

VIETNAM: 20 YEARS OF SOCIOECONOMIC RENEWAL

PHẠM XUÂN NAM^(*)

I. Renewal: an essential need

From the late 1970s to the mid 1980s, only a few years after the victory against the United States and the reunification of the country, Vietnam fell into a serious socioeconomic crisis. This was mostly a result of subjective mistakes made in aspirations of many of the Party's and the Government's policies in reforming and building socialism in the old way.

Agricultural production was stagnant. There was a persistent shortage of food. Even though statistics showed that industrial production was increasing, most state-owned factories and enterprises were actually making "false profits and real loss," owing to the Government's extensive subsidies. Circulation and distribution was in stagnation. The inflation rate was rocketing with a retail price index at 774.7% in 1986. Living standards were worse than ever before. In urban areas, workers and civil servants monthly salaries could only support them for 10 to 15 days. Between crops in rural areas, millions of farmers were in hunger. Social evils were spreading. People were growing uneasy.

It was even worse in 1985- 1986, after the failure of the general price-salary-money adjustment in September 1985, because the great majority of the people found it

unacceptable to lead the lifestyle the adjustment required. The Party and Government leadership and management also saw that it was impossible to maintain the out-of-date mechanism and policies or to make improper amendments to single policies.

The urgent situation required the Party and Government to renew themselves, in terms of both ideology and practice, to help the country out of a situation of crisis and into one of stabilization and development.

II. The Party's and Government's renewal socioeconomic guidelines and policies since 1986

With the motto "*see the truth, assess the truth, speak the truth*" the 6th National Congress of the Communist Party of Vietnam (December 1986) not only praised achievements since the national unity but also seriously criticized many errant guidelines and policies in socialist reforms and construction. The Congress addressed the guidelines for comprehensive renewal, including issues directly related to socioeconomic renewal as follows:

- Change from a bureaucratic central state subsidy system to a multi-sectored

^{*} Prof., Dr., Vietnamese Academy of Social Sciences.

commodity economy, to release production forces; to make full use of the potential in capital, labor, technology and experience of the people; and to promote economic growth and improve living standards.

- Highlight the role of social welfare, make economic development the basis for implementation of social policies, establishing the managing of social issues as the goal of economic activities.

- Create more jobs (one of the key socioeconomic tasks). Introduce favorable policies for job creation by encouraging household economy and capitalizing on the potential of other economic sectors.

- Arouse the peoples enthusiasm by ensuring that they get the appropriate income according to their work and economic efficiency. Respect the benefits of legitimate business activities.

- Attend to and meet the educational demand of the people. Concentrate on improving the quality of the medical system and make dramatic progress in health care activities.

With the goals stated above, the Party's 6th National Congress introduced many substantial guidelines and directives for the socioeconomic renewal to apply in the initial steps of the transitional period to socialism.

When the renewal had been underway for 3-4 years with some results and many difficulties, the world saw some dramatic changes with the fall of Eastern European socialist countries and the Soviet Union. This came as an enormous shock to the people, and it had a negative impact on Vietnam's economy.

For a long time, nearly 70% of our total import value and 60% of our total export value had been related to SEC (Supporting Economic Committee) countries. So it was understandable how challenging it was for Vietnam when her financial and

commercial relations, as well as many cooperative programs, with those countries almost collapsed. Moreover, the United States widened their embargo against Vietnam, which remained in place then until 1994.

In such a bleak situation, both domestically and internationally, even the optimists wondered if Vietnam could stand firm and overcome the obstacles and challenges. However, these difficult circumstances also gave rise to the Vietnamese people's creativity from the grassroots level, and the talents of national strategists and scientists.

Based on the grassroots experience and reinforced theoretical research, in the Party's 7th National Congress (June 1991), 8th National Congress (June 1996) and 9th National Congress (2001) and the meetings of the Party's Central Committee, renewal guidelines initiated in the 6th National Congress were further supplemented and improved. The Socialist Republic of Vietnam's National Assembly and Government institutionalized the Party's guidelines into concrete laws, policies, plans, programs, and projects to put into practice.

The Party's and Government's renewal guidelines since 1986 have included various issues, the keys of which are as follows:

First, change from a bureaucratic state-subsidized and centrally planned economy depending on public mainly state and collective ownership of production materials into a multi-sectored commodity economy operating in the socialism-oriented market mechanism under the Government's management. "*It is the socialism-oriented market economy*" (1, p.86) - Vietnam's general economic model in the transitional period to socialism.

Second, promote economic development, along with a developed and equal society, promoting culture and protecting the environment; establishment the people at the core of all the guidelines, policies, and programs for development.

Third, democratize social life in the principle of “*being known to, discussed by, carried out by and supervised by the people*”; build a legitimate socialist state of the people, by the people, and for the people.

