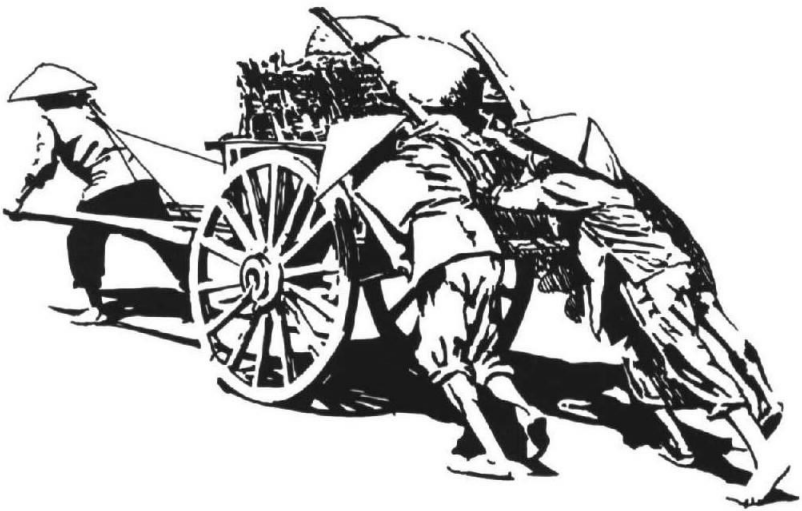


## Chapter 3. The Economy



*Farmers transporting goods to market*

SINCE REUNIFICATION IN 1975, the economy of Vietnam has been plagued by enormous difficulties in production, imbalances in supply and demand, inefficiencies in distribution and circulation, soaring inflation rates, and rising debt problems. Vietnam is one of the few countries in modern history to experience a sharp economic deterioration in a postwar reconstruction period. Its peacetime economy is one of the poorest in the world and has shown a negative to very slow growth in total national output as well as in agricultural and industrial production. Vietnam's gross domestic product (GDP—see Glossary) in 1984 was valued at US\$18.1 billion with a per capita income estimated to be between US\$200 and US\$300 per year. Reasons for this mediocre economic performance have included severe climatic conditions that afflicted agricultural crops, bureaucratic mismanagement, elimination of private ownership, extinction of entrepreneurial classes in the South, and military occupation of Cambodia (which resulted in a cutoff of much-needed international aid for reconstruction).

In the 1980s, the country was at a crossroads between economic liberalization and complete government economic control. It is possible that the leadership changes undertaken at the Sixth National Party Congress of the Vietnamese Communist Party (VCP, Viet Nam Cong San Dang) in December 1986 marked the beginning of the end of an era dominated by revolutionaries who emphasized security at the expense of social welfare and modernization. In 1987 Vietnam took practical steps to resolve chronic economic problems such as rapid inflation, slow and erratic economic growth, deteriorating living conditions, and severe trade imbalances. The new economic policy laid out at the Sixth National Party Congress addressed these issues while avoiding others such as high unemployment and substantial arrearage on foreign debt payments.

At the party's Second Plenum in April 1987, a new, reform-oriented leadership proposed measures that would give greater scope to the private sector, reduce the budget deficit, and boost the output of agricultural and consumer goods in order to raise market supplies and exports. Specifically, the government sought to make prices more responsive to market forces and to allow farmers and industrial producers to make profits. Barriers to trade were lowered; the checkpoint inspection system that required goods in transit to be frequently inspected was abolished; and regulations on private inflow of money, goods, and tourists from overseas were relaxed.

In the state-controlled industrial sector, wage raises were scheduled, and overstaffing in state administrative and service organizations was slated for reduction. Government leaders also planned to restructure the tax system to boost revenue and improve incentives.

Earlier efforts to reform the economy had employed methods similar to those proposed in 1987. These previous recovery policies, while achieving short-term gains toward economic recovery, eventually faltered because of poor implementation, lack of commitment, and decisions to industrialize and socialize the country regardless of cost. The 1987 effort to cure Vietnam's economic ills held more promise of being sustained, however. The power of the new reform-minded general secretary of the party, Nguyen Van Linh, appeared to strengthen as other reformers assumed key party Political Bureau positions. Moreover, Soviet pressure to improve economic performance increased markedly during 1987. A high Soviet official attending Vietnam's Sixth National Party Congress pointed out Vietnam's urgent need to reform and offered the Soviet Union's own reform efforts as a model for Vietnamese programs.

## **Economic Setting**

In the 1980s, Vietnam was the world's third-largest communist country—ranking below China and the Soviet Union and above Poland—and the most densely populated. According to Vietnamese figures, the country's population in 1985 totaled more than 60 million, with an average density of 179 persons per square kilometer. In comparison, the German Democratic Republic (East Germany), ranking second in population density, averaged 154 persons per square kilometer. Vietnam's average annual population growth rate was reported to be 2.5 percent (see *Population*, ch. 2).

## **Demography**

The 1979 census showed that more than 42 percent of the population at that time was younger than 15 years of age and nearly 5 percent was 65 or older. Furthermore, 71 percent of the Vietnamese population was 30 years of age or younger.

A population boom in the 1980s put pressure on food supplies and severely taxed the government's ability to create jobs. Harvest shortfalls were frequent, grain reserves remained low, and foreign exchange was extremely scarce. As a result, overcoming even a short-term food deficit was difficult for the government and costly for the people.

In 1984 a United Nations (UN) nutrition specialist calculated the daily average food consumption among Vietnamese to be only

1,850 calories per day, nearly 20 percent less than the generally accepted minimum daily standard of 2,300 calories. In 1985, the Vietnam Institute of Nutrition reported average daily intake at 1,940 calories. The institute also estimated that roughly 25 percent of the children suffered from malnutrition.

## **Labor**

The Vietnamese labor force in mid-1985 was estimated at 31.2 million, having increased at the rate of 3.5 to 4 percent annually between 1981 and mid-1985. A 1987 Vietnamese estimate put unemployment at more than 20 percent. More than half of the work force was committed to agriculture; however, observers estimated that the unemployment level in the agricultural sector was very low because agricultural workers were more likely to be underemployed than unemployed. In contrast, the unemployment rate in the nonagricultural sector may have exceeded 40 percent, meaning that more than 2 out of every 5 Vietnamese workers were jobless. A similar calculation for the nonagricultural sector in 1981 yielded an estimate of 20 percent, or 1 out of 5.

Unemployment was particularly concentrated among younger workers living in urban areas. According to Vietnamese government statistics, of the 7 million persons who entered the work force between 1981 and 1985, about 33 percent lived in urban areas, and only 15 to 20 percent reportedly had found jobs. The actual ratio of jobs to unemployed people may not have been as grim as statistics indicate, however. According to some observers, the high rate of inflation during the period forced many people, especially state workers, to take a second job in order to make ends meet.

Vietnam's economic prospects for the late 1980s and early 1990s depended on resolving population and labor problems. Government population projections in 1987 showed that the gender imbalance, with females more numerous, probably would persist through the end of the century. National security concerns were unlikely to diminish, and the armed forces were expected to continue their high demand for males of service age. A similar demand also was expected to continue in the sectors and occupations in which males were employed during the 1980s: agriculture, fishing, mining, metallurgy, machine building, construction, and transportation. Female workers probably would remain concentrated in subsistence agriculture, light industry, and, perhaps, forestry. Education, training programs, and the wage structure were expected to continue to favor males and male-dominated occupations, while the absence of these incentives would cause productivity gains in female-intensive industries to remain low.

Economic recovery policies that emphasized austerity and postponed industrialization were unlikely to create sufficient new employment opportunities. In the short run, the government's discharge of surplus state employees during the mid-1980s in order to curb expenditures would tend to increase unemployment. The stress on boosting production in light industry was expected eventually to reduce unemployment, but only if expansion were supported with state investment and bank credit. The coincident removal of restraints on the labor-intensive informal economy, which was uncontrolled by the state, and the likely influx of labor into this sector could then be expected to expand the informal economy relative to the official economy.

### **Natural Resources**

Although Vietnam is relatively rich in natural resources, the country's protracted state of war has precluded their proper exploitation. Coal reserves, located mainly in the North, have been estimated at 20 billion tons. With Soviet assistance, coal mining has been expanded somewhat. Commercially exploitable metals and minerals include iron ore, tin, copper, lead, zinc, nickel, manganese, titanium, chromite, tungsten, bauxite, apatite, graphite, mica, silica sand, and limestone. Vietnam is deficient, however, in coking coal, which, prior to the outbreak of hostilities with China in 1979, it traditionally imported from the Chinese. Gold deposits are small.

Vietnam's production of crude oil and natural gas was in very preliminary stages in the late 1980s and the amounts of commercially recoverable reserves were not available to Western analysts. With the cooperation of the Soviet Union, Vietnam began exploitation of a reported 1-billion-ton offshore oil find southeast of the Vung Tau-Con Dao Special Zone (see fig. 1). By early 1987, the Vietnamese were exporting crude oil for the first time in shipments to Japan. Production remained low, estimated at about 5,000 barrels per day, although Vietnam's minimum domestic oil requirements totaled 30,000 barrels per day. Despite optimistic plans for developing offshore fields, Vietnam was likely to remain dependent on Soviet-supplied petroleum products through the 1990s.

Vietnam's ability to exploit its resources diminished in the early 1980s, as production fell from the levels attained between 1976 and 1980. In the 1980s, the need to regulate investment and focus spending on projects with a short-term payoff pointed to continued slow development of the country's resource base, with the exception of areas targeted by the Soviet Union for economic assistance, such as oil, gas, coal, tin, and apatite.

Vietnam's fisheries are modest, even though the country's lengthy coast provides it with a disproportionately large offshore economic zone for its size. In the 1980s, Vietnam claimed a 1-million-square-kilometer offshore economic zone and an annual catch of 1.3 to 1.4 million tons. More than half the fish caught, however, were classified as being of low-quality. Schools of fish reportedly were small and widely dispersed.

As the 1990s approached, it seemed increasingly likely that Vietnam's economy would remain predominantly agricultural. This trend, however, did not necessarily limit attainable economic growth since Vietnam possessed a significant amount of unused land with agricultural potential. According to Vietnamese statistics of the mid 1980s, agricultural land then in use theoretically could be expanded by more than 50 percent to occupy nearly one-third of the nation. Funds and equipment for expensive land-reclamation projects were scarce, however, and foreign economists believed that a projected increase in agricultural land use of about 20 to 25 percent was more realistic. Even if the reclaimed land were only minimally productive, an increase in land use would increase agricultural output substantially.

Both the availability of land and the density of settlement in traditional agricultural areas—about 463 persons per square kilometer in the Red River Delta and 366 persons per square kilometer in the Mekong Delta—explained much of the government's commitment to the building of new economic zones (see Glossary) in less-settled areas. During the period from 1976 to 1980, only 1.5 million out of the 4 million persons targeted for relocation actually were moved to new economic zones. The government's Third Five-Year Plan (1981-85) called for the relocation of 2 million people by 1985, and subsequent plans projected the resettlement of as many as 10 million by 1999. By the end of 1986, however, the Vietnamese reported that fewer than 3 million people had been resettled since the program began. Slow progress in bringing new land into production, low yields on reclaimed land, and hardships endured by resettled workers—particularly former city dwellers, many of whom chose to return home—testified to the problems inherent in the resettlement program.

