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Vietnam, a hybrid transitional model¹

by

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The paper provides an analysis of the situation in the material and regulatory sphere of the Vietnamese economy in 1989 and at the beginning of 1990, and a draft of the transformation process of the Vietnamese economy in the last years. The paper is divided into three parts. The first one gives an overview of more important changes in the general economic development in Vietnam. The second one provides a picture of dynamic change in the so-called transitional hybrid model of the Vietnamese economy, giving some explanation of the main factors of transition to the market-oriented economy. The third part presents some selected topics, namely: micro-level price sensitivity, macro-level social stabilization and some difficulties of the economic transition process.

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¹The notion of "model" means here the "pattern" rather than a definite construct resulting from the activity of modelling (eds.)

1. Developments in and performance of the Vietnamese economy by 1989

1.1. The most important changes in the Vietnamese economy

Vietnam belongs to the group of developing countries. After the cruel war Vietnamese economy had been in the situation of deep crisis. Although in the previous years a series of efforts of the government and of some local authorities had been undertaken, the socio-economic situation of the country has been declining. Until 1987, the economic measures applied could not give any significant effect in the bureaucratic centrally planned economy.

It is not difficult for foreign observers to note, though, that in 1989 Vietnamese economy underwent significant changes. "*Doi moi*" — the Vietnamese renewal policy officially started with the sixth congress of the Communist Party of Vietnam (CPV) held in December 1986. Economic measures for the state-owned enterprises adopted in November 1987 and the new economic policy in agriculture adopted in April 1988 have begun to give effect to the country's production. But inflation was continuously increasing in 1988 to reach some 500% and the economy has still been in a deeply critical situation.

Fortunately, the austere financial measures adopted by the government in March 1989 started quickly to show results.

Inflation, which was officially estimated in the previous year to be at 15% a month, had fallen to about 3.5% a month during April and May. By June, July and August the rate of increase of retail prices was close to zero, though we expected the annual figure to approach 40%.

The increased confidence in the Vietnamese currency — dong — (denoted further VND) is also the result of the financial measures. The State Bank stopped printing new currency and introduced the "floating" exchange rate in March, and the "black" market US dollar exchange rate has increased to some 4,000 VND.

The drop in inflation and the strengthening of VND, coupled with several good harvests, resulted in increased rice supplies and rice exports. Although at the beginning of 1988 some northern provinces were threatened with famine, Vietnam re-emerged in 1989 as a major rice exporter after nearly 30 years. By the end of the year, Vietnam exported about 1.4 million tons, making the

world's third rice exporter after Thailand and the US.

First signs of macro-economic stabilisation were observed in 1989 as well. They were reflected, inter alia, in the establishment of the common price system on the country's market, in the increased supply of goods, whose prices moderately increased and, finally, in the decrease of the country's deficit.

These initial results of the economic reform depended partly on the adopted open-door policy. Many of the new economic policies were also recommended by the International Monetary Fund (IMF) with whom Vietnam wants to restore relations in order to attract credit, investment and technology from the industrialised countries. IMF officials visited Vietnam several times during 1989 and were favourably impressed with the results of its new stabilization programme.

1.2. Basic macroeconomic indicators of growth

In 1989 world economy experienced an insignificant reduction in the rate of growth and a moderate rise in inflation. The Vietnamese economy, having passed through dramatically critical situation in the preceding years, showed in 1989 the signs of moderate stabilization and development in some sectors of economy, including agriculture.

According to statistical data for 1989 published by the General Statistical Office (GSO) the gross social product (GSP)² and the national income (NI) remained at the 1988 level.

Table 1. GSP and NI (in comparable prices of 1982, in 10⁶ VND)

Year	1980	1985	1986	1987	1988	1989
GSP	218,070	310,390	333,399	351,290	374,196	381,497
NI	120,130	164,110	174,789	180,638	188,874	194,012

Source: GSO

Thus the rate of growth of the GSP of the Vietnamese economy slowed from 6.5% down to 1.9%, and of the national income — from 4.6% to 2.7%. The decrease of the GSP growth in Vietnam resulted from the decline in the industrial output by 3.3% , which was, anyway, accompanied by an increase in agricultural output by 7.4% (see Table 2).

