Vietnam in the 1990s: Adjusting to Global Capitalism

Pasuk Phongpaichit

Follow this and additional works at: https://digital.car.chula.ac.th/arv

Part of the Asian Studies Commons

Recommended Citation
DOI: 10.58837/CHULA.ARV.5.1.5
Available at: https://digital.car.chula.ac.th/arv/vol5/iss1/5

This Article is brought to you for free and open access by the Chulalongkorn Journal Online (CUJO) at Chula Digital Collections. It has been accepted for inclusion in Asian Review by an authorized editor of Chula Digital Collections. For more information, please contact ChulaDC@car.chula.ac.th.
Vietnam in the 1990s: Adjusting to Global Capitalism

Pasuk Phongpaichit

Introduction

Consider the following basic data on GDP share in Vietnam:

<table>
<thead>
<tr>
<th>Table 1. Share of National Income in Percentages, 1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimates by</td>
</tr>
<tr>
<td>Private</td>
</tr>
<tr>
<td>Consultant*</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Industry, construction</td>
</tr>
<tr>
<td>Trade, transport</td>
</tr>
<tr>
<td>&amp; Communications.</td>
</tr>
</tbody>
</table>

* This Is Vietnam, Vol.1, No.1, Autumn/Winter, 1990
** A Researcher from the National Centre for Social Sciences of Socialist Republic of Vietnam.
*** These figures are likely to include agricultural processing.

These estimates are dramatically different. This may be the result of differences in the method of estimation. The GSO (General Statistics Office, Vietnam) figure probably follows the Material Product System (MPS) method of social accounting common in socialist countries, while the private consultant’s possibly approximates the SNA (System of National Accounts). The MPS method does not include non-material services, estimated to be around 13 percent of national income. The differences may also be the result of bias. A consultant firm may be eager
to stress that Vietnam's urban sector is quite far advanced. A local researcher may be more aware of the rural nature of the Vietnamese economy. But whatever the origin of the differences, these figures illustrate one important fact: it's difficult to be precise about what is going on in the Vietnamese economy.

This paper is an attempt to understand the present economic situations and trends in Vietnam, within the above limitations. The paper is based on the writer's field trips to Hanoi and to Ho Chi Minh City at the end of October 1990, on interviews with businessmen and journalists interested in Vietnam, and on available written sources.

The paper covers two main themes. First it sets out to understand the liberalisation of the Vietnamese economy from around 1986. Second, it sets the current trends in Vietnam into a wider context of economic development analysis.

As the Vietnamese economy becomes more liberalised and more open, it faces much the same possibilities and constraints as other developing countries in the region and elsewhere. The basic problems are: firstly, how to produce enough food and other agricultural produce to feed the population and to generate surplus for export. Secondly, how to increase foreign exchange earnings, and foreign inflows by methods other than selling agricultural exports. One obvious way is to encourage foreign investment, but the long-term consequences are tricky. Foreign investment may actually act as a drain on resources in the long term if it

---

1. In Vietnam I had intensive interviews with the Director of the Institute of World Economy, other researchers and the President of the Union of Vietnamese Peasants. I also went to Ho Chi Minh City, where I visited a village just outside the city, the Vietnamese Chamber of Commerce, and talked to Japanese businessmen who buy and sell in Ho Chi Minh City. The field notes are supplemented by documents I obtained from Vietnam and which I could get hold of in Bangkok; and discussions with Paul Wedel and Peter Janssen of UPI; and Dr. N.V. Lam of ESCAP. I would like to record my thanks to all of them. I would also like to thank Dr. Khien Theerawit, Director, Institute of Asian Studies, Chulalongkorn University for helpful comments on an earlier draft. But I alone am responsible for all the shortcomings in this paper.
is not properly managed. Thirdly, once the surplus can be produced and foreign exchange can be earned, the crucial question is how to use it in such a way that it increases surplus, without jeopardising incentives. A major problem is how to control consumption in order to divert surplus to productive use. This raises questions of social management which will be especially acute for Vietnam in the years to come, as economic liberalisation unleashes new social forces. Our analysis therefore involves looking at the economic trends as well as the trends in class forces.

The paper describes the new production systems in Vietnam since the end of 1986, and discusses the impact on class forces and prospects for further change. The plan of the paper is as follows. After this introduction we discussed the reasons for the liberalisation. This is followed by an outline of the new production systems in agriculture and industry. The third section reviews economic changes and the prospects for a take-off. The fourth section analyses the new class forces which emerge. The last section is summary and conclusions.

