Economic Interactions Between Vietnam and East Asia

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I. Introduction

Since late 1986, Vietnam has advanced a comprehensive program of economic reforms including a positive open-door policy which has been highlighted by the promulgation of a foreign investment law. These reforms, known as the **doi moi** (renovation) policy, opened a new way for enhancing economic relations between Vietnam and other East Asian countries. East Asia here includes Japan, Asian NIEs and China. How have the governments and the firms in this region responded to the reforms in Vietnam? How will Vietnam participate in the division of labor in this dynamic region? This paper attempts to review the economic reforms in Vietnam with a focus on those issues.

In what follows, Section II will review the development strategies adopted so far and analyze the current economic situation in Vietnam. Section III will overview Vietnam's **doi moi** policy which has been undertaken so far. Section IV analyses the reactions of the governments and firms in East Asia toward the policy of Vietnam. Section V discusses the implications of Vietnam's renovation on the future development and pattern of specialization in this region. Finally, in Section VI, summary of our findings as well as some concluding remarks will be made.

II. Strategy and Performance of Vietnam's Economic Development

In December 1976, the year which demarcated the reunification of Vietnam, at the Fourth National Congress of the Communist Party of Vietnam (CPV), the long-term path of construction of socialism including a strategy of economic development was established. The long term economic development strategy at that time can be summarized as follows: first, the development of such heavy (capital-intensive) industries as steel, machinery and chemicals was emphasized; second, the socialization of economic activities was undertaken in a nation-wide scale. The socialization of economic activities is the collectivization of activities in agriculture, industry and commerce, which is characterized by the rise in the number of state-run enterprises and farming cooperatives.

In the latter half of the 1970s, however, the Vietnamese economy experienced stagnation. In real terms and on annual average, agricultural products rose only 1.9 percent and industrial products only 0.6 percent. The main reasons for this stagnation were an overambitious promotion of heavy industrialization and defects of collectivist economic management. Another reason was a shortage of capital and other resources as a consequence of the worsening international political climate surrounding Vietnam since the late 1970s.

Realizing that a change in strategy was imperative, the Fifth National Congress of CPV in 1982 initiated economic revisions which included a strong emphasis on factor endowments and international environment. A shift from heavy industry to agriculture and light manufacturing were major new lines for development strategy. This resulted in improvement in the economic performance for agricultural and industrial production. In the first half of the 1980s, on average, annual growth rates of agricultural and industrial production were 5.3 and 9.5 percent, respectively.

The Sixth National Congress of CPV (1986) placed an even greater emphasis on the development of the agriculture and light manufacturing industries, by promoting the so-called "Three Big Economic Programs", i.e., the production of food stuffs, consumer goods and export products.

This development strategy was reconfirmed by the Seventh National Congress of CPV (June 1991) which established the long term social and economic development of Vietnam until the year 2000. The emphasis on the development of agriculture and labor-intensive industries is in line with Vietnam's current factor endowments and the performance so far has been relatively considerable (see Table 1). However, as Table 1 shows, the macro economic instability and the anti-inflation measures have caused great fluctuations in the levels of agricultural and industrial production.

According to Table 2, until 1989, overseas net resources (net imports of commodities and services) had accounted for about 10 percent of total supply of the economy. In recent years, along with the increase in exports of crude oil, rice and other primary products, as well as the restraint of imports, the ratio of overseas net resources has declined to 4 or 5 percent.

On the demand side, Table 2 shows that the share of investment in total demand has been constant at around 10 percent. This ratio of investment is quite low and comparable with the current level of Bangladesh (the same ratios of ASEAN countries are in the range of 20 to 30 percent). The trends in the ratios of overseas net resources and investment suggest that by 1989, there had been almost no domestic savings and therefore investment had been almost entirely financed by overseas resources. Since 1990, domestic savings have increased and have been able to finance about half the investment. However, Vietnam is still encountering a saving-investment gap and a foreign exchange gap, the typical characteristics of a developing country. In the case of Korea, in the period of 1954-1962, investment ratio was around 10 percent, and about 60 to 80 percent of investment had been financed by foreign resources (Krueger, 1979, p. 206). Thus, the Vietnamese economy at the present stage is quite similar to the Korean economy around 1960, which is characterized by a low level of investment and a shortage of domestic savings.

In the near future, along with the improvement of the financial system, domestic savings may show a substantial increase. However, given the poor infrastructure and the needs for development of industrial projects, domestic investment is likely to expand at a much higher rate than savings. Thus the saving-investment gap and the foreign exchange gap will be further expanded. To what extent can Vietnam introduce foreign capital to cover the gaps? In the remainder of this paper, that issue will be touched upon in the context of the relations between Vietnam and the rest of East Asia. However, as these relations will depend on the extent of Vietnam's economic reforms and external policies, we should first discuss the ***doi moi*** policies of Vietnam.

Table 1
Growth rates of GDP components and inflation rates in Vietnam

(Unit: %)

	1987	1988	1989	1990	1991	1992
GDP total	3.9	5.1	8.0	5.1	6.0	8.3
Material						
Production	3.2	3.4	3.2	2.0	4.6	8.0
Agriculture	-0.9	3.9	6.9	1.5	2.2	6.3
Manufacturing	11.0	3.3	-4.0	2.5	9.9	12.6
Construction	5.2	-3.1	3.7	4.7	5.2	4.2
Others	2.0	5.5	1.9	3.7	2.7	3.1
Service	5.6	8.9	17.7	10.4	8.3	8.6
Inflation rate	316.7	310.9	76.0	29.0	80.0	17.5

Note: 1. Estimated figures for 1992.
2. CPI before 1989 did not include service prices.

