

VIETNAM'S DOI MOI AND THE POLITICAL-ECONOMIC COOPERATION BETWEEN KOREA AND VIETNAM*

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I. Introduction

On July 11, 1995 at the White House's East Room, President Clinton announced full normalization of U.S.-Vietnam Relationship that will probably be recorded in the modern Vietnamese history as the most important turning point toward the long road of progress and economic development. Clinton's decision means that the U.S. government would no longer remain unconcerned in assisting U.S. corporate interest in Vietnam. Currently, total U.S. investment

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in Vietnam is about \$530 million in some 34 projects, a small percentage of the total foreign investment of \$14 billion. But full diplomatic ties with Vietnam would provide some assistance to U.S. companies and it will certainly encourage more U.S. companies to go in.

The diplomatic recognition also means a lot to the Vietnamese. Vietnam's Doi Moi has finally won the worldwide recognition and their strategy has proven to be a success. Hanoi has successfully pressed the Clinton administration to overcome the opposition of the more conservative elements in the American society.

Vietnam's main objective seems to obtain the lower export tariffs that come with most-favored-nation status. They are also hoping for a near-term resumption of U.S. aid. However, it is highly unlikely that the relationship will move forward as fast as the Vietnamese might expect. As Secretary of State Warren Christopher said in Hanoi on August 5, 1995 after signing documents which normalize diplomatic ties with Vietnam, U.S. still attaches the great importance on the issues such as accounting for missing U.S. soldiers, human rights and expansion of the freedom in Vietnam.

While the Clinton administration has shown its determination to establish a new era in the relations with Vietnam, the Republican Congress has vowed to vote to block funds for expanding the embassy in Hanoi. And some congressmen with POW-MIA concerns are also balking about expanding the trade relations. They maintain that granting the most favored nation status to Vietnam is unbearable.

The major questions to be posed here are: where does Doi Moi come from? where is it going? Can Korea be a model for Vietnam? And in what area are we gearing up for further cooperation? In this study, Vietnam's Doi Moi is further analyzed by three different aspects. They are political, economic and foreign policy aspects. And finally, this study attempts to explain why it is so important to encourage political economic cooperation between the Socialist Republic of Vietnam and Republic of Korea.

II. DOI MOI AND POLITICAL REFORMS

1. A Victory for Whom?

The socialist rule over the reunified Vietnam initially failed to bring the prosperity pledged by the Communist Party of Vietnam in 1975. Even before awakened from the excitement of the victory celebrations, Vietnam found itself in serious social and economic problems. Particularly, the South posed a daunting challenge to the newly unified Vietnam, politically as well as economically. Millions of people who took side with the French or the Americans were tried, executed, or forcibly sent to the re-education camps set up in the remote countryside. By 1976, Hanoi decided to dismantle the capitalist economy in the South into a collectivization scheme requiring state ownership of all agricultural products and the creation of New Economic Zones (NEZ) to absorb unemployed workers. However, shortages in machinery and tools and insufficient numbers of capable managerial cadres complicated economic recovery even further. The nation's economy was thrown into a tailspin from which the country had been struggling for so long to recover.

By late 1978, it had become clear that the streamlining of the capitalist economy of the South, among others, with the centralized planning by the Hanoi government had led to disastrous results. The unsuccessful imposition of the North's model into the South was manifested most spectacularly in the sharp drop in rice output and the strong resistance against collectivization in the South. A Japanese Vietnam-watcher summed up the four grave mistakes in the economic line committed by the leadership of the VCP as follows: 1) bypassing the stage of development from a backward agricultural economy to capitalism and go directly to socialism; 2) giving the precedence to construction of heavy industrial facilities in the initial stages of building socialism; 3) having the system of economic management with heavy dependence on assistance from friendly socialist countries; and 4) the failure of the northerners, after reunification, to make use of the economic expertise and practical experience of the southerners. (Mio Tadashi 1989, 21-22)

Even after the nation's reunification, Vietnam had no time to reap the benefits of peace, but had to fight another two more costly wars: the first war was

Vietnam's invasion to Cambodia in December 1978 in response to Cambodia's attack in the border area. The second war took place in 1979 when China decided to teach a "lesson" for Vietnam's invasion of Cambodia. The costs incurred by Vietnam's war efforts and its maintenance of one and a quarter million standing army, the world's fifth largest, aggravated the budget deficits of the poor country of 70 million people.