²The notions originally used by authors are retained in view of possible differences in definitions (eds.).

One of the main reasons causing the "statistical" decline of the rate of growth of the GSP in 1989 down to 1.9% was the error in the calculation process for many important macro-economic indicators of the GSO. Thus, for example, during recent years the service sector has been growing fast, but a lot of relevant economic data were lacking at the statistical office and at the tax office.

The GSO data for the indicators of the growth rate of the national economy are given in Table 2.

Table 2. The growth rate indicators (in %)

	Average annual growth rates		1989 as compared with 1988
	1981-1985	1986-1989	
Gross social product ^{a)}	7.3	5.3	1.9
National Income ^{a)}	6.4	4.3	2.7
Gross industrial product ^{b)}	9.5	7.4	-3.3
Group A	6.5	5.9	-1.7
Group B	11.3	7.2	-4.0
Gross agricultural product ^{b)}	5.1	4.1	7.4

Group A: production means; Group B: consumption commodities

a) In comparable prices of 1982

b) In constant prices of 1982

Source: GSO

The decline in the industrial output in Vietnam resulted from the fall in the output of state-owned industry by 2.5% and in the output of cooperative and private sector by 4.4% (the cooperative and private sector account for 43% of total industrial output, see Table 3).

Table 3. Gross industrial product (in constant prices of 1982) (in 10⁶ VND)

	Totals	According to groups		According to economic sectors	
		Group A	Group B	State-owned	Cooperative and private
1988	137819.1	41271.6	96547.5	77866.4	59952.7
1989	133310.9	40559.6	92751.3	75956.0	57354.9

In the new conditions of economic reform some companies have undergone difficulties. Simultaneously, many enterprises are facing marketization of economy. Among the causes of the decline of industrial output such factors as cutting

of state subsidies, including the reduction of low interest capital loans, as well as a decrease in and the liberalization of rules regulating employment, seem to have played a decisive role.

In 1989 the gross agricultural output increased by some 7.4% following an increase by 4.3% in the preceding year. The increase resulted from growth in vegetable production by 7.8% accompanied by the increase in animal production by 6.3% (see Table 4).

Table 4. Some production indicators for agriculture (in 10^6 VND)

	1985	1986	1987	1988	1989
Gross social product in agriculture ^{a)}	117900	122540	122922	128657	138268
National income in agriculture ^{a)}	83360	84580	81511	86511	91976
Gross product in agriculture ^{b)}	91668.7	96044.4	96383.1	100549.7	108032.7
Vegetable production	70239.1	72342.4	70628.0	75940.4	81872.9
Animal production	21429.6	23702.0	25755.1	24609.3	26159.8

a) in comparable prices of 1982

b) in constant prices of 1982

(Agricultural product includes aquatic - freshwater and marine - products, but not forestry)

Source: GSO

Thus, in agriculture, production of major crops has been continuously increasing in the last three years considered. This fact is illustrated in Table 5.

The increase of the output of food crops and of some industrial plants (tea, coffee, pepper) has been obtained under the influence of the new economic policies, and in particular, of the adopted economic concept according to which households are the main production units in agriculture, and of the liberalization of food economy, which was introduced in April 1988.

The investment process has for many years posed a number of unresolved problems. There were many defects in the investment plans and in the allocation of investment outlays by the central government and the local authorities. These defects resulted in capital shortages for important construction projects and low efficiency of many factories constructed (see (The Document, 1987; The Decisions of the Government)). Starting with 1988, and in particular in 1989, the investment portfolio was consolidated, but the investment outlays for many

preferential projects were not satisfactory. Reduction of investment outlays in Vietnamese economy resulted from financial difficulties of investors.