Sources :

1. For figures in 1990 and earlier: Compiled from *Tinh hinh kinh te Viet nam 1986-1991 tren co so so lieu cua he thong tai khoan quoc gia* Nha xuat ban thong ke, Hanoi, 1992. (in Vietnamese)
2. For figures in 1991 and 1992: Compiled from data provided by Tong Cuc Thong Ke (Statistical Bureau), the Government of Vietnam.

Table 2
Aggregate supply and demand in the Vietnamese economy

(Unit: Billions of Dong)

	1986	1987	1988	1989	1990	1991	1992
A. Total supply	572	2,721	14,971	27,175	41,101	73,884	106,386
1 a. GDP	512	2,469	13,266	24,307	38,166	69,959	101,870
2 a. Overseas net supply (M-X)	60	252	1,705	2,868	2,935	3,925	4,516
2 a/A (%)	10.5	9.3	11.4	10.6	7.1	5.3	4.2
B. Total demand	572	2,721	14,971	27,175	41,101	73,884	106,386
1 b. Gross capital formation	60	270	1,906	2,817	4,385	8,128	12,266
2 b. Consumption	525	2,520	13,291	24,358	37,376	66,610	94,883
3 b. Errors and Omissions (1 b + 2 b - B)	ˋ13	69	226	0	660	854	763
1 b/ B (%)	10.3	9.7	12.5	10.4	10.2	10.9	11.4

Notes : 1. Estimated figures for 1992.
2. Figures are based on current prices.

Sources :

1. For figures in 1989 and earlier: Compiled from *Tinh hinh kinh te Viet nam 1986-1991 tren co so so lieu cua he thong tai khoan quoc gia* Nha xuat ban thong ke, Hanoi, 1992. (in Vietnamese)
2. For figures in 1990 and after: Compiled from data provided by Tong Cuc Thong ke (Statistical Bureau), the Government of Vietnam.

III. Vietnam's Economic Reforms and External Policies

1. Economic reforms in Vietnam :

Vietnam started partial reforms in the field of agricultural production in 1979 and other areas in the early 1980s. However, substantial and dramatic economic reforms, a major part of the **doi moi** policy, have been undertaken since late 1986 on the basis of the decisions of the Sixth National Congress of CPV. The contents of economic reforms can be summarized as follows:[1]

First, the old socialist industrialization model which was characterized by emphasis on heavy industries and self-sufficiency was dropped in favor of industrial policies based on the principle of comparative advantage. The shift in the economic development policy appeared in 1982 as noted earlier, but the emphasis on the agriculture and light industrialization as a long term strategy with a consciousness of international specialization came out in 1986 in the context of **doi moi** policy.

Second, the necessity of a market economy was recognized and various measures have been undertaken to create environments in which the market mechanism can work. Price fixing by the government was limited to a number of commodities such as electric power, fuel oil and transportation fares. As a result, most commodities are now determined by supply and demand in the market. The exchange rate of the currency (dong) has also been entirely liberalized since early 1979. The official exchange rates since then have been set to match the levels of free market rates.

Third, rigid adherence to the former socialist policy of public ownership was altered to allow for semi-private ownership and private ownership. Private ownership has come since 1988 to include joint ventures or fully owned subsidiaries of foreign firms. In the industrial sector, the management of state-run corporations was also changed. By now almost full autonomy has been given to the managers. The equalization of state-run corporations has been discussed since around 1990 and in July 1992 several corporations started to open shares to the public.

The most drastic and effective reforms have come about in the agricultural sector, in particular since the enactment of Resolution (Directive) No. 10 from the Political Bureau of CPV. Even before this Resolution, the farming family had already become the basic production unit and the role of collectives was confined to supplying fertilizers, insecticide, building and maintenance of irrigation systems, etc. Resolution 10, however, caused an even more drastic reform: The contract system of agricultural production was revised to include a competitive bids system whereby a portion of available land was allocated to family units which had more capital or expertise in agricultural management. The terms of contracting agricultural land were also increased to 15 years or longer. The contracting period can be cancelled and farmers can also transfer the right of using of land to other persons. In addition, the distribution of agricultural products was liberalized and export was permitted. These measures resulted in a substantial rise in production of rice and other foodstuffs and, since 1989, Vietnam has become the third largest rice exporter in the world.[2]

The fourth area of the economic reforms in Vietnam is a positive open-door policy which has been highlighted by the promulgation of the Foreign Investment Law in late 1987. The next section will discuss this issue.

2. External economic policy

From the late 1970s to the late 1980s, Vietnam's external economic policy had strongly focused on the relationship with the former Soviet Union and other members of the Council for Mutual Economic Assistance (CMEA). To my view, however, as seen below, the heavy dependence on this organization started only after the relation with China seriously deteriorated and the threat of this giant neighbor pushed Vietnam to seek for military alliance with the former USSR. In addition to the economic sanctions by Japan and other Asian countries over Vietnam's military intervention into Cambodia, that military alliance made the Vietnamese economy part of the web of inefficient division of labor in CMEA.