## **Historical Background**

Post-1975 developments, including the establishment of new economic zones, did not eradicate distinctions between North and South. North, South, and Central Vietnam historically were divided by ethnolinguistic differences, but until the mid-nineteenth century and the beginning of the French colonial period, they were all

agrarian, subsistence, and village-oriented societies (see *Early History*, ch. 1). The French, who needed raw materials and a market for French manufactured goods, altered these commonalities by undertaking a plan to develop the northern and southern regions separately. The South, better suited for agriculture and relatively poor in industrial resources, was designated to be developed agriculturally; the North, naturally wealthy in mineral resources, was selected as the region in which industrial development was to be concentrated.

The separation distorted the basic Vietnamese economy by overly stressing regional economic differences. In the North, while irrigated rice remained the principal subsistence crop, the French introduced plantation agriculture with products such as coffee, tea, cotton, and tobacco. The colonial government also developed some extractive industries, such as the mining of coal, iron, and nonferrous metals. A shipbuilding industry was begun in Hanoi; and railroads, roads, power stations, and hydraulics works were constructed. In the South, agricultural development concentrated on rice cultivation, and, nationally, rice and rubber were the main items of export. Domestic and foreign trade were centered around the Saigon-Cholon area. Industry in the South consisted mostly of food-processing plants and factories producing consumer goods.

The development of exports—coal from the North, rice from the South—and the importation of French manufactured goods, however, stimulated internal commerce. A pattern of trade developed whereby rice from the South was exchanged for coal and manufactured goods from the North. When the North and South were divided politically in 1954, they also adopted different economic ideologies, one communist and one capitalist. In the North, the communist regime's First Five-Year Plan (1961–65) gave priority to heavy industry, but priority subsequently shifted to agriculture and light industry.

During the 1954–75 Second Indochina War (see *Glossary*), United States air strikes in the North, beginning in early 1965, slowed large-scale construction considerably as laborers were diverted to repairing bomb damage. By the end of 1966, serious strains developed in the North's economy as a result of war conditions. Interruptions in electric power, the destruction of petroleum storage facilities, and labor shortages led to a slowdown in industrial and agricultural activity. The disruption of transportation routes by U.S. bombing further slowed distribution of raw materials and consumer goods. In the North, all 6 industrial cities, 28 out of 30 provincial towns, 96 out of 116 district towns, and 4,000 out of 5,788 communes were either severely damaged or destroyed.



All power stations, 1,600 hydraulics works, 6 railway lines, all roads, bridges, and sea and inland ports were seriously damaged or destroyed. In addition, 400,000 cattle were killed, and several hundred thousand hectares of farmland were damaged.

The economy in the South between 1954 and 1975 became increasingly dependent on foreign aid. The United States, the foremost donor, financed the development of the military and the construction of roads, bridges, airfields and ports; supported the currency; and met the large deficit in the balance of payments. Destruction attributed to the Second Indochina War was considerable. Hanoi claimed that in the South, 9,000 out of 15,000 hamlets were damaged or destroyed, 10 million hectares of farmland and 5 million hectares of forest lands were devastated, and 1.5 million cattle were killed.

For Vietnam as a whole, the war resulted in some 1.5 million military and civilian deaths, 362,000 invalids, 1 million widows, and 800,000 orphans. The country sustained a further loss in human capital through the exodus of refugees from Vietnam after the communist victory in the South. According to the United Nations High Commission for Refugees, as of October 1982 approximately 1 million people had fled Vietnam. Among them were tens of thousands of professionals, intellectuals, technicians, and skilled workers.

## **Economic Roles of the Party and the Government**

The Vietnamese economy is shaped primarily by the VCP through the plenary sessions of the Central Committee and national congresses. The party plays a leading role in establishing the foundations and principles of communism, mapping strategies for economic development, setting growth targets, and launching reforms.

Planning is a key characteristic of centralized, communist economies, and one plan established for the entire country normally contains detailed economic development guidelines for all its regions. According to Vietnamese economist Vo Nhan Tri, Vietnam's post-reunification economy was in a "period of transition to socialism." The process was described as consisting of three phases. The first phase, from 1976 through 1980, incorporated the Second Five-Year Plan (1976-80)—the First Five-Year Plan (1960-65) applied to North Vietnam only. The second phase, called "socialist industrialization," was divided into two stages: from 1981 through 1990 and from 1991 through 2005. The third phase, covering the years 2006 through 2010, was to be time allotted to "perfect" the transition.

The party's goal was to unify the economic system of the entire country under communism. Steps were taken to implement this

goal at the long-delayed Fourth National Party Congress, convened in December 1976, when the party adopted the Second Five-Year Plan and defined both its “line of socialist revolution” and its “line of building a socialist economy.” The next two congresses, held in March 1982 and December 1986, respectively, reiterated this long-term communist objective and approved the five-year plans designed to guide the development of the Vietnamese economy at each specific stage of the communist revolution.

### **The Second Five-Year Plan (1976–80)**

The optimism and impatience of Vietnam’s leaders were evident in the Second Five-Year Plan. The plan set extraordinarily high goals for the average annual growth rates for industry (16 to 18 percent), agriculture (8 to 10 percent), and national income (13 to 14 percent). It also gave priority to reconstruction and new construction while attempting to develop agricultural resources, to integrate the North and the South, and to proceed with communization.

Twenty years were allowed to construct the material and technical bases of communism. In the South, material construction and systemic transformation were to be combined in order to hasten economic integration with the North. It was considered critical for the VCP to improve and extend its involvement in economic affairs so that it could guide this process. Development plans were to focus equally on agriculture and industry, while initial investment was to favor projects that developed both sectors of the economy. Thus, for example, heavy industry was intended to serve agriculture on the premise that a rapid increase in agricultural production would in turn fund further industrial growth. With this strategy, Vietnamese leaders claimed that the country could bypass the capitalist industrialization stage necessary to prepare for communism (see table 4, Appendix A).

Vietnam was incapable, however, of undertaking such an ambitious program on its own and solicited financial support for its Second Five-Year Plan from Western nations, international organizations, and communist allies. Although the amount of economic aid requested is not known, some idea of the assistance level envisioned by Hanoi can be obtained from available financial data. The Vietnamese government budget for 1976 amounted to US\$2.5 billion, while investments amounting to US\$7.5 billion were planned for the period between 1976 and 1980.

The economic aid tendered to Hanoi was substantial, but it still fell short of requirements. The Soviet Union, China, and Eastern Europe offered assistance that was probably worth US\$3 billion

to US\$4 billion, and countries of the Western economic community pledged roughly US\$1 billion to US\$1.5 billion.

### **The Third Five-Year Plan (1981–85)**

By 1979 it was clear that the Second Five-Year Plan had failed to reduce the serious problems facing the newly unified economy. Vietnam's economy remained dominated by small-scale production, low labor productivity, unemployment, material and technological shortfalls, and insufficient food and consumer goods.

To address these problems, at its Fifth National Party Congress held in March 1982, the VCP approved resolutions on "orientations, tasks and objectives of economic and social development for 1981–85 and the 1980s." The resolutions established economic goals and in effect constituted Vietnam's Third Five-Year Plan (1981–85). Because of the failure of the Second Five-Year Plan, however, the Vietnamese leadership proceeded cautiously, presenting the plan one year at a time. The plan as a whole was neither drawn up in final form nor presented to the National Assembly (see Glossary) for adoption.

The economic policies set forth in 1982 resulted from a compromise between ideological and pragmatic elements within the party leadership. The question of whether or not to preserve private capitalist activities in the South was addressed, as was the issue of the pace of the South's communist transformation. The policies arrived at called for the temporary retention of private capitalist activities in order to spur economic growth and the completion, more or less, of a communist transformation in the South by the mid-1980s.

The plan's highest priority, however, was to develop agriculture by integrating the collective and individual sectors into an overall system emphasizing intensive cultivation and crop specialization and by employing science and technology. Economic policy encouraged the development of the "family economy"; that is, the peasants' personal use of economic resources, including land, not being used by the cooperative. Through use of an end-product contract system introduced by the plan, peasant households were permitted to sign contracts with the collective to farm land owned by the collective. The households then assumed responsibility for production on the plots. If production fell short of assigned quotas, the households were to be required to make up the deficit the following year. If a surplus was produced, the households were to be allowed to keep it, sell it on the free market, or sell it to the state for a "negotiated price." In 1983 the family economy reportedly

supplied 50 to 60 percent of the peasants' total income and 30 to 50 percent of their foodstuffs.

Free enterprise was sanctioned, thus bringing to an end the nationalization of small enterprises and reversing former policies that had sought the complete and immediate communization of the South. The new policy especially benefited peasants (including the overwhelming majority of peasants in the South) who had refused to join cooperatives, small producers, small traders, and family businesses.

The effort to reduce the capitalist sector in the South nevertheless continued. Late in 1983, a number of import-export firms that had been created in Ho Chi Minh City (formerly Saigon) to spur the development of the export market were integrated into a single enterprise regulated by the state. At the same time, the pace of collectivization in the countryside was accelerated under the plan. By the end of 1985, Hanoi reported that 72 percent of the total number of peasant households in the South were enrolled in some form of cooperative organization.

Despite the plan's emphasis on agricultural development, the industrial sector received a larger share of state investment during the first two years. In 1982, for example, the approximate proportion was 53 percent for industry compared with 18 percent for agriculture. Limiting state investment in agriculture, however, did not appear to affect total food production, which increased 19.5 percent from 1980 to 1984.

The plan also stressed the development of small-scale industry to meet Vietnam's material needs, create goods for export, and lay the foundation for the development of heavy industry. In the South, this entailed transforming some private enterprises into "state-private joint enterprises" and reorganizing some small-scale industries into cooperatives. In other cases, however, individual ownership was maintained. Investment in light industry actually decreased by 48 percent while investment in heavy industry increased by 17 percent during the first two years of the plan. Nonetheless, the increase in light-industry production outpaced that of heavy industry by 33 percent to 28 percent during the same two-year period.

The July 1984 Sixth Plenum (Fifth Congress) of the VCP Central Committee recognized that private sector domination of wholesale and retail trade in the South could not be eliminated until the state was capable of assuming responsibility for trade. Proposals therefore were made to decentralize planning procedures and improve the managerial skills of government and party officials.

These plans were subsequently advanced at the Central Committee's Eighth Plenum (Fifth Congress) in June 1985. Acting to disperse economic decision making, the plenum resolved to grant production autonomy at the factory and individual farm levels. The plenum also sought to reduce government expenditures by ending state subsidies on food and certain consumer goods for state employees. It further determined that all relevant costs to the national government needed to be accounted for in determining production costs and that the state should cease compensating for losses incurred by state enterprises. To implement these resolutions, monetary organizations were required to shift to modern economic accounting. The government created a new dong (D—for the value of the dong, see Glossary) in September 1985, and set maximum quotas for the amount permitted to be exchanged in bank notes. The dong also was officially devalued.

### **The Fourth Five-Year Plan (1986–90)**

The central economic objectives of the Fourth Five-Year Plan were to increase production of food, consumer goods, and export goods. Increasing food production was of primary importance. Grain production was targeted to reach 22 to 23 million tons annually by 1990, and rice production was planned to total 19 to 20 million tons annually. Combined output for subsidiary crops was established at about 3 million tons annually. Planned annual per capita food production was set at 333 to 348 kilograms, and an effort was initiated to bring subsidiary food crops (corn, sweet potatoes, manioc, and white potatoes) into the people's diet.

Grain-production policy was accompanied by measures dealing with land use, water conservation, Mekong Delta irrigation works, Red River Delta dike consolidation, fertilizer imports, pest control, animal husbandry, tractor use, and seed production. The plan also stressed the cultivation and harvesting of marine products and the development of short-term industrial crops (crops that can be planted and harvested in a single growing season and that require some form of processing before being marketed, such as beans, peanuts, and oil-bearing crops) and long-term industrial crops (crops that also include a processing stage but that require a lengthy period of cultivation, such as coffee, tea, pepper, and coconuts). The government also identified forestry as an important sector of the economy to be developed.