The reasons for the liberalisation

After national unification between North and South in 1975, Vietnam was faced with the problem of how to organise its production system in line with the Party’s socialist ideology and how to solve basic economic problems. In the beginning it adopted the socialist framework of the Chinese model. Farms were collectivised and state firms produced 100 percent of all the manufactured goods.

Collective farms were organised under a co-operative system. There was no private ownership. All land belonged to the co-operatives. Farmers worked as employees to the co-operatives. But in actual fact land was hierarchically controlled (party members and relatives tended to have access to good lands and so on), and this proved to be one reason why farmers resented the system.

In the north collective farms had operated since the mid-1950s, but there were still problems. In the south where the capitalist system was operating until 1975, the government had an even harder time. The result was poor performance. Between 1976 and 1980 GNP grew at the rate of 1.4 percent, and agriculture, the largest sector, grew at an annual
rate of 1.9 percent. In the same period population grew at 2.2 percent (Institute of World Economy). The result was a fall in the per capita income, as well as a decline in food per capita. Farmers were very unhappy. Peace had brought more frustration, and poverty appeared never ending. For the government, the failure to boost production and create an exportable surplus meant there was no possibility to invest in the infrastructure that the country so badly needed.

Russia helped by providing grant aid between 1978 and 1990. They paid for fertilisers, oil, for building bridges and roads, and for armaments. However Russian grant aid has diminished and from 1 January 1991 will cease altogether. Hard cash will have to be paid for fertilisers and oil. Russia is also demanding interest payments on the loans given to Vietnam over the years. The loss of Russian aid will be a big blow. The changes in Eastern Europe also affect Vietnamese trade.

Vietnam needs investment in basic infrastructure, and needs foreign exchange to pay for agricultural inputs, for oil, for capital imports and interest payments. People are weary of poverty, and aware of perestroika. Unless there is some improvement in economic performance, the Party will face not only an economic crisis but also a political crisis.

Pressure to reorganise the systems of production led to some limited liberalisation in the early 1980s. The most noticeable change was to allow provinces to export directly without passing through the Ministry of Foreign Trade. But a more dramatic change occurred after the 6th National Congress of the Communist Party in December 1986. The Party was forced to reform the mechanisms of economic management and permit the market mechanism to operate in order to provide incentives for greater production. In putting through these reforms, the Party was clearly affected by pressure from the peasants and from the south.

Since 1965, a group of peasants in one province had demonstrated that the contract system based partially on private incentives worked better than the collectivised farms. In Thanh Hoa district, Vinh Phu province, farmers had pushed the co-operatives to give hilly and forest land which was previously unused to farming households on a lease hold agreement. They wanted to raise livestock on the hill slopes and grow rice and tea at the foot of the hills. As the contract system provided security of tenure (leased land could be passed on to family members), farmers had great incentive to work hard and reinvest. The yields of tea and rice at the foot of the hills increased, while livestock also prospered. The forests which had been destroyed during the war were reforested and protected by the households. In this district the leasing out of forest and hilly lands helped relieve the population pressure on scarce low land and reduced unemployment. This demonstration case convinced academics and Party members of the viability of the new contract system. It was adopted officially as a national policy in January 1988.

The new production systems
Agriculture and services

Under the new "contract system" land is equally divided among farming households (in principle). An able-bodied labourer (in the age group 15-45) gets 1 acre (2.5 rais) of land. Usually a family has two or three labourers, so the total land per family is around 2-3 acres. The farmers do not actually own the land but they lease the land from the state through the co-operatives at varying lease periods. The contract time for paddy plots is from 10 to 15 years; and for hilly and forest land from 20 to 25 years as these lands take longer to develop. The contract period can be extended and passed on to family members. The farmers

3. According to a researcher a family with no able-bodied labourer, namely the households of the aged, the disabled with dependents, may not get any land. This puts them in a disadvantaged position. Further, even under the new system good land has continued to be in the hands of the party members via the control of the co-operatives.
contract to pay a lease charge or tax in kind (increasingly farmers want to pay in money as inflation has increased) to the government via the co-operatives. The charge is usually 12 percent of the total rice output. The farmers pay for all the inputs, and can retain for own use or sale everything they can produce over and above the contract amount.

