued by the Socialist Republic of Vietnam (SRV) after reunification has nevertheless had disastrous economic consequences.

Since the late 1970s a reformist leadership has struggled to bring about a reorientation of the economy, away from the command economy influenced by the orthodox Soviet model, and towards decentralisation of decision making and market reforms.

Like their counterparts in many Third World countries such as Angola, China, Cuba, South Yemen, North Korea and Mozambique, the Vietnamese revolutionaries were overwhelmingly influenced by the Soviet experiences, particularly the "building of socialism in one country" approach adopted by Stalin, aimed at forcing the development of the productive forces of the economy in a hostile international environment.

The key component of the Soviet model is to replace market transactions, where resources are allocated according to the law of value, with planning, where resources are allocated in theory according to the priorities of society. In simple terms, under central planning, key enterprises are supplied with resources from the state and directed to produce a certain quantity of output. A centralised bureaucracy develops, which has responsibilities for drawing up plans, choosing priority sectors, and setting targets for individual enterprises.

Profits and prices are not particularly important in guiding economic activity. Key prices are set by administered decision, and may be designed to achieve social objectives, such as cheap agricultural products for industrial workers rather than reflecting the forces of supply and demand or the cost of production to the peasantry. In the orthodox model, enterprise losses are subsidised by the state. Profits over a certain level are transferred to the state. Wages are kept low to support the maximisation of the surplus available for investment and wage differentials are compressed.

It is all too apparent, however, that the orthodox socialist model, with its dependence on a powerful centralised bureaucracy, is in deep crisis. The political developments in the Soviet Union and Eastern Europe have reverberated throughout the socialist world. The Vietnamese have their own version of perestroika, 'doi moi', meaning renewal or renovation. In addition, they have become more critical of their own mistakes.

Although encouraged by trends in the Soviet Union, the Vietnamese had embarked on a process of economic reform in 1979 prior to perestroika. This process accelerated over the 'eighties. Developed socialist states such as Hungary, and underdeveloped socialist states such as China, Vietnam and Mozambique, have been forced by circumstances to modify or, indeed, to dismantle central planning mechanisms. This suggests that central planning generates certain intractable economic problems.

As well as actual experiences, there are now some substantial economic works analysing the internal dynamics and limitations of centrally planned economies - those of British economic historian Alec Nove and Hungarian economist Janos Kornai are two of the most prominent. This body of thought suggests two laws of motion for these societies:

1. state socialist systems have an innate tendency to underproduction and shortage which is related to a series of macro- and micro-economic conflicts over the distribution of resources, including industry versus agriculture, and investment versus consumption;

2. state socialist systems are marked by innate political tendency to the assertion of state control, eradicating all autonomous elements in civil society.

Both these features are crucial in the Vietnamese case.

When the South Vietnamese regime collapsed in April 1975, the country was devastated. In the north, the industrial base and supporting infrastructure which had developed with Soviet assistance between 1955-65 had been severely damaged by US bombings between 1965-68 and 1972. As a consequence of the bombings, industrial production had been dispersed. It also declined. Although the DRV had given special attention to heavy industrialisation, the sector was in disarray at the end of the war. In addition, the agricultural sector in the north was characterised by low productivity and small surpluses resulting from the priority given to the war effort, but also to the lack of incentives given to the peasantry. Trade was hampered by the poor transportation system.

The south, of course, had developed within a capitalist framework, and was highly dependent on US aid. Over 30% of the population was urbanised, the rural sector was more orientated to market transactions, and a large proportion of the workforce was engaged in activities dependent on US support, in the military and service activities.

Given the disruption caused by the war, the new national leadership in 1975 initially emphasised gradualism and acceptance of the importance of the private sector in the south as a means of minimising disruption to the post-war economy. But the pragmatic period did not last long. The Hanoi leadership moved quickly to develop policies for the socialist transformation of the south. The reasons for the change are unclear. It may have been due to a combination of factors including; resistance in the south, the belief that the country could only be unified with one model of development and the DRV model was the most appropriate, and deteriorating relations with China and Cambodia.