Production of consumer goods was improved in order to meet the basic needs of the people, to balance goods and money, to create jobs, and to develop an important source of capital accumulation and export commodities. The volume of consumer goods produced

was expected to increase by an average annual rate of 13 to 15 percent, compared with the 11.3 percent average annual increase recorded during the Third Five-Year Plan.

Adequate incentive policies for raw materials production were deemed critical to the development of high-quality consumer goods for internal consumption and export. Priority in using foreign exchange was to be given to importers of needed raw materials. The plan also sought to protect domestic production of consumer goods and to emphasize local production of goods over imports.

In order to obtain the foreign exchange needed to fulfill import requirements and to carry out trade agreements with other countries, the government scheduled a major increase—70 percent above the previous plan's target—in the volume of exports. Under the Fourth Five-Year Plan, particular emphasis was to be given principal products such as processed agricultural goods, light industry, handicraft goods, and fish products (see table 5 and table 6, Appendix A).

## **Agriculture**

Agricultural production, the backbone of Vietnam's development strategy, varied considerably from year to year following national reunification in 1975. A particularly strong performance in agriculture was recorded in 1976—up more than 10 percent from 1975—but production dropped back to approximately 95 percent of the 1976 level in 1977 and 1978 and recovered to a level higher than that of 1976 only in 1979 (see table 6 and table 7, Appendix A).

Vietnamese crop and livestock production offset agricultural performance during this period. For example, an 8-percent increase in the value of livestock production in 1977 balanced an 8-percent decrease in the value of crop production (mainly the result of a 1-million-ton decline in the rice harvest). In 1978 the reverse occurred: a steep decline in livestock output countered a significant increase in grain production. The value of crop production, however, averaged four times the value of livestock output at this time.

Foremost among Vietnam's agricultural troubles was exceptionally adverse weather, including a drought in 1977 and major typhoons and widespread flooding in 1978. The drought overtaxed Vietnam's modest irrigation systems, and the floods damaged them. In addition, the floods reportedly reduced cattle herds by 20 percent. The size of this loss was indirectly confirmed in Vietnamese statistics that showed a leveling off of growth in livestock inventories (particularly of cattle) between 1978 and 1980. Throughout the Second Five-Year Plan, and especially in the late 1970s,

chemical fertilizers, pesticides, and spare parts for mechanical equipment were in short supply.

Despite their having occurred, for the most part, fairly early in the plan period, the severe reversals in the agricultural sector greatly diminished hopes of achieving self-sufficiency in food production by 1980. The 1980 grain target eventually was lowered from 21 million tons to 15 million tons, but even that amount proved unattainable.

The agricultural policies promulgated from 1976 through 1980 had mixed results. Pragmatic measures that encouraged the planting of more subsidiary food crops (such as sweet potatoes, manioc, beans, and corn) led to an increase of these crops from a level of less than 10 percent that of grain production in 1975 to a level that was more than 20 percent of grain output by the late 1970s. Improved incentives for farmers in 1978 and 1979 included efforts to boost availability of consumer goods in the countryside and to raise state procurement prices. They were reinforced by adoption of a contract system that sought to guarantee producers access to agricultural inputs in exchange for farm products. Even so, bureaucratic inefficiencies and shortages of agricultural supplies prevented complete success.

The program undertaken in mid-1977 to expedite unification of North and South by collectivizing Southern agriculture met with strong resistance. The reportedly voluntary program was designed to be implemented by local leaders, but Southern peasants were mainly freeholders—not tenants—and, aside from forming production teams for mutual assistance (an idea that won immediate acceptance), they resisted participation in any collective program that attenuated property rights.

Failure to collectivize agriculture by voluntary means led briefly to the adoption of coercive measures to increase peasant participation. It soon became apparent, however, that such harsh methods were counterproductive. Increased food shortages and heightened security concerns in late 1978 and 1979 caused the leadership once again to relax its grip on Southern agriculture.

In the North, formation of cooperatives had begun in 1959 and 1960, and by 1965 about 90 percent of peasant households were organized into collectives. By 1975 more than 96 percent of peasant households belonging to cooperatives were classified as members of “high-level cooperatives,” which meant that farmers had contributed land, tools, animals, and labor in exchange for income.

Between 1976 and 1980, agricultural policy in the North was implemented by newly established government district offices in an effort to improve central control over planting decisions and

farm work. The lax enforcement of state agricultural policies adopted during the war years gave way to a greater rigidity that diminished cooperative members' flexibility to undertake different tasks. Labor productivity fell as a result. A study by an overseas Vietnamese who surveyed ten rice-growing cooperatives found that, despite an increase in labor and area cultivated in 1975, 1976, and 1977, production decreased while costs increased when compared with production and costs for 1972 through 1974. Although the study failed to take weather and other variables into account, the findings were consistent with conclusions reached by investigators who have studied the effects of collectivization in other countries. Moreover, the study drew attention to the North's poor agricultural performance as a reason for Vietnam's persistent food problem.

State investment in agriculture under the Third Five-Year Plan remained low, and the sector was severely troubled throughout the plan period and into 1986 and 1987 as well. Only modest food-grain increases of 5 percent were generated annually. Although this was enough to outpace the 2.3 percent annual rate of population growth during the 1980s, it remained insufficient to raise average annual per capita food consumption much above the official subsistence level of 300 kilograms. One official Vietnamese source estimated in 1986 that farm families devoted up to 80 percent of their income to their own food needs.

At the conclusion of the Third Five-Year Plan, agricultural yields remained less than required to permit diverting resources to the support of industrial development. In 1986 agriculture still accounted for about 44 percent of national income (the figure for developed nations is closer to 10 percent). The agricultural sector also occupied some 66 percent of the work force—a higher percentage than in 1976 and 1980. Worse still, the output per agricultural worker had slipped during the plan period, falling even further behind the increasing output per worker in industry. In 1980 more than three agricultural workers were needed to produce as much national income as a single industrial or construction worker. By 1985 an industrial worker produced more than six times as much as an agricultural worker.

In December 1986, Vo Van Kiet, vice chairman of the Council of Ministers and member of the Political Bureau, highlighted most of the major problems of Vietnamese agriculture in his speech to the Twelfth Session of the Seventh National Assembly. While mentioning gains in fisheries and forestry, he noted that nearly all farming subsectors—constituting 80 percent of the agricultural sector—had failed to achieve plan targets for 1986. Kiet blamed state





*Rice paddy dike construction  
Courtesy Bill Herod*

agencies, such as the Council of Ministers, the State Planning Commission, and the Ministry of Foreign Trade, for their failure to ensure appropriate “material conditions” (chiefly sufficient quantities of chemical fertilizers and pesticides) for the growth of agricultural production. Kiet also blamed the state price system for underproduction of key “industrial crops” that Vietnam exported, including jute, sugar, groundnut, coffee, tea, and rubber. Production levels of subsidiary food crops, such as sweet potatoes, corn, and manioc, had been declining for several years, both in relation to plan targets and in actual output as well. By contrast, livestock-output, including that of cattle, poultry, buffalo, and hogs, was reported by the government to have continued its growth and to have met or exceeded targets, despite unstable prices and shortages of state-provided animal feed.

Outside observers agreed that the problems noted in Kiet’s speech had been exacerbated by the complexity of the pricing system, which included multiple tiers of fixed prices for quota and above-quota state purchases as well as generally higher free market prices. The removal of more orthodox leaders, the rise of moderate reformists such as Kiet to high party and government positions during the Sixth National Party Congress, and the cabinet changes in early 1987 seemed to indicate that the pricing system would be modified, although no change was evident in the fundamental structure

of state-controlled markets or in the tension within the multiple-market system (see Internal Commerce, this ch.).

## **Industry**

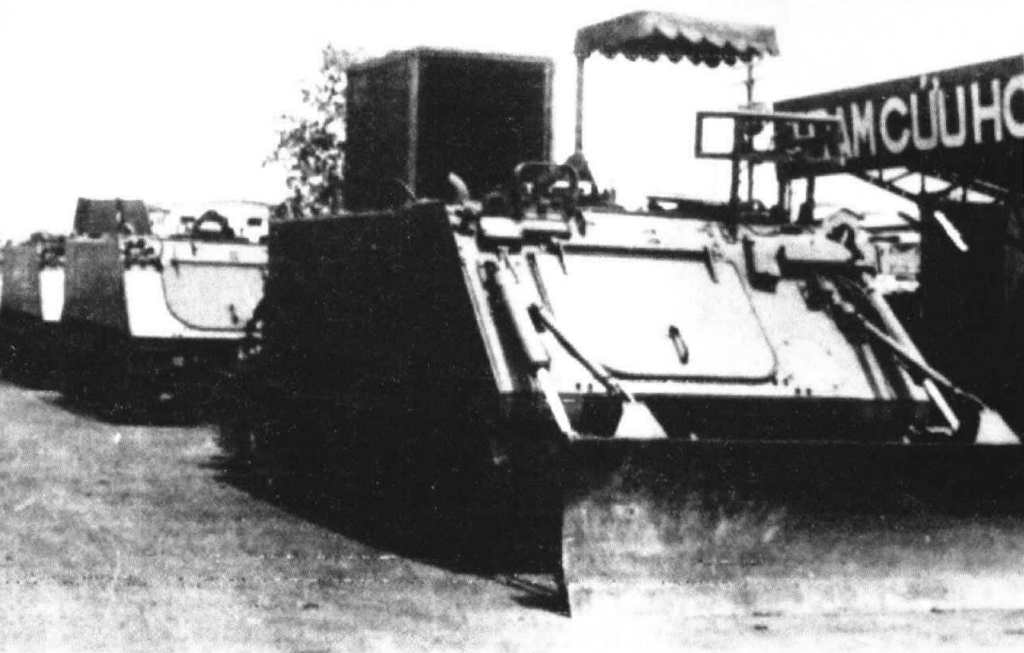
The pattern of Vietnamese industrial growth after reunification was initially the reverse of the record in agriculture; it showed recovery from a depressed base in the early postwar years. Recovery stopped in the late 1970s, however, when the war in Cambodia and the threat from China caused the government to redirect food, finance, and other resources to the military, a move that worsened shortages and intensified old bottlenecks. At the same time, the invasion of Cambodia cost Vietnam badly needed foreign economic support. China's attack on Vietnam in 1979 compounded industrial problems by badly damaging important industrial facilities in the North, particularly a major steel plant and an apatite mine (see *The Armed Forces*, ch. 5).

National leadership objectives during the immediate postwar period included consolidating factories and workshops in the North that had been scattered and hidden during the war to improve their chances of survival and nationalizing banks and major factories in the South to bring the financial and industrial sectors under state control. The government's continued use of wartime planning mechanisms that emphasized output targets and paid little heed to production or long term costs caused profits to erode, however, and increased the government's financial burdens. Economic reforms undertaken in 1977 gave factory management some independence in formulating production plans, arranging production resources, and containing production expenses. Such additional pragmatic steps as the adoption of incentive-structured wages and the realignment of prices better to reflect costs were also considered.

This first experiment with reform was relatively short-lived, partly because it ran counter to the overriding policy of socializing the South and integrating it with the North by reducing the centralized administrative control obviously needed to do the job. Some reform measures stayed on the books, however, and were revived in the 1980s.