Table 5. Agricultural production (in 10³ tons)

Year:	1987	1988	1989
Food crops (in rice equivalent)	17562.6	19583.1	21515.6
Rice	15102.6	17000.0	18996.3
Other cereals	2460.0	2583.1	2519.3
Maize	561.0	814.8	843.1
Tea	29.0	29.7	30.2
Coffee	20.5	31.3	40.8
Pepper	4.8	6.2	7.1

Source: GSO

However, a favourable phenomenon was observed, consisting in the sharp increase of the share of the private sector in housebuilding.

It is generally difficult in Vietnam to get full information on structural changes in the economy and the reliable numbers on Gross Domestic Product (GDP).

According to Nguyen Ngoc Duc — a GSO official — if the purchasing power parity was 1716 VND per 1 USD in 1989, then the GDP per capita in 1988 should be 184 USD and in 1989 at some 180 USD. Meanwhile, other economists, and the present author as well, estimate that this number should be higher. Nevertheless, Vietnam does not belong to the group of 42 least developed countries of the United Nations.

Moreover, one can note that in spite of the fast increase of prices of industrial goods and materials in the last years, the increase of prices of food products was lower, and the share of 50% of agriculture and forestry in the national income is stable. In 1989 the service sector has been growing fast and the structure of the national income should, in fact, moderately change.

According to the GSO the structure of the national income is as given in Table 6.

Table 6. The structure of the national income (in current prices, in %)

Years:	1987	1988	1989
Totals	100.0	100.0	100.0
Industry	27.7	20.6	20.8
Construction	3.0	3.5	4.9
Agriculture and Forestry	50.4	58.4	53.9
Transport and Communication	1.0	1.4	1.5
Trade	16.7	14.6	17.7
Other	1.2	1.5	1.2

Source: GSO

1.3. Prices, central budget, foreign trade, investments

As in 1989 the socio-economic situation initially changed, the economy moderately developed and there was a sharp drop of inflation and an acceleration in the marketisation process. All these developments occurred due to changes in the socio-economic system and to the intensification of economic reforms.

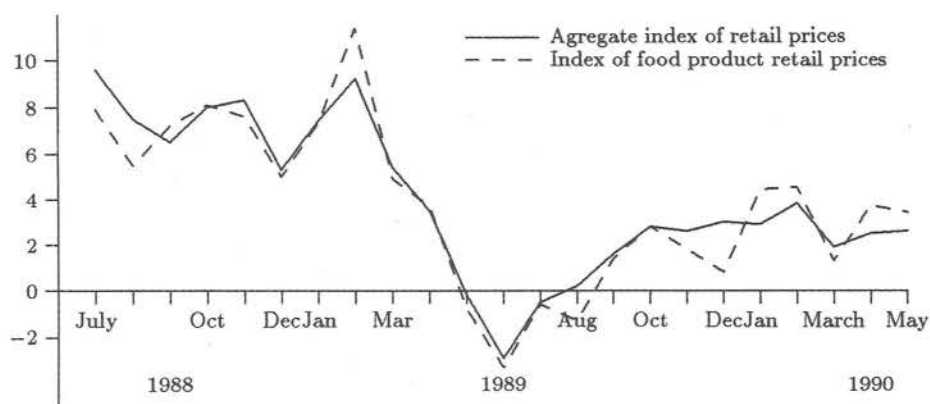
A simple analysis of the following indicators provides some information necessary for evaluation of the economic situation :

- a) retail prices,
- b) central budget,
- c) foreign trade and investment.

1.3.1. Retail prices

Changes in the price index from month to month are illustrated in Fig.1.

From the point of view of the pace of price changes over 1988-1990, three distinctly different subperiods can be distinguished. The first borderline between them is marked by the new financial measures adopted in March 1989. Until that point the price tendencies were in a certain sense a continuation of the observed trend with a lower average monthly growth. Since April 1989 prices sharply dropped and then stabilized until September. The re-emergence of rice exports in the last months of 1989 was the reason for the increase of the retail price index, the average monthly growth being at some 2.7%.