Fourth, diversify foreign relations with the motto that “*Vietnam is willing to be a reliable friend and partner of all the countries in the international community striving for peace, independence, and development*” (1, p.119).

In guiding the above issues, Party and Government planned to keep economic renewal as the key task as well as highlighted renewal in politics and other aspects of the social life.

Instead of adopting a drastic and shocking type of procedure, economic renewal in Vietnam took place in the form of “experimenting and adjusting”; it combined the experience of the Vietnamese people, theoretical research, and knowledge acquired from outsiders. While mistakes of the old management were resolutely corrected, its achievements were not completely denied but were acknowledged and promoted.

Therefore, the transition into a market economy in Vietnam did not cause alarmingly big change in the society or any political collapse, as was the case with reforms in Eastern Europe and the Soviet Union. It was the political and social stability that facilitated the economic renewal. In return, economic renewal supported by the people was a key factor in

renewing the political system in a way that would enhance the Party’s leading role and the Government’s efficiency and promote the mastering power of the people.

III. Achievements and limitations of the socioeconomic renewal during the past 20 years

1. Achievements

a) Economic development

In applying the Politburo’s Resolution No. 10 (April 1988) on household members of agricultural cooperatives (“Resolution 10” for short), agricultural renewal saw a breakthrough. Changing from collective ownership of everything including labor, land, and other production materials to recognizing agricultural households as a self-controlled economic unit entitled to permanent use of land, free trading of commodities in the market at negotiable prices, funding support, assistance and instruction of production technology, etc. aroused the enormous potential of over 12 million agricultural households. The country’s total agricultural value increased from 17.5 million tons in 1987 to 39.3 million tons in 2004, which was even higher than the 2005 target. Vietnam went from being an importer of food to being the 2nd largest rice exporter in the world.

As for industry, following the Party’s renewal guidelines, the Government introduced policies to abolish the extensive state subsidy for state-owned businesses, making them get loans from banks to survive. These businesses then had to manufacture according to domestic and international market demand and step by step improve their equipment, technology, management, and competitiveness. The Government also encouraged the other economic sectors such as cooperatives,

individuals, sole-proprietors and private capitalists to promote industrial production. Foreign invested businesses in petroleum, light industries, heavy industries and food industries also developed quickly. By 2005, there had been 5,468 foreign direct investment projects, among which 3,388 were in industries. Nearly 100 industrial and processing zones had been set up nationwide. As a result, from 1991 to 2004, the industrial growth rate was relatively high, at an average of 12-13% per year.

As for circulation, finance, and prices, trade limitation was abolished. The two-price system, including the low price (according to the Government's ticketing system) and the free-market price, which was 5 to 10 times higher, no longer existed. Bank interests were set higher than the inflation rate to mobilize the public's spare money. Consequently, the inflation rate, which was once nearly 80%, has been strictly controlled.

Service sectors such as trading, hotel services, tourism, transportation, etc., which were underestimated, have been expanding and developing since the 1990s.

The economic structure has changed dramatically into an industrial one. From 1985 to 2004, the GDP proportion of agriculture-forestry-aquiculture values dropped from 43% to 21% while the proportion of industry-construction and service values increased from 29.3% to 40.5% and 27% to 38.5% respectively.

International economic relations have been diversified and multilateralized to gradually integrate in the region and the whole world. At present, Vietnam has commercial relations with 154 countries. Export values increased from \$2.4 billion in 1990 to \$26 billion in 2004. Import values mounted from \$2.7 billion to \$31.5 billion in the same time frame. By June 2005, over 800 businesses from 70 countries and territories

had invested directly in Vietnam with nearly 5,500 valid projects and the registered capital of approximately \$48.7 billion, \$26 billion of which has been implemented.

On the whole, the annual average growth rate of the Gross Domestic Product (GDP) increased from 4.4% during the 1986-1990 period to 8.2% during 1991-1995 and 6.9% during 1996-2000 and was expected to reach 7.4% during 2001-2005. The living standards of most of the people have improved remarkably.

b) Social development

Along with achievements in economic renewal, there have been considerable accomplishments in social development:

- The people's social activeness has been brought into full play. In the past, under the centrally planned mechanism, everyone passively followed their seniors' decisions and depended on the subsidy of the Government and organizations. With the market economy, people from all economic sectors have to try their best to exploit their capital, labor, technology, knowledge and experience to earn their living and support their families, as well as to contribute to the country. This social activeness was like a "miracle" in the way it promptly drove back the existing stagnation and recession and made a dramatic change in production and living conditions in rural and urban areas alike.

