

Vietnam is a country having great potentials but facing many severe challenges, at the same time witnessing elated achievements in the process of renovation of the country in every fields. Until now it can be affirmed that Vietnam has overcome the most difficult stage of the socio-economic crisis, and is taking the favourable opportunity to accelerate the country's socio-economic development.

VIETNAM'S ECONOMIC RENOVATION AND INTERNATIONALIZATION STRATEGY

VIETNAM'S ECONOMIC SITUATION FROM THE 80s TILL NOW

In the 80s when having no renewal policy, Vietnamese economy sank in recession, it was thought that there was no way out of the crisis. Then, the collapse of the Eastern European socialist countries and the USSR by turns led to bad effects on Vietnam, international aids were suddenly cut, foreign debt was heaped up, production and trading became stagnant, inflation rate rose to three digits, the people's living standard was lower and lower...

Vietnam's population ranks thirteenth in the world with about 72 million. Vietnam is one of the poorest countries, with its GNP per capita of US\$ 220 at present. Agriculture occupies big share of Vietnamese economy with population density of 900 people per square kilometer of farming land, much higher than that of neighboring countries as Thailand, China (below 300 people). Vietnamese natural resources do not exceed other countries if calculated by per capita. Income from oil production was the main factor to improve the economy in recent years. Serious forest destruction occurred in the past decades. The area covered by forest decreased by

from 40% to 25% of total land area, population growth rate is 2.2%, whereas 2% is still a high rate.

The infrastructure of the economy is completely poor. The infrastructure of transport has never been well-developed

the USSR's enormous aid. The feature of the macro-economy then was too low GNP per capita, below US\$ 200, inflation rate increased sharply, paying balance was seriously disproportional. In early 1986, existing difficulties along with disasters of the currency change and the general adjustment of price and salary in 1985 caused price escalation with much higher speed than before. If before 1985, index of consumer price increased by 200% over the previous year in the "organized market", and about 150% in the free

VIETNAM'S

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before in the northern Vietnam, it served the wartime economy in many decades. In the South, the main problem is that the infrastructure is though appropriate but not properly preserved. The basic nature of Vietnam is great disproportion in areas due to unfavourable territory and historical partition of the country for a long time, until now these areas still need be unified into a unique economy.

In the middle of the 80s, Vietnam economy was underdeveloped, although it enjoyed

market, then in 1986 the corresponding indicators were 550% and over 680%, in 1987 these indicators inched down, but around 400%.

The national budget kept on deficit with rather high rate, cash was increasingly overspent. More and more money was issued and brought into circulation, in 1986 up by 350% over 1985. Agricultural production declined obviously. 1986's food productivity converted into rice approximated that of 1985 (over 18 million tonnes) and 1987's output fell down (17.5 million tonnes). In 1988 famine happened in vast areas. Industrial production though increased partly but did not meet the demand of the country's production and consumption, moreover due to calculating results of industrial production mainly by money, thus, in reality products did not go up, even in some cases they went down. Socio-cultural living was fully strained. Social evils kept on rising worriedly. Cultural products showed signs of downgrading. Social differentiation was in the negative process.

In the middle of the 80s Vietnam encountered serious difficulties in socio-economy: slow production, low efficiency of production and investment, wasteful utility of resources,

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destroyed ecological environment, disordered circulation and distribution, sharp increase in price, stricter disproportion in the economy, hard living, unsatisfied essential demand of the public, expansion of social evils... Facing that situation, Vietnamese leaders began making strong alterations in foreign relation policy and economic management of the country.

Vietnam's renewal program was launched in 1986 and pushed up in 1989. The major efforts to orientate the economy were as follows:

- The national economic structure was re-arranged in order to realize three target programs on food and food stuff, consumer goods, exports. The former co-operatives regime in agriculture was replaced with new forms to organize farming production. Farming households were allocated land for a long term to cultivate.

- Liberalizing prices, prices were determined by the free market. This really eradicated administrative control.

- Financial reformation, reformation of financial policy was undertaken, subsidiaries from the national budget were remarkably cut down. The arrangement of the public sector was noteworthy, tax renewal raised the government's revenues.

- Foreign exchange rate was unified, interest rate was raised to practical level.