Source: GSO

Figure 1. The aggregate retail price index and the food product retail price index since July 1988. Price changes from month to month (in %)

1.3.2. Central budget

The situation in the central budget revenues and expenditures was an important factor influencing relations between demand and supply.

¹ According to the GSO the central budget has been as in Table 7.

Table 7. Central Budget (in 10^6 VND)

Year:	1986	1987	1988	1989 ^{a)}
revenues	83,648	379,279	1617,000	4450,000
expenditures	120,800	514,967	2440,000	5997,000
deficit	-37,152	-135,688	-823,000	-1547,000
% of expenditures	30.7	26.3	33.7	25.8

^{a)} estimates

And therefore, one can estimate the ratio of budget deficit to the GDP, which is higher than the average ratio for the developing countries (see Table 8).

Table 8. Ratio of the budget deficit to the GDP (in %)

1986	1987	1988	1989
-7.9	-6.0	-6.9	-7.5 ^{a)}

^{a)} estimate

Source: GSO

A scientific report of the Central Economic Management Institute contained information that until June 31, 1989, the total debt of Vietnam has been 8,400 million transferable Roubles and 2,700 million US dollars.

1.3.3. Foreign trade and investment

In the last years a substantial increase in the foreign trade resulting principally from the open-door policies adopted occurred. In 1989 the volume of exports and (official) imports increased by more than 18.5%. During this year the volume of exports to the hard currency economies showed increase by 246 % resulting from the exports of crude oil and rice and partly from the adopted "free-floating" exchange rate.

The changes in the volume of exports and imports to//from payment area I (payments made in transferable rubles) and payment area II (payments in US dollars) are given in Table 9.

Table 9. Exports and imports

	Payment area I ^{a)}			Payment area II ^{b)}		
	1987	1988	1989	1987	1988	1989
Exports	487	590	844	366.3	447.7	1,102
Imports	1,953.7	2,028.5	1,848	501.4	728.2	704.8
Trade balance	-1,466.7	-1,438.5	-1004	-135.1	-280.5	+397.2

a) in millions of transferable roubles

b) in millions of US dollars

Source: GSO

However, as a direct consequence of the open-door economic policies and the weakness in foreign trade management, smuggling has sharply increased, from the last year. Some officials have estimated that goods smuggled into Vietnam cost the Vietnamese economy at least \$400 million during 1989 and smuggling has become widespread in 1990 (see Decisions 135 and 270 of the Government).

Vietnam steps up its ties with the outside world as the end to its international isolation nears. Despite the US embargo on trade and investment many foreign business delegations continued their visits meant to explore investment possibilities. Until the end of 1989, 108 projects with the total investment value of 879 million US dollars had been approved since the foreign investment law was passed in late December 1987. Then, until September 1990, 193 investment

licences had been granted with the total value of envisaged investments of 1,311 million US dollars³.

2. The transitional hybrid model

2.1. The main factors of the economic reform model

Before describing the process of liberalization of economic activities we would like to recall the main factors, which cause that the Vietnamese ways of reforming the economy are unique among the reformatory strategies.

1. The first one is the war for independence and national unity.

The recency of the war is the most significant in its implications. But like other factors this one has both positive and negative consequences for the reform.

In fact, the Southern part of Vietnam, which had experienced capitalist economy more recently than any region in any other communist-ruled state, is a large reservoir of management and business experience. Managers can quickly benefit from the skills and the energy provided they are there willing to find new opportunities.

Meanwhile in the North of Vietnam, which had experienced a long period of a centrally planned economy mainly serving the war, people, who have suffered heavy losses in the war with an unlimited patience, are continuing to carry the burden of great difficulties caused by the defects of the socio-economic policies and by the weakness of socio-economic management.

Productivity has been very low there both in agriculture and in industry. After the war the quantities of food products supplied and life conditions of most of the people and in particular of poor people have been unacceptable. The situation of the country's economic infrastructure was deplorable. The socio-economic crisis has become deeper and more widespread.

