

CHAPTER II

THE PERFORMANCE OF ECONOMIC DEVELOPMENT IN VIETNAM

This chapter will explain about the performance of economic development in Vietnam mainly since the formation of economic renovation which initially signed by the adoption of economic liberalism, intrigue to conduct the Vietnam's economic transition from a centrally planned economy to a free market economy which successfully transformed the country from one of the poorest in the world into a lower middle-income country. As a result, Vietnam now is one of the most dynamic emerging countries in East Asia region. Using the government system of one single party that has been controlling all of the fields in determining the foreign policy, Vietnam could significantly make the outstanding transformation, particularly in the economic field. Therefore, the development of Vietnam's economy was demonstrated by establishing of trade cooperation with many countries by joining FTA (Free Trade Agreements).

Therefore, this chapter is divided into three sub-chapters related to the performance of economic development in Vietnam namely; The Transition of Economic Reform, The Exhibition of Economic Achievement, and The Involvement of Global Economic Integration.

A. The Transition of Economic Reform

The successful reunification of Vietnam is a severe struggle for communism regime where North Vietnam took control of Saigon, leading to the collapse of the government in of South Vietnam. This effort resulted in the formation of a communist government which officially established the Socialist Republic of Vietnam on July 2nd, 1976 (Francis, 1976). Unfortunately, the formal reunification of the North with the South brought significantly heavy assignment toward the political elites in harmonizing two very opposite economic systems. The North with a state socialist centralized economic

system which massively prioritized the development of heavy industries and strictly prohibited private ownership following the performance of the Soviet Union, and that of the South with a market decentralized economic system which completely adopted free-market ideology conducting international trade with Western countries. However, the direction of Vietnam's economy began its new shift toward a new period of socialist transformation (Ngoc Q Pham, Bui Trinh, and Duc T Nguyen, 2007). Basically, the phenomena of economic transition in Vietnam is divided into two periods that are Socialist Transformation and Market Liberalization.

1. The Period of Socialist Transformation

In general, the socialist transformation refers to the idea of socialism which is practically a struggle or movement of classes in term of an economic system where goods and services are distributed through a central system of cooperative and government ownership rather than through competition and a free market system (Kowalczyk, 2015). As state adopted the socialist economic system, Vietnam's government introduced immediately a massive propaganda of socialist transformation in which the communist regime directed to impose upon the Southern provinces in order to implement a consistent ideology throughout the foundation of socialist state such as collectivization in agriculture, nationalization of industry and commerce, as well as production on heavy industries.

Basically, the agenda of socialist transformation was associated with the Fourth Congress of Vietnamese Communist Party (VCP) which resulted in the complete agreement on the direction for the economic policy aimed to displace directly from small-scale production to large-scale production without passing through the capitalist stage. With that objective, the national leaders who were most ardent advocates of Marxism-Leninism concerned the rational development of heavy industry on the basis of developing agriculture and light industry (Le,

1976). The fundamental tasks of the economy were sketched as follows:

- i) To concentrate national forces on developing agriculture and light industry;
- ii) To exploit full capacity for heavy industry;
- iii) To complete socialist transformation in Southern Vietnam.

During this period, the concept of industrial planning is a tool of state's economic administration directed by Vietnamese government aimed to absorb input and output levels toward all of the vital elements in the economy. Basically, there was no free market system based on price mechanism due to the interference of official government both in limiting the number of private entrepreneurship and in avoiding the implementation of free trade. Without the emergence of company law, several industrial actors such as producer and trader were covered by state-owned enterprises (SOEs) which are bureaucratically managed directly by the ministries and provincial authorities (Nguyen Thi Tue Anh, Luu Minh Duc, Trinh Duc Chieu, 2010). However, Vietnam's government emphasized the limitation of individual and group ownership.

Furthermore, the high expectation of VCP's leaders was to set high targets related to domestic economy for the sake of national stability, including to raise food production and to develop industrial production by 16-18% per annum, productivity by 8% per annum as well as the improvement of total income by 13-14% per annum. In another hand, the huge attention of overconfidence represented Vietnam's government who extremely relied on the external economic assistance especially from its Communist allies as well as foreign aid from Western states and international lending agency. As matter of fact, the real outcome of Vietnam's government policy experienced an unpredictable distortion beyond planning in economic stabilization. However, the agenda of socialist transformation in the South, along with the impulsive action

called by “socialist relation of production” in the entire region had economically failed, particularly in the agriculture sector.

