



The economic reform has been carried out in Vietnam for 12 years. This is a process of changing from the centrally-planned economy to the socialism-oriented market economy regulated by the government with its laws, plans, policies and other instruments. The Political Report to the VCP 8<sup>th</sup> National Congress and reality of the economy showed that the country had escaped from the socio-economic crisis and put an end to the serious recession lasting for over a decade. Appropriate reform policies made by the VCP and rational direction of the Government have helped the economy make good achievements:

- + The growth rate was kept rather high: 8.2% in the years 1991-95, 9.5% in 1995; 9.38% in 1996; 9.0% in 1997 and it is estimated at 9-10% for the period 1998-2000.

- + The supply of goods and services has been more abundant.

- + The inflation rate reduced from 774% in 1986 to 4.5% in 1997 and 3.6% in 1997. It will be kept under 7% in 1998.

- + The living standard has been improved and the personal income started to rise.

However, many shortcomings have shown themselves in the economy:

- + The structure of industry changed slowly. The agricultural production still represents some 30% of GDP while the service industry accounts for only 43%.

- + Innovations in techniques and technology have been carried out slowly. Most equipment is two or three generations old. Only 1-3% of work in certain industries is done by automatic machines.

## PROBLEMS WITH THE DEVELOPMENT OF MARKET ECONOMY IN VIETNAM

by Mecon. VŨ ANH TUẤN

- + There is almost no industrialization in rural areas, so redistribution of population and labor force hasn't taken place. The majority of population (some 80%) still live on agriculture. The unemployment rate is still high (7% in cities and 25-40% in rural areas).

The economic reform has produced many good results but a lot of negative effects caused by contradictions have also come into view and they must be solved in the coming years.

The first is the contradiction between development of productive forces and obstacles built up by relations of production. This means the ownership of means of production

must be diversified with a view to encouraging all classes to make investment and take part in the economic development. Data show that the increase in gross investment tended to slow down, foreign aid and grants-in-aid were released slowly, and capital was blocked in banks. The equitization program was carried out slowly (up to the end of 1997, only 17 state companies were equitized and the plan for 1998 is to equitize 150 ones). The administrative procedures are complicated and irrational.

Secondly, the policy to develop a mixed economy with the leading role of the public sector tends to create sector discrimination which raises doubts about government policies, provides certain state corporations with monopoly, damages the dynamic of the economy and

hinders the development.

In addition, the government investment in the public sector isn't concentrated on major plans, so most state companies are of small size and poorly equipped. At present, the average capital of some 2,000 state companies is under VNĐ500 million (or US\$40,000).

In non-state sectors, the growth rate is high but unstable and many private companies are on the brink of bankruptcy because of smuggling, production of fake products and commercial fraud.

Thirdly, there is a contradiction between income and spending. Generally, the personal income has increased in recent years. In HCMC





for example, the average income increased from US\$644 in 1991 to 912 in 1995 and 1,120 in 1997 (this level is the highest in comparison with other provinces of the country, not including Bà Rịa-Vũng Tàu). In many provinces, especially in mountainous areas, the personal income never exceeds US\$100 a year. The uneven distribution of wealth tends to increase. The difference in income between the wealthiest (represent some 20% of the population) and the poorest (other 20%) is becoming bigger and bigger.

If we compare national income with spending, we could see that the

spending tends to increase faster than the personal income and capital accumulation while the Vietnam economy is badly in need of capital.

Fourthly, there are changes in two opposite directions: the demand for capital rises as the growth rate and foreign investment tend to slow down. To achieve targets set for the year 2000, we need a gross investment equaling 30% of GDP, or some US\$42 billion for the period from 1996 to 2000.

The growth rate decreased from 9.5% in 1995 to 9.38% in 1996 and 9.0% in 1997. The foreign investment reduced in both terms of pro-

jects and of registered capital: from 501 projects with total capital of US\$9.212 billion in 1996 to 479 projects with capital of US\$5.548 billion in 1997. The gross investment equaled 27.9% of GDP in 1996 and 27% in 1997. The budget income equaled 13.1% of GDP in 1991, 23.3% in 1994, 22.1% in 1996 and 20.4% in 1997. This situation will affect spending, investment and socio-economic development in the coming years.

To maintain the growth rate, these contradictions must be solved. Necessary measures should be taken to perfect relations of production with a view to making them suitable to the development of productive forces; accelerate the administrative reform in order to make policies produce intended results; identify and publicize policies on the ownership, rights to use and control means of production, and policies on granting land to farmers; identify exactly benefits of those who have capital and those who use it by fixing interest rates; redistribute income among provinces and industries with or without advantages; encourage personal savings and investment; diversify the ownership of means of production and accelerate the equitization program; and finally, promoting export by giving price support and distributing evenly profits among exporters and producers of exports.■

**Table 1: Difference in Income Between the Poorest and the Wealthiest**

Region	1994			1995			1996		
	Average income of the poorest	Average income of the wealthiest	Difference (times)	Average income of the poorest	Average income of the wealthiest	Difference (times)	Average income of the poorest	Average income of the wealthiest	Difference (times)
Western Highlands	US\$53.1	US\$536.0	10.1	US\$53.8	US\$683.3	12.7	US\$56.4	US\$724.1	12.8
Eastern South Vietnam	US\$93.7	US\$639.6	7.4	US\$115.4	US\$873.1	7.6	US\$118.6	US\$934.7	7.9

Source: Kinh tế 1997-1998: Việt Nam và Thế Giới (Economy 1997-98: Vietnam and the World)

**Table 2: GDP Spending and Capital Accumulation and (VNĐ1,000 bil.)**

	1995	1996	Growth rate
GDP	222.8	258.6	16.1%
Spending	180.5	217.3	20.4%
Capital Accumulation	60.5	72.1	19.2%

Source: Niên Giám Thống Kê 1996 (Statistics Yearbook 1996)