- Economic achievements in recent years have allowed the Government to mobilize more resources to further invest in social development. According to the recommendation of the World Summit on social development in Copenhagen (March 1995), each state should spend about 20% of the annual budget on social issues. Since 1991, the Government has spent as much as

24-25% of the national budget on population control and family planning programs, job creation, poverty reduction, essential infrastructure in remote areas, educational and medical development, social welfare, environmental protection, measures against social evils, and more.

- It is remarkable that social awareness of job and job creation has changed considerably. No longer depending on the Government and other institutions, laborers are more active in creating jobs for themselves and for other people. Instead of being fully responsible for job creation, the Government is at present changing their attention to building the law system (Labor Law 1994), establishing mechanisms and policies to instruct and support sectors of the economy in promoting their production and business and creating more jobs. Since 1991, on average, jobs are offered to 1.2 million to 1.4 million people each year.

- Changing into a multi-sectored market economy, the Party planned to encourage everyone to make money and reduce poverty. To realize that plan, the Party and the Government from the central to the local level have paid special attention to poverty reduction. As a result, along with the increasing number of wealthy people, the percentage of poor people according to the domestic standard fell from 30% in 1992 to 8.3% in 2004; based on the international standard, the aggregate poverty percentage of Vietnam reduced from 58% in 1993 to 28.9% in 2002, and to 25-26% at present. It can be said that Vietnam *“has achieved the global target of halving the poverty proportion by 2015 earlier than the plan”* suggested in the United Nations’ Millennium Programme (2, p.1).

- Other aspects of social development also witnessed remarkable advances. From 1991 to 2000, population control and family

planning helped to reduce the population growth rate from 2% to 1.36%, which later went up slightly, to 1.44% in 2004 due to subjective reasons.

After a period of deterioration, the educational system ranging from primary to undergraduate training has expanded considerably. Teaching goals, content, and methods have improved. In 2000, illiteracy was eradicated, and the popularization of primary education achieved nationwide. It was estimated that by 2005, 30 cities and provinces would have popularized junior secondary education.

There have also been positive changes in preventing and treating diseases. The death rate among mothers and infants has decreased. The rate of malnutrition among children under five years of age has fallen. Vietnamese people’s fine tradition of being grateful to those who have sacrificed for the country, taking care of orphaned and homeless children and helping the old, the disabled and people in natural-disaster-hit areas is still preserved.

With all of these achievements after 10 years of renewal (1987-1995), Vietnam has come out of the economic crisis. Since 1996, the country has been stepping into a new perioda time of promoting industrialization and modernization to meet the target of *“rich people, a powerful country and an equal, democratic and civilized society.”*

2. Limitations

Apart from such significant achievements, the socioeconomic renewal of Vietnam still has certain limitations and shortcomings, which poses a considerable challenge to further development.

a) *Economically*

Though the Party’s economic thinking has developed remarkably, it still cannot

measure up to the quick change of the economic life. The socialism-oriented market economy is shaping slowly and inconsistently, with clumsy and inconsistent leadership. Consequently, the economic growth rate has not measured up to the potential. Macroscopic balances of the economy are still unstable. Vietnam is still listed as a poor country. Nearly 60% of the labor force still gathers in agriculture, forestry, and fishery, making one-fifth of the GDP. Manufacturing is underdeveloped with out-of-date technology compared to that of new industrial countries. The service sector has not expanded in a modern way. Productivity, business efficiency and the competitiveness of Vietnamese products on international markets are low. Due to the impact of the financial-monetary crisis in the region (1977-1978) and our slow renewal of mechanisms and policies, the average annual economic growth rate from 1996 to 2000 was only 6.9%, which was considerably lower than the previous five years. Since 2000, that falling tendency has been stopped. The average annual growth rate of the GDP from 2001 to 2005 was estimated to reach 7.4%, which was still 1% lower than the period from 1991-1995. The risk of the economy being left behind is still the biggest challenge facing Vietnam.

b) Socially

Although the unemployment rate in urban areas fell from 8-9% in the early 90s to 5.6% in 2004, it remains at a relatively high level. In rural areas, unemployment is even worse. The proportion of working hours of the people in the working age in rural areas is only 78.3%. The remaining 22% of time corresponds to 2-3 million people unemployed (if each person works 250 days a year).

In the next few years, poverty reduction is likely to slow down. Poverty is returning, especially in remote areas, where ethnic minority groups dwell, and where natural disasters pose a problem. According to the international standard, the total poverty rate is about 25-26%, or 20-21 million out of 83 million people. The income gap between the group of the richest people (20%) and the poorest people (20%) increased from 4.2 times in 1991 to 8.1 times in 2002 (3). The difference between living standards in urban and rural areas is also broadening.

In education, the quality of human resources is still low and cannot meet the requirement of the industrialization and modernization cause. Many negative phenomena in education have not improved promptly.