Data shown in Tables 10 and 11 provide an illustration for the living standards of people in rural areas, inhabited by 80% of total population.

The first table gives the structure of expenditures of rural population both in the North and in the South of Vietnam collected in some sample tests of GSO in the periods 1981-1985 and 1986-1988.

³These numbers, if properly calculated, are surprisingly high in comparison with the ones for the Central European post-communist countries (eds.).

Table 10. The structure of expenditures of rural population (in %)

Periods	Total	Food		Clothing		Housing		Education ^{a)}	
		North	South	N.	S.	N.	S.	N.	S.
1981-1985	100	75.8	76.3	6.5	6.5	5.7	3.4	1.8	1.1
1986-1988	100	78.8	71.6	3.0	5.1	5.1	5.3	2.0	1.5

a) Education and Culture Source: Sample test of the GSO

Then, Table 11 presents the average monthly consumption levels for basic food products, again for rural population divided into North and South of the country.

Table 11. Average monthly consumption of basic food products for rural population (in kgs)

	North			South		
	Rice	Meat	Fish	Rice	Meat	Fish
1981-1985	12.1	0.38	0.29	15.8	0.48	0.79
1986-1988	12.1	0.36	0.28	13.9	0.46	0.55

Source: Sample tests of the GSO

2. The second of the main factors is the US embargo on trade and investments in Vietnam, which has lasted since May 1975. After the events of 1979, most of the Western and Chinese aid and trade was cut off. These actions concurred in closing off economic resources and opportunities necessary for stabilization and growth of the economy.

Though the Soviet aid compensated in part for the loss of economic contacts with the West, Vietnam still needs financial aid, large investment input and modern technology for reconstruction of the country. Moreover, a large portion of economic resources have been wasted and the efficiency of many undertakings was very low, while unemployment has been increasing day by day.

3. The third factor is the leadership of President Ho Chi Minh and the Communist Party of Vietnam (CPV).

President Ho and the CPV conducted the Vietnamese people in the struggle for independence and national unity, which presently contributes to the legitimacy and the stability of the regime.

Since most people believed President Ho and the CPV, it has now become the task of the leaders to continuously remind of the hard facts of socio-economic situation and to be ready for self-criticism in case of defects. The overall reality

and the life of poor people have been exerting a heavy pressure upon responsible leaders.

Moreover, emergence of factions is, of course, inevitable as in any other elite. But under the immediate impact of President Ho the principle of collective leadership has actually been followed, to the degree which is unique among the communist-led states.

This is perhaps the main factor causing the macro-social stability, ensuring an important necessary condition for economic progress.

4. The fourth factor is constituted by the events in the other "socialist" states, in particular, in China and the Soviet Union. No other state has been as open to the impact of events both in China and in the European "Soviet Block" as Vietnam.

In fact, Vietnamese officials and researchers had been watching closely the reforms, first in Hungary and in Poland and then in China and in the Soviet Union. The divergence of these models might have helped Vietnam in learning from the advantages and the mistakes of all the others, and certainly, Vietnam should have a certain advantage if the lessons learned are the right ones.

A typical example is the economic policy adopted in agriculture, derived primarily from Vietnamese experience in "output contract" (*khoan san pham*), also stimulated and complemented by lessons learned from the advantageous economic policies in the agriculture of Hungary and China.

5. The fifth factor is the structure of the Vietnamese economy. This factor is partly an immediate main consequence of the ones previously commented.

Starting from a very backward economy, after a long period of war, the country's industrialization has not been very easy and effective. Strong imbalances in the structure of the economy constitute a feature by which the Vietnamese economy differs from the economies of many developing countries and of the other "socialist" states.

The structure of national income given in Table 12 illustrates the imbalance between industry and agriculture.