The Political Report of the Fourth National Congress of CPV (1976), emphasized the "special" relationship with socialist countries. At the same time, however, the pragmatism of Vietnamese leaders was also noteworthy. First, trade and other economic relations with non-socialist countries, the Asian countries in particular, were emphasized. In this context, Ho Chi Minh City was nominated as a window in opening the Vietnamese economy to the capitalist world. Second, following the participation in the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB) in 1976, Vietnam promulgated the Foreign Investment Law in 1987. Even though this Law was quite conservative in terms of restrictions and requirements put on the activities of foreign firms, it also showed the positive attitude of Vietnam in the importation of capital and technology from capitalist countries.[3] Third, among the efforts to improve relations with neighboring countries, in 1978, the then Foreign Minister Nguyen Duy Trinh and Prime Minister Pham Van Dong successively paid official visits to ASEAN. In April 1978, Vietnam also agreed with Japan to repay the debt which the former South Vietnamese government incurred to the latter.

All those efforts, however, were almost fruitless due to the increasing tension between Vietnam and China and then to Vietnam's military intervention in Cambodia. It may be interesting to note that Vietnam joined CMEA as late as June 1978.

However, the trade diverting effect of Vietnam's participation in the CMEA has not been small. From 1978 the share of socialist countries in total Vietnamese exports rose rapidly. By the mid-1980s, that share was as high as 70 to 75%. In Vietnam's imports, the share of socialist countries was even higher. It recorded 80 to 85% in the 1982-87 period.[4] As a result, Vietnam trade with ASEAN and other Asian Pacific countries was stagnant toward the late 1980s.

As a major component of the **doi moi** strategy, a new Foreign Investment Law was adopted by the National Assembly of Vietnam in December 1987. In order to facilitate the implementation of this law, the Council of Ministers issued a decree on Implementing Regulations of Foreign Investment Law in September 1988, and the State Council declared an ordinance on transfer of foreign technology to Vietnam in December of the same year. Along with the preparation of legal framework for importing foreign capital and technology, Vietnam has also gradually liberalized trade activities.[5] Coupled with the withdrawal of military forces from Cambodia and the increasing possibility of a peaceful solution for the Cambodian problem, Vietnam's open door policy has brought about a new era in its relation with East Asian countries.

IV. Economic Relations Between Vietnam and East Asian Countries

1. Policy of East Asian countries and trade relations

As just noted, the open-door policy of Vietnam has been coupled with the improvement in the Southeast Asian political situation. In addition, the potential of the Vietnamese economy in the long term is generally highly evaluated, given its relatively rich natural resources and labor forces, and its advantage at a position located in the center of the most dynamic region in the world.[6] For these reasons, most governments and firms in the Asian Pacific region have shown interest in the new trends in Vietnam. However, the embargo by the United States had, until the end of 1992, prevented some countries from enhancing economic ties with Vietnam. Let us review the attitude of individual countries toward Vietnam since the latter half of the 1980s.

Indonesia has maintained a good relation with Vietnam even after the latter's military intervention in Cambodia, since it showed sympathy with Vietnam in the Vietnam-China conflict. Thanks to this common view toward the giant, China, cultural and economic exchanges between the two countries have been relatively developed. Due to similar factor endowments, however, the trade between the two has been still limited (see Tables 3 and 4) and, since Indonesia still lacks capital and managerial resources, as seen below, its direct investment in Vietnam remains at low levels. Nevertheless, in airlines, banking and other areas in the service sector, the presence of Indonesia in Vietnam is quite significant.

Malaysia has also adopted a relatively soft attitude toward Vietnam. However, the economic ties between the two have developed just recently, after the first official visit to Vietnam by Prime Minister Mahathir in April 1992. His Vietnamese counterpart, Vo Van Kiet, also paid a visit to Malaysia three months earlier. These diplomatic developments have stimulated Malaysian businessmen to promote many direct investment projects in Vietnam. Trade between the two countries has remained modest until recently (Tables 3 and 4), but it can be expected to increase in the coming years due to the efforts the two countries are currently making to strengthen economic relations. For example, on August 11, 1992, Vietnam and Malaysia signed an agreement which includes a mutual offer of most-favored-nation status.

Singapore had adopted a hard line position in relations with Vietnam until recent years. By October 1991, Singaporean firms had not been allowed to undertake direct investment in Vietnam. After the official visit by Vietnamese Prime Minister Vo Van Kiet in late October 1991, and especially after the visit to Vietnam by Singaporean Senior Minister Lee Kuan Yew in April 1992, economic ties between the two countries have rapidly developed. On September 24, 1992, Vietnam and Singapore signed a commercial agreement which incorporated most-favored-nation status. As a trading entrepot, Singapore soon became the most important supplier of intermediate and capital goods for Vietnam. By 1992, Singapore accounted for the largest share in total imports of Vietnam.

Along with the improvement in the Cambodian situation, especially after the statement made in 1989 by the then Prime Minister of Thailand, Chattichai Choonhavan, that Indochina should be turned from a battleground into a marketplace, trade between Vietnam and Thailand has expanded at a high rate. By 1986, Thailand's annual exports to Vietnam remained at a modest level of only US$ 1 million, but by 1990, that expanded to nearly 19 million (see Table 3). Thailand's imports from Vietnam had expanded at an even much higher rate in the second half of the 1980s (see Table 4). The major Thai products exported to Vietnam were sugar, plastic and chemical products, while its imports from Vietnam have been mainly accounted for by iron and steel, wood products and raw leather.[7] Not only has trade expanded, as seen in Table 6 below, Thailand's direct investment in Vietnam has also increased. Opened in September 1992, Thailand's General Consulate to Ho Chi Ming City will facilitate further developments in economic and cultural exchanges between the two countries.

