

## CHAPTER II

### **The Economic Revolution of Vietnam**

In this chapter II, the researcher will study the development of Vietnam country, focusing on the development of economic system by dividing the study into 4 phases: 1) the development of Vietnam after the integration of North Vietnam and South Vietnam (1976-1985), 2) Vietnam after the implementation of economic reforms Doi Moi (1986), 3) political development of Vietnam, 4) basic information of Vietnam including the higher institutions.

#### **A. The Development of Vietnam after Vietnam's Integration (1976-1985)**

After the signing of the Geneva Peace Treaty in 1954, the economy of the democratic republic of North Vietnam and South Vietnam has developed in a completely in different direction. While North Vietnam tried to create a socialist regime both economically and politically, on the other hand South Vietnam chose capitalism as a guide to economic development. The differences in these two economic systems have greatly affected the economic development of Vietnam after the unification of the country in 1975.

Although North Vietnam and South Vietnam have different development directions but 2 economic development systems of both have 4 common characteristics<sup>9</sup>:

1. High dependence on foreign aid
2. Consumption that is higher than domestic production
3. Budget deficit
4. International trade deficit

Such characteristics is an obstacle that hindered the post-merger development in 1975, and when combined with an erroneous economic development policy, the Vietnam's

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<sup>9</sup> Sriprapa Petmistri, 1999, Economic and Politic Development in Vietnam, Bangkok: โครงการการจัดพิมพ์ฉบับใหม่, p.33

socialist government, which was formally established in July 1976 had faced an inevitable economic crisis.

The integration of the country in 1975 meant the integration of two different economic systems together. The main burden of the new government was to change the capitalist economy in South Vietnam into a socialist economy, in which North Vietnam developed in the north for more than II decades, but for the integration of countries while having problems, it seems to be a very heavy burden for Vietnam at that time. However, the integration of the country was successful despite many problems, such as the damage caused by the prolonged war in southern Vietnam, which affected the economic balance in Vietnam. In addition, the problem is becoming more and more intense, it is when Vietnam's economy has to wait for help from various countries as mentioned above.

Although there are many problems, Vietnam is determined to create a socialist country quickly. On 02 July 1976, The National Congress held the first meeting, Le Duan, Secretary of the Communist Party of Vietnam announced that "Vietnam will step into socialism with Northern Vietnam as the example and support modern socialist economic development."<sup>10</sup>

Le Duan emphasize that the development of a socialist regime was based on three revolutions which could not be separated. There is revolution in production relations, science and technology revolution, cultural and ideological revolution. The adoption of the three principles of antisemitism means destroying capitalism in southern Vietnam. Creating modernity for the economy and eliminating thought reactions implementing such policies in southern Vietnam, namely the

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<sup>10</sup> Ward Richard E, Vietnam United at last, in The Guardian, 14 July 1976, from: Sriprapa Petmisri, 1999, Economic and Politic Development in Vietnam, Bangkok: โครงการจัดพิมพ์คบไฟ, p.38

return of land to the state, the transfer of private capitalist enterprises to the state and the development of the state economy by setting up agricultural cooperation and independent occupations, as well as adjusting the direction of private enterprises to mixed or state enterprises was initially stressed in the 5-year development plan (1976-1980) in the 4th General Assembly in December 1976.

In order to facilitate economic change, the new government began to adjust the management structure to be the same. Starting with the administrative reform of provinces in Vietnam's country by joining the provinces together, the north is reduced to 16 provinces and the south is reduced to 19 provinces. In addition to these provinces, there are administrative area which is directly dependent on the central government, such as Hanoi and Hai Phong in the north and Saigon (renamed Ho Chi Minh City) and Vung Tao in the south, total 488 districts. with administration linked to the administrative organizations of the province and central<sup>11</sup> which is responsible for collecting the production results of agricultural, collecting taxes, allocating budgets and investments etc. The various economic policies mentioned above have the advantage of being able to help the state to carry out the economy in accordance with the government's goals, namely industrial development while at the same time able to support social policies whose main goal is to providing the necessities that people need, including solving problems that were left behind after the war.

However, although the Communist Party and the government have tried to improve the country's economy after the unification, there is a problem of socialist economic

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<sup>11</sup> Marrie-Sybille de Vienne, L'economie du Vietnam (1955-1995) bilan et prospective, Paris, CHEAM, 1994, p. 21, From: Sriprapa Petmisri, 1999, Economic and Politic Development in Vietnam, Bangkok: โครงการจัดพิมพ์คบไฟ, p.38

development after 1975, such economic policies do not create a stimulus the production to the country. Socialist economic systems do not have space for private initiatives, each person has no business enthusiasm in the state's economic organization. But even though the development standards are low, it seems that there is a distribution of products that can guarantee a certain level of people in society. Such policies can be seen as equality in receiving government support or welfare but not an incentive policy or reward for those who want to create wealth for the country and those with the ability and intention to create prosperity the economic growth.