Table 12. The structure of national income in (% of value in current prices)

Years	1980	1981	1983	1985	1987	1988	1989
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industry	20.2	23.0	25.7	30.3	29.1	21.4	24.0
Agriculture	51.4	54.7	49.4	47.3	46.1	54.1	50.0

Source: GSO

In addition, let us remind that rural population makes 80% of the total (see Table 13).

Table 13. The proportion of population living in rural areas

1976	1980	1982	1984	1986	1987	1988	1989
79.4	80.9	81.5	81.1	80.7	80.4	80.2	79.9

Source: GSO

Consequently, with adoption of right economic policies in agriculture one could hope that economic reform would accelerate.

2.2. The transitional hybrid model

The hybrid type of transition of the Vietnamese economy has first grown from "market cells", which consisted of small-scale markets existing in any rural area of the country, "black" markets in cities, in particular in cities of the North Vietnam, private producers in small-scale industry and handicrafts, small farmers in agriculture, in fishing, as well as private service outlets in construction, transportation and retail trade.

The "market cells" also include entrepreneurship and business experience in the recently defunct capitalist economy of South Vietnam.

As noted, after a cruel war the centrally commanded economy could not supply many essential material goods for production and could not satisfy minimal demands of people. One could not find many goods in the state-owned companies or in the cooperative shops, but sometimes it was possible to buy them in free markets.

In the Vietnamese centrally planned economy these "market cells" always existed. The cells have been growing. This growth is one of the most important elements of the marketisation process which has spontaneously begun in 1979 and has made the mainstream of the spontaneous process.

The "from the bottom" reforms process went on simultaneously through shocks and through continuous dynamic processes. The "from the bottom" shocks have been usually connected with political events or some special socio-economic situations.

In fact, the first such shock has been provoked by the political events of 1979 and the fact that the Vietnamese agriculture suffered from the unusually bad weather. Another illustration is the "from the bottom" shock of 1985 caused by

the Soviet impact of the "perestroika" on the Vietnamese society and by the devaluation of VND on September 14th, 1985. After these impacts the inflation switched to a gallop.

On the other hand the continuous spontaneous reform process has been caused by the previously described factors, including the difficulties caused by the socio-economic crisis and, primarily, by the very low living standard of the majority of people. Entrepreneurship and business experience which have been learned step by step by managers and small-scale producers in different regions of the country have been accumulating and rapidly expanding. This element is really contributing fundamentally to the dynamics of the economic reform process.

However, in a centrally planned economy the "top-down-reforms" process is always very important, since it might bring quickly remarkable changes in the country's socio-economic system.

The reform process within the CPV and the government consists also of shocks and continuous reform processes. The shocks include "good shocks" and "bad shocks" reflecting the struggle between the reformist and the conservative forces in the CPV.

"Good shocks", for example, were provided in 1981 by the Instruction 100 CT//TW establishing the "output contract" (*khoan san pham*) system of national economic policy or by the Politburo Decision 10 of April 1988 of economic policies in agriculture.

There were also "bad shocks" caused by the defects of socio-economic policies in the struggle for "doi moi" (renovation), the struggle with the old socialist thinking, by impacts from the international environment, by the clashes of objective economic laws with the bureaucratism in the commanded socio-economic management mechanism and methods (see, for example (The Document, 1987; Nguyen, 1988; Bui Cong Cuong, 1989)). It is not difficult for foreign observers to recognize those "bad shocks" in the period 1982-1985.

Though one has to recognize these difficulties, the official continuous reform process of the CPV and the government has really originated from the idea and the decision of the 6th Congress of the CPV in December 1986. The process of liberalization of economic activities is an immediate result of the dialectical synthesis of the spontaneous "from the bottom" process and the officially imposed reform.