In essence, the agriculture sector has a favorable injection toward the national income that is approximately around 80% in the early 1980s, so that this occasion directly affect the economic welfare mainly the national budget and living standard where more than 80% of the population in Vietnam was dominated by farmers or village-level ‘collectives’. In this case, the economic growth in the agricultural and light industrial sectors exceeded the production of heavy industry although its larger share of government budget was depleted. As a result, the industrial production increased at an annual rate of 9.5 percent over a half of decades from 1981 to 1985 and the national income per capita is approximately 6.4 percent per annum. But the national macro-economy was indicated by the small-scale production, low-labor productivity, high unemployment, material and technological shortfalls, and insufficient availability of food and consumer goods (Nguyen Thi Tue Anh, Luu Minh Duc, and Trinh Duc Chieu, 2010).

However, when the economic condition faced a slowdown and stagnant during the years 1976-1985, the national income was an alternative assistance to be allocated in fulfilling 80-90 percent of the needs and the inflation rate throughout the period remained in double-digits which bring the economic situation in Vietnam into the phase of a socioeconomic crisis.

In 1986, Vietnam experienced economically an enormous shock of hyperinflation which reached over 700% following annual economic growth rate at over 3%. In this case, Vietnam’s economy run relatively a current account deficit (Brian Arkadie and Raymond Mallon, 2004). However, the performance of economic distortion has been deteriorated by the failure of VCP who become the prominent actor to determine an appropriate foreign policy and an efficient direction of economic development. As a result, Vietnam was categorized as one of the poorest standards of living amongst

countries in the world and the external economic aids get suddenly decline following the collapse of Soviet Union in the stage of critical period (Tran, 2008). In the same year, Nguyen Van Linh was elected as the General Secretary of VCP through the Sixth Party Congress which is a formal assembly of political elites including Vietnam's government. This meeting is basically an essential discussion and great debate which will determine the direction of Vietnam's economy.

During the congress, the decision of leaders collectively initiated and introduced a new pattern of economic reform related to the effectiveness of the market system. In this case, mostly leaders unanimously agreed to conduct the gradual liberalization by using an extensive economic reform program aimed to solve the economic problems and to improve the economic performance. As a result, the presence of Doi Moi policy is a signal of economic reform which had been launched by VCP as a form of substantial change toward the direction of the market economy.

Finally, Vietnam's government appreciated with an action of openness in emphasizing the perpetual peace, constructive engagement and cooperative relations toward other countries in the world because it will become a great momentum aimed to rescue Vietnam's economy from its disabling isolation and economic backwardness. However, the implementation of Doi Moi policy become factually the fabulous challenges and impediments toward a transition to the capitalist market economy.

2. The Period of Market Liberalization

In general, the market liberalization refers to the idea of capitalism which is practically a free market system in term of an economic model where the government has recognized to privatize, partially or fully its properties and assets. In essence, economic liberalization contains various policies such as low corporate tax rates, less restriction on foreign and domestic capital, and service market flexibility (Henry, 2000). The

presence of Doi Moi policy is a form of Vietnam's government efforts in conducting a revolution of the transition process in term of the economic system from centrally planned economy to a market economy related to all respects of socio-economic activities (Vuong, 2014).

After launching a comprehensive economic reform well-known by Doi Moi policy, the Vietnam's government transformed the continuous shift of economy which would collaborate between the role of state intervention and the existence of free-market incentives where private businesses and foreign-owned enterprises were to be encouraged (Nguyen Thi Tue Anh, Luu Minh Duc, and Trinh Duc Chieu, 2010). However, the exhibition of economic transition required several strategic major changes in economic policy, including:

- i) To develop a multi-sector economy with official recognition of the private sector;
- ii) To remove subsidies and planning mechanisms, forcing state enterprises to become self-reliant;
- iii) To abolish price controls for consumption goods. More importantly, industrial production was focused on three immediate needs, including food, consumer goods, and export goods; and
- iv) Since export orientation was viewed as an important strategy for economic growth, foreign investment was encouraged.