The new system has been so successful that for the first time Vietnam has generated a surplus of rice for export. Farmers earn more income, and they have become much happier.

The government is in need of large amount of foreign exchange and is eager to promote agricultural exports. Several foreign trade corporations (FTC) have been set up, among which 2-3 big companies dominate. These successful firms discovered that they could work better by buying from a few of their contract merchants in the locality. The merchants buy the goods in the villages, store and semi-process them before selling to the state firms. This system has created a new class of merchants or middlemen who work with the state corporations and are clearly becoming very rich. We visited a village in which one of these merchants became so rich from buying cinnamon for exports that he built an ostentatious three-storey house amidst the very modest housing of other villagers. There are also several other large houses in this village which belong to other merchants. Such large houses cost the equivalent of 2-300,000 baht. In Vietnam where the average annual per capita income is 3,750 baht (US$ 150), this is a very significant sum.

Liberalisation has created other new economic opportunities, for instance in construction and contracting. With farm income increasing, there is a great demand for new and better houses which in turn creates demand for brick makers, tile makers and so on. Now only large construction projects are built by the state construction firm. Small enterprises can now make bricks, tiles and other construction materials. In the co-operatives we visited, many small farming families were busy

---

4. Lease fees vary according to the quality of the soil as well. For non-rice farms, including projects like fish farms, the charge is specified in the contract.
building their new homes with bricks. Large newly built houses (in a 2-3 story one-block shophouse style) that are visible have the date written on them. All of them were built in 1988 or 1989, after the reform.

With the new system in place, the co-operatives have faded into the background. They now function simply as the government machinery for collecting taxes, for providing reliefs for very poor families (disabled and the aged), and for distributing inputs such as fertilisers.

The new contract system has increased production but it has also increased income differentials. Disadvantaged households (the disabled and the aged) or those with smaller number of labourers and littler capital funds, have not prospered. They have pushed for the government to provide welfare facilities. In one of the villages we visited, the aged were given some free rice from the rice tax collected by the co-operatives.

**Industry**

Previously industry could be divided into two types: first, large and more modern state enterprises; and second, smaller collective firms or handicrafts in provincial areas. State firms proved extremely inefficient. It was said that the state monopoly of industrial production was one of the major causes of high inflation in the early 1980s. Liberalisation in the industrial sector occurred first in the smaller collective firms and handicrafts. Originally members of workers' families were permitted to start small businesses including small manufacturing enterprises. Later, liberalisation advanced into large state firms. To reduce the burden of state enterprises on the regular budget, the government removed subsidies and forced the firms to stand on their own. Penalties are now imposed for firms which make losses.

This transition has not been without problems. Old officials in state firms resent the liberalisation, and especially the removal of subsidies. And the government itself is reluctant to liberalise the industrial sector completely.

As the subsidies are being withdrawn and tighter profit rules are being applied, state enterprises have to find ways to make money. They are experimenting with various kinds of new production arrangement, including contract systems or technical tie-ups with foreign firms, local individuals or partnerships.
Several state factories producing garments and frozen shrimps around Ho Chi Minh City have been contracted out to private individuals. The contractor undertakes to acquire machinery and technical know-how from Taiwan or Japan and to pay an agreed amount to the government each year. Any further profit the contractor may keep. These new industrial collectives are similar to limited partnerships – a group of people who join together to operate a company.

In oil and wood products for instance, state enterprises have struck deals with foreign firms to supply capital goods on a loan basis. The foreign firm is repaid in kind with exportable products valued at an agreed price which is usually below the world market price. A state factory producing frozen shrimps for export around Ho Chi Minh city has leased the business to a local private businessman on a contract to produce for exports under some control from the government. The private contractor furnishes the new investment himself. He has contracted to buy new equipment and know-how from Taiwanese and Japanese firms.

The government wants to promote foreign investment. The Foreign Investment Law (published in 1990) is modelled on the Chinese version which gives the government considerable control over labour in foreign ventures. Foreign firms may enter into joint ventures with state enterprises but may only employ staff through the government Labour Office, and must pay salaries through the Labour Office. The government retains around 70 per cent of these salaries as taxes and contributions to the social insurance cover for the staff.