In April 1978, Vietnam and Japan reached an agreement on economic cooperation. According to this agreement, during the coming 30 years Vietnam will pay back the debt (\16 billion) which the former Saigon government had incurred to Japan before 1975. In return, Japan will provide a package of economic cooperation including a grant of \16 billion disbursed in four years and a long term soft loan of \20 billion disbursed in two years. Due to the Cambodian issue, however, such cooperation has not been realized, except for some humanitarian aid projects such as provision of medicines. In July 1989, Japanese government suggested that it would resume ODA so long as Vietnam withdraws its military forces from Cambodia. Even if Vietnam completed the withdrawal by the end of 1990, however, Japan subsequently followed the US stance that ODA should not be provided to Vietnam until a comprehensive solution for the Cambodian problem is realized.

In recent years, relations at the government levels have shown significant developments, highlighted by the official visit of Japan's Foreign Minister Nakayama in April 1991, and by the resumption of Japanese ODA (\45.5 billion) provided to Vietnam in November 6, 1992. The first official visit to Japan by Vietnamese Prime Minister Vo Van Kiet during March 24 to 28, 1993 further contributed to strengthening the ties between the two countries.

Economic relations between Vietnam and Japan have developed at a high pace in recent years, especially after the promulgation of Vietnam's Foreign Investment Law and the discovery of oil fields in Vietnam. Large scale direct investment projects by Japanese firms have yet to be undertaken due to the embargo of the US and the lack of a substantial amount of Japanese ODA for building infrastructure in Vietnam. However, Japanese firms have been very earnest in setting up representative offices in Hanoi and Ho Chi Minh City and in making other efforts ready for undertaking large scale investment projects when the time is ripe. In fact, in early February 1993, Keidanren, the most influential economic association in Japan, sent a large economic mission to Vietnam, composed of more than 100 top class business leaders. Some large scale direct investment projects, including the oil refining project, have been discussed. The survey by the Japan Export-Import Bank (1993) also suggests a strong interest of Japanese firms in Vietnam as their future market for direct investment. Vietnam ranks the sixth after China, Indonesia, the United States, Thailand and Malaysia as the most important market for Japanese direct investment in the near future.

Trade between Japan and Vietnam declined from 1979 but turned to an increase from 1983. Trade marked a new record in 1985 and subsequently increased further. Since 1987, crude oil has appeared as the largest item in the Japanese imports from Vietnam. In 1990, Japanese imports from Vietnam increased 7 times compared to 1986 (Table 4), and Japan recorded increasing trade deficits with Vietnam in recent years.

Next, let us analyze the pattern of direct investment in Vietnam undertaken by Asian Pacific firms.

2. Pattern of foreign direct investment in Vietnam

The levels of foreign direct investment (FDI) in Vietnam in the past four years amounted to US$ 359 million in 1988, US$ 519 in 1989, US$ 592 million in 1990, US$ 1.2 billion in 1991, and US$ 1.9 billion in 1992. The expansion in 1991 and 1992 is remarkable, and appears likely to continue into 1993 and beyond. But the changes in industrial structure of this FDI and in the supply sources are even more noteworthy. Tables 5 and 6 compare the pattern of FDI in Vietnam during two periods: cumulative FDI from January 1, 1988 to May 16, 1990 and cumulative FDI from May 17, 1990 to October 14, 1992. As Table 5 shows, during the first period, oil and natural gas exploration accounted for the largest share, followed by tourism and services. In terms of investing sources, this period was characterized by the strong presence of France, the UK and Belgium (Table 6). The second period illustrated a different feature in terms of both industrial structure and investment sources. In this period, agriculture and forestry processing products accounted for the largest share, followed by tourism and services, transportation and communications, and light manufacturing industries (Table 5). The increasing shares of agriculture and forestry processing products and of the light manufacturing sector are noteworthy. Regarding the sources of FDI in the second period, the shares of Taiwan and Hong Kong are particularly striking. The shares of the two Asian NIEs expanded from 1.6% and 7.4% to 28.9% and 23.5%, respectively. Direct investment by other East Asian countries remained at low levels. The US embargo has prevented direct investment by Japan and South Korea. Furthermore, since these two direct investors tend to undertake large-scale overseas ventures, the lack of infrastructure in Vietnam as well as the absence of an insurance system provided by the governments of investing countries may also be major obstacles.[8] Direct investments by Thailand and other ASEAN countries such as Indonesia and Malaysia have so far been limited. The simple reason may be that, unlike the NIEs, managerial resources of most firms in ASEAN are not yet available for investing overseas, given the current development stage of these countries. Another reason is that, as noted earlier, economic ties between Vietnam and most ASEAN countries have been established just recently. Nevertheless, in some service sectors, such as banking and airlines, the presence of Thailand and Indonesia is increasingly significant.

The trends in the foreign direct investment in Vietnam, shown in Tables 5 and 6, illustrate the following pattern: Immediately after promulgation of the foreign investment law, France and other Western European countries responded actively by undertaking investment in oil and gas exploration, and tourism and services. In more recent years, FDI by Asian NIEs in labor-intensive industries has become the mainstream. The new waves of Asian FDI, characterized by the expansion of Japanese investment and the entry of Asian NIEs from the mid-1980s, has now spread to Vietnam and tends to strengthen its labor-intensive industries, the comparatively advantaged sectors of the country.