Vietnamese statistics indicate that the gross value of industrial output in 1980 was not much higher than in 1976 and that the value of output per capita declined more than 8 percent. For example, cement production was relatively stagnant; it averaged 1.7 million tons annually during the Second Five-Year Plan, but only 1.4 million tons in 1985.

In general, fuel production increased at more than 10 percent annually. Coal output grew from 5.2 million tons in 1975 to



*United States armored cars  
converted into bulldozers, 1977  
Production of small tractors*

6 million tons in 1978 and fell to 5.3 million tons in 1980. According to official figures, 1985 coal production remained at, or somewhat below, the 1981 level of 6 million tons (see table 8, Appendix A). Coal accounted for about two-thirds of energy consumption in the 1980s. Coal mining remained handicapped by coordination and management problems at mining sites, incomplete rail connections to mines, equipment and materials shortages, and inadequate food and consumer goods for miners.

Some light industry and handicrafts sectors mirrored the difficulties experienced in agriculture because they used agricultural raw materials. By 1980 the Vietnamese press was reporting that many grain, food-product, and consumer-goods processing enterprises had reduced production or ceased operations entirely. Although detailed statistics on sector performance were insufficient to show annual results, the total value of light industry output peaked in 1978; by 1980 it was nearly 3 percent lower than it had been in 1976. Increasingly severe shortages of food (particularly grain and fish) and industrial consumer goods lessened workers' incentives.

Total industrial production during the Third Five-Year Plan reflected high levels of investment, averaging some 40 percent of total annual investment during the plan period. In 1985 the industrial sector accounted for some 32 percent of national income, up from approximately 20 percent in 1980.

From 1981 through 1985, industrial growth was unevenly distributed and in many instances simply restored production levels to their 1976 levels. The highest production growth rates were recorded in the manufacture of paper products (32 percent per year), and food processing (42 percent per year). Both sectors had declined in production during the Second Five-Year Plan. Production of processed sugar increased from 271,000 tons in 1981 to 434,000 tons in 1985, almost ten times the 1975 production level. The processing of ocean fish increased from 385,000 tons in 1980 to 550,000 tons in 1985, not quite reaching 1976 and 1977 levels, but clearly reversing the steady decline this sector had experienced in the late 1970s. (The decline had been generated in part by the use of fishing boats in the South as escape craft to flee the communist regime.) Other light industries grew at annual rates of 10 percent or more during the early 1980s, which essentially restored production to 1975 or 1976 levels. Brick production increased steadily to 3.7 billion bricks in 1985, after regular declines during the previous plan. Production of glass reached 41,000 tons in 1985, exceeding 1975 levels for the first time. Paper production in 1985 again reached the 1976 level of 75,000 tons, up from 42,000 tons at the beginning of the plan in 1981; and the textile subsector exhibited an

8 percent average annual growth rate during the plan period as cloth production more than doubled to 380 million square meters in 1985.

Among heavy industries, machine-building and chemical industries (including rubber) registered annual average production gains of approximately 25 percent. Chemical fertilizer production continued to exceed the 1975 level and, in 1985, reached 516,000 tons despite relatively underdeveloped mining and enrichment processes for apatite and pyrite ore and underutilization of the Lam Thao Superphosphate of Lime plant (Vinh Phu Province). Pesticide production also maintained a decade-long growth trend to reach 11.74 billion tons in 1985.

Fragmentary figures for iron and chromium ore production were discouraging and suggested a continuation of the decline from 1975 levels. Ferrous and non-ferrous metallurgical production actually declined overall, reflecting exhausted and obsolescent plants, low investment rates, and probably dwindling supplies of scrap left from the end of the Second Indochina War. Modest gains were reported annually in steel production, which reached 57,000 tons in 1985.

Electric power production, although handicapped by uncompleted projects and shortages of oil and spare parts, grew at an average of 8 percent per year. Vietnamese statistics on the annual output of primary products showed that production of electricity increased by almost 60 percent to nearly 3.8 billion kilowatt hours from 1976 through 1978, then declined to around 3.7 billion kilowatt hours in 1980. By 1985, however, production of electricity had increased to 5.4 billion kilowatt hours. Energy-producing industries generally remained stagnant, however, which caused tremendous difficulties for the other sectors of the economy. Power output grew very slowly, and power shortages forced many factories to operate at only 45 to 50 percent of capacity. The government planned that in the 1980s energy production would be tripled by the completion of three big Soviet-assisted projects: the 500-megawatt thermal plant at Pha Lai, Hai Hung Province; the 300-megawatt hydroelectric plant at Tri An, Dong Nai Province, and the giant, 1,900-megawatt hydroelectric plant at Hoa Binh, Ha Son Binh Province, which has been called the "Asian Aswan Dam."

## **Internal Commerce**

The control and regulation of markets was one of the most sensitive and persistent problems faced by the government following the beginning of North-South integration in 1975. The government, in its doctrinaire efforts to communize the commercial, market-oriented Southern economy, faced several paradoxes. The first was

the need both to cultivate and to control commercial activity by ethnic Chinese in the South, especially in Ho Chi Minh City. Chinese businesses controlled much of the commerce in Ho Chi Minh City and the South generally. Following the break with China in 1978, some Vietnamese leaders evidently feared the potential for espionage activities within the Chinese commercial community. On the one hand, Chinese-owned concerns controlled trade in a number of commodities and services, such as pharmaceuticals, fertilizer distribution, grain milling, and foreign-currency exchange, that were supposed to be state monopolies. On the other hand, Chinese merchants provided excellent access to markets for Vietnamese exports through Hong Kong and Singapore. This access became increasingly important in the 1980s as a way of circumventing the boycott on trade with Vietnam imposed by a number of Asian and Western Nations.

The second paradox lay in the role markets played in economic planning. State plans depended upon complex and interrelated flows of industrial and agricultural commodities, mediated by state markets at fixed prices. For example, predetermined amounts of food had to be produced and made available to coal miners, who were required to increase production of fuel for thermal power plants, which would in turn supply energy to fertilizer factories and machine shops. Production of fertilizer and small machines—for example, irrigation pumps and insecticide sprayers—would close the circle by providing planned levels of inputs necessary to increase agricultural production. Production campaigns under the guise of encouraging volunteerism—heroic efforts for the development of the fatherland—were to be used to keep production at quota levels at every part of the cycle. By the late 1970s, however, this plan had failed conspicuously. Although inhibited by controls and the exodus of numerous Chinese in the late 1970s, the private market remained active (see *Ethnic Groups and Languages*, ch. 2). Enterprises working under the Second Five-Year Plan found themselves competing for needed inputs in the private sector. Prices in the free market were usually well above those set by the plan, but private markets often were the only source for needed goods. Bottlenecks and shortages persisted, aggravated by the tendency of low-level managers to stockpile above-quota production against future levies or simply to sell production on the private market. Repeated failures to improve harvests caused food shortages to approach crisis proportions and forced the government to back away from its attempt to mold the South into the North's economic image. After 1978 the government moderated its crackdown on private commerce in the South to allow some commercial activity, including reinvestment

of private profits. By 1979 the share of state-owned commerce in Ho Chi Minh City had declined to 27 percent, compared with 54 percent for the country as a whole.

A major problem for the leadership was the structure of the economy in the South. Nationalization had little effect on the small-scale manufacturing that characterized much of production. Moreover, commerce was a principal occupation in the major cities. While state stores were established as part of a new government-controlled distribution network, private vendors were able to compete effectively with them by offering to pay more to suppliers and by providing customers with better and otherwise unobtainable goods in exchange for higher prices. Hanoi's orthodox communist leaders viewed this activity in a time of shortage as speculation, hoarding, and monopolization of the market.

At roughly the same time that the government intensified the collectivization drive, it launched a campaign in the South to transform commerce into a largely public-sector activity. Private shops were closed, merchandise was redirected to state channels, and merchants were shifted to production work. At the peak of the transformation drive in 1978, state-sponsored commerce in Ho Chi Minh City reportedly accounted for 40 percent of retail sales. The government's crackdown on private traders initiated an unprecedented exodus of ethnic Chinese, who made up many of their number. The market dislocation also increased hardship in the South, which, along with unpopular resettlement policies, convinced many Southerners to flee. Not only did the government's program deprive the South of the services of some of the more capable members of the middle class, but the escape of many Southerners by sea provoked a shortage of fishing boats and a decline in the fish catch, a principal source of foreign-exchange income.

Through 1986 and 1987, official policy toward unofficial markets continued to alternate between restrictive and liberal approaches. Restrictions included licensing and tax regulations and proscriptions against reinvestment of profits. In periods of relaxation, these restrictions were eased; local organizations were given greater autonomy in setting prices for locally produced goods; and unofficial markets were permitted to flourish.

Lenient policies reflected official awareness that both production and distribution remained to some degree dependent on the unofficial market. In agriculture, for example, the "family economy" continued to account for an important share of peasant agricultural production. The state plan for industrial production recognized the existence and importance of the unofficial market in the "dual quota planning" system. Under this program,



*Black market American goods, Ho Chi Minh City  
Courtesy Bill Herod*

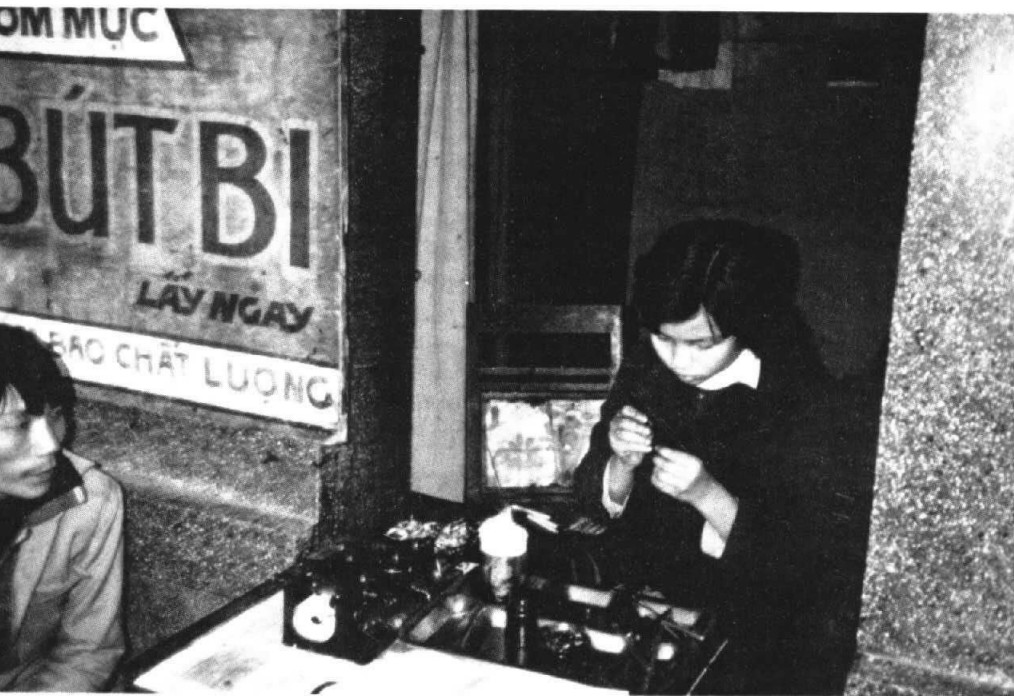
introduced in 1985, enterprises that met plan quotas were allowed independently to plan, finance, produce, and privately market surplus goods on the unofficial market. In 1986 state enterprises in Hanoi reportedly were unable to meet their budget contribution quotas because of the high cost of purchasing goods on the unofficial market. Many organizations not authorized to trade continued to do so, however, and the available goods on the official, “organized” market remained well below quotas.