Formal reunification took place in 1976 with the establishment of the Socialist Republic of Vietnam. This was followed by an intensive drive towards socialisation. The Second Five Year Plan (1976-80) established very ambitious targets. The plan followed the orthodox socialist model. It accorded priority to heavy industry and the establishment of national institutions modelled on the DRV, and exerted pressure on southern peasants to join production collectives and on industrialists to offer their enterprises to the state. In 1978, 30,000 private businesses closed. Large scale industries were brought under the control of central ministries, and central planning became
the norm. Enterprises were allocated targets for outputs, and inputs were determined by administrative decision. The state took control of foreign trade.

In the view of the authorities, the market would play a much reduced role. The State paid low prices for agricultural products and, in turn, would provide the peasants with subsidised consumer goods. Under the central planning approach, decisions relating to inputs and outputs were made with disregard to costs and capital return. Loss-making enterprises were supported by the State. Profitable enterprises returned their surpluses to the State. For enterprises and individuals, there was little scope for material incentives.

The experiment in accelerated ‘socialist transformation’ had disastrous consequences. In the late ‘seventies there were several contributory factors to Vietnam’s woes: natural calamities, war and the refusal of the US to provide reparations and the cessation of western aid. These all hindered Vietnam capacity to rebuild. Nevertheless, enormous mistakes were made in the handling of the economy over this period. Firstly, there was an enormous gap between what was expected and what the country could achieve after the shattering experience of war. There was an implicit belief that the country could leapfrog over different stages of development. Management by exhortation is a characteristic of many models of accelerated socialist transformation. The Vietnamese Communist Party (VCP) was assisted by the fact that there was much goodwill towards it, being the political force which had unified the country. On the other hand, there are limits to the sacrifices a war weary population can make.

Secondly, there is evidence to suggest that the economic structure and social relations in the south were poorly analysed. Thirdly, the strategy of reliance on socialist ownership of heavy industry created a number of inefficiencies and imbalances in the economy. Low prices and lack of material incentives discouraged agricultural production. Enterprises were not free to choose their inputs which tended to be unreliable and of low quality. Given unreliability, enterprises began hoarding in an anticipation of shortages. The gap between what was expected and what was possible was so unrealistic that requirements came to be disregarded. Underproduction became a characteristic of the system. Poor management and lack of capital exacerbated the problems.

The State supported a growing number of loss-making enterprises by printing more money. The shortages of planned activities created opportunities for speculators and corrupt party officials to make private gains on the black market. Inflation quickly rose to 50-60%.

This situation could not continue. Living standards had declined. People had less food in the north than during even the most testing periods of the war. Annual growth slumped to 1.5%. Industrial output stagnated. A chronic balance of payments crisis emerged.

The rapidly deteriorating economic and political environment forced the VCP to re-evaluate dramatically its development strategies. Indeed, according to current VCP secretary general, Nguyen Van Linh, the error committed by the party and government in the past was that during the transition period to socialism they had tried to ignore objective laws of economics.

The Sixth Plenum of the Fourth Congress in 1979 became a watershed in this process, with the new program that marked a shift away from the orthodox socialist model. The program recognised that the rapid pace of socialist transformation was disrupting the economy and needed to be slowed down. The party acknowledged that some state-produced goods can be better produced by the private sector. Most importantly, they began to emphasise material incentives as a means to boost productivity. A contract system was introduced in agriculture, giving greater incentives to families and individuals. Piece rates and bonuses were introduced in industry. Greater autonomy was given to enterprises.

The congress and interim plenums over the ‘eighties strengthened the momentum towards reform. The Fifth Party Congress in 1982 confirmed the move away from heavy industry and engaged in criticisms of the economic and financial management of enterprises. In 1985, the Central Committee passed a major resolution dealing with the problems of price, wages and a national currency, moving them towards market determined rates. Given the severe economic difficulties and political problems that have persisted during the eighties, the Sixth Party Congress, December 1986, adopted the slogan ‘Renewal or Death’, emphasising the urgency of the reform measures. The current development strategy uses the slogan ‘commercialisation’ of internal and foreign trade, i.e. economic resources are to be exchanged through commercial transaction rather than through administered means. Major attention in productive activities is now given to food, consumer goods, and exports.

