

Impact of the cold war on vietnam economy



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After two protracted wars with the French colonial empire, followed by a thirty year conflict with the US superpower, Vietnam was economically devastated. However, during the following forty years Vietnam has developed a vibrant and progressive economy and gradually achieved recognition as a major economic power within the South East Asian region. Since the unification in 1975, economic growth was identified as the most important factor in the strategic development of Vietnam. However, the first decade following the end of the war with the US was one in which the Cold War had a significant impact upon the Vietnam economy. Vietnam was lead by the Communist party and aligned its political and economic policies to strict socialist principles that mirrored the Soviet model and based decision-making on strict Communist criteria;

(i) State or collective ownership of production means;

(ii) Government administered supply of physical input and output;

(iii) Lack of business autonomy, absence of factor markets, highly regulated goods and services markets; and

(iv) A bias toward heavy industry in investments.

(Vo Tri Thanh and Nguyen Thu Anh, (2006) Eaber Working Paper series: Paper No. 8 Institutional changes for private sector development in Vietnam. p. 3)

The government policy meant that Vietnam was limited to trade mainly with other Communist countries and the outcome was a dramatic decline in the Vietnam economy and increasing poverty amongst the vast majority of the

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population. Further conflicts with China in 1979 and Cambodia in 1978 placed Vietnam in a position of further weakness and rather than concentrate on “ economic recovery, the improvement of labour skills, and agricultural and consumer goods production” the Government focused on the building up of heavy industry. This period of Sovietisation brought even further problems for the Vietnam economy and the virtual decade of stagnation only began to end in 1986 with the introduction of “ Doi Moi”.(Bui That Thang, (2001)After the war: 25 years of Economic Development in Vietnam, NIRA Review , p21-22). With consumption regularly greater than national income and numerous periods of famine relieved only by foreign aid, the decade from 1976 to 1986 marked a period of economic collapse in Vietnam, and was only ended with the introduction of Doi Moi as the point marking when Vietnam switched from the Soviet model to a drive towards a free market economy.

The renovation (Doi Moi) in 1986 brought about a dramatic change for post war Vietnam, as described by Thanh and Ha (social inequality.., chap2 p63) who declare it “ a real turning point in the history of Vietnam’s economic development” . It was shifted from a centrally planned economy to a new system of a “ market oriented economy”. An important factor to note is that the decision to move towards a free market and thus, politically and ideologically change the basis of the Vietnam economy was made prior to the collapse of the Soviet Union. The Vietnamese Government realised that the Soviet model was failing and that Vietnam faced a ‘ major economic crisis, with acute shortages of food, basic consumer goods, and inputs to agriculture and industry, and a growing external debt’.(Thanh and Anh,

2006, p. 3). It was decided to establish ' synchronous institutions of a market economy by socialism orientation' (Ibid, p. 2).

The end of Cold War in 1991 followed by the collapse of the Soviet Union was a new challenge to Vietnam. Fortunately, Vietnam was already reforming its political and economic sectors by the time the collapse of the Soviet Union had ended and economic growth, policies to reduce macroeconomic instability and to introduce a multi-ownership structure were already in place. However, the collapse of the Soviet Union still meant that Vietnam faced a new future without the ideologically committed support of a Super Power, isolating Vietnam from much of the international community, a problems exasperated by the continued control of the country by the Communist Party. However, this essay will argue that although the major factor that impacted on many of the Eastern European countries for example, was the decline and fall of Communist administrations, in the case of Vietnam, the Communist Party remained in power, and provided the stability and security that provided the right conditions for impressive levels of continuous economic growth that has made Vietnam one of the ' tiger' economies of South East Asia. It will also argue that the political and economic future of Vietnam is dependent on Vietnam remaining one of the most politically and security stable countries in South east Asia, and that stability is borne from the Communist party remaining in control of the country. This contrasts with the former Soviet Union countries who have made their economic futures dependent on the political system rejecting all the tenets of Communism and moving not only from a centrally controlled economy but also rejecting the idea of a one- party system. However,

Vietnam has remained true to its political identity as a socialist republic while allowing reforms in politics and economics that has finally brought it recognition as a truly open and free market economy that has recently been rewarded with membership of the World Trade Organisation.

The essay will follow the path through this process of reform and demonstrate how the economy has managed to develop to international recognition as one of the fastest growing economies in the World and still remained Communist. The end of the Cold War was universally seen as the end of Communism, and yet, like China, the Vietnam economy has been transformed whilst not drastically reforming the political system, which has remained true to the ' thoughts' of Ho Chi Minh' and commiserate with Marxist Leninism. The Communist Party still remains in power in Vietnam and its economic success is likely to re-enforce the belief that it will retain political control over the nation for decades to come. This essay will show how the Communist Party has managed to transform its economy and remain socialist.