Following the reforms, it has been estimated that the state control over the production system declined dramatically (see Table 2)\footnote{The writer would like to thank Paul Wedel for sharing these figures.}
Table 2. Percentage Share of State Production, 1990

<table>
<thead>
<tr>
<th>% of state production</th>
<th>previously</th>
<th>now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>Vegetables</td>
<td>n.a.</td>
<td>00</td>
</tr>
<tr>
<td>Coffee</td>
<td>100</td>
<td>40</td>
</tr>
<tr>
<td>Poultry</td>
<td>n.a.</td>
<td>10</td>
</tr>
<tr>
<td>Total Industrial output</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>n.a.</td>
<td>40</td>
</tr>
<tr>
<td>Capital goods</td>
<td>n.a.</td>
<td>60</td>
</tr>
<tr>
<td>Transport</td>
<td>n.a.</td>
<td>35</td>
</tr>
</tbody>
</table>

The area where the government still has a large control is heavy industry such as electricity, mining and textiles. State capitalism prevails here.

**Foreign Investment**

According to law, foreign ventures may have up to 100 percent foreign ownership. In practice, the State Committee for Co-operation (which operates like the Board of Investment in Thailand, but also deals with foreign aid) prefers ventures with a majority Vietnamese share. And in practice, experienced foreign businessmen know that joint ventures are difficult to launch. The government prefers deals which involve production under contract or some form of technical tie-up with the government controlling the operation while paying the technical fees.

The government has entered into two joint ventures, first with Rhone-Poulenc, a giant French MNC in pharmaceutical and agro-chemicals, and second with the rival French firm of Roussel Uclaf. Rhone-Poulenc’s case is a very special one. The firm has been in Vietnam since 1950 and stayed through the war. During Vietnam’s first wave of economic reforms, Rhone-Poulenc set up the joint venture with a 49 percent stake. The project began operation in 1989. The firm in Ho Chi Minh City has 150 workers, and it produces simple drug like aspirin for local consumption. All materials are imported.

Following this success Rhone-Poulenc tried to make another joint venture deal to set up an agro-chemical factory to produce pesticides for Ho Chi Minh City’s Agricultural Service. After two years of
negotiation, they had got nowhere. In 1990 they finally settled for a contract arrangement in which Rhone-Poulenc will supply all machinery, equipment, raw materials and technology and provide some marketing expertise on a five-year pay back arrangements for the plant. The plant will be owned by the Vietnamese.

The Vietnamese are eager to attract foreign businesses. This is the quickest way to earn foreign exchange to pay for capital equipment. But they have learned from the experiences of other countries and are looking for longer-term deals which will benefits the country as a whole. The tough negotiations with Rhone-Poulenc demonstrates this awareness. A book which is especially prepared for businessmen travelling to Vietnam notes: “Remember that this is a proud country which didn’t spend decades fighting against foreigners just to be ripped off by overseas carpetbaggers”.

The government’s cautiousness may partly explain the low level of total foreign investment. It amounts to only US$ 1.2 billion, of which US$ 1 billion is invested in oil exploration. This leaves only US$ 2 million for all other investment projects.

Prospects for Economic Growth

The factors affecting the prospects for growth in the Vietnamese economy are now broadly similar to those of other developing economies, namely: the ability of the existing economic base to create an investible surplus; the potential for supplementing this locally-derived surplus through various forms of external assistance; and the efficiency with which the surplus is directed into productive investment.

The recent liberalisation has certainly released some of the productive potential in the local economy. Reliable data are scarce, but what is available (which we should use with some caution) indicates that much economic progress has been achieved following the reform. The GDP in 1989 recorded a 4 percent increase as compared to less than 2 percent in the late 1970s. Rice exports rose from 87 thousand tons in 1988 to nearly a million and a half tons in 1989 (Table 3). Exports of seafood and light manufactured goods have also made progress. Vietnam
is seeking collaboration in silk production with Italy. It is also receiving assistance from UNDP to promote the breeding of silk worms. This is another area that Vietnam can quickly progress.