In sum, the economic reforms and open-door policies in Vietnam have received positive responses from the governments and firms in East Asia. East Asian countries have shown interests in strengthening the economic ties with Vietnam. This provides a good start for Vietnam to further participate in the future division of labor in this dynamic region.

Table 3
Vietnam as Market for Exports of Asian Pacific Countries

(millions of U.S. dollars)

		1983	1986	1990	1991
Japan	A World	146,965	210,757	287,581	314,768
	B Asia	40,015	52,914	90,146	105,902
	C Vietnam	119	190	214	218
	B/A (%)	27.23	25.11	31.35	33.64
	C/A (%)	0.08	0.09	0.07	0.07
	C/B (%)	0.30	0.36	0.24	0.21
Hongkong	A World	21,959	35,439	82,160	98,577
	B Asia	6,593	12,714	33,462	41,324
	C Vietnam	55	60	137	381
	B/A (%)	30.02	35.88	40.73	41.92
	C/A (%)	0.25	0.17	0.17	0.39
	C/B (%)	0.83	0.47	0.41	0.92
Thailand	A World	6,368.3	8,793.6	23,067.7	28,263.7
	B Asia	1,760.8	2,560.2	5,156.8	6,128.4
	C Vietnam	0.9	1.1	18.7	18.7
	B/A (%)	27.65	29.11	22.36	21.68
	C/A (%)	0.01	0.01	0.08	0.07
	C/B (%)	0.05	0.04	0.36	0.31
Malaysia	A World	14,130	13,753	29,409	34,413
	B Asia	6,041	5,241	13,100	15,258
	C Vietnam	1	1	6	23
	B/A (%)	42.75	38.11	44.54	44.34
	C/A (%)	0.01	0.01	0.02	0.07
	C/B (%)	0.02	0.02	0.05	0.15
Indonesia	A World	21,152	16,075	25,675	29,294
	B Asia	4,360	2,832	6,444	8,500
	C Vietnam	-	29	27	141
	B/A (%)	20.61	17.62	25.10	29.02
	C/A (%)	-	0.18	0.11	0.48
	C/B (%)	-	1.02	0.42	1.66
Developing Asia	A World	183,642	227,038	451,854	513,540
	B Asia	47,481	59,332	150,164	185,525
	C Vietnam	121	112	269	905
	B/A (%)	25.86	26.13	33.23	36.13
	C/A (%)	0.07	0.05	0.06	0.18
	C/B (%)	0.25	0.19	0.18	0.49

Source : IMF, Direction of Trade Statistics Yearbook, 1990 and 1991 Issues.

Table 4
Vietnam as Source of Imports by Asian Pacific Countries

(millions of U.S. dollars)

		1983	1986	1990	1991
Japan	A World	126,437	127,553	235,368	236,999
	B Asia	33,639	36,081	86,074	74,533
	C Vietnam	38	84	597	662
	B/A (%)	26.61	28.29	28.92	31.45
	C/A (%)	0.03	0.07	0.25	0.28
	C/B (%)	0.11	0.23	0.88	0.89
Hongkong	A World	24,017	35,367	82,474	100,255
	B Asia	11,802	18,177	49,126	61,281
	C Vietnam	70	106	161	173
	B/A (%)	49.14	51.40	59.57	61.13
	C/A (%)	0.29	0.30	0.20	0.17
	C/B (%)	0.59	0.58	0.33	0.28
Thailand	A World	10,287.3	9,177.1	33,379.3	N.A.
	B Asia	2,403.3	2,460.5	9,433.8	11,578.4
	C Vietnam	0.4	1.7	95.4	114.4
	B/A (%)	23.36	26.81	28.26	N.A.
	C/A (%)	0.00	0.02	0.29	N.A.
	C/B (%)	0.02	0.07	1.01	0.99
Malaysia	A World	13,198	10,823	29,251	36,752
	B Asia	3,755	3,594	9,348	12,380
	C Vietnam	8	17	45	62
	B/A (%)	28.45	33.21	31.96	33.69
	C/A (%)	0.06	0.16	0.15	0.17
	C/B (%)	0.21	0.47	0.48	0.50
Indonesia	A World	16,352	10,718	21,767	25,869
	B Asia	5,250	2,186	5,343	6,729
	C Vietnam	2	5	42	87
	B/A (%)	32.11	20.40	24.55	26.01
	C/A (%)	0.01	0.05	0.19	0.34
	C/B (%)	0.04	0.23	0.79	1.29
Developing Asia	A World	200,316	231,507	470,769	538,199
	B Asia	44,617	55,816	146,662	178,586
	C Vietnam	123	133	541	676
	B/A (%)	22.27	24.11	31.15	33.18
	C/A (%)	0.06	0.06	0.11	0.13
	C/B (%)	0.28	0.24	0.37	0.38

Source : IMF, Direction of Trade Statistics Yearbook, 1990 and 1991 Issues.

Table 5
Foreign Direct Investment by Industry in Vietnam

(Units: US$1,000 and %)

	Jan.1, 1988 ~ May 16, 1990		May 17, 1990 ~ Oct.14, 1992	
1. Agriculture, forest & agricultural products	171,708	17.5	636,616	26.7
2. Shrimp breeding for export	110,430	11.2	85,702	3.6
3. Oil and natural gas	335,150	34.1	177,225	7.4
4. Other minerals exploitation and processing	10,939	1.1	56,831	2.4
5. Electronic assembly and information technology	4,990	0.5	17,005	0.7
6. Mechanical engineering manufacture and repair	15,200	1.5	46,823	2.0
7. Light industry	24,189	2.5	232,993	9.8
8. Transportation and communication	52,650	5.4	216,366	9.1
9. Tourism and Services	240,959	24.5	647,975	27.1
10. Others	17,900	1.8	270,993	11.3
Total	984,114	100.0	2,388,530	100.0

Notes: 1. Data are for total investment basis (i.e., including investment by Vietnamese partners in the joint venture projects).