- Improving private sector. After many year's discreditation against private sector, Vietnam has changed its treatment and encouraged this sector to develop. Laws on company and private business has been officially issued.

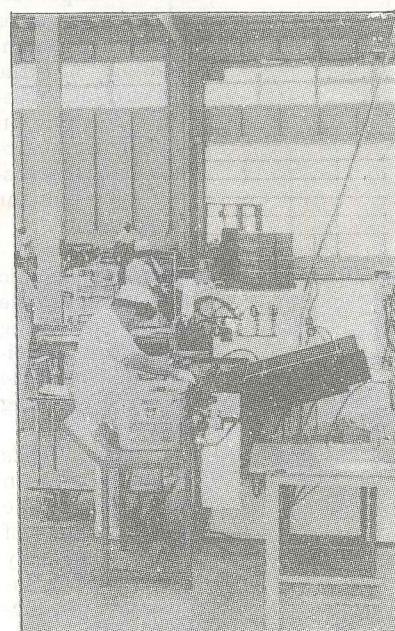
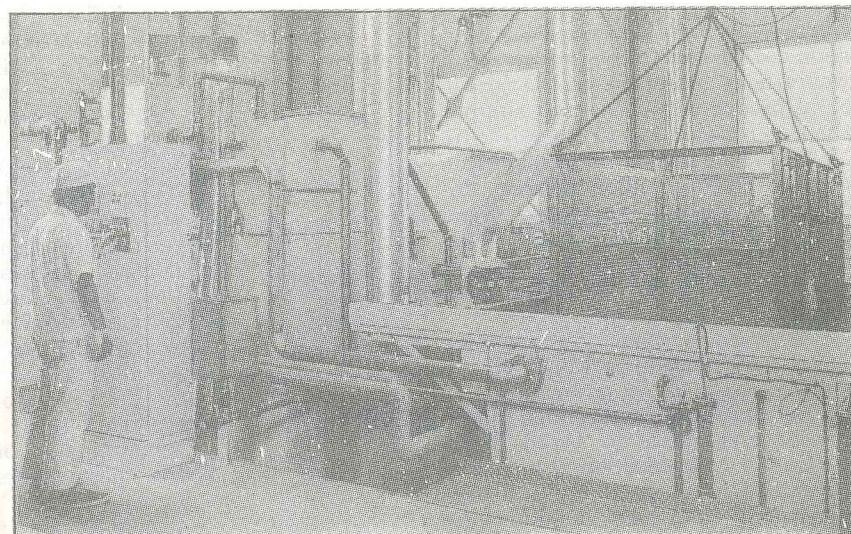
- Being open to direct foreign investment. Vietnam has attracted considerably direct foreign investment in recent years. Law on foreign investment was promulgated and amended. This proves Vietnam government's policy is open to foreigners.

- Foreign trade reformation. Vietnam has reformed trading policy so both state-run companies and private ones felt convenient in exportation and importation.

- Adjusting social costs. The government began realizing some progressive programs aiming at tackling underemployment in the transitional process from a centrally-planned economy to the market economy, including plans of preserving and loaning with low interest rate to the small-sized private sector.

MACRO-ECONOMIC ACHIEVEMENTS IN THE ECONOMIC RENEWAL OF VIETNAM

The first results are reviewed at the angle of economic renovation.



There are also many different approaches at this angle. But at any angles, an obvious truth should be recognized, that is Vietnam has attained the first, but very important results in the transitional process from a centrally-planned economy to the state-governed market economy. This is not only seen by Vietnam itself, but also by foreigners.

It is noteworthy that in economic renovation, Vietnam has developed strongly during adjustment programs which resulted in the first growth of GNP, particularly in agriculture and service in 1989. In the period 1989-1991, aids and loans from abroad were almost put an end to, this could not help affecting the development. However, the development unexpectedly went on the slight decrease, the growth rate of GDP is 5.1% in 1990 and 6% in 1991. In 1992 and 1993 the economy was completely recovered from the shock of the fall of the USSR and the Eastern European socialist countries. Nevertheless most of the GDP growth rate originated from two fields: petroleum and rice.