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate (%)</td>
<td>1.4</td>
<td>4*</td>
<td></td>
</tr>
<tr>
<td>GNP per capita</td>
<td></td>
<td>150*</td>
<td></td>
</tr>
<tr>
<td>Total imports (US$ m.)</td>
<td>2,757</td>
<td>2,447</td>
<td></td>
</tr>
<tr>
<td>Total exports (US$/Rubles m.)</td>
<td>1,038</td>
<td>1,820</td>
<td></td>
</tr>
<tr>
<td>Exports by commodity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Light industrial goods &amp; handicrafts</td>
<td>441</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Farm, processed agri. products</td>
<td>348</td>
<td>725</td>
<td></td>
</tr>
<tr>
<td>Sea products</td>
<td>134</td>
<td>180</td>
<td></td>
</tr>
<tr>
<td>Heavy industrial &amp; minerals</td>
<td>60</td>
<td>350</td>
<td></td>
</tr>
<tr>
<td>Rice ('000 tons)</td>
<td>87</td>
<td>1,450</td>
<td></td>
</tr>
<tr>
<td>Seafood ('000 tons)</td>
<td>n.a.</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>Foreign investment (US$ m.)</td>
<td>809</td>
<td>1,200</td>
<td></td>
</tr>
</tbody>
</table>

Source: This Is Vietnam, Vol.1 No.1 Autumn/Winter 1990. Published by Beca Investments Ltd. Hong Kong.
* Figures from the Institute of World Economy, Vietnam.

Liberalisation prompted a similar mini-boom in the traditional economy in China. The question is, how far can it be sustained. Certainly Vietnam has a relatively well-educated and diligent work force, and a good supply of natural resources (forests, mineral, oil, fishery, the long coast lines). The constraints on the internal side are the almost complete lack of infrastructure, the lack of managerial capability, the lack of legal framework to guarantee security for investors (especially important for foreign investment), and the problems of inexperienced and complicated bureaucracy. An investor in Ho Chi Minh City may have to deal with three levels of government: the one in Hanoi, the powerful Ho Chi Minh City Administration and the district administration, all working quite independently and not wishing to know of the work of the other.

The prospects for supplementing the local surplus through foreign loans and assistance are circumscribed by the embargo on US
companies doing business with Vietnam. This embargo was slapped on North Vietnam in 1964 and extended to Cambodia and South Vietnam in 1975. As long as the regulations are in force, US citizens and branches and subsidiaries of US businesses throughout the world are barred from engaging in businesses in Vietnam. Even a broker for goods sold to Vietnam is considered a breach of the code. Penalties for violating the sanction range as high as 10 years in prison and US$ 50,000 in fine.

Where the US embargo hurts most is where it makes it difficult for Vietnam to negotiate for multilateral loans or technical assistance involving US related organisations, such as the World Bank and the IMF. It also affects the policies of other countries and the activities of companies of non-US origin. As long as the embargo is enforced, for instance, Japan is cautious to provide direct grant aid or loan to Vietnam. And many European companies have found it difficult to start operations in Vietnam because of their own dependence on materials and inputs of US origin.

When Thailand began her economic drive in the 1960s, she had benefited from the US grant aid, an enormous amount of favourable loans from the World Bank, the IMF and other official loans. She used these loans and foreign inflows to build up her infrastructure. The US embargo means that Vietnam will have to slowly build up her infrastructure and other capital stocks from the surplus generated within the system.

With prospects for relatively slow growth in locally-generated surplus and severe constraints of the ability to supplement the local surplus through overseas assistance, the efficiency with which Vietnam deploys the surplus into productive investments will be crucially important in determining the pace of growth. The proportion of the surplus which is devoted to productive investment depends on the ability of the government to contain luxurious consumption of the emerging middle class both in rural and urban areas. To assess these prospects, we need to look more closely at emerging class forces in Vietnam.
Changes in Class Forces.
The countryside

Liberalisation has certainly created increased differentiation in rural society. Although the contract system which supplanted collectivisation officially allocated land to all farmers equally, the reality has been significantly different. Farmers with little capital could not afford to work on the very small farm plot allotted by the state for lack of capital funds to pay for inputs. Many decided to rent the land out to richer farmers and work for them as wage labourers. In areas near the towns, poor farmers rented their plots to richer farmers and went to work in town for wages. Especially in the south where landlordism had been widespread before 1975, these trends have been common. There are many middle peasants operating on land as big as 16-32 acres. The Party has turned a blind eye to this practice. Some Vietnamese researchers have voiced concern over this as it is against socialist principle. But others have taken the view that the society should accept as a real state of things the presence of landless people and farmers with little land in rural areas. They are prepared to accept that the landless and small farmers will constitute around 20 per cent of the total rural population. In their opinion these people should be left free to choose their trade and earn their living.

6. This situation is no way as bad as it used to, as in the 1930s, when it was reported that estates of more than 120 acres accounted for almost half of the total area, and were owned by 6,500 landlords representing 2.5 percent of the population. See Nguyen Khac Vien (1987) p.192.