2. Figures in parentheses are percentage share by industry.

Source : Compiled from the data released by the Vietnamese government.

Table 6
Foreign Direct Investment by Origin of Investors

(Units: US$1,000 and %)

	Jan.1,1988 ~ May 16,1990		May 17,1990 ~ Oct.14,1992	
1. Japan	71,060	12.1	32,793	3.5
2. Korea	2,750	0.5	5,400	0.6
3. Hong Kong	43,448	7.4	217,789	23.5
4. Taiwan	9,392	1.6	267,066	28.9
5. Singapore	5,453	0.9	31,219	3.4
6. Thailand	4,150	0.7	12,851	1.4
7. Malaysia	NA	NA	8,146	1.0
8. Indonesia	NA	NA	7,965	0.9
9. Philippines	NA	NA	12,109	1.3
10. India	41,000	7.0	0	0.0
11. Australia	35,185	6.0	80,401	8.7
12. U.S.A	NA	NA	2,360	0.3
13. Canada	10,837	1.8	93,793	10.1
14. Germany	NA	NA	7,508	0.8
15. France	125,372	21.3	49,914	5.4
16. Belgium	71,500	12.1	0	0.0
17. United Kingdom	83,632	14.2	30,074	3.2
18. Sweden	51,900	8.8	797	0.1
19. Former Soviet Union	14,219	2.4	31,819	3.4
20. Other	NA	NA	NA	NA
World Total	589,624	100.0	925,595	100.0

Notes: 1. Data are for the investment by foreign firms only. (i.e., including investment by Vietnamese partners)

2. Figures in parentheses are percentage share by country.

3. NA: not available

Source : Compiled from the data released by the Vietnamese government.

V. Vietnam and the Future Division of Labor in East Asia

In this section we will first discuss the likely trends in Vietnam's economic reforms, political situation and external economic policy in the remainder of this decade. Next, we will look at the direction of development in the Vietnamese economy in the 1990s. These two issues are basic preconditions for the possibilities and patterns of economic interaction between Vietnam and other East Asian countries, which will be discussed at the end of the section.

1. The future of economic reforms and open-door policy in Vietnam

The Seventh National Congress of the Communist Party of Vietnam (CPV), held in June 1991, put forth the future political system and long-term development path of the economy of Vietnam. Vietnam continues to be led by the Communist Party and political pluralism will be not accepted. The Congress also contended that Vietnam will aim at building socialism as the long term target of social and economic development. The new Constitution adopted in June 1992 also reconfirmed this basic policy.

At the same time, however, both the National Congress of CPV and the new Constitution did affirm the necessity of continuing the **doi moi** policy which started in late 1986. Moreover, a deeper look at the theory of the construction of socialism in Vietnam reveals the high possibility that socialism in the sense of current Vietnamese leaders is not expected to be realized in the foreseeable future. Since 1976, the CPV already accepted that Vietnam must pass through a long transitional period before realizing socialism. Also, it is interesting that Vietnam has so far changed the length of that transitional period twice, in 1982 and 1991. In 1982, the transitional period was divided into two stages and the first stage was to last until around 1995. In 1991, this first stage was revised to last until around 2005 or 2010. Given the second stage of the transitional period to be followed, socialism in Vietnam will not be realized until the mid-21st century.

Thus, in principle, Vietnam contends that socialism is the single road for Vietnamese development but, in practice, the current economic reforms and external economic policies are pushing Vietnam to be closer to the capitalistic system. Regarding the political system, I think for about the coming two decades, the rule of the single party, the CPV, may be necessary to maintain social and political stability, which is essential for economic development. A transitional period is also needed here to prepare for a pluralistic system in the future. In its history of more than 60 years, the CPV has not experienced any major struggle among the leaders, and the transfer of leadership has been quite smooth. Group leadership is also a characteristic of the current political system in Vietnam. These observations suggest that social and political stability can be expected in Vietnam in the 1990s and beyond.

Regarding economic reforms, economic development and political stability in Vietnam, many people, particularly foreign scholars, are interested in the role of the former South Vietnam which had experienced a relatively long period of capitalistic development. However, their arguments are varied and can be divided into two views: the optimistic views and the somewhat pessimistic view. According to the former, the experience of capitalistic development in the South is an advantage for Vietnam, compared to, say, China, since the entrepreneurship at the management levels and a labor force which had been trained in capitalistic firms are available so that they can respond positively to the reforms. Therefore under the reforms, the Southern part will be developed first and the development will spread to the North. On the other hand, the pessimistic view is that such a development spread is difficult given the poor infrastructure and the poor endowment of human resources in the North. Also according to this view, even though such a development diffusion is possible, it will take quite a long time so that the income gaps between the South and the North will be expanded. Expanding income gaps may result in social and political instability.