In response to the implementation of economic liberalization, Vietnam's government passed The Resolution 10 in 1988 which accommodated the rights of a farmer in utilizing its land for a long-term period. This policy is a new path of privatizing property rights in the context of the agriculture sector and land reform which optionally ignored the mandatory contracts of farmers to sell the harvested crops to state. In another hand, Vietnam still relied on SOEs as dominant economic power along with sustainable development in the context of industrial sector which officially recognized a multi-

sector economy with the importance of the private sector. In this case, the result of Congress reviewed the appearance of non-state firms which facilitated the people's financial independence and autonomy.

Furthermore, The Law on Foreign Investment in 1987 and Resolution 16 in 1988 concluded the standard operating procedure toward the activities of foreign and private firms in Vietnam. Because the SOEs were a vital revenue source toward government income and subsidies, it had occurred less efficiency and balance in term of national budget which is characterized by the rising of inflation rate almost 300% from 1986 to 1988. In order to minimize the economic crisis related to inflation, Vietnam's government had banished on the allocation of people subsidies which opened a broad space for SOEs more autonomy and financial responsibility in managing its activities (Jansen, 1999). However, the states expressed all SOEs had to report with a government official as a form of consolidation to reduce inefficient domestic firms.

Finally, the formation of legal-drafting related to the Law on Land Reform and the Law on Foreign Investment gave a huge contribution toward the economic growth where Vietnam emphasized households as production units in rural areas and Vietnam operated consistently for the removal of gradual restrictions and skeptical views toward foreign capital inflows. Obviously, in a period of years from 1986 to 1990, annual production of steel increased 8 percent, cement 11 percent, electricity 11.1 percent, and zinc 10 percent. In another hand, the existence of new industries which is characterized by the discovery of oil (joint ventures between the state and foreign oil companies) increased the government budget and accounted for the greatest share of Vietnamese exports (Nguyen Thi Tue Anh, Luu Minh Duc, and Trinh Duc Chieu, 2010). However, Vietnam transformed successfully from a food insufficient country to become the world's second-largest exporter of rice.

B. The Exhibition of Economic Achievement

In general, the incredible economic performance in Vietnam is an impressive achievement which has been stimulated by various indicators that are rising in economic growth rate and maintaining in macroeconomic stabilization.

1. Economic Growth Rate

Basically, the escalation of economic growth in a state cannot be separated with the total number of the gross domestic product (GDP) which is theoretically defined as one of the prominent contributors in measuring the health of economic condition in a state. This thing is usually calculated by the total dollar value of all goods and services produced over a specific period, frequently referred to as the size of the economy in a state (Callen, 2017). In this case, Vietnam categorized as developing country has the high economic growth rate which is a result of successful manifestation following economic reform policy together with the importance of global integration.

Obviously, the GDP growth in Vietnam has shown factually about the most impressive success of economic transition where the total number of GDP per capita in Vietnam has accelerated rapidly 123 US\$ in 1990 to 312 US\$ in 1997. It shows the overall picture of Vietnam economic performance with increasing trend of growth rate, excluding the year of 1998 (see table 2.1).

Furthermore, the primary sources of overall economic growth in Vietnam are industry and services which rise with double-digit figures massively, while the agriculture sector grows slowly but it tends stable. From the second half of 1997, Vietnam faces an extraordinary natural disaster such as flooding caused unpredicted heavy rain and drought caused uncontrolled damages for agricultural production. However, this poor condition indirectly gives an enormous impact both regional monetary and financial crisis. In essence, Vietnam's economy slightly slowdown with GDP growth rate 5.83 percent in 1998.

Table 2.1: GDP growth rate (%)

	86-90	1990	1991	1992	1993	1994	1995	1996	1997	1998 est.
GDP	3.9	5.1	5.9	8.7	8.1	8.8	9.5	9.34	8.8	5.83
Agr. forest and fishery	3.5	1.6	2.2	7.1	3.8	3.9	4.7	4.4	4.45	2.73
Industry and con.	3.6	2.9	9.0	14.0	13.0	14.0	13.9	13.85	13.07	10.25
Service	6.2	10.8	8.3	7.0	9.2	10.2	10.9	9.3	8.29	4.22

Sources: General Statistics Office of Vietnam, Ministry of Planning and Investment.

This table shows a form of undisputable appreciation toward good points of economic growth rate in various sectors related to productivity where the quality of economic transition has been changed structurally in a positive direction. This thing is reflected by the share of industrial sector in GDP that was 22.7 percent grew up to 32 percent and services also accounted for from 38 percent grew up to 42 percent in respectively years. In the other hand, the share of agriculture in GDP relatively reduced from 38.7 percent in 1990 to 26 percent in 1998.