### **Foreign Trade and Aid**

In the 1980s, the Vietnamese government, acting under party supervision, continued to regulate and control all foreign trade. The Ministry of Foreign Trade managed trade and was responsible for issuing of import and export licenses and approving any departures from the formal economic plan on an ad hoc basis. There was considerable division of responsibility, however, among high level agencies, financial institutions, state trading corporations, local export companies, and provincial and regional government bodies.

The role of planning in foreign trade became increasingly significant after June 1978, when the country formally joined the Soviet-sponsored Council for Mutual Economic Assistance (Comecon—see Glossary) and began to coordinate its five-year development and trade plans more closely with those of the Soviet Union





*Scrambling to buy plastic water containers in Hanoi  
Courtesy Bill Herod  
Hanoi pen merchant uses hypodermic needle  
to insert ink into used ballpoint pens  
Courtesy Bill Herod*

and other Comecon members. Planning officials set trade goals on the basis of the overall planning targets and quotas required by bilateral trade agreements with various Comecon countries. The 1978 Treaty of Friendship and Cooperation between the Soviet Union and Vietnam, the most important of numerous such agreements with Comecon members, established the basis for the two countries' "long-term coordination of their national economic plans" and for long-term Soviet development assistance in technology and other crucial sectors of the Vietnamese economy. A 1981 Soviet-Vietnamese protocol on coordination of state plans during the Third Five-Year Plan set specific targets for bilateral trade and for coordination of Soviet machinery and equipment exports with plans for development of Vietnam's fuel and energy sectors.

After approval by the Council of Ministers, major trade programs were announced at national party congresses (see Development of the Vietnamese Communist Party, ch. 4). The trade program announced in 1986 at the Sixth National Party Congress called for export growth of 70 percent during the Fourth Five-Year Plan (see table 9, Appendix A).

Closer linkages between trade and general economic planning in the 1980s had mixed effects. Fluctuating commodities prices at home and market-oriented trade with, and investment from, Western countries were too uncertain to plan. Consequently, the Second Five-Year Plan was crippled when hoped-for Western investment failed to materialize. The joint planning approach was designed to enable Vietnam to minimize risk because it could count on stable supplies of important resources and equipment at concessionary prices, especially from the Soviet Union. Any delays or bottlenecks in the plans or aid commitments of Comecon countries, however, could delay or disrupt Vietnam's planning effort. In the early 1980s, for example, announcement of the Third Five-Year Plan was delayed until the Fifth National Party Congress of March 1982 while Vietnam waited for the Soviet Union to confirm its aid commitment. Similarly, Vietnam in the mid-1980s endured first reduction, then elimination of Soviet price subsidies for purchases of Soviet oil. The reductions were in accordance with the then general Soviet practice of avoiding oil price subsidies in order to keep Comecon oil prices close to those of the world market. The volume of Vietnamese trade suffered increasingly from some of the recurring problems that troubled planners in other Comecon countries during this period, including overly optimistic targets, problems of regionalism, priorities often driven by ideology, and chronic shortages of domestically produced raw materials and industrial commodities. By 1987 observers had concluded that, despite Vietnam's

financial ties with Comecon, increased investment and trade from Western countries and other non-Comecon sources would be required for a general Vietnamese economic recovery (following Vietnam's incursion into Cambodia in late 1978, numerous Western and regional aid donors had withdrawn their support and imposed a trade boycott).

### **Foreign Currency Management**

In the 1980s, the Foreign Trade Bank, under the authorization of the State Bank of Vietnam (formerly the National Bank of Vietnam), made payments for imports. Headquartered in Hanoi, with a branch in Ho Chi Minh City, the Foreign Trade Bank managed Vietnam's foreign currency holdings and related matters, such as the resolution of debts owed foreign countries. The Foreign Trade Bank also conducted Vietnam's relationship with the World Bank (see Glossary), following Hanoi's assumption of the memberships held in the Asian Development Bank (see Glossary) and the International Monetary Fund (IMF—see Glossary) by the government of the Republic of Vietnam (South Vietnam) until 1975 (see Banking, this ch.).

Vietnam was, in addition, a member of the Comecon-affiliated International Investment Bank and the International Bank for Economic Cooperation in Moscow. Under the terms of Vietnam's Comecon membership, the International Bank for Economic Cooperation extended limited credit in transferable rubles (for value of ruble, see Glossary) for transactions not cleared through bilateral Soviet-Vietnamese trade agreements; the bank also maintained a convertible foreign exchange account for Vietnam.

In order to increase exports, the government used incentives. Bonuses for export production were introduced in 1980, and extended in 1985, to reward cooperatives and other collective entities that met their export production quotas. Incentives to increase exports also were applied through the government's manipulation of foreign exchange disbursement. In general, foreign exchange for import companies either was carefully allocated in the state plan or was determined by the relevant ministries on an ad hoc basis when the companies requested convertible currencies for their operations. The amount of foreign exchange allocated to a company for import operations, however, was determined by the amount of foreign exchange earned by the company's exports. Tying foreign exchange allocations to export earnings was intended to act as an incentive to boost export production. The government also required that most export companies turn in between 10 and 30 percent of their foreign exchange earnings. Beyond this general guideline, however, many enterprises were permitted to retain all

or a portion of their hard currency earnings in the form of special credits against State Bank accounts. Companies operating in a developing region such as the highlands, for example, were granted a five-year holiday during which they could retain all foreign exchange earnings. Those exporting major commodities such as coal, rubber, and marine products were allowed to retain between 80 and 100 percent of their hard-currency earnings for use in necessary import purchases. Centrally controlled enterprises in the field of tourism were completely exempted from turn-in requirements, and companies that borrowed hard currencies from abroad received preferential status.

Under a system of procurement subsidies, export companies applied for funds to cover gaps between procurement costs and their export revenues. The Ministry of Finance, through its Export Support Fund, disbursed these subsidy payments to the centrally administered trading corporations. Local corporations could receive a subsidy mix based on profits from imports and payments made by local governments. All such subsidies were limited, and companies exceeding the limit could lose their export permits.

### **Decentralization of Trade**

During the 1980s, there were variations in the level of decentralization of foreign trade that the government was willing to permit. A policy of giving local governments and export companies greater autonomy in making contractual and credit arrangements with foreign businesses and government organizations was attempted in 1981 without much success but was endorsed by the Sixth National Party Congress in December 1986. Decentralization was blocked initially by Hanoi's desire to bring the economically livelier southern region of the country, with its latent market-economy orientation, under fuller economic and political control. Such control—exemplified by a 1983 crackdown on the ethnic Chinese commercial community in Ho Chi Minh City—sometimes took precedence over trade promotion. In early 1987, however, city officials reportedly were again encouraging local companies to engage freely in foreign trade, joint ventures, acquisition of technology, and foreign currency borrowing. Provinces, as early as 1986, were permitted to set their own trade regulations and develop export strategies in order to draw sufficient revenue to pay for imports needed to fulfill provincial plan targets.

Some twenty-seven state trading corporations and twenty-two local trading companies conducted business directly or indirectly with companies abroad during the 1980s, either producing export goods or purchasing them from suppliers. Imexco, the central

umbrella organization, handled general administrative matters, leaving detailed operations to specialized corporations such as Agrexport and Vegetexco (foodstuffs and animal products); Maranimex (marine products); Naforimex (forest products); and Machineimport and Technoimport (machinery, plants, and equipment). Two specialized corporations, the Vietnam Foreign Trade Corporation and the Vietnam Ocean Shipping Agency, administered all sea transport and cargo handling, respectively. The Soviet-Vietnamese joint venture Vietsovpetro conducted offshore petroleum exploration.

In their day-to-day operations, the specialized trading corporations independently arranged contracts with producers, coordinated in-country transportation, and even designed packaging (for example, of fresh fruit or marine products) to improve freshness and quality control. The Number One Frozen Seafood Export Company, a highly profitable corporation, regularly sent its officials abroad to negotiate trade contracts for its popular frozen prawns and other seafood. In 1986 the company reportedly earned a profit of around US\$17 million, chiefly in trade with Japan and Hong Kong (see table 10, Appendix A).

### **Direction and Composition of Trade**

Trading patterns from 1978 through 1986 reflected the growing importance of Vietnam's relationship with Comecon and its weakening ties with major Western economies and noncommunist regional trading partners. Total trade with non-Comecon countries peaked at a little more than US\$1 billion in 1978, dropped to less than US\$700 million in 1982 and 1983, then averaged some US\$850 million per year through 1986 (all dollar figures are given in terms of 1987 conversion rates). Two-way trade with the Soviet Union, that totaled about US\$550 million in 1977, reached US\$1.2 billion in 1981. This trade, which averaged some 43 percent of total trade from 1977 through 1980, accounted for about 64 percent of the total during the period of the Third Five-Year Plan. According to export plans announced by the Sixth National Party Congress in December 1986, two-way trade with the Soviet Union would continue to account for the major share of the country's foreign trade under the Fourth Five-Year Plan (see table 11, Appendix A).

In the 1980s, Vietnam's trade deficits with non-Comecon countries declined as the country's deficit with the Soviet Union grew. In 1977 and for several years thereafter, Vietnamese exports to its non-communist trade partners averaged less than 20 percent of the value of its imports from them. Exports to these countries

increased slowly throughout the mid-1980s as imports declined. Most of the improvement resulted from substantive reductions in imports from eight major trading partners: Canada, Australia, France, Italy, the Federal Republic of Germany (West Germany), Sweden, Britain, and India. The reduction in imports resulted as much from Vietnamese self restraint and loss of trade credit as from politically motivated boycotts on trade with Vietnam, such as that observed by a number of Western and Asian Nations including the United States and the member nations of ASEAN. Vietnam's exports to several Western countries, including West Germany and Britain, increased, however, and the Vietnamese occasionally showed small positive trade balances with Australia and Canada in the mid-1980s. By 1986 Vietnam had reduced its balance-of-payments deficit with non-Comecon countries to less than US\$300 million (compared with more than US\$700 million annually in the late 1970s) and was exporting products worth half the value of its import bill. Trade with the Soviet Union, however, followed the opposite pattern. Vietnamese exports were valued at an average of 49 percent of imports from the Soviet Union in 1977 and 1978, but at less than 25 percent of imports from 1981 through 1986.

### **Foreign Investment Policy**

In December 1987, the National Assembly approved a new foreign investment code in an apparent effort to bypass boycott restrictions and deal directly with Western and regional businesses. The legislation, which was much more liberal than foreign investment laws in use in other communist states, gave more concessions to foreign investors than similar Vietnamese laws that had been enacted in 1977. The new code used low taxes—20 to 30 percent of profits—to encourage joint ventures and permitted wholly owned foreign enterprises in Vietnam. The code, which was designed to emphasize the development of export industries and services, also granted full repatriation of profits after taxes and guaranteed foreign enterprises against government expropriation. The new law also encouraged oil exploration and production contracts.

### **Major Trading Partners**

By 1982 Vietnam's most important noncommunist trading partners were Japan, Hong Kong, and Singapore. In 1985 these three partners together accounted for US\$576 million in trade, approximately 65 percent of Vietnam's trade with non-Comecon countries. In 1986 Japan and Hong Kong together conducted more than 50 percent of Vietnam's non-Comecon trade. Much of the trade with Hong Kong and Singapore, however, was in goods either

originating in, or destined for, other countries, making it difficult to assess the effectiveness of the trade boycott of Vietnam subscribed to by a number of Western and Asian nations, including Singapore.