How effective have these reforms been? Initially, there was a slow response. Bureaucratic inertia, inefficiency, poor communications, and vested interests delayed the implementation of the reform program. Although there appears to have been a degree of consensus within the party regarding the need for reform, there were differences regarding the pace of reform.

Conservative views within the VCP have expressed concerns about the slow pace of socialisation, about the increase of ‘negative phenomena’ such as speculation and corruption, and about the dominance of private traders, inflation and the emergence of class inequalities.

In terms of economic performance, however, the reforms began to stimulate a recovery in the economy. During the period 1981-84, annual growth averaged 5.7%. Industrial output increased by 14.2%. However, major problems persisted and some, in fact, intensified - for example, the continuation of subsidies to state enterprises, low productivity and continuing shortages.

As the Vietnamese economy moved down the road of market oriented reforms, there was a massive surge in inflation which soared to several hundred percent by the mid-eighties. Given the acute shortages in the economy, it was inevitable that price liberalisation would lead to inflation, with increasing supplies (resulting largely from
the reforms) being outstripped by faster increasing demand.

Vietnam had few options. Faced with accelerating inflation due to price reforms, other socialist countries such as China have tended to put a brake on price reforms.

The Vietnamese government, on the other hand, implemented drastic measures to cut inflation, yet continued along the road of price liberalisation. The subsidised system of administered prices had been virtually abolished and replaced by market determined prices, and currency reforms had brought official exchange rates in line with black market rates.

To reduce inflation dramatically, the Vietnamese introduced drastic fiscal and monetary measures. In the fiscal area, grants to enterprises were curtailed and subsidies to producers and consumers were eliminated. The most dramatic measure was in monetary policy where interest rates were set above the inflation rate, initially over 100%. This is like putting an economy into 'cold turkey'. As a result, lending to enterprises virtually ceased, and deposits soared.

By late last year these measures were beginning to have an effect. Inflation had, to a large extent, been squeezed out of the system. Enterprises were forced to take drastic action to remain viable. They could no longer depend on subsidised material supplies, maintaining large stocks, and grants from government. Although there has been pressure to relax the squeeze, the authorities are determined to continue with measures to liberalise the economy. As a consequence, there are likely to be a number of economic and social costs; enterprises will close down and unemployment will increase.

In the last few years the Vietnamese have gone further in acknowledging the need for a private sector and encouraging private investment. In 1988, the Council of Ministers passed a resolution accepting the "positive role and long term existence of the private and individual sectors". In 1988, a new foreign investment law was promulgated. Some enterprises can be entirely foreign-owned. Foreign investors are given tax concessions, as low as 10% for the first four years. Investors can repatriate a proportion of profits and guarantees are given against nationalisation. Officials say they looked to South Korea, Taiwan and Hong Kong for models.

To traditional supporters of central planning, state socialism, and a dominant role for communist parties, the rapid liberalisation of the Vietnamese economy must be seen as a retreat to capitalism. In response, a couple of points should be made. Firstly, the victory of liberation forces in small, underdeveloped countries does not guarantee the ending of economic problems. Underdevelopment, characterised by lack of capital, shortages of skills, and poverty, is a reality. Secondly, being cut off from the rest of the world can hamper development prospects. There is a global division of labour. Policies directed at selectively encouraging investment and trade can assist in expanding the productive forces of the economy, a pre-requisite for socialism.

Finally, the discrediting of orthodox models of central planning does not mean that planning becomes irrelevant. Planning is a key instrument in overcoming under-development. It enables resources to be focused on those areas which can boost economic performance - it may be infrastructure, boosting export industries, or improving research into agriculture productivity.

The Vietnamese have recognised the limitations of orthodox models of socialist development. It remains to be seen, however, whether their new road can avert the sense of major crisis now deepening in other formerly centrally-planned economies around the world.

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