Moreover, the decline of foreign aid since 1979-1980, Vietnam seeing weaknesses and backwardness of economic development. Which indicates that Vietnam is necessary to find ways to develop the economy. In 1979 the Vietnamese leaders try to develop economic in the country but cannot be achieved, thus creating a concept that will make four important reforms in 1980, namely:<sup>12</sup>

1. The small businesses and economic activities in families with a markedly reduced productivity become the main goal that the state will reform, review the central policies and activities, namely the state-owned organization. A new economic model for trial and intervention in the state's direct economy to relax.
2. The state allows enterprises of the state to carry out production in addition to those specified in the plan and free production. But the state still monopolizes the production of certain products.
3. As well as providing greater freedom to exchange and transfer products with a large sale price adjustment of 2 times in October 1981 and October 1985 with the goal of reducing the gap between the state price and the

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<sup>12</sup> Sriprapa Petmisri, 1999, Economic and Politic Development in Vietnam, Bangkok: โครงการจัดพิมพ์คบไฟ, p.38

market price. The business sector is also allowed to buy and sell raw materials, machine tools in the free market. In international trade, there are companies in both the central and SA branches can import and export more products.

4. Changes in the macroeconomic, economic institutions and tools have to change according to the reform of the price system, salaries and fiscal finances, have become a controversial issue among the executives, while also improving the direction Trade, price liberalization and budget deficits.

However, improvements and changes in the mechanisms of economic reforms do not produce the expected results, although early changes will help to recover certain economic activities, there are still many weaknesses. In particular, the state still maintains the administrative management system, including subsidies to state-owned enterprises, while almost not paying attention to economic efficiency development and cannot guarantee economic stability at the regional. What appears to be is a high rate of money for the adjustment of economic tools such as the bank credit tax system which is not systematic.

The above characteristics show some problems in adjusting the economic policy. As a result, despite changes in some parts of the economy, Vietnam economy may fail after the economic integration of the country, the official documents of Vietnam have accepted this point, since 1975, the Vietnamese government is unable to develop the economy according to the plan. It is also pushing Vietnam to the economic crisis as reflected in 6 parts:<sup>13</sup>

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<sup>13</sup> Sriprapa Petmisri, 1999, Economic and Politic Development in Vietnam, Bangkok: โครงการจัดพิมพ์คบไฟ, p.53

1. The rate of economic growth is very low or in reality there is no economic growth in the last 10 years.
2. Lack of balance between income and expenditure during shipping and importing goods.
3. Inadequate income for expenditure, which is highly dependent on foreign aid sources, although foreign assistance is as high as 38.2% of the country's budget during 1975-1980 and approximately 19-29% average. During the years 1981-1985, the budget deficit was still 18.1% in 1980 and 36.6% in 1985.
4. Production capacity and investment are very low. Generally, enterprises and industries can produce only about half of the production capacity. The production conditions of labor and the quality of the products decreased and there is a shortage of food and consumer products.
5. Severe inflation and uncontrollable product prices in 1985, despite system reforms, wages and currency prices, but could not solve the problem. The highest inflation rate in 1986, with a price index of 74.4%
6. The distribution of products produced without regulation and higher product prices have a negative effect on production, people's livelihood and social conditions.

It can be seen that after the administration and politics of the country, the Socialist Republic of Vietnam tried to combine the two economic systems into a single system in a hurry, using the form of economic development that was used in North Vietnam as an economic development. The basis of central planning has been applied to South Vietnam, although many years have changed, but the economic system in Vietnam still facing the problem over years. As mentioned above, until finally the Secretary of the Communist Party at that time was Nguyen Van Linh acknowledged the mistake of adopting a socialist economic development system using the economic system and administrative mechanisms and the source of

General meeting 6<sup>th</sup> to decide economic policies that will continue in the future.

Considering the development plan in Vietnam Since Vietnam declared the country, it can be noted that there is no indication of human resource development at all, but the Vietnamese government will focus on economic development as a priority and top priority for agricultural development.

