

**S**ince the middle of the 1980s, Vietnam has carried out both economic and administrative reforms. These two reforms are interrelated and interactive.

**1. From the centrally planned economy...**

From 1975 to the middle of the 1980s, the public sector of the economy was given preferential treatment while other sectors not. In certain businesses such as foreign trade, banking, manufacturing industry, etc. only state-run companies were allowed to operate. The private sector included only cooperatives which would be developed into high-class cooperatives, and then, they were nationalized. There was no market in its proper sense, but there were two markets: an organized market where all purchase and sale, and prices were controlled by government; and a black market where prices were determined by forces of supply and demand. Prices in the black market were certainly higher than those in the organized market and goods were also circulated from this market to the other. This situation, along with limited supplies of goods, made prices go up.

There was no money and capital market. The inflation rate reached two- or three-digit levels, the borrowing rate was low therefore no one wanted to deposit money in banks. The exchange rate was fixed at one US dollar to one Russian rouble, and

to VND18 (this exchange rate was fixed in 1950s when the USSR and China recognized Vietnam Democratic Republic). This exchange rate made all imports become very cheap and made it difficult for local production to develop, but it helped the Government give subsidies and control prices in organized market easily.

In agriculture, all land is owned by the community and farmers became members of collectives or cooperatives. They did their business as factories workers worked in factories and had to sell rice at low prices fixed by the Government (they called it "to do food obligation"). This mechanism made farmers reluctant to sell high-quality rice and raise output with the result that Vietnam had to import around one million tonnes of rice every year.

In such a centrally planned economy, the administrative machinery became larger and larger and more cumbersome. Theoretically, everybody would become government civil servants: workers and officials were considered as the most important class of the regime and when all cooperatives developed into high-class cooperatives, all farmers would become officials or agricultural workers and enjoy the same status as factories workers.

In manufacturing industry, all factories were nationalized, all workers became government employees receiving wages and other benefits.

The government is under obligation to provide everybody with therefore many new factories were built, more jobs were created, however, farmers (as members of cooperatives) didn't like to do farm officials and workers revealed themselves to be inefficient.

Let's study some cases. The first is the food supply. All farmers were agricultural workers and organized into groups. The group head didn't want to force the group to work hard because he benefited nothing from it; moreover he didn't want to make the group members hurt. After harvesting rice was divided to members by the working days. The yield and the rice price were low. State-run food companies couldn't protest when cooperatives supplied rice of bad quality, rice was sold to workers in cities at low price but its quality was too low. To improve the living standard of workers, most factories and government bodies had to form offices specializing in buying food and other rations, or doing some extra businesses for more income. As a result, payrolls of cooperatives, factories and government bodies became large. Vietnam had to import about one million tonnes of food. Workers and officials were supplied with bad-quality rice and small meat rations.

The second example is the market for grey matter. Holding monopolies, many state-run companies paid no attention to technical innovation or importation of new products.

# RELATION BETWEEN ECONOMIC AND ADMINISTRATIVE REFORMS

by Dr. LÊ KHOA



nes with the result that technicians received no preferential treatment. In fact, many officials with no business or technical knowledge and managerial skills were appointed as directors of state-run companies, therefore their business performance was poor and intellectuals found no chances to use their abilities and win promotion.