Economic stagnation resulted in serious shortages of consumer goods and increased black market transactions. The Hanoi leadership initially took a several decisive steps for economic reforms in the early 1980s including a partial decentralization in agriculture and official recognition of the private sector in small industry and retail trading. But the poorly planned measures proved to be disastrous.

2. The Politics of Doi Moi

Convinced of the need for drastic reform to fulfil the basic demands of the people, the Hanoi leadership resolved to set in motion a national economic program by introducing Doi Moi by the end of 1986: essentially a campaign of economic and to some extent, social renovation. The Party's old guards were replaced by a reform leadership at the Sixth Party Congress in December 1986. Aged General Secretary Truong Chinh, along with Premier Pham Van Dong and the Party ideologue, Le Duc Tho resigned. The reformers were led by the Party's new General Secretary Nguyen Van Linh. Linh, a northern native, had once served in the South during and after the war. A proponent of liberal economic ideas, he had been ousted from his seat on the Politburo in the early 1980s by the conservatives. There were also drastic changes in the Party's Secretariat and Central Committee. Only three of the thirteen-member secretariat appointed at the previous Congress in 1982 were retained.

Following a serious appraisal of the situation, the Sixth Party Congress paved the way for far-reaching efforts to restructure Vietnam's socialist system, to reshuffle the national economy, and to instill a new spirit of openness and unity into the Vietnamese society. With its dual emphasis on renovation and openness, the new program initially seemed to be reflected by perestroika and glasnost reform policies of the former Soviet Union president, Mikhail

Gorbachev. Nguyen Van Linh said Doi Moi would mean a thoroughgoing renovation in thinking, in policy-making, in organization and in the appointment of personnel, warning that its road would not be a straight one, but full of twists and turns. (*The Vietnam Courier* 1988, 11)

During the early months in office, Nguyen Van Linh made a number of public gestures to encourage an openness and pluralism in Vietnam, particularly in the art, the media and religion. In an anonymous article appeared in the party newspaper, *Nhan Dan* (only shown his initials, NVL), Linh suggested the need for economic reform, urged greater democracy in Party life and invited the media to speak out and criticize against the wrongdoing of the government and the party. In the first half of 1988, more than 1,100 party cadres were tried for corruption after the press exposures. (Carlyle A. Thayer, in Robert F. Miller 1992, 8) The fight for openness against corruption and abuse of power encouraged private and public criticism of public policy. More critical media including *Saigon Giai Phong* (Saigon Liberation) and *Tuoi Tre* (Youth) joined *Nhan Dan* in speaking out against the shortcomings of the bureaucrats and in covering the various issues which were simply not discussed in the press before 1987.

3. Brief Setback to Political Reform

A pendulum swung back to conservatism already in 1988. In June, Vo Van Kiet, a prominent and outspoken reformer, lost the premiership in a ballot in the National Assembly to Do Muoi, a veteran Party member with a reputation for ideological conservatism. And a number of writers had also been arrested.

By the end of 1988, there were stronger signs that Doi Moi had lost momentum, particularly in the realm of political reform. Certainly, the recent crisis in China, Eastern Europe, and the Soviet Union was a factor in the Party's determination to keep the demand for democratic reforms under control. The Hanoi leadership was stunned by the Tienanmen demonstrations in Beijing in May and June and the collapse of communism in Eastern Europe later in that year. Domestic factors also contributed to the tight control of reform process. Party conservatives sought to reimpose party control. The hardened mood was obvious in February 1989 when Nguyen Van Linh spoke to the press in Ho Chi

Minh city with more cautious position, appealing them to refrain from publishing reports that caused a loss of confidence in the Communist Party or the government. In a speech to the Party's Central Committee at the Seventh Plenum in August that year, Nguyen Van Linh reiterated the importance of democratic centralism and the dictatorship of the proletariat in Vietnam, making it clear that the regime had no intention of permitting the formation of opposition parties. (*The New York Times*, September 20, 1989)

After a hot debate over the political reform at the Eighth Plenum held in late March 1990, the Central Committee expelled Politburo member Tran Xuan Bach, ranked 9th out of 13 members from the VCP. He openly called for greater openness and warned that Asian communism was not immune to the changes taking place in Eastern Europe. While giving no indication that he opposed one-party rule, he advocated that political reform must accompany economic liberalization. (Michael C. William 1993, 33)

4. The Changes in the Leadership

The VCP reaffirmed its monopoly of power and upheld Doi Moi, allowing market-oriented economic reform under the