### **B. The Development after the Announcement of the Economic Reforms Doi Moi Policy in 1986**

From economic fluctuations since the unification of the country under the socialist system, serious inflation in 1985, including the government's cessation of subsidies, food rationing systems for state workers and employees, caused economic problems. The government must revise throughout the first half of the 1980s in which Vietnam's economy faced many problems, especially the fact that the production of consumer products is not enough to meet the needs and distribution of products that are not thoroughly which greatly affects the lives of Vietnamese people. The economic problems that plagued the country pushed the Communist Party of Vietnam to find a serious solution. Therefore, in the 6th National Assembly meeting in December 1986, there were serious reforms of the country. Nguyen Van Linh, the secretary of communist party including many party leaders recognized the socio-economic problems that may affect political stability, this National Assembly approved the reform plan called Doi Moi. Such reforms focus primarily on the economy with the belief that it is the economy will lead to political and social stability. The importance of economic reform emphasizes 3 important changes:<sup>14</sup>

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<sup>14</sup> Sud Chonchedsin, Vietnamese history from the French colonial period to the present, Bangkok: โรงพิมพ์จุฬาลงกรณ์มหาวิทยาลัย, 2002, p.281

1. Changing the production relationship system to reduce central control and relying on more market mechanisms.
2. Improvement in science and technology to increase production efficiency.  
Improving the ideas and ideals of people in society

Furthermore, the 6th National Assembly of the Party approved the economic and social development plan year 5, no. 4 (1986-1990) which points out the efforts to correct the mistakes of the past economic and social development plans that focus on the development of heavy industries until the country's economy is balanced. The main goal of the no.4 development Plan focuses on 3 important goals:<sup>15</sup>

1. Economic development of the agricultural sector primarily and the development of industries and infrastructure is secondary. Industrial and infrastructure development must be done to promote and support the development of agricultural economy. The main goals of agricultural economic development are 3 aspects: increasing rice and cereal production, increasing customer goods and increasing agricultural exports, since the government is unable to produce enough rice and consumer products to meet the needs of the people which results in reduced productivity of labor.
2. While the government aims to develop economic growth by using market mechanisms, it also aims to prevent and maintain socialism. The government views that the existence of a socialist system should not be an obstacle to economic growth. In order to achieve this goal, the Communist Party clearly divided economic development into 2 sectors: there are economic development of the public and

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<sup>15</sup> Ibid, p.282-289



private sectors. In which the private sector, the 6th National Assembly certifies private freedom in decision-making by the government reduce the role of planning and decision making.

3. Expanding economic relations with foreign countries. The party wants to expand its economic participation at an international but still emphasizes cooperation with socialist countries in the Soviet Union and in Eastern Europe. Vietnam began to adjust the economy to become more liberal including trying to be more involved with the international economic community, such as becoming a member of the Association of Southeast Asian Nations (ASEAN) in 1998, becoming a member of the Asia-Pacific Economic Cooperation Organization (APEC) In 2006, or joining the ASEAN Free Trade Area (AFTA) and in 2007, Vietnam became a member of the World Trade Organization (WTO). The Communist government hopes for international economic cooperation to help open up external markets for Vietnam, as well as encouraging foreigners to invest and transfer technology to the country, which will result in the growth of Vietnam's economy.

After the 6th National Assembly meeting, the Communist Party of Vietnam also held several meetings of the Central Committee to find ways to implement economic reform policies. For example, in early 1987, a free market system was introduced. The government try to use free market system in many cities by cancelling the pricing of products from the government and allow the marketing mechanism to play a greater role. In addition, in this meeting discussed the law to facilitate foreign investment included the law of land ownership. While Vietnam using free market system, the Communist Party concerned that it will be contrary to the

socialist principles and may have negative consequences. Therefore, in December 1987, the Central Committee of the Party therefore convened and set 4 economic development guidelines as follows:

1. Focus on the development of important production of food, such as grains and non-grain. The production of consumer products and export development.
2. Change economic thinking to focus on cost and profit. With the aim of gradually creating economic and social stability, such as farmers will receive production factors and consumer products with a fixed price and receive regularly. At the same time, the government will guarantee agricultural products for farmers.
3. Be consistent the economic system that the government owns while still benefiting from the non-government economy. The state insists that important government affairs will continue to remain under state control, even if those operations are loss. But at the same time, the state promotes business outside the state by the state accepting private sector business operations at the individual and groups, as well as guaranteeing the right to occupy the property long term land holdings inheritance and legal income acquisition of non-government business operators.
4. Pay attention to social problems, especially unemployment problems. The state seeks to provide jobs for people who do not have a definite job, and there are also solutions to poverty and famine in the national development plan.