### *Japan*

Japanese trade with Vietnam—US\$285 million in 1986—was conducted through Japanese trading companies and the Japan-Vietnam Trade Association, which was made up of some eighty-three Japanese firms. Japanese government officials also visited Hanoi in support of trade, but Vietnam's failure to repay outstanding public and private debts inhibited further trade growth. Japanese exports to Vietnam emphasized chemicals, textiles, machinery, and transportation equipment. In return, Vietnamese exports to Japan comprised mostly marine products and coal.

### *Hong Kong*

Vietnam was Hong Kong's second-largest supplier of prawns and plants used for perfume, and held a strong position in sales of other specialized animal products, such as feathers. Vietnamese imports from Hong Kong, often paid for through complicated barter arrangements, comprised chemicals, machinery and equipment, and industrial textiles. Hong Kong also provided a conduit for an undetermined amount of covert trade by ASEAN countries such as Thailand.

### *Singapore*

Despite Singapore's ASEAN membership and its official sanction of the organization's participation in a boycott on trade with Vietnam, unofficial trade between the two countries grew dramatically during the 1980s. By 1985 trade had reached a total two-way figure of almost US\$200 million (Singapore stopped publishing figures for its trade with Vietnam in 1986). In 1985 Singapore exported almost as much to Vietnam as Japan did, and imported twice as much as Hong Kong did. Singapore also provided Hanoi with important services, including cable and telex links. By 1985, the year in which for the first time ASEAN trade with Vietnam equalled that of Japan, the boycott seemed to have lost force.

### *Soviet Union*

Vietnamese trade with the Soviet Union was strongly influenced by aid, trade, and joint planning agreements associated with Vietnam's Third Five-Year Plan. Imports of oil and petroleum products, for example, which had averaged less than 9 percent of total imports from the Soviet Union from 1975 through 1980, increased to an

annual average of 33 percent of imports between 1981 and 1985. This change followed a pattern in which the Soviet Union provided oil-exploration equipment and technical assistance against future recoveries while providing for Vietnamese fuel consumption in the meantime (see fig. 12).

Machinery and equipment deliveries, averaging 45 percent of Vietnamese imports from the Soviet Union between 1975 and 1980, were important because they were intended for Soviet assisted hydropower, coal mining, and oil exploration projects. Other major, regularly repeated Vietnamese purchases from 1975 through 1986 included rolled steel and cotton fiber.

Wheat and wheat flour imports from the Soviet Union, necessary because of repeated crop failures in the late 1970s, dropped to negligible amounts in the 1980s. Soviet shipments of chemical fertilizers (principally granular urea) beginning in 1981 appeared to be synchronized with the Third Five-Year Plan's stress on improving agricultural production.

Soviet deliveries for some projects occasionally spanned two planning periods; deliveries for other projects were completed within short intervals. Shipments of agricultural and forestry equipment, for example, peaked for a short period in 1979 and 1980, while deliveries of materials for two Intersputnik Lotus telecommunications ground stations began in 1979 and continued at substantial levels through 1984 before tapering off once installation work was completed in 1985.

According to the joint Soviet-Vietnamese trade agreement of 1981, bilateral trade was to more than double over the period of the Third Five-Year Plan. The Soviet Union planned to import more Vietnamese agricultural products in exchange for increased Vietnamese imports of Soviet oil, vehicles, metals, construction equipment, and fertilizers. Although Vietnam's exports failed to keep pace with projections, gains were reported in such categories as clothing, household goods, handicrafts, fruits and vegetables, pharmaceuticals, and raw rubber. Vietnamese production and export shortfalls, coupled with a persistent deficit that required substantial subsidies, did not preclude the Soviet Union's deriving some benefit from the two-way trade. For example, shipments of fresh and frozen fruits and vegetables, chiefly to the Soviet Far East, ranked fourth in recorded imports from Vietnam and were favorably reported in Soviet publications. The Soviet Union also saved valuable foreign exchange by purchasing some products, such as rubber, from Vietnam instead of from other countries. Rubber sent to the Soviet Union remained an important part—some 6.5 percent annually—of Vietnam's total exports. Soviet assistance provided



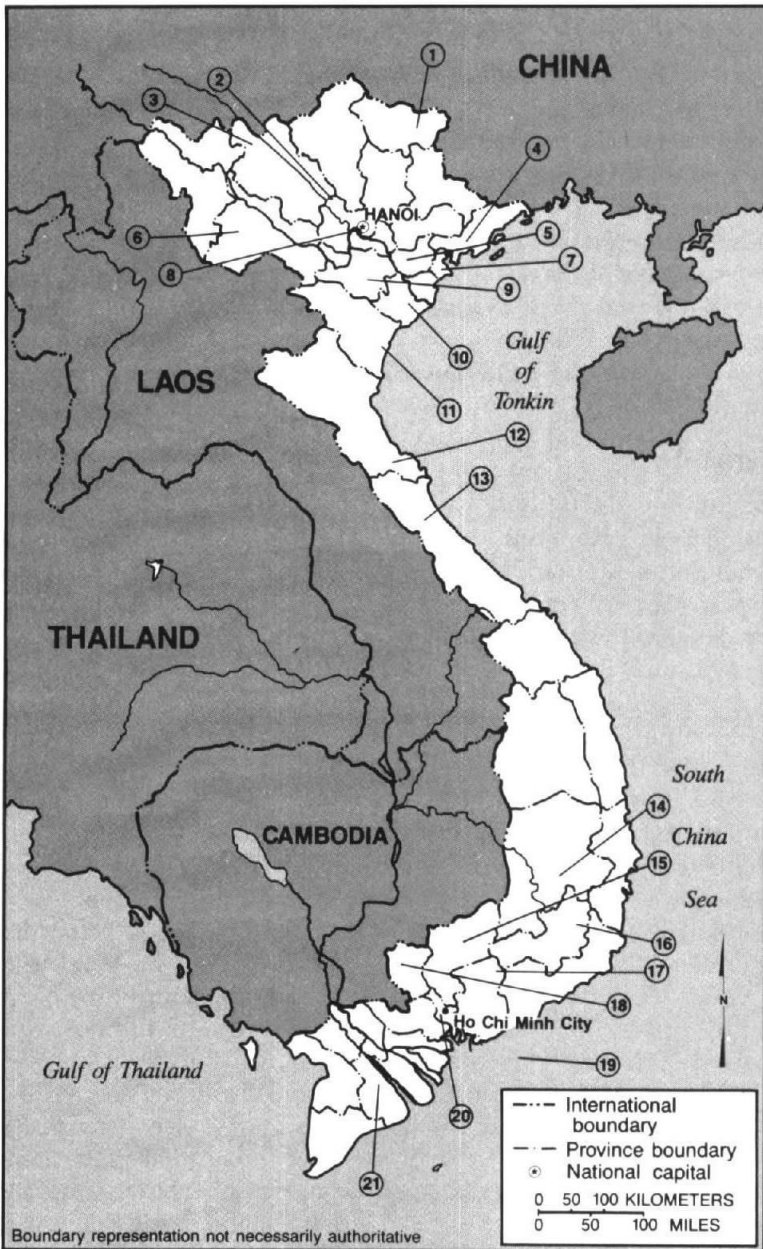
during the Second Five-Year Plan to a 2,000 hectare plantation managed by the Phu Rieng Rubber Company in Song Be Province suggested that preserving the long-term development of this important rubber source may have been a critical Soviet concern. Finally, Vietnamese vodka shipments to the Soviet Union enabled the Soviet Union to increase exports of its own higher quality product to the hard-currency markets of the West.

The Soviet-Vietnamese trade plan additionally included Vietnamese exports of nonferrous metals, although according to its practice of some years the Soviet Union did not report transactions in this category. In 1983 the Soviet Union claimed that Soviet-assisted projects, such as the Tinh Tuc Tin Mine in Cao Bang Province, accounted for 100 percent of Vietnam's tin production.

### **External Debt**

Vietnam is one of only two communist countries—the Democratic People's Republic of Korea (North Korea) is the other—to default on its international debts. Vietnam's scheduled 1982 payments to Western creditors were estimated at US\$260 million, well over the US\$182 million value of Vietnam's exports that year to noncommunist countries with hard, or convertible, currencies. The Soviets cancelled some US\$450 million of Vietnam's debts in 1975 and began a program of grant aid. As Vietnam-Comecon trade expanded in the 1980s, however, so did Vietnamese debts to Comecon countries. Comecon funds for project assistance and related equipment often were wasted because of mismanagement or remained frozen for years in projects not scheduled to become productive until the middle or late 1980s. Projected exports frequently fell short of expectations, widening trade deficits and requiring additional balance-of-payments aid. Taking the long view, the Soviet Union shifted its assistance during the Third Five-Year Plan to concessionary loans, repayable at 2 percent interest over a period of 20 to 30 years.

As Vietnam's international debt grew steadily through the 1980s, the debt owed to the Soviet Union and other Comecon countries accounted for larger portions of the total foreign debt. In 1982, according to estimates by the Organization for Economic Cooperation and Development (OECD), Vietnam's total foreign debt was US\$2.8 billion. Of this debt, US\$1.7 billion, or 60 percent, was owed to OECD member countries (advanced industrial Western countries) and their capital markets or to multilateral lenders. A large portion of Vietnam's international debt covered the balance of payments deficit with Comecon countries (see Foreign Economic Assistance, this ch.). In 1987 Le Hoang, deputy director of the



Source: Based on information from *Soren To Betonamu Tono Kyoryokukankei*, translated in Foreign Broadcast Information Service, *Southeast Asia Report*, March 19, 1985, 66-136.

Figure 12. Soviet Cooperation Projects, 1985

## KEY TO SOVIET COOPERATION PROJECTS, 1985

1. Tinh Tuc Tin Mine and Plant
2. Lam Thao Superphosphate of Lime Plant  
Battery factory
3. Lao Cai Apatite Mine  
Thac Ba Hydroelectric Power Plant
4. Ha Tu Coal Mine  
Cao Son Coal Mine  
Mong Duong Coal Mine  
Vang Danh Coal Mine  
Quang Ninh Coal Mine  
Vang Dinh Coal Mine  
Uong Bi Hydroelectric Power Plant  
Uong Bi Vietnam-USSR Miners School  
Cam Pha Central Machine Plant  
Flour mill
5. Pha Lai Thermal Power Plant
6. Moc Chau Tea-Manufacturing Plant
7. Vietnam-USSR Farm Machinery Technicians School  
Truck repair workshop  
Haiphong port expansion
8. Dong Anh Electric Equipment Repair Workshop  
Giap Bac Automobile Servicing Plant  
Xuan Mai Prefab Housing Concrete Slab Factory  
Thang Long Bridge  
Branch of the Pushkin Russian Language School  
Meteorological station  
Computer center  
USSR-Vietnam joint tropical weather research facility  
Ho Chi Minh Mausoleum  
Labor Cultural Center  
Ky An Scientific Research Center
9. Natural gas development  
Gas turbine power plant  
Hoa Binh Hydroelectric Power Plant  
Song Cong Diesel Engine Factory
10. Lotus One Inter-Sputnik Satellite Communications Ground Station
11. Bim Son Cement Factory  
Kien Chau Cement Factory
12. Vinh-Vientiane, Laos 500-kilometer oil pipeline
13. Dong Hoi diesel-powered electric generating plant
14. Farm machinery repair workshop
15. Phu Rieng Rubber Company
16. Bao Loc Tractor Servicing Plant  
Da Lat Nuclear Reactor
17. Tri An Hydroelectric Power Plant
18. Automobile servicing plant  
Trang Bang Tractor Repair Workshop
19. Vung Tau offshore: continental shelf oil and natural gas development
20. Automobile and tractor repair workshop  
Cu Chi Farm Machinery and Maintenance Workshop  
Meteorological radar observation post  
Lotus Two Inter-Sputnik Satellite Communications Ground Station
21. Phung Hiep Farm Machinery Repair Plant

State Bank of Vietnam, told a Western correspondent that the country owed between US\$5.5 and US\$6 billion to Comecon member countries. Hoang stated that Vietnam's debts (both official and private) to hard-currency countries were about US\$1 billion.

