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VIETNAM'S SHIFT TO A MARKET SYSTEM

by Jennifer Pepall

It took Dr Le Dang Doanh, a leading Vietnamese economist, a long time to become an advocate of the market economy. Something was wrong with real socialism, he says, but I hesitated. His research showed that people in Vietnam needed more motivation, responsibility, and independence in order to reach their full economic potential. A 1978 trip to Sweden ended his hesitation. After visiting Sweden, I believed it provided a real solution for Vietnam....It combined market efficiency with state services, says Doanh.

Having undergone his own conversion, Doanh now plays a key role in steering Vietnam from a command to a market economy. He is president of the Central Institute for Economic Management (ciem) in Hanoi and a member of the advisory committee on economic reform to the government. In addition to acting as an economic policy advisor, he has been instrumental in writing the country's bankruptcy and investment laws. These laws are among the 88 new laws and 10,000 by-laws that have been enacted under Vietnam's program of economic reform, called *doi moi*, initiated in 1986 in response to an economic crisis. Inflation was at 400% and the gdp was dropping, along with exports and food production. Successive reforms reversed the decline by liberalizing trade, freeing prices, adjusting exchange rates, opening the door to foreign investment, and removing restrictions on the private sector.

Doi moi's impact has been dramatic. Growth rates have surpassed five-year-plan targets; in 1994, economic growth was estimated to be 8.8% and official figures put inflation at a manageable 14%. Government spending cuts have brought the budget deficit under control and increasing exports have helped reduce the trade deficit. Much of this trade is with new partners; Vietnam now has commercial ties with about 100 countries and has normalized relations with international financial institutions such as the imf and the Asian Development Bank. It is expected to join asean later this year.

These gains at the global level are matched by those at the grassroots. The reforms have liberalized the creativeness, dynamism, and capacity of the Vietnamese people, says Doanh. A survey conducted in 1993 showed that 52% of the respondents confirmed a clear general improvement of living conditions and 30.7% noted a partial improvement since 1990. The quality of domestic goods has improved and line-ups for essential items have disappeared.

With such positive economic and social indicators, can Vietnam be seen as an emerging Asian tiger? Many foreign investors think so in 1994, foreign companies committed us\$3.7 billion in new investments.

Doanh stresses, however, that the economy is still in a transitional stage of reform. Many problems remain acute and need to be solved. Some pillars of the market economy are missing. Vietnam lacks a civil code, a commercial code, a competition law, a consumer protection law, and laws governing state-owned enterprises, cooperatives, and public markets. Banking and public finance are both in need of reform and capital markets must be established. IDRC is helping Vietnam to tap new capital resources by funding among other initiatives a ciem project that lays the groundwork for the creation of shareholding

companies.

Several of the problems are rooted in the sequence and pace of reform. Initially, the reforms unfolded logically, starting in rural areas when farmers began to grow food outside the centrally planned system. Production rose and the food supply increased. These successes exposed problems in existing regulations on pricing, markets, and land ownership. The government, acknowledging these restraints, gradually introduced some measures of reform in the early 1980s that were the precursors of doi moi. Microeconomic reforms prepared the economic and psychological preconditions for the macroeconomic reforms leading to market mechanisms, says Doanh.

Once the government officially adopted doi moi, however, reform was neither gradual nor systematic. Doanh compares the early days of reform to shock therapy that was necessary to create basic market mechanisms.

The therapy has also created some confusion. Company and private business laws were enacted before a commercial code was drafted. Laws governing foreign trade and taxation have changed rapidly, leading to complaints from the Vietnamese business community. A gap exists between enactment and implementation; laws are often missing the teeth needed to enforce them. The laws outline general criteria dealing with basic problems. There is less regulation of details, says Doanh. The banking statute, for example, permits the operation of foreign banks but is unclear on lending rules. Laws that can be enforced are often applied inconsistently, varying from one ministry and province to the next.

Doanh believes the government can overcome these problems by drawing up a roadmap for reform and by creating a central agency to coordinate the implementation of reforms in different ministries and provinces. A similar roadmap is needed to modernize public administration, argues Doanh. Such a plan would see the emergence of a competent civil service, efficient state agencies, better cooperation between central and local governments, and the elimination of bureaucratic red tape. Corruption and smuggling, termed national disasters, would also be reduced. Economic reform, however, is not the remedy for all of Vietnam's ills. Doi moi has helped solve many problems but it has also contributed to others. Drug abuse, prostitution, and crime have increased, as has the gap between rich and poor. Changes in society have turned some people into winners, others into losers. Income equality is getting to be an object of public concern, says Doanh. The commercialization of education and health care is creating a two-tier system services have improved for people who can afford them and have declined for those who cannot.

The role of the state has become especially important in dulling the sharp edges of reform. For example, the government has developed a poverty fighting program that provides vocational training and credit to the poor at preferential interest rates. The invisible hand of Adam Smith works only in the textbook. In practical life, it is somewhat different. The state at least needs to build a clean state, a healthy state, and to provide services, says Doanh. He lists health care, education, social welfare, and unemployment as critical areas requiring government action.

The amount of work remaining to overhaul the economy is a reminder that despite its recent progress, Vietnam is still a very poor country. Its per capita income is currently us\$275 per year, placing it among the lowest in the world. Its goal is to double this figure by the year 2000. To do this, the economy will need us\$48 to us\$50 billion of investments.

For Doanh, the way to this goal is clear a well-functioning market economy coupled with an effective state administration. Others in Vietnam, however, do not share his beliefs. They stand to profit from the old system or they object to the changes on ideological grounds. There are people who simply don't like change, says Doanh. Some will die and take their own theory and conviction to the grave.

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