The Vietnamese government is already aware of the possibility raised by the pessimistic observers and has undertaken a number of measures attempting to mitigate it. For example, since 1991, more fiscal incentives and other promotion measures have been provided to foreign direct investment projects undertaken in the Northern part and other areas outside Ho Chi Minh City. The rents of leased land have also been set in a way that the Northern part is much cheaper than the areas surrounding Ho Chi Minh City. The results of foreign direct investment projects approved in 1992 suggest that those measures have been quite effective. In 1992, Hanoi received a larger number of foreign direct investment projects than Ho Chi Minh City. Moreover, it is likely that the North will be specially emphasized regarding the allocation of the ODA from advanced countries and soft loans from international financial organizations which are expected to be available in the near future.

Nevertheless, the income gaps between North and South may be inevitable. But this is not a characteristic peculiar to Vietnam. The uneven distribution of income can be seen in any country in the early stage of economic development, as the inverse U-shape hypothesis of Kuznets suggests. In the case of Vietnam, the distribution may be more uneven than other countries due to the long separation, with different political and economic systems, between the two regions. Therefore special measures must be taken to mitigate the gaps.

Even though the distribution of income is uneven, there will be no serious political or social instability if all people are absolutely better-off. If the rate of inflation can be maintained at low levels, say, under 10 percent, I think the economic reforms and the open-door policy will bring about a situation that most, if not all, people, including the Northern people, can improve their living standard absolutely. In addition, when the income tax policy, which is under consideration, is introduced, it can have a function of redistribution of income.

Let us now turn to other issues. The National Congress of the CPV in 1991 and the new Constitution in 1992 emphasized the necessity of strengthening economic reforms and expanding economic ties with foreign countries, particularly those in East Asia.

Regarding the open-door policy, Vietnam is increasingly emphasized the role of foreign direct investment (FDI) in the development of the economy. In March 1992, a meeting of high ranking government officers was held to review the four-year performance of FDI. The meeting reached the conclusion that Vietnam must further improve the investment climate to attract more investment from foreign countries. The government officers also proposed the target of introducing at least US$ 10 billion of FDI from 1992 to the year 2000. Also, according to the results of that meeting, to attain this target, the government should encourage more projects with full foreign ownership, revise the minimum wage law and the law on the lease of land, and extend the duration of foreign subsidiaries of joint ventures. These proposals have subsequently materialized. The minimum wage, for example, in May 1992, was reduced from US$ 50 per month to US$ 30-35 per month, depending on the types of jobs (*Vietnam Dau Tu Nuoc Ngoai,* No. 17, Part 2, June 1-14, 1992). On December 23, 1992, the National Assembly of Vietnam passed a number of important amendments and additions to the Foreign Investment Law. Some of the major changes in this law are: First, the standard period of enterprises with foreign invested capital (i.e., a joint venture or a fully foreign owned enterprises) was extended to 50 years (from the current 20 years), with the possibility for a maximum period of 70 years. Second, in special cases where encourage of investment is needed, preferential tax treatment will also be provided to enterprises with 100% foreign ownership (previously only joint ventures were able to receive such treatment). Third, Vietnamese private firms, incorporated or unincorporated, may now be a party to a joint venture or business cooperation contract with foreign investors (previously private firms were not allowed to do so unless the project has the participation of a state-run corporation).

In sum, Vietnam appears to maintain a social and political stability in the 1990s and beyond, and economic reforms and open-door policy will continue to be emphasized.

2. Long term path of economic development

According to the *"Strategy for Social and Economic Development in the Year 2000"* which was adopted in the Seventh National Congress of the CPV (1991), Vietnam will promote the industrialization based on labor-intensive industries and natural resources. This strategy is quite similar to that of a NAIC (Newly Agro-Industrializing Country) which characterized the industrialization of Thailand since the 1970s (Suehiro and Yasuda, 1987). Given the present factor endowments of Vietnam, this strategy will exploit the comparative advantages of the country and paves the way for the participation of Vietnam in the East Asian specialization in the 1990s and beyond.

Along with this strategy, the Vietnamese government also set out the areas of promotions regarding the introduction of FDI. In October 1990, the Vietnamese government announced a list of 244 development projects as major targeting areas in the long-term development strategy. Foreign firms investing in those projects, which have been scheduled to be developed from 1991 to 1995, will receive special privileged promotions. These projects are broken down into 18 in agricultural development, 24 in processing of agricultural products, 17 in forestry development and wood fabrication, 18 in marine development and processing of marine products, 8 in pulp development and paper manufacturing, 9 in glass and ceramic fabrication, 14 in apparel making, 11 in footwear and leather products, 21 in chemicals, 19 in rubber products, 19 in electronics, 24 in electric machinery manufacturing, 21 in mining and metal products, 11 in tourism-related services, 7 in transportation and communications, and 5 in fishing nets and sport-related products.

In December 1990, five more projects were added to this list. Out of those 249 projects, 187 projects were carefully examined and refined by the United Nations for Industrial Development Organization (UNIDO). In March 1991, UNIDO also held a seminar for foreign businessmen in Ho Chi Minh City to explain the feasibility of those projects.

It is noteworthy that most of those projects concentrate on the development of natural resources and of the labor-intensive industries which conforms with the strategy for social and economic development in the year 2000.

3. Vietnam and the future division of labor in East Asia

The international environment surrounding Vietnam has increasingly improved. It is expected that the US will lift the embargo against Vietnam sometime in 1993. This will enable Vietnam to receive large scale ODA from Japan and soft loans from international financial organizations. Thus, the construction of infrastructure will be possible in a nation-wide scale, and large scale projects of FDI from Japan and other advanced countries will be feasible.