It can be seen that from 1986 onwards until now, Vietnam truly entered the era of reform. Although throughout the period since 1986, there were many times that some leaders in the party who had strained the socialist ideology didn't trust or worry about reform. Especially the growth of the economy,

dividing the market and liberalism that will weaken the socialist ideology. But in the end, the reform was successful as soon as the goal was laid, because the most obvious thing is economic growth such as growth rate of GDP have grown almost every year since 2001 GDP 5.8 percent, 2002 GDP 6.4 percent, 2003 GDP 7.1 percent, 2004 GDP 7.5 percent, 2005 GDP 7.6 percent and year 2006 GDP 7.6 percent.<sup>16</sup>

### **C. Political Development of Vietnam**

Before Vietnam implemented Doi Moi policy in 1986, the politics of Vietnam were quite clear in terms of the regime because Vietnam used the socialist rule, especially the third constitution in 1980 a after 4 years of consolidation, the Constitution emphasized the concept of Marxist-Leninism and want to unify South Vietnam by trying to abolish democracy make strengthen socialism. After that, Vietnam announced the use of the 1992 constitution, which is the current version. The differences of the two constitutions is the 1992 edition, began to expand relations with foreign countries and stop using the term proletariat and have ideas about human rights. From this constitution which caused changes in other institutions of Vietnam, such as the highest national council that is the highest organization in controlling the administration of state affairs, with the duty to select, appoint and remove the president, vice president and president of the National Council. However, it seems that the National Council will have a lot of power, but in reality it plays a very small role if compared to the Communist Party. But in the future, the National Council may have to have more jobs because of the need to create new laws to be in line with the economic system.

In addition, the political development on the other side of Vietnam is the election. This election was changed in the 1992 election because it was an election under the framework of the new constitution, an election that saw changes made in the National Council for example, the party allows an

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<sup>16</sup> Asian Development Bank, Asian Development Outlook, 2005, from web: <http://www.adb.org/Document/Books/ADO/2005/vie/asp>.

independent candidate and the candidate is not a member of the Communist Party.

#### **D. Vietnam Administration and Economic of Vietnam**

Currently, Vietnam has officially named the Socialist Republic of Vietnam with Hanoi as the capital cities, and major cities such as Ho Dhj Mihn City, Hue and Da-nang. The socialist regime in 1992 with the constitution and the political party is the Communist Party. Vietnamese government was appointed by the National Assembly by having a term of 5 years. Political leaders are as follows: Dang Thi Ngoc Thinh as the president, Nguyen Xuan Phuc as the prime minister and Nguyen Phu Trong as the secretary of the Communist Party.<sup>17</sup>

The administrative structure of Vietnam is divided into 3 levels: The first, Legislators, including the National Assembly, act as legislators and have the highest authority to set policies both internally and internationally. Has the duty to establish amend the law and appoint the President as proposed by the Communist Party to certify or remove the Prime minister. The second, administrative section, consisting of the President, the Prime Minister and the cabinet including important positions in the communist party. In the communist assembly has a term of 5 years with a duty to consider commenting on the operation of the senior management organization. The Secretary of the communist party is the supreme authority of the party. Central committee of the communist party acting as a policy on politics, economy, society and culture and control the operation in accordance with the guidelines. The third, Local Government, each province will have a provincial people's committee to administer local affairs in accordance with the

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<sup>17</sup> BBC NEWS, Vietnam country profile, 24 September 2018, from website: <https://www.bbc.com/news/world-asia-pacific-16567315>

constitution. Policies and regulations Provided by the state organization that is at a higher level.<sup>18</sup>

Vietnam has a socialist market economy (Socialist-oriented market) under the Doi Moi economic reform policy that began in December 1986. The currency of Vietnam is Dong, exchange rate is around 16,000 per 1 US dollar and the average income per capita is USD 3,100 (2006),<sup>19</sup> economic growth rate of 8.42 percent (2005), unemployment rate 5.5 percent (2005), international trade volume 7 million US dollars (2005). Vietnam's major export products are crude oil, clothing, seafood products. Shoes and leather goods, rice, rubber, cashew nuts, computer coffee, pepper, coal, handicraft products and Major export markets are Japan, US, China, European Union, Australia, Singapore and Taiwan. For foreign investment in 2005 with foreign investment worth US \$ 2.5 billion up to the present, there are a total of 3,815 investment projects from different countries, the major investors are Singapore, Taiwan, Japan, South Korea, Hong Kong, France, etc.

Nowadays, Vietnam continues to open countries and economic reforms continuously. Vietnam has implemented reform measures in many sides such as constitutional amendment, improvement of the public administration system, greater economic liberalization, including the development of the tourism industry to be more efficient.

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<sup>18</sup> ASEAN-info.com, เวียดนาม – การเมืองและการปกครอง, 2013, from website: [http://www.asean-info.com/asean\\_members/vietnam\\_politics.html](http://www.asean-info.com/asean_members/vietnam_politics.html)

<sup>19</sup> Foreign exchange rate, Bank of Thailand, 11 May 2010, from website: [https://www.bot.or.th/thai/\\_layouts/application/exchangerate/exchangerate.aspx](https://www.bot.or.th/thai/_layouts/application/exchangerate/exchangerate.aspx)