Prior to 1980s, Vietnam was still a backward agricultural country. In addition, as a socialist country, Vietnam's economy was controlled and developed by a centrally planned system modelled on the Soviet Union. The Government played the dominant role in almost all activities and people who worked for government were paid by the system of budget subsidies. And all the trading actions were dominated by large State owned Enterprises that had ' collectivised' almost all areas of economic activity, while private business was virtually non-existent (Pham, 2005, p4). Unfortunately, because of the mismatch between the management and the actual practices of the

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government, the economy of Vietnam didn't achieve any of their economic targets laid down in subsequent four year plans. The leaders then realised that centrally planned system was not a good structure for Vietnam's development and whilst the Soviet Union was dramatically moving towards political collapse for the same reasons, Vietnam's Communist Party believed that its ideological control over the country through one-party rule would actually have a positive impact on economic reform by providing an environment of stability and security, whilst establish an economy based upon capitalist principles, free markets and an 'open door' set of policies.

The Communist Party identified eight major policies of reform that would be used to bring about a complete transition of the economy and these were:

Almost complete price liberalization;

Large devaluation and unification of the exchange rate;

Increases in interest rates to positive levels in real terms;

Substantial reduction in subsidies to the SOE sector;

Agricultural reforms through replacement of cooperatives by households as the basic decision-making unit in production and security of tenure for farm families;

Encouragement of the domestic private sector and foreign direct investment (FDI);

Removal of domestic trade barriers and creation of a more open economy.

(Thanh and Anh, p. 6).

The main point here is that these are all significant movements towards policies found in the 'capitalist' West and were only possible in the former Soviet client states such as Poland and East Germany by also moving the political systems towards the Western democracy model. However, the Sixth Congress of the Vietnamese Communist Party-1986 believed that reform could follow the basic practical policies of the Western democracies but remain true to Communism by actually increasing state control and management and macro regulation. Communism would allow stability to remain in the political arena and the economic policies would themselves be directed towards 'maintaining socialist targets'. This mix of 'socialist' and 'capitalist' policies to retain some level of equity amongst the general society is one now being discussed by many of the mainland European Union members who now identify a full Communist regime as still unacceptable, but the monetarist free market economy as equally at fault in the wake of the major financial crisis at the end of 2008. However, the main contention is that Vietnam remains a one party system, but there is very little evidence of any deep protest or wish to change this system by the vast majority of the Vietnamese population. Although we are examining here the performance of Vietnam since the Cold War it is thus essential to understand that unlike Russia and the former members of the USSR, Vietnam was able to transform its economy without major political regime change. (Thang, 2001, p. 3). In the following paragraphs we look at how this was possible.

Up to 1990 the Doi Moi reforms did bring about a number of improvements in the economy. From 1989 onwards, Vietnam was on the way to becoming

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one of the three main big rice exporters in the world, many state subsidies were disappearing and SOEs were constantly warned to reform and restructure, but not immediately encouraged to denationalize. Over these years the growth rate hovered around the 4.5% mark and the reforms were only slowly impacting upon Vietnam's overall economic performance.

Doi Moi involved a commitment to dismantling cooperatives and shifting production away from a 'household economy' to the 'private sector', whilst also restructuring the state-owned sector to be more competitive. However, the real impact of policy changes did not really take effect until post-1990. The outcome was significant development with the GDP growth averaging 8.5% from 1990 to 1997 and averaging 6.5% from 1998 to 2003. Average foreign trade and Foreign Direct Investment (FDI) improved to nearly \$18 billion USD by 2007 and agricultural production doubled from 1990 to 2005, while exports reached \$49 billion USD per year by 2007. The per capita income rose from \$220 USD in 1994 to \$832 by 2007 and industrial production went from 27.3% of GDP in 1985 to 41.6% in 2007. Many industries reached impressive rates of growth, such as in the production of oil which went from 40,000 tons in 1986 to 7.6 million tons in 1990 and 12.5 million tons in 1998 (Nguyen Ngoc Anh, Nguyen Thang (2007) 'Foreign Direct Investment in Vietnam: an overview and analysis.' MPRA Archive Paper No1921). In the final part of this essay we concentrate on how FDI has been an example of how the Communist Party, its policies of reform and the growth of the economy have become interlinked in bringing about a successful basis for even greater levels of development in the future.