7. The Institute of World Economy, Economics Problems, p.44. This proportion of 20 percent landless households, is in effect, the situation in the South around 1978. Investigations by the central Commission on Agricultural Reform carried out in 8 provinces in the Mekong Delta showed the proportion of landless peasants and peasants having little land was 22.7 percent (The Institute of the World Economy, Economics Problems, p.38).
In addition, there is a clearly emerging class of merchants and middlemen making significant wealth from trading agricultural goods with the state corporations and from ancillary businesses such as money-lending.

It is probable that the differentiation within the farming community is leading to relatively efficient investment in expanding future production capacity. On the other hand, the emergence of middlemen appears to be expanding luxurious consumption, as shown by the building of ostentatious houses in the villages.

The city

Around a fifth of the population lives in urban areas. The largest proportion of the urban population consists of civil servants and state enterprise employees, who in total number around 4 million.

Urban Vietnam also has a large segment of small trade and manufacturing businesses, a legacy of its long history as a trading nation with a long coastline. Following liberalisation, this segment of urban society has seen significant change. While the government has taken care to control the development of large-scale industry and foreign investment, it has by and large allowed the small-scale sector to expand naturally. The recent boom in exports of labour-intensive products (garments, leather goods, silk thread, processed marine products) has already produced entrepreneurs in the medium size and modern firms. Most of them started small and grew through sub-contracting work with large state enterprises, or through technical tie-up with foreign businesses, under some control from the government.

The magazine *Asian Business* recently documented an individual case of how this is happening. Mr. Tran Duc Nam was a former army captain under the old Saigon regime. He spent three years in a re-education camp after the war ended. In 1983, he and his wife started a small sewing shop. He took contract work from a large state enterprise. At the time

private business was not allowed to function, so he had to hide under the cloak of the government. After the liberalisation he registered a private company in 1988. Now he operates out of three rented buildings in Ho Chi Minh City and employs about 300 people. Last year he sold more than US$ 300,000 worth of garments to West Germany and France. In 1990 he targeted 2.5 million pieces or earnings of US$ 1.2 million. He is preparing to build a new factory. In June 1989, the National Assembly passed an amendment to the Foreign Investment Law allowing foreign investors to choose Vietnamese private entities as partners for joint ventures. With this boost he is negotiating to start a joint venture business with a Taiwanese firm. He expects to gain market access and technology from the new partner.9

This is but one example, but there are no reasons to believe it is not being replicated many times in the fields of garments, silk production, processed marine products, furniture, lacquerware and construction materials. Then there are a large number of self-employed, family type businesses in trading, handicrafts, restaurants, transport and construction contractors.

**Emerging Class Forces and Economic and Political Implications**

The attempt of the Vietnamese regime to liberalise the economy while retaining much of the political framework of state control, means that government is exposed to new class forces and must learn how to deal with them.

Rural society is dividing into strata of richer middle peasants on the one hand, and small farmers and landless labourers on the other, with an additional small but economically important element of merchants and middlemen. Given the relative poverty of the rural sector as a

---

9. This article reported that Mr. Lam has bought a piece of land in Ho Chi Minh City, on which his new factory is to be built. This information is probably not correct. All land still belongs to the government, and outright buying of land for a private ownership is still not possible. The government has probably agreed to lease a piece of land to him.
whole, the government has had to be especially sensitive to the situation of the smaller farmers and landless who, in the process of differentiation, may easily fall through the trap-door of poverty. As a result, the government has introduced some limited subsidies and welfare measures.

The middle peasants have the potential to be a significant political force. They showed their muscle in the opposition to collectivisation. Now they are pressing the government to increase investment in agriculture. They also have shown resentment at the sub-contracting system which has allowed middlemen to siphon off the profits of trade in agricultural products, and are agitating for a revision of the system of rural trade.

In the towns, there are three significant new forces. First, there is the emergence of a form of bureaucratic capitalism as the old system of state-controlled industry undergoes perestroika. Second, there is a significant class of factory workers in state and private enterprises. Factory workers in state enterprise receive around US$ 1 a day, while a foreman get US$ 2. But workers operating on piece rates in a garment factory may receive up to US$ 166 a month. These amounts compare favourably with the average civil servant’s salary of around US$ 20 a month.