In health care, the government is still weak in managing medical activities. Medical insurance policies, hospital fees, and medical check-ups and treatment for the poor still have many shortcomings. High-quality medical service, when needed, is likely to make the poor penniless.

Crimes and social evils are in an unforeseeable trend. Corruption preventing and fighting is ineffective. Corruption is occurring on a larger scale, and by more sophisticated means. It is now the most acute problem in our society and is "a danger to the existence of our regime." (1,p.76)

IV. Problem and solutions

There are a number of questions requiring the Party's answers. Those questions include: Are unemployment, the gap between the rich and the poor, increasing corruption, and other social evils all just unavoidable companions of the transition to a market economy? Are developing countries bound to "sacrifice" social

advances and equality to achieve high economic growth, as suggested by some foreign scholars. Should economic growth be prioritized, and only when the economy has grown fast should social inequality be reduced like the “upside-down U” model suggested by S. Kuznets, an American economist? If those possibilities are not accepted, what should be done and in what way to bring into play the achievements and overcome limitations and shortcomings of the socioeconomic renewal, to promote economic growth along with ensuring social advances and equality in a socialism-oriented market economy striving for rich people, a powerful country and an equal, democratic and civilized society?”

These questions cannot be answered easily. However, based on the Party’s general guidelines and hands-on experience, including success and failure, of the socioeconomic renewal over the past 20 years, as well as selective study of international experience, we recommended some solutions as follows (4, p.77-80):

First, promoting economic growth is the central task, because only a fast-growing, efficient and sustainable economy on the basis of sciences and modern technology can mobilize resources for the development of an advanced and equal society. An advanced and equal economy cannot be built on a stagnant and depressing economy where everyone has to “rob Peter to pay Paul.” On the other hand, the economy cannot grow fast, effectively and in a sustainable way in a society where most people are mentally and physically weak and the majority of the work force has to suffer from unemployment, poverty and hunger, and the indifference of society.

Second, economic growth must be accompanied by social advances and equality at every stage, and in every

development policy. We cannot wait for high economic growth to adopt social advances and equality, and neither can we “sacrifice” social advances and equality only to develop the economy. Therefore, each economic policy should aim at social development; each social policy is meant to create an incentive to economic development.

Third, in a socialism-oriented market economy, an advanced and equal society is developed not only by income adjustment and re-allocation but, more importantly, by creating equal opportunities to ensure that everyone, especially weak and vulnerable people, can access basic social services such as education, training, health care, jobs, credit, information and social security. They should be able to support themselves and their families and gradually improve their living standards as well as contribute to the country.

Fourth, social development based on the principle of equality does not mean egalitarianism, regardless of individual ability, efficiency and contribution to the development of the community, which was a mistake under the state subsidy system. Moreover, spending more resources on social development than the economy can afford is also disadvantageous to economic development. It will make the economy sluggish and depressed, and fail to achieve targets of social development. Therefore, in each specific period, it is essential to determine the relation between economic and social development to make sure that they will support each other.

Fifth, in achieving social advances and equality accompanied with economic development, special attention should be paid to cultural promotion. Culture, in a broad sense, includes not only literature and arts but also education, sciences,

ideology, morals and lifestyle, etc. Thus, one fundamental task of cultural development is to make cultural and humane elements permeate all aspects of life and human relations. In order to do so, the Party and Government must regard education- training and science-technology as the key national policy and continuously enhance people's awareness and behaviors, respect talents, update information, develop an intellectual economy along with an advanced and humane society, promote the values of the national culture, absorb the best of the world's culture and at the same time fight back social evils. This is what President Ho Chi Minh has said: *"We have to make culture permeate the people's minds, so that culture can eliminate corruption, laziness, vanity, wastes... Culture must be a guiding light for the people."* (5, p.72)

In conclusion, with tremendous achievements and valuable experience in the comprehensive renewal initiated and led by our Party over the past 20 years, especially with Vietnamese people's self-reliance and

great creativity, we have the basis to believe that the prospect of socioeconomic development of our country in the 21st century is bright, and that Vietnam will come out of the list of poor countries by 2010 to become a modern industrial country by 2020.

REFERENCES

1. Communist Party of Vietnam. Documents of the 9th National Congress. National Political Publishing House. H.: 2001.
2. UNDP in Vietnam. Bringing the MDGs closer to the people.H.: 2002.
3. General Statistical Office. Viet Nam Living Standards Survey 1992, 1997, 2002.
4. Pham Xuan Nam (chief compiler): Management of Social Development on the Basis of Equal and Progressive Principles. National Political Publishing House, H.: 2001.
5. Ho Chi Minh. On the Cultural, Literary and Artistic Works. Su That (Truth) Publishing House, H.: 1971.