Creditors in convertible-currency areas included international organizations such as the IMF and the Asian Development Bank; national creditors such as Belgium, Denmark, France, India, Japan, and the Netherlands; and private creditors in numerous Western countries. In January 1985, the IMF suspended further credit when Vietnam failed to meet a repayment schedule on the amount owed to the fund. Talks to reschedule the obligation failed in 1987, making Vietnam ineligible for fresh funding. In 1987 Vietnam owed the fund some US\$90 million. Its foreign exchange reserves in 1985 had been estimated at less than US\$20 million.

### **Foreign Economic Assistance**

In the late 1970s, Vietnam relied heavily on economic assistance from both Western and Soviet-bloc donors to finance major development projects, to underwrite its fledgling export industries, and to meet balance of payments deficits. Following Vietnam's acceptance of closer ties with the Soviet Union, its incursion into Cambodia in December 1978, and its border fighting with China in early 1979, aid from China and from Western countries and multilateral organizations dropped, slowing development.

Offshore oil exploration with the assistance of West German, Italian, and Canadian companies ended in 1981, but resumed subsequently with Soviet technical assistance. Aid from China, reportedly close to US\$300 million in 1977 and 1978, dropped to zero in 1979, and Vietnamese recovery in coal production was profoundly affected by the accompanying loss of ethnic Chinese workers. In 1979 Japan suspended its Official Development Assistance funds (a mixture of grants and low-interest loans amounting to US\$135 million) and made renewal contingent upon Vietnamese withdrawal from Cambodia. Loss of other Western aid in hard currencies crippled Vietnam's ability to continue importing needed modern machinery and technology from its West European trading partners. Following Vietnam's occupation of Cambodia, only Sweden continued to provide any significant amount of economic help. Some multilateral assistance, such as that for development of the Mekong River, was made available by the United Nations Economic and Social Commission for Asia and the Pacific, however. Western and multilateral assistance, therefore, did not stop entirely, although the yearly average of about US\$100 million through 1986 provided only a fraction of the country's hard-currency needs.

In 1986 Vietnam's current account deficit with major industrial countries was some US\$221 million. The conflicts with Cambodia and China in 1978 and 1979 proved particularly costly in terms of continuing economic ties with Western and neighboring Asian countries. As a result, Hanoi was forced to rely even more heavily on Soviet-bloc assistance.

The Soviet Union and other members of Comecon increased their aid commitments as their own planning became more closely coordinated with Vietnam's following Hanoi's entry into Comecon in June 1978. Soviet economic aid in 1978, estimated at between US\$0.7 and 1.0 billion, was already higher than Western assistance. By 1982 it had increased to more than US\$1 billion annually, close to US\$3 million per day, and it remained at this level through the mid-1980s. The Soviet Union and other Comecon countries provided aid in all categories—project assistance, technical training, price subsidies, loans, and trade credits. Soviet publications emphasized the importance of project assistance to Vietnam's economic recovery, but about 75 percent of the value of aid disbursed during the Third Five-Year Plan was used to finance Vietnam's bilateral trade deficit with the Soviet Union, which averaged about US\$896 million a year. Trade subsidies in the form of reduced prices for Soviet oil also declined sharply in the early 1980s as the Soviet Union brought Vietnam into the Comecon oil-pricing system based on world market values.

Although the details of Comecon assistance to Vietnam since the 1970s had not been made public as of late 1987, Soviet sources gave some indications of the type of project assistance provided and were quick to claim credit for production increases attributable to Soviet technical and plant assistance. Soviet-aid goals from 1978 to 1981 included helping with balance-of-payments problems, assisting with key projects, introducing industrial cooperation, accelerating scientific and technical cooperation, and assisting with the improvement of Vietnamese professional skills. During this period, the Soviet Union also signed numerous agreements calling for financial and technical assistance in matters ranging from traffic-improvement programs for the railroad from Hanoi to Ho Chi Minh City to completing construction of the Thang Long Bridge over the Red River (see Transportation, this ch.).

### **Overseas Remittances**

During the 1980s, informal aid in the form of packages and remittances from overseas Vietnamese played an important role in improving the living standards of many families, maintaining the domestic economy, and boosting the country's holdings of hard

currency. Vietnamese customs officials in 1983 told a Western journalist that packages from overseas relatives—valued at some US\$70 million annually in Western products—generated between US\$10 million and US\$20 million annually in customs revenues alone. Remittances from overseas Vietnamese were believed to provide an additional US\$100 million or more in annual foreign exchange earnings.

## **Finance**

### **Budget**

The government allocated resources through its annual plan, which in the 1980s included the annual budget and credit plan. The Ministry of Finance, in consultation with the State Planning Commission, prepared the budget for approval by the Standing Committee of the National Assembly. Both the fiscal year (FY—see Glossary) and the annual plan year corresponded to the Western calendar year.

The state budget included the revenues and expenditures of the central government, 38 provincial governments, and more than 500 local governments. The state economic enterprises forwarded the bulk of their profits to the state treasury. Tax revenue accounted for about one-third of total budgetary revenue.

Tax measures introduced in 1983 included the imposition of new agricultural levies based on the potential output of collectives rather than actual per capita output and the actual output from private plots (previously exempted from the agricultural tax). In addition, more enterprises were made subject to taxation. Subsequently, total tax revenue from agricultural as well as nonagricultural cooperatives and the private sector increased, reflecting higher official and free-market prices, more efficient tax collection, and the continued expansion of economic activity.

In the 1980s, Vietnamese authorities did not release budget figures. Data prepared for the 1984 visit of IMF officials, however, revealed a 1983 budget deficit of D20 billion (approximately US\$2.2 billion), largely financed by increases in the money supply, the sale of taxes paid in kind, the sale of government-enterprise products, aid in kind, and the various taxes levied on the free market. These revenues were offset by large outlays on employment in the state sector and purchases (primarily of agricultural products) from peasants and cooperatives. The payment of bonuses to production workers, the attempt to match free-market prices, and the high level of food subsidies to the urban population also constituted major budget expenditures.

## **Money Supply**

The increase in prices and wages, as well as a mismanaged devaluation of the dong in the early 1980s, contributed to increases in the demand for credit and in the actual amount of currency in circulation. Domestic credit subsequently increased to reflect the large price adjustments that were made, the increase in inventories, and the emergence of bank-financed budget deficits. Credit to the commercial sector accounted for nearly half the total outstanding capital-credit. The expansion of domestic credit was reflected in a proportional expansion in liquidity. Total deposits rose significantly, and the volume of cash in circulation increased. Interest rates were adjusted accordingly in order to restrain growth in credit and the amount of cash in circulation. The rate on savings deposits was raised, and lending rates were lowered to reflect higher deposit rates.

## **Inflation**

The ill-conceived monetary-reform plan introduced in late 1985 set in motion unprecedented inflation. Hanoi replaced the old D10 note with a new D1 note and devalued the dong's foreign exchange rate from D1.20 to US\$1 to D15 to US\$1. A leak about the planned currency change and the unavailability of new notes of small denominations, however, defeated the goal of contracting the money supply by eliminating illegal cash holdings. As a result, inflation increased from about 50 percent in late 1985 to 700 percent by September 1986.

In implementing the reform, the government deprived both private and state-run enterprises of large amounts of cash they held for operating expenses. A Vietnamese economist estimated that half the cash in circulation was held by public enterprises for the purpose of expanding production. Most enterprises held their earnings in cash because the banking system encouraged only deposits and not withdrawals.

To curb inflation, the government directed its efforts at lowering prices by imposing state regulations. Price subsidies were reintroduced, and, in the face of widespread shortages and hoarding, the rationing of essential goods also was reinstated.

## **Prices and Wages**

During the early 1980s, the trend was toward greater price flexibility, but prices of both intermediate and consumer goods continued to be determined largely by the central government. Prices of agricultural and non-agricultural cooperative products were

closely related to the government's procurement policy and the two-way contract system. Under this system, the government assigned production quotas. Production achieved in excess of the quota could then be sold either to the government at negotiated prices or to buyers in the free market. Negotiated prices normally were higher than quota prices but lower than free-market prices.

Prices of the products of state-owned enterprises were established on the basis of average cost norms, applicable taxes, and a fixed profit margin. Production in excess of quotas or from inputs not supplied by the state could be sold at higher prices, enabling producers to recoup input cost while providing an incentive for above-quota production.

Consumer prices for commodities distributed by the state were different from those for products distributed in the free market. Official consumer prices fell into three categories depending on the type of goods as well as on the type of consumer. The first two categories consisted of essential commodities, such as rice, pork, textiles, and soap, which were distributed under rations at two different price levels. Civil servants, workers in state enterprises, and selected groups of consumers, such as students, pensioners and welfare recipients, were permitted to purchase these goods at substantial subsidies. A third price category for the same commodities was based on cost and was reserved for members of cooperatives and for individuals associated with contract work for the government. The subsidized prices remained unchanged for twenty years, but the cost-based prices continued to rise.

Party leaders at the Central Committee's Eighth Plenum (Fifth Congress) in 1985 experimented with eliminating fixed prices and removing subsidies on staples, thus causing a price increase for basic items. At the Second Plenum (Sixth Congress) held in April 1987, a policy of rational pricing based on cost and projected consumer demand was implemented for industries.

Wage increases of between 90 and 110 percent were granted in mid-1981 to civil servants and employees of state enterprises. Before the wage increase, state employees had benefited from access to state-supplied commodities at subsidized prices. Afterwards, purchases of state-supplied commodities, as part of the total expenditures of civil servants and manual laborers, fell, a development that contributed to a decline in the real incomes of these workers.

Reform measures introduced in 1985 instituted major changes in wage policy. Beginning at that time, wages were determined on the basis of performance and paid in cash. Previously wages had been paid partly or entirely in kind. Government employees (including the military) received a further increase in salary but



lost the supplements to their income that had previously included food subsidies. Wages for workers in state-run factories were increased at the April 1987 party plenum but any wage increases were directly translated into, and offset by, higher prices.

## **Banking**

Following its reorganization in 1976, the State Bank of Vietnam (formerly the National Bank of Vietnam) became the central bank of the country. In addition to its national financial responsibilities, the State Bank also assumed some of the duties of a commercial bank. It maintained a head office in Hanoi, a division in Ho Chi Minh City, and numerous provincial branches. Other important banks operating in Vietnam in 1988 included the Foreign Trade Bank, which was charged with overseeing all aspects of foreign payments, and the Bank for Agricultural Development, which provided loans to agriculture and fishing.

The first solely commercial bank opened in Ho Chi Minh City in July 1987 to handle personal savings and to extend loans to enterprises and individuals. The bank was capitalized with D500 million (US\$1.4 million) provided by the government and through stock issues. One objective in establishing Vietnam's first commercial bank was to limit inflation through the bank's ability to coordinate the extension of credit.

To attract more foreign exchange, the Foreign Trade Bank opened an account in 1987 for overseas Vietnamese remittances of foreign currencies to their relatives at home. The currencies dealt with were United States dollars, French francs, Swiss francs, Hong Kong dollars, Canadian dollars, British pounds, Japanese yen, Australian dollars, and West German marks. In 1987 the bank also agreed to establish a finance company in Tokyo in partnership with a Japanese bank. As the first joint venture between the two countries, the proposed company was intended to help settle bilateral trade accounts, but it was also expected to assist in technology transfers.