In another hand, the escalation of economic growth rate in Vietnam become the model of massive development toward other regional countries. This thing is signed by Vietnam's economy which relatively tend to reach improvement in decades from 1989 to 1988 following the People's Republic of China (PRC) rather than other regional countries such as Thailand, Philippine, Indonesia, Singapore, South Korea, Pakistan which tend to get decline along with the condition of economic stagnant (see table 2.2).

Nevertheless, the advance of GDP growth rate in Vietnam is still not yet a sufficient potential stable in order to enrich the economically sustainable development for the near period. The reason is that Vietnam is categorized as an authoritarian state which is gradually performing the transition of the market economy for the sake of new developing country.

Table 2.2: GDP growth rate in some regional countries. (%)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
China	4.3	3.9	9.3	14.2	13.5	11.8	10.2	10.5	8.8	5.5
Thailand	12.2	11.6	8.5	8.1	8.3	8.9	8.7	6.7	-0.4	-0.8
Philippine	6.2	3.0	-0.6	0.3	2.1	4.4	4.8	5.5	5.1	-0.6
Indonesia	7.5	7.2	8.9	7.2	7.3	7.5	8.2	7.8	4.6	-13
Singapore	9.2	8.8	7.3	6.2	10.4	10.5	8.8	6.2	7.8	0.0
South Korea	6.4	9.5	9.1	5.1	5.8	8.5	9.0	7.0		
Pakistan	4.8	4.6	5.6	7.7	2.3	4.5	4.4	6.1	—	—
Vietnam	2.7	4.9	5.9	8.7	8.1	8.8	9.5	9.3	8.8	5.83

Sources: ADB – ASEAN Economic outlook 1997 and 1998 & 10/1998 IMF, World Economic Outlook

2. Macroeconomic Stabilization

In general, macroeconomic is defined as the branch of the economy that collaborates with the overall functioning of the economy. Practically, macroeconomic policies have a significant influence which involves the decisions of households and firms to spend, save, hire and invest, and those elements can foster the stage for economic growth and development on a state (Bank, 2016).

In this case, macroeconomic stabilization becomes the main priority toward sustainable development, and this mission is related to the reform of economic transition which has been launched by Vietnam's government since three decades ago. Although the fluctuation of economic growth showed ups and downs as a form of the transformation process, the efforts of Vietnam's government tends to succeed in maintaining the macroeconomic stability (Giang, 2018).

Progressively, Vietnam has become a newly developing country in which the government strategies conduct successfully the various reform policies during 30 years with the aim to reach a higher level of macroeconomic stabilization.

The result of an innovative approach that is Doi Moi programme was gradually adjusted along with the sustainable development program in 1989. While the conservative approach of economic management related to central plans and subsidy was partially dissolved, so that the government officially recognized with the importance of multi-sector economy particularly the private ownership which legally started the agenda of privatization.

In this case, the outcome of reform policy which was the most magnificent economic achievement was started by the massive industrialization, high economic growth rate, etc. In another hand, the number of subsidies which is allocated to state-owned enterprises was reduced, and the new program of taxation system was introduced both to improve the fiscal condition and to stimulate the economic growth associated with macroeconomic stabilization. However, the economic performance in Vietnam indicated a prominent change of the economic development which rapidly abandoned the crisis of economic collapse.

Beside of that, the successful management of economic reform has been the consolidation of government budget where the overall budget deficit has been brought down from chronic diseases to 8 percent of GDP in 1990 then to 4.2 percent in 1997 and 3.8 percent in 1998. Then, the revitalization of economic health following the improving of budget revenue and strengthening of public finance is caused by an increase in tax and fee revenue which absolutely is one important achievement of reform policy. However, Vietnam economy has gained several extraordinary achievements such as high export volume, economic growth rate, low inflation and attracted good foreign direct investment capital.

Below, the macroeconomic situation of Vietnam in the renovation period of 8 years (1991-1998) was described through some key indicators (see table 2.3).

Table 2.3: Main macroeconomic indicators of Vietnam to 1998.