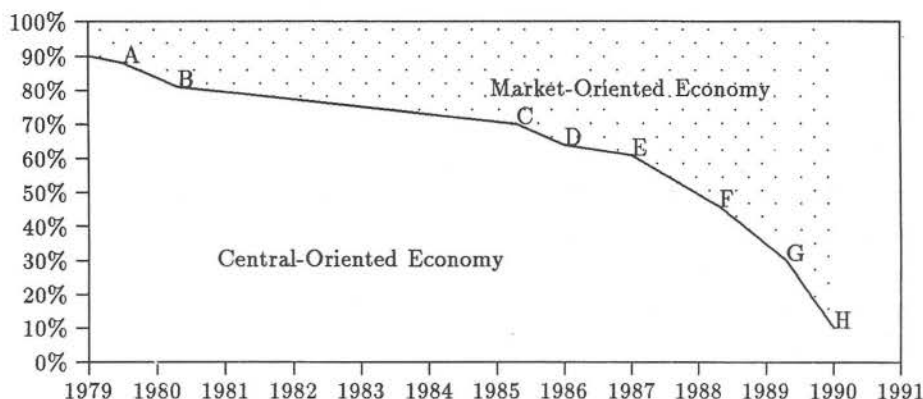


Figure 2. The shares of two economies over time, 1980-1991 A-B: the first spontaneous shock. C-D: the second spontaneous shock D-E: the "bad shock" caused by the overhasty step in the "General Adjustment". E-F-G: the impact of new policies of "doi moi" (renovation). G-H: the "good shock" of the austere financial measures and the impact of the policies adopted in 1988. Source: Own assessment.

The result of this synthesis is marketisation of economic activities, and a remarkable consequence of the process is the establishment of one price system on the national market.

In the following graph, Fig.2, we give an outline of the course of hybrid transition of the Vietnamese economy, reflected through the shares of the bureaucratic centrally planned economy and the market-oriented economy in the price system.

In line with the outline of Fig.2 it can be said that the course of transition from the centrally planned economy to a market-oriented economy in Vietnam can be divided into 4 periods.

The first period: 1979-1981

In this period the economic reforms were mainly the spontaneous "from the bottom reforms" which included the so-called "output contract" (*khoan san pham*) innovation in agriculture, the "fence-breaking" (*pha rao*) efforts of factories and the "unplanned" activities of the state-owned enterprises in industry.

The Instruction 100 CT/TW adopted in January 1981 contained correct but not complete economic measures in agriculture. Certainly, the new reforms themselves produced new problems, inflation and the "negative phenomenon",

speculation. A greater autonomy for state-owned enterprises also led to a larger percentage of sales at market prices.

The second period: 1982–1986

This period is the period of struggle for “*doi moi*” (renovation), which could be divided into 2 stages: 1982–1984 and 1985–1986.

The year 1982 witnessed such commands as “to restore the socialist order in the market” or “to ensure that the socialist transformation be basically completed within this 5-year plan”. Some researchers called the period of 1982–1984 the “conservative resurgence period”.

The economic situation was deeply critical and the manner of proceeding was more bureaucratic (inflation was climbing, the State Bank continued to expand currency supply, and there were important defects in the investment process) (see (The Document, 1987; The Decisions of the CPV; The Decisions of the Government; Statistical Data, 1990)).

The years 1985–1986: a new push for the reform.

The year 1985 was marked with the strong shocks caused by the Soviet impact of “perestroika” and the overhasty step towards the market system, namely the introduction of “socialist accounting” (*hoach toan*) in the state-owned enterprises, the adjustment of prices and the devaluation of VND in September 1985 and, therefore, as the immediate consequence — high inflation in the years 1985–1986.

It is in these years also that the continuous struggle in the society and, in particular, in the Central Committee of the CPV, for the new socialist thinking, new international policies and especially for the socio-economic management according to objective socio-economic laws could be observed.

Finally, the end of 1986 was marked with the first official victory of the “*doi moi*” concept (see the Document of the 6th Congress of CPV, (The Document, 1987)).

The third period: 1987–1988: First official steps of “*doi moi*” (renovation).