The levels of development are impressive with a reduction in the inflation rate from a nightmarish 774% in 1986 to a manageable 7.5% in 2006, while also achieving a poverty reduction level of 22% in 2005 from the 58.1% recorded in 1993. By 2007 there were 7067 FDI projects with a capital of \$63.5 billion US. This dramatic success was as a result of the following factors:

Strategic location

Stable economic and political environment

Large natural mineral resources

A young and well-educated workforce

The ability to be an export platform for US and EU markets

Liberal investment environment and a commitment by the Government to economic reform.

In Vietnam it is the changing attitudes of the Communist Party and the Government towards the foreign economic sector as an important step towards economic growth that has significantly assisted the improvement of the economy. Alongside this have been the increasing levels of economic competition from other countries in the region and advances in international commitments helped by a changing political and ideological approach to participating in global economic trade (2006, 180). A significant factor in encouraging this change in attitudes has been the realization that FDI ' has a vital role to play in the mobilization of capital, technology, organizational and

managerial skills (21). The radical change in the Communist Party attitude towards FDI was the institutionalization of FDI as a separate economic sector and recognition that FDI was a vital driving force towards the overall development of the Vietnam economy (ibid).

The improvement in investment in Vietnam has been assisted by a commitment throughout business, government and society to improve the image and identity of Vietnam, not least being in its international participation in political and economic forums. (Pham Thi Huyen 2009 ' The Nationality Factor in Assessing Hanoi Investment Environment' in Business Environment and Policies in Hanoi, Hanoi, Vietnam)

A further example of well the Vietnam economy has developed under the guidance of the Communist Party is the increasing participation of Vietnam in international forums and the successful entry into international forums such as the World Trade Organisation. Viet Nam joined the Association of South East Asian Nations (ASEAN) in 1995, and committed to AFTA prior to the Enterprise Law reform period. Viet Nam also joined APEC in 1998.

Vietnam has been an official member of WTO since 2007. Before that, there had been an increasingly strong public policy commitment to joining the WTO in recent years, and references were made to the need to reform to join the WTO in the policy debate on private sector development during the 2nd half of the 1990s. The enterprise reforms have been consistent with efforts to join the WTO, and the desire to join WTO has strengthened the hand of those pushing for improvements in the regulatory environment for business during the reform of the Enterprise Law . However, it is difficult to assess the extent to which the desire to join the WTO provided impetus for the

Enterprise Law reforms Results, Challenges and Prospects', Vietnam's Socio-Economic Development: A Social Science Review, No. 31, Autumn Doanh, Le Dang, (2002), ' Foreign Direct Investment in Viet Nam:

While it is difficult to identify connections between aspirations to join regional and international bodies and the Enterprise Law reforms, contacts with regional and international bodies have almost certainly helped the reform process. The economic performance of other ASEAN members and China are important benchmarks with which Viet Nam's policy makers often compare their own performance. Even prior to joining ASEAN, Vietnamese officials went on study tours to ASEAN member countries to study issues related to improving the enabling environment for business development.

A crucial development in the reform of the economy of Vietnam was the new Bilateral Trade Agreement (BTA) between Viet Nam and the USA, which was signed in December 2001, well after the major Enterprise Law reforms had been implemented. The private sector reforms implemented during the 2nd half of the 1990s almost certainly helped the process of reaching agreement on the BTA. This new agreement marked an important watershed in the relations not only between Vietnam and the US, but also the rest of the world. The signing of the agreement between Vietnam and its former enemy signified a leap forwards in the status of Vietnam and officially marked the end of most political and economic hostilities between the two former enemies. However, its signing was predicated on the absolute commitment of Vietnam to continue economic reform and also suggested that political reform; especially in democratization of Vietnam was almost certainly ' on the cards' for the future (Ibid).

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Thus, Vietnam is a special case to examine in the study of the impact of the end of the Cold War upon Communist and former Communist states. In the case of Vietnam, not only have they remained under the one party rule of the Communist Party, they have also successfully reformed their economy, with the Communist Government able to provide the right levels of stability and security to continue to develop in the future. Thus, it is also a case of how the ideology of a country and its economic reform are linked, but the case of Vietnam it is an example of a country being ruled consistently under the socialist 'thought' of Ho Chi Minh, maintaining one party rule but was also able to transform an economy from state central control to a free market. It is also known as a peaceful, secure and safe environment in the centre of a South East Asian region. A region that is more often now identified with the increasing problems of Islamic fundamentalism and terrorism, such as in Thailand and Malaysia. While economic growth continues, the levels of extreme poverty are continually being lowered and the wealth of the economic success is to some extent spread down the masses through policies based on socialist principles, the one party rule of the Communist Party in Vietnam is likely to continue

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