	In million USD.			
	1991	1995	1997	1998
GDP growth rate	5.9%	9.5%	8.8%	5.83%
Export	2087	5449	8700	9300
Import	2338	8155	11700	11200
Investment/GDP	15%	27%	30.4%	27%
Inflation	68%	13%	4%	9.2%
Foreign Direct Investment	165	2236	1930	1250
Budget revenue/GDP	13.5%	23.9%	21.3%	20%
Budget expenditure/GDP	14.2%	23.2%	22.2%	23.6%
Exchange rate	9274	10970	12375	13500
Money flow,M2/GDP	0.264	0.229	0.239	—

Sources: IMF, WB, Vietnam's General statistic office and Ministry of Planning and Investment MPI.

However, the most vital mission which has been concerned by Vietnam's government is particularly the reduction of the inflation rate. As matter of fact, the level of inflation reduced drastically from over 700 percent to 67 percent and then has been maintained potentially stable in single-digit from 1986 to 1990. So, compared with other transition economies, Vietnam economy has been more successful in its high economic growth rate and low inflation (see table 2.4).

Table 2.4: CPI Index

	1986	1990	1992	1993	1994	1995	1996	1997	1998
Inflation rate	700	67	17.6	5.2	14.4	12.7	4.5	4.0	9.2

Sources: Ministry of Planning and Investment of Vietnam

C. The Involvement of Economic Integration

The socialist republic of Vietnam embarked on a new stage of international economic integration along with its domestic economic reform. As the foundation of the open door policy, Vietnam's foreign policies are diversified to support economic progress and integrate itself into the international trade system. In this case, the performance of economic reform in Vietnam has significant implication toward the involvement of economic integration process which is characterized by Vietnam begin from 1995 with four elegant negotiations and discussions.

- i) *First*, Vietnam progressively conducted a significant negotiation addressed to a bilateral trade agreement with the United States in 2000. In this case, this was a vital rehearsal for the broader participation of Vietnam, especially in term of free trade agreements (FTA) and the membership of world trade center (WTO). However, The U.S. agreement allowed Vietnam to reach the largest export market in the world without discrimination.
- ii) *Second*, Vietnam formally enrolled as a formal member in the Association of Southeast Asian Nations (ASEAN) which practically has produced trade liberalization under the ASEAN Free Trade Agreement (AFTA) in 1995 followed by a free trade agreement with other additional partners (ASEAN+) since 1997.
- iii) *Third*, Vietnam finally joined the WTO in January of 2007 and it is a huge appreciation for Vietnam which has successfully transformed the economic performance. Along with these agreements in 2009, Vietnam signed a comprehensive Economic Partnership Agreement (EPA) with Japan which is essentially a bilateral trade agreement.
- iv) *Fourth*, Vietnam ultimately concluded and signed a number of trade agreements (that have either been signed or will be concluded in 2015). However, Vietnam consistently interested in several free trade agreement both regionally represented by the Trans-Pacific Partnership Agreement

(TPP) and bilaterally showed by the EU-Vietnam Free Trade Agreement. Both could be considered as a high-standard free trade agreement affecting many fields in the economy and society.

However, in these agreements among other things tariff cuts are negotiated over different periods of time. An overview of recent agreements (see table 2.5)

Table 2.5: Overview of trade agreements in Vietnam

Agreements	Adjustment time	Agreed tariff cuts	Timing
WTO (World Trade Organization)	01/01/2007 – 31/12/2018	35.5%	12 years
AFTA (ASEAN Free Trade Area)	1996 - 01/01/2018	~100%	22 years
ASEAN(Association of Southeast Asian Nations) – China	01/7/2007 - 01/01/2018	90%	10 years
ASEAN – South Korea	01/06/2007 - 01/01/2018	87%	11 years
ASEAN – Australia and New Zealand	01/01/2010 - 01/01/2020	90%	10 years
ASEAN – India	01/01/2010 - 31/12/2020	78%	11 years
ASEAN – Japan	01/12/2008 - 31/3/2025	88.6%	16 years
Vietnam – Japan	01/10/2009 - 31/03/2026	92%	16 years
Vietnam – Chile	01/01/2014 - 01/01/2029	87.8%	15 years
Vietnam – South Korea	Signing 5/5/2015	89.9%	15 years
Vietnam – Eurasian Economic Union	Signing 29/5/2015	87.8%	10 years
Vietnam – European Union	Signing 02/12/2015 – Implementing 2018	99%	10 years
Trans-Pacific Strategic Economic Partnership (TPP)	Signing 02/2016 – Implementing 2018	~ 100%	16 years

Sources: Vietnamese Ministry of Foreign Affairs (2016)