Third, there is a large segment of the urban population which seems to have been disadvantaged by the liberalisation. This segment includes civil servants, soldiers, and ex-employees of state factories which have been closed down. Unemployment among returned soldiers has continued to be high (Vietnam used to have something in the order of over 2 million soldiers, now reduced to 500,000). It was said that the party will have difficulty commanding the standing army to quell rebellion or suppress large public protests, because of the low morale and resentment among the soldiers of their poor conditions. Following the reform of state enterprises, many state employees in factories which made losses become unemployed. Civil servants also complained bitterly of their poor income.

The government is aware that it needs to expand the economic surplus rapidly in order to provide revenue for investment in infrastructure and for the welfare needs of those losing out in the process of
liberalisation. At present it is relying on entrepreneurial forces in rural and urban society to generate the surplus under partially controlled conditions. In the immediate future, it is likely that most of the new social forces created by liberalisation will support the government's effort. In particular, the new bureaucratic capitalists, the small businesses profiting from the sub-contract system, and the rural middlemen all have a vested interest in the continuation of the present system. The one area where government may come into conflict with these political allies is the issue of foreign investment. It is likely that businessmen will press for a more liberal framework for joint venture enterprise, while the government will want to continue to implement relatively strict controls.

This however is merely a matter of political management. More important will be the government's success in managing its relations with the farmers, and in protecting the more disadvantaged members of society from the worse ravages of economic differentiation. The farmers proved their muscle in the opposition to collectivisation. They are already pressing for reforms in agrarian investment policies and in the framework for trade in agricultural produce.

**Summary and Conclusions**

Vietnam faces much the same economic and political problems as any other developing country. How to generate surplus from agriculture. How to increase exports and other foreign exchange inflows. How to manage foreign investment for the benefit of the society. How to ensure an equitable distribution of income. How to manage the demands of emerging middle classes in rural and urban areas.

The impact of the liberalisation on the economy has been impressive. The agricultural sector has produced surplus for export and for some social welfare. Farm income has increased and relieved the farmers' resentment against the government's inefficient economic management under the socialist phase. Exports of industrial products have increased and helped relieve the foreign exchange shortage.

The government has been cautious about opening up completely to foreign investment. The Vietnamese government has learned from the experience of other countries including China that over-liberal reliance
on foreign investment can quickly use up the available surplus and drain the economy. The tough negotiations foreigners have to make in striking a joint venture deal demonstrates this cautiousness. The government prefers alternative contractual deals which involve technical tie-ups or production contracts rather than straight joint ventures.

The US embargo will effectively make it very difficult for Vietnam to seek significant outside help for the near future. This will act as a severe restraint because Vietnam desperately needs outside assistance to build up infrastructure.

The amount of investible surplus depends on how successful the government can control the consumption of luxuries among the emerging rural and urban middle classes. In rural areas, small and medium farms reinvest to increase their productive capacity. But rich merchants and middlemen are busy devoting the fruits of the liberalisation to ostentatious consumption. The government has not been very successful in channeling increased surplus from agricultural exports into more productive uses. In the city, the government manages better by encouraging reinvestment.

Agitation for greater decentralisation and a more open political system may come from two main sources. First from upper farmers who already resent the control on export business of middlemen in alliance with the state corporations. Second from young Party members, whose economic conditions have not improved a great deal in the liberalisation. The government is likely to find its strongest supporters among the bureaucratic capitalists and emerging entrepreneurs.
Appendix: Some Facts about Vietnam

Area & Population, 1989

| Area (sq. km) | 330,363 |
| Population (million) | 64 |
| Under 15 years (%) | 39 |
| Density (people/sq km) | 195 |
| Rural population (%) | 80 |

Work Force, 1989

<table>
<thead>
<tr>
<th>Work Force</th>
<th>In million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture (%)</td>
<td>71</td>
</tr>
<tr>
<td>Industry &amp; construction</td>
<td>14</td>
</tr>
<tr>
<td>Government and State Firms</td>
<td>14</td>
</tr>
</tbody>
</table>


Books and Articles Consulted


Insight Indochina, Monthly report on Indochina and Burma, various issues in 1990. Published by Business International.


This is Vietnam, Vol.1, No.1, Autumn/Winter 1990. Printed by Beca Investment Co. Ltd., Hong Kong.

Yegeny Kobelev, Ho Chi Minh, Progress Publishers, Moscow, 1983.