#### ... to economic and administrative reforms

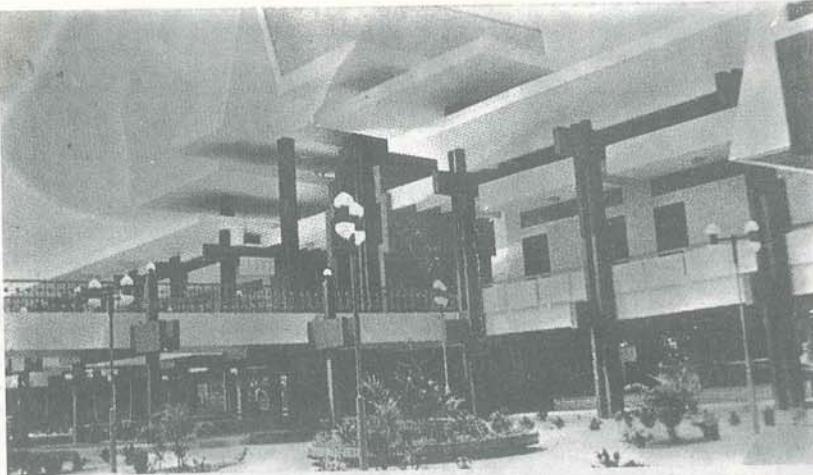
Since the middle of the 1980s, economic reform has been carried out step by step. The exchange rate of NĐ18 to one US dollar or one rouble till existed de jure, but in fact, exporters were under obligation to sell only 20% of foreign exchange they earned to banks and used the rest to import consumer goods and sell them in a black market. This measure has encouraged exportation. Depending on the application of a floating exchange rate system, Vietnam balance of trade was in equilibrium in the early 1990s when Russian aid came to an end. The Government recognized the market mechanism and the existence of different economic sectors. The open-door policy was adopted and foreign investment was welcomed. Farmers were liberated from cooperatives, land and agricultural machines were returned to farmers and they were allowed to sell their products in the free market. In short, the open-door policy has liberated productive forces and encouraged all economic sectors and industries to develop.

The content of the economic reform which recognized a multi-sector economy and a fair competition in the market mechanism should run in parallel with a broad administrative reform. The market economy forced state-run companies to face great challenges. These companies, without government subsidies, have to replace incompetent directors and make a lot of workers redundant in order to survive.

Ownership of land and products made has encouraged farmers to increase output. To sell at a high prices, they had to produce high-quality and well processed rice. The quality became more important than the quantity because the quality determined prices and profits.

The market economy forced everybody to work hard and the competition required the administrative reform.

In the labor market, the grey matter started to regain its value. Technicians were paid well to produce good of higher quality. Intellectuals were appointed to high positions. The professionals started to go into busi-



ness. Foreign direct investment has also increased the need for the grey matter.

Law reform is considered as the decisive factor. A series of laws was promulgated (they deal with foreign investment, land use right, banking business, equitization of state companies, bankruptcy, formation of Administrative Courts, etc.) because the legal infrastructure is a precondition for economic reform.

To those who lost vested interest because of reforms, the economic reform seems too fast, but many others think it is too slow: for example, the stock exchange hasn't been organized, smuggling kept on developing, corruption was widespread, companies were under no obligation to make financial statements every year, a much-needed clearing house hasn't come into being, etc.

#### 3. Shortcomings of a market economy and the need for a real socialist regime

At present, many people are discussing how to accelerate the economic and administrative reforms. However, developing the market economy, we found that it contained many shortcomings. The growth rate of 8 or 9 percent in recent years was due to the market economy, but just because of it, imported goods have flooded our market and put our infant industries in a difficult situation. So many people hoped that the economic and administrative reforms should be combined with the nationalist socialism in order to obtain high efficiency.

Among countries restoring independence after the World War II, only a few became industrialized countries, the rest stayed developing countries for decades although they kept on building the market economy. Japan is a typical example of economic and administrative reforms in the Third World. Japan has combined the market economy, Western technology and national traditions. The patriotism also affected well their way of life and work in the modern world. This combination has helped Japan become an economic power in spite of its shortage of natural resources.

To carry out the economic and administrative reforms more effectively, I think that we must combine these reforms with the socialist revolution and the patriotism. Uncle Hồ is an excellent example of being thrifty and honest. In the administrative reform, why don't we have strict laws against corruption and smuggling according to the teachings of Uncle Hồ? In economic reform, we have made plan to build the North-South high-voltage line and have completed it in a record time because we could concentrate all resources (both human and materials, including the administrative machinery) on this work. Why can't we concentrate all our strength and forces on the administrative reform? Why don't we focus all our resources on industrialization and modernization in order to produce high-tech products instead of importing them every year? In war time, the patriotism has produced a lot of heroes, at present, why don't we change the patriotism into a mass movement to produce and use locally-made goods and reduce imports?

The market economy has no social or political features in itself, and it has developed under different regimes. So in order to carry out economic and administrative reforms effectively, we should combine them with a theory which can make an upsurge of patriotism. Uncle Hồ has succeeded in combining the patriotism and the socialism. So our reforms must be combined with them, and based on them in order to create a mass movement to industrialize the economy, to produce and consume local goods only.