



The Vietnamese Market Economy – What Remains of its Socialist Orientation?

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During the cold war, two antagonistic economic models were advocated by the two political blocks: The model of a centrally-planned economy and that of a decentralized market economy were part of an ideological confrontation that did not allow for discussion. With the end of the cold war, many countries have opted for market-based economic systems. This also applies to the Socialist Republic of Vietnam. As a transition country, that still calls itself socialist, it is now in the process of transforming its economic system from a planned to a market economy. This article portrays the Vietnamese dynamic process of economic transition and illustrates its unique concept of a market economy with a socialist orientation. As the socialist aspect of the Vietnamese economic system has not been clearly defined, the authors discuss the extent of its ideological influence on the country's impressive growth performance and its future course.



Vietnam's market economy with a socialist orientation

After failing to reach economic output targets under the centrally-planned economy in the 1980s the country faced serious financial, economic and social problems. The planning process and other main state interventions in market processes led to sub-optimal results. In response to this acute state failure, in 1986 (at the 6th Party Congress) the Vietnamese political leadership formally abandoned the centrally-planned economy and began introducing market-oriented policies. These so-called *Doi Moi* (renovation) reforms initiated a development process, during which Vietnam has achieved high economic growth performance. With annual GDP growth rates of 7 to 8% on average, and export growth exceeding 20% per year over a 20-year period Vietnam is one of the star performers in Asia and the world (CIEM 2006).

Compared with many other developing countries, Vietnam's progress in reducing poverty has also been impressive. The Millennium Development Goals (MDGs), internationally agreed-upon targets for poverty reduction, may serve as an indicator for this: Vietnam has al-

ready achieved five of the eight MDGs, most notably the first and overarching MDG 1 "Eradicate hunger and poverty", or will do so in reasonable time, except MDG 7 "Ensure environmental sustainability" (See UNDP 2006). As fundamental drivers of its economy growth remain strong the country is expected to graduate from the status of a *low income country* to a *middle income country* by 2010 and in the five-year plan it is projected that Vietnam will become a *modern industrial country* by 2020 (SR Vietnam 2006, The World Bank 2006).

Historical background

Several measures have been taken to reform the state's role in economic management to ensure it does not inhibit the functioning of the market mechanisms and to enable it to move from detailed management tasks to more indirect interventions via the legal system or macroeconomic regulatory instruments. Four main stages of development can be distinguished:

Land reform: Directly after introducing *Doi Moi* in 1986, the government at the VI. Party Congress decided to give Vietnamese farmers more rights on land and for the first time the right to de-

cide what to produce on their own. As a result, agricultural output increased so much that within 2 years, Vietnam was transformed from a rice-importing to the second largest exporting nation.

Recognition of private ownership: In 1990/91, for the first time, Vietnam has officially recognized the lawful existence of non-state economic sectors by issuing the *Company Law* and the *Private Enterprise Law*. This step was confirmed in 1992, when private ownership was recognized in the Vietnamese constitution, and since then 2.5 million household businesses have registered.

Liberalization of foreign trade: Since 1995/96 the re-establishment of formal diplomatic relations with the USA constituted the starting point for an opening of international economic relations – allowing private enterprises to engage in import/export activities. Since the signing of the Bilateral Trade Agreement in 2001 the United States has become Vietnam's largest export market and Vietnam has successfully completed WTO-accession negotiation in 2006.

Right of business freedom: In 1999 clarification of entrepreneurs' basic rights to operate in any and all business arenas not explicitly forbidden by law. As



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a result 150,000 enterprises have newly registered creating 2 million new jobs within 5 years.

Modern interpretation of Vietnam's socialist orientation

Even two decades after initiating *Doi Moi* the Communist Party continues to advocate a *market economy with a socialist orientation*, a strong role of the state is advocated for, as it is felt that leaving economic processes to the market alone would result in social instability and an increasing poverty gap (Neubert, Roeckel 2007).

A renunciation of the socialist ideals is not to be expected as the Communist Party itself has closely linked its fate to their implementation. However, the term *socialist* remains opaque, as both the Vietnamese Communist Party and government officials admit (Dinh Van An 2006). Furthermore, some of the recent steps of reform clearly contradict the historic concept of socialism, for example regarding the ownership of factors of production which, in theory, must be owned by the workforce. The traditional notion of socialism even implies a redistribution of economic gains towards equal shares for all members of society, going far beyond the objec-

tive of the social market economy of fair shares for everybody. This unrealistic ambition might be the reason, why the socialist character of the Vietnamese economic system has not yet been clearly defined. Political think tanks, such as the Ho-Chi-Minh-Academy, are thus busy developing new interpretations for the term *socialism*, "adjusting" the political ideology to its fast changing environment.

In a modern definition the term *socialist* applies to a process in which the people's interests are paramount as the state's main guiding principle. The Vietnamese party and government aim at achieving socialist ideals (e.g. equality and solidarity) by relying on market principles that promote an accelerated growth process. This understanding is depicted in the 2006-2010 five-year socio-economic development plans' overall objective: "Boost the economic growth rate, achieving rapid and sustainable development... [and] significantly improve people's material, culture, and spiritual life..." (SR Vietnam 2006). And clearly, up to today, the Vietnamese policy makers have been successful in initiating a growth process to reduce the all-embracing poverty of the 1980s.

The institutional change processes initiated more than 20 years ago can no longer be detained – dozens new laws have been approved and a new institutional framework has been set up. With the issuance of the *Law on Foreign Investment* (1987), the *Company Law* and the *Private Enterprise Law* (1990) Vietnam has officially recognized the existence of the private sector and has accepted foreign direct investments. By now, a more or less equal playing field has been created for both Vietnamese and foreign investment and the majority of prices are determined by the market.

Conclusion

Traditionally, the Vietnamese leadership has approached any issue of reform cautiously and has attempted to follow this observant and deliberate course with regard to the economic reform process – allowing dynamic economic development without jeopardizing political stability. The Vietnamese culture expects and accepts a strong role played by the state, even influencing individual lives. Among others, this explains why the Vietnamese State is very involved in the economy and continues to play a considerable role in terms of organization,

ownership, management, and distribution. Looking back it becomes clear that the Vietnamese reform process *Doi Moi* (meaning renovation) was not so much about renovation of existing institutions because the Vietnamese people were also liberated socially and economically.

Therefore, colloquially, the reform process is often called *Coi Troi* (meaning liberated) referring to an increase of personal social and economic freedom. Instead of heavily regulating its people's economic activities, the Vietnamese State is now offering basic economic opportunities, for example by giving them land use rights or the possibility to start a business. In fact, allowing and encouraging the Vietnamese to take part in economic activities has been the main driving force for Vietnam's economic success. Consequently, the Vietnamese growth process is of an inclusive nature – directly benefiting the poor. However, the quality of future growth will be different as fewer people will benefit directly and disproportionately, for example from trade liberalization and pri-

vatization. Disparities within the society will probably widen due to the concentration of growth in certain geographic areas or within specific groups of society – contradicting the official commitment to a *market economy with a socialistic orientation*. As economic inequality is probably the greatest threat to political stability and Vietnam's single-party system, the Communist Party and the government, may need to adjust their development concept: future poverty reduction can no longer be a by-product of dynamic economic growth, redistributive mechanisms need to be established, providing all members of society at least with some share of the economic gains may justify the Party's and the government's hold on power.

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