Transition from a centrally planned economy to a market-oriented one has been perceived as very complex from the first days after the Congress of the CPV. The socio-economic system had been stagnant and Vietnam was in a deep crisis. Grain production was plagued with bad weather and pests. Food production in 1987 decreased by 4.7% and in 1988 our country imported 450 thousand tons of rice. Prices have been continuously increasing and there has been runaway inflation,

Soon after the 6th Congress the government took the crucial step of creating free trade and of making new steps in price reform. This concerned, in particular, liberalization of prices of many commodity types and regulation of some taxes.

A series of economic measures and policies were adopted: the policies for industrial enterprises in November 1987, the Foreign Investment Law in December 1987, the Land Law in January 1988, the new economic policies in agriculture in April 1988 (Decision 10, mentioned before) and the new international relation policy passed in May 1988.

Clearly, the new series of economic policies were basic steps of the transition from the bureaucratic centrally planned economy to a market-oriented one.

The fourth period: 1989-

The first effects of the official reforms had been described in the first section of the paper. Besides the economic changes, the withdrawal of Vietnamese troops from Cambodia in September 1989 was an important political event, which had a strong impact on many aspects of transition.

From the economic point of view perhaps the most important event at the beginning of 1990 was the Bank Law adopted in May 1990.

3. Some selected issues

3.1. The micro-level price sensitivity

One of the most important conditions of the transition to a market-oriented economy is marketisation of economic activities. This process requires liberalization of economic activities, self-responsibility of producers, customers and also of managers of companies and small-scale enterprises.

Allocation of production and wealth should in fact be decided in the market and the economic decision making should be decentralized and therefore the micro-level price sensitivity should become one of the decisive factors of transition. This, however, is not possible in the central planning systems.

Fortunately, the micro-level price sensitivity has been established step by step for all the Vietnamese producers, consumers and partly for economic policy designers. Now one can hope that the price sensitivity becomes a new push for the reform process.

3.2. The macro-level social stabilization

It is not difficult to note that the macro-level social stabilization in the processes of reforms in Vietnam is unique for the group of the reforming "socialist" states.

The initial stabilization was in fact a success.

Certainly, people could not be too patient with the existing poverty, and, simultaneously, the country's intellectuals and political leaders could not remain in silence when witnessing the agony of the system.

In addition, unemployment has not been decreasing after the war and all types of crimes (smuggling, speculation, robbery, hooliganism and corruption) have been on the increase.

But, from the standpoint of economic progress, stability is crucial, hence the Vietnamese authorities, with the people's support, considered the macro-level socio-economic stabilization to be one of most urgent objectives of the "*doi moi*" (renovation).

The withdrawal of Vietnamese forces from Cambodia brought in fact positive consequences for the macro-level system stabilization. Moreover, in 1989 the Government started new efforts against smuggling and corruption and from December 3rd 1989 all provinces and cities began to vigorously suppress all types of crimes (see (The Decisions 135, 240, 278 of the Government)).

3.3. The difficulties of transition

There are fundamental dilemmas such as the contradictions between economic reform and bureaucratism or between growth and equity in the transition from a centrally planned economy to a market-oriented one.

We prefer to choose some problems which are more urgent in comparison with the other reforming "socialist" states.

First comes the legal system. The Vietnamese legal system is being presently formed and is not complete. The lack of many basic laws and the low degree of the legal culture are really a main barrier of the reconstruction and the transformation.

Second is the lack of the financial market. The State Bank and the financial management offices had not had their official places defined and the effects of their activity in the country's market are very weak.

Clearly, the financial market management has not been corresponding to the course of liberalization of economic activities and one can forecast that the

financial market situation and the reform of the banking system and of the financial management would be among the most complex issues for economists and for the authorities.

Third is the socio-economic infrastructural system of the country. This problem is related to foreign investments, international and internal credits and the US embargo. The open-door policy has changed the situation with that respect, but solutions are as yet not available.

Though Vietnam has to undergo many difficulties, one can hope that the renovation (*doi moi*) and the open-door policy would bring realization of expectations and new advantageous results.

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