In recent years, Vietnam's economic reform has had positive influence on the growth and adjustment of economic structure. The close combination of measures to stabilize the economy with ones to liberalize production and trade, to cut down the government's direct interference in business-doing, to adjust economic structure aiming at raising efficiency of business based on the market, to realize the open policy in international economic relation, to make remarkable progress in economic growth rate and stability of macro-economic environment.

In the period 1991-1993, GDP increased by 7.2% annually on average. This is a growth rate equal to that of

many countries in the region regarded as the leading one of the world in energetic development. The growth result was rather comprehensive, the agricultural productivity increased sharply, the food problem was firmly solved (in 1992-1993 the productivity reached approximately 25 million tonnes). Industrial production was recovered and developed in every economic sectors, reached an average growth rate of 10.6% annually for the past three years.

Production capacity of some industries and some important products went on rise such as: power, areas to afforest and to grow perennial plants for industry, area to breed aquaproducts, communication system was expanded with new technological equipment. Industries of transport, construction, trade, service had progress.

Foreign economic relation increasingly enlarged. Export turnover increased by 20% annually, international organizations broadened relations with Vietnam. Official development aids and direct foreign investment rose speedily. There was a sharp increase in turnover and customers in foreign trade. Trade balance was improved, from 68% in 1986-1990 to 90% in 1991-1993. By late 1993 over 800 projects of foreign investment were licensed with registered capital of US\$ 7.5 billion.

After many years' decrease, development investment reached over 20% of GDP in 1993 from 11.5% in 1990. Of which share invested by domestic capital gradually rose to 12% in 1993 from 2.9% in 1990 as compared with GDP.

Economic structure according to industry after many year's standstill, began altering in the direction of progress, in accordance with the country's potential. Industrial ratio in GDP rose to 20.9% in 1993 from 18.8% in 1990, service up to 38.2% from 36.3%, agriculture down to 36.6% from 40.3%.

GDP GROWTH RATE AND MAJOR INDUSTRIES OF VIETNAM IN THE PERIOD 1989 - 1993

	1989	1990	1991	1992	1993	(Unit %)
GDP calculated by market value	8.0	5.1	6.0	8.3	7.5	
Industry	-4.0	2.5	9.9	12.6	10.5	
Agriculture	6.9	1.5	2.2	6.3	6.2	
Service	17.7	10.4	8.3	8.6	8.9	
Construction	3.7	4.7	5.2	4.2	4.3	

Source : The General Department of Statistics (1989's price)

Inflation rate was lowered from 67.5% in 1990-1991 to 17.5% in 1992 and 5.2% in 1993.

Along with economic growth, activities in science and technology, education, health care, culture and information developed.

The socio-economic achievements of the past years were strengthened and improved, this can be seen as follows: maintaining the growth rate hopefully, keeping on stabilizing macro-economy, increasing development investment, simultaneously altering economic structure at the first step aiming at making condition favourable for the coming years.

The 1994's economy goes on developing. The growth rate of GDP possibly reaches 8.5%, industrial production up by 13%, forestry and agriculture up by 4% although suffering many great natural calamities. Ex-

port turnover is estimated at US\$ 3.6 billion, up by 20.8%.

Thus, Vietnamese economy continuously attained growth rate of over 5% since 1989. In the first four years of the five year plan (1991-1995), the GDP growth rate is 7.8% on average. Many important economic targets for 1995 (GDP, productivity of industry, agriculture, food, crude oil, cement, steel,...) were reached and surpassed in 1994. Generally speaking, Vietnam is enjoying the superior position in resources to develop. That is Vietnamese human factor, natural resources, geographical position, material and technical foundation recovered and improved in the past 20 years. And the most important thing is the economic vitality from Vietnam's renovation.

In addition to the above mentioned achievements, Vietnam is facing many difficulties and obstacles which cause not small dangers leading to the farther backwardness of Vietnamese economy compared with the countries in the region and in the world. That is poor socio-economic infrastructure, particularly in agriculture, countryside. Economic structure, was though altered in recent years aiming at industrialization, modernization, but did not make progress in quality. It is still mainly based on the obsolescent agricultural foundation. Businesses' capability in capital, technology, technical standard, human resource management is limited, doesn't have enough strength to accelerate ♣

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