In July 1992, in the annual meeting of ASEAN's Foreign Ministers, Vietnam was accepted to participate in the Southeast Asian Treaty on Amity and Cooperation, the basic foundation of this regional organization. This event is an important step for Vietnam to be a member of ASEAN in the future. To my view, both Vietnam and ASEAN countries are willing to see an expansion of ASEAN which includes Vietnam and other Indochinese countries. There are at least two reasons underlying that view. The first reason is that the voice of ASEAN in international political and economic arena is expected to be stronger with a larger number of members. The second reason which may be more important is from the regional security point of view. Since China in recent years has expanded its military forces and attempted to establish a *de facto* sovereignty in the islands under dispute in the South China Sea, both Vietnam and ASEAN countries are implicitly considering China as a potential threat. That is why the solidarity between Vietnam and ASEAN seems to be increasingly strengthened. In an international conference on the prospects of economic interdependence among countries in East Asia, held in November 1992 in Tokyo, a scholar from ASEAN argued that the relation between ASEAN and Vietnam can be considered as a relation of twin-brothers. On the side of Vietnam, people in various circles seem to be happy with the increasingly intimate relation between Vietnam and ASEAN. In December 1992, the *Saigon Economic Times*, the leading economic weekly in Vietnam, asked 50 opinion leaders and businessmen in Ho Chi Minh City to identify the most significant and major events of 1992. The results showed that the participation of Vietnam in the Southeast Asian Treaty on Amity and Cooperation was among the top 5 major events for Vietnam in the year.

As discussed earlier, bilateral agreements for expanding economic ties between Vietnam and individual members of ASEAN have shown considerable progress in 1992. In the meantime, this bilateral approach appears to be developed further. In addition to further reforms in the economic system in Vietnam, such bilateral relations will form a foundation for Vietnam to participate as a full member in ASEAN in the future.

Vietnam is now an exporter of primary products. Crude oil, frozen shrimp and rice are major export items. On the other hand, most imported products are fuel, fertilizers, machinery, plants and other producer goods.[9] Vietnam's trade with Japan and Asian NIEs also reflects this general pattern. Its trade with Thailand and China, however, has been so far somewhat different. A substantial part of Vietnamese imports from those countries is accounted for by non-durable consumer products.

Given the direction of Vietnamese economic development discussed earlier, throughout the rest of the 1990s, Vietnam will produce a wide range of consumer goods, particularly labor-intensive non-durable products. In these industries, due to the low wage levels combined with the managerial resources transferred through the FDI of Asian NIEs, Vietnam will probably have strong competitiveness, first in its domestic markets and then in world markets. Thus, it is likely that in the 1990s, Vietnam, China and some ASEAN countries may be involved in competition in the markets for labor-intensive and natural resources-based manufactured products. In fact, Vietnamese apparel and other textile products have increasingly penetrated into the Japanese market. In 1992, textile products imported by Japan from Vietnam increased by around 100 percent, compared to the year earlier. Along with more FDI from Asian NIEs and Japan, Vietnam may have strong international competitiveness in a larger range of manufacturing products. In this situation, industrial adjustment in ASEAN countries must be undertaken at a high pace.

In some industries, such as consumer electronics, multinational corporations from Japan and Asian NIEs may incorporate Vietnam in their intra-firm division of labor. They may move to Vietnam some product lines or some processes or parts, which are more labor-intensive and technologically standardized, from existing subsidiaries or joint ventures in ASEAN.

VI. Concluding Remarks

Even though Vietnam will maintain a one-party political system and the construction of socialism is still said to be the basic principle of the country's social and economic development, it appears that political and social stability will be restored in the 1990s and beyond. This stability is an essential factor for future economic development. Vietnam also seems to continue to enhance economic reforms and to adopt a positive external economic policy which is highlighted by a more active attitude toward FDI. Coupled with the increasing improvement in the international environment surrounding Vietnam, these factors will promote increasing participation by Vietnam in the East Asian division of labor.

Given the similarity in the factor endowments of Vietnam and some East Asian countries, it appears that the competition in the markets for labor-intensive and natural resources- based products will be intense in the 1990s. Besides the intra-firm division of labor conducted by the multinationals from Japan and some Asian NIEs, some type of regional industrial adjustment can be considered. Such regional adjustment, in the meantime, can take the form of exchange of information on industrial policy among the countries in the region. In the future, the cooperation can be developed into the form of policy coordination.

Notes

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[1] For a more detailed account on Vietnam's *doi moi* policy, see Sekiguchi and Tran ed. (1992).

[2] The World Development Report in the 1991 Edition highly evaluated this performance and considered it as an export take-off generated by drastic reforms.

[3] According to Luu Van Dat (1980, pp. 257-8); this Law was aimed at promoting the economic relation between Vietnam and the countries which have different political systems. Luu Van Dat was the main drafter of the new Foreign Investment Law which was promulgated in December 1987.

[4] For more details, see Tran (1990a).

[5] See, for example, Tran (1992) for a more detailed account of these points.

[6] Nihon Keizai Chousa Kyougikai (1987) was among the first which evaluated the economic potential of Vietnam right after the announcement of the country's *doi moi* policy. For a description of the factor endowment of Vietnam, see Vu Tuan Anh (1990).

[7] For more details, see, for example, Ramangkura (1991).

[8] As Table 5 shows, the share of Japan in the first period is quite high. This is due to the large scale investment in Saigon Floating Hotel, undertaken in 1989 by a Japan-based international corporation in Australia.

[9] A more detailed account of the trade structure of Vietnam can be seen in Tran (1990b).

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