## **Transportation**

As described by the Vietnamese government, the economy in the 1980s suffered from the "backwardness" of the transport system. The system's inadequate development constituted a major impediment to industrial development, created bottlenecks in the circulation of goods and supplies, and constrained domestic trade. The importance of transportation development was emphasized at the Sixth National Party Congress in December 1986, and confirmed at the Central Committee's Second Plenum in April 1987.

The plenum urged state cooperatives, private enterprises, and individuals to invest in expanding the transportation sector and to engage in transportation services that would benefit business (see fig. 13).

Damage to the transportation structure was extensive during the latter half of the Second Indochina War, particularly in the North, and the 1979 Chinese invasion severely interdicted rail transport near the Chinese border, but Vietnamese transportation statistics also indicated a lack of development from 1975 through 1980. In 1980 total cargo transported amounted to 42.3 million tons, an increase of only 4.2 percent over the 40.6 million tons transported in 1970. Cargo carried by rail totaled only 3.5 million tons in 1980, compared with 4.5 million tons in 1965. In terms of volume hauled over distance traveled, 758 million tons per kilometer were transported by rail in 1980, a figure not significantly greater than that measured in 1965 (749 million tons per kilometer). A 30-percent increase in the average rail distance traveled per shipment in 1980 (from 166 kilometers to 216 kilometers) was attributed to expanded shipments from the South to the North.

In 1987 Vietnamese road and railroad construction figures for the period of the Second Five-Year Plan were contradictory. Construction figures indicated that 1,500 kilometers of new roads were built and 137 kilometers of new railroad track were laid during this time, but the plan's fulfillment report cited 3,800 kilometers of road constructed and 2,000 kilometers of main and auxiliary track laid for the North-South railroad. Vietnamese reports to Comecon showed that total track increased by 837 kilometers to reach a total of 2,900 kilometers in 1980. Repair of war damage to the rail system and construction of new sidings, however, took up much of the effort that might otherwise have been directed toward expanding the rail system.

The profitability and efficiency of the railroad transportation system had declined even before the system was damaged by the Chinese invasion in 1979. According to a Vietnamese transportation economist, profit per dong of fixed-capital investment decreased from D0.17 in 1964 to D0.04 in 1978. The same source calculated that the productivity per railcar declined from 1,999 tons per kilometer per day in 1960 to 784 tons per kilometer per day in 1978. Comparable estimates for road transportation were not available; however, the aging truck stock and the severe parts shortages experienced in the late 1970s, which left trucks inoperable or cannibalized, suggested that road transportation was at least as problematic as rail transportation.

In 1985 Vietnam had approximately 85,000 kilometers of roads and 4,250 kilometers of railroad. According to Vietnamese officials, 238 kilometers of railroad and nearly 3,500 kilometers of road had been built in the ten years since reunification. The principal road and rail routes linked Hanoi to Ho Chi Minh City (1,730 kilometers), Hanoi to Haiphong (102 kilometers), Hanoi to Muc Quan (176 kilometers), Hanoi to Thanh Hoa (160 kilometers), and Hanoi to Lao Cai (295 kilometers). Railroads were in working order but needed substantial repair and restoration. Track running from Nha Trang, Phu Khanh Province, to Qui Nhon, Nghia Binh Province was completed between 1983 and 1984 by a French development-aid team.

Dozens of kilometers of bridges were constructed between 1975 and 1985. With Soviet assistance, Vietnam rebuilt the Thang Long bridge over the Red River, north of Hanoi. The country's longest bridge, extending 1,688 meters, it had been destroyed during the Second Indochina War. Other bridges were built on the national highway in central Vietnam and in the Mekong River Delta. The road system in the 1980s included 9,400 kilometers with a bituminous surface, 48,700 kilometers with a gravel or improved earth surface, and 26,900 kilometers with an unimproved earth roadbed.

Haiphong, Ho Chi Minh City, and Da Nang were the largest of nine major and twenty-three minor ports. Port capacity in the late 1970s and early 1980s increased greatly. Haiphong's wharves reportedly grew to 1,700 meters and were served by 3,600 meters of railroad track and 2,000 meters of crane track. Covered and open storage were increased to 90,000 square meters. Despite efforts to enlarge and equip the ports, however, they remained the weakest link in Vietnam's transportation system.

In early 1985, the Vietnamese portion of a 500-kilometer oil pipeline linking the seaport of Vinh in Nghe Tinh Province to Vientiane, Laos, was completed with Soviet assistance. The project was expected to provide Laos with an annual supply of 300,000 tons of petroleum and gas, some of which was to be used by Vietnamese army units stationed there.

The Vietnamese merchant fleet was upgraded with Soviet assistance. The Soviets installed and ran a sophisticated coastal freighter and barge system between Haiphong and Soviet Pacific Ocean ports. The system apparently was designed to transport military hardware in a secure manner. Vietnam also cooperated with Thailand and Laos in improving the navigability of the Mekong River under the auspices of the UN Mekong Committee. Navigable inland waterways totaled about 17,702 kilometers, of which more

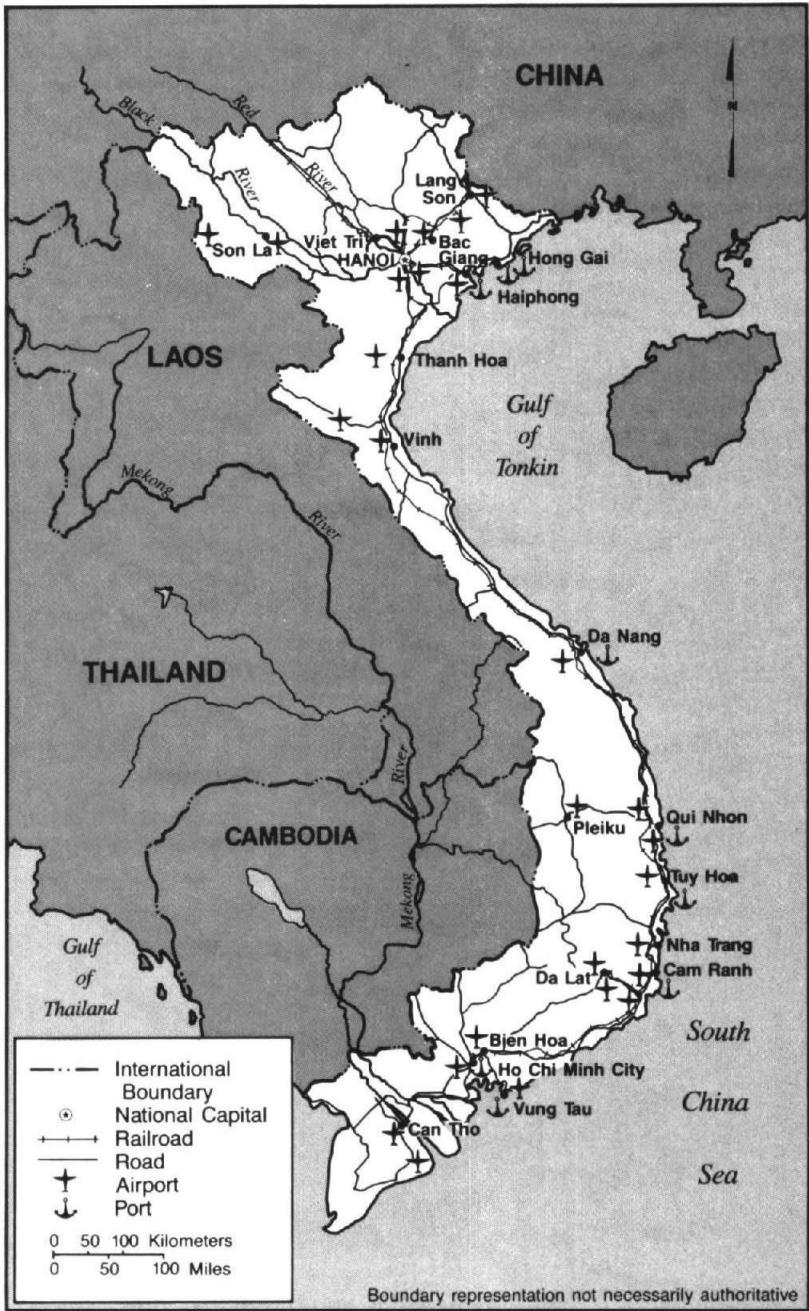


Figure 13. Transportation System, 1987

than 5,149 kilometers were navigable at all times by vessels of up to 1.8 meters in draft. According to Vietnamese statistics for the years 1984 and 1985, marine transport had increased by 2.2 times the level in 1976.

Civil aviation in the 1980s was controlled by the military and based primarily at two international airports, Noi Bai in Hanoi and Tan Son Nhut in Ho Chi Minh City. Domestically, Hanoi was linked by regular service to Phu Bai, Nha Trang, Da Nang, Pleiku, Da Lat, Buon Me Thuot, and Ho Chi Minh City. Ho Chi Minh City also was connected by regularly scheduled flights to Rach Gia, Phu Quoc, and Con Son Island. The aircraft used were Soviet-made.

In March 1983, commercial air service between Hanoi and Moscow was opened by Aeroflot. Air Vietnam, in the late 1980s, connected Hanoi with Vientiane, Phnom Penh and Bangkok, and Air France provided regular flights to Ho Chi Minh City from Bangkok. The number of airfields totaled 217, of which 128 were usable and 46 had permanently surfaced runways. Twelve had runways from 2,440 to 3,659 meters in length, and 28 maintained runways of 1,220 to 2,439 meters.

## **Telecommunications**

By 1985 Vietnam possessed two satellite-ground stations constructed with the assistance of the Soviet Union. The Lotus One satellite communication station was located in Ha Nam Ninh Province, 100 kilometers south of Hanoi, and served to integrate Vietnam into the Soviet Intersputnik Communication Satellite Organization. Construction began in January 1979 and was completed in July 1980 in time for the Moscow Olympics. Lotus Two was inaugurated near Ho Chi Minh City in April 1985 to broadcast the ceremonies celebrating the tenth anniversary of the end of the Second Indochina War. The system linked Moscow, Hanoi, and Ho Chi Minh City, and the two stations were reportedly manned entirely by Soviet personnel. A French telecommunications company was installing a modern nationwide telephone system in 1987.

The installation of a national telephone system symbolized Hanoi's acknowledgement of the country's critical need to formulate an integrated development plan that would tap the country's economic potential on a national scale. It also demonstrated the pragmatic character of a new generation of leaders who had risen to power in the mid-1980s and appeared more willing than the nation's past leadership to risk economic and political reform for the sake of modernization. Reforms undertaken during this time were

greeted by outside observers as a promising sign that the nation's economy might be moving at last out of its prolonged stagnation.

\* \* \*

Information on Vietnam's economy can be found in Vietnamese newspaper and journal articles translated and published by the Foreign Broadcast Information Service and the Joint Publications Research Service of the United States government. Additional material is published by some of Vietnam's trading partners; especially useful is the *Statistical Yearbook of the Comecon Countries*, published annually by the Soviet government.

Another valuable source that combines data with some analysis is the *Quarterly Economic Review of Indochina* published by the Economist Intelligence Unit (EIU). Analytical articles are most readily found in the *Far Eastern Economic Review* and in the yearly summary issues published by *Asian Survey*. (For further information and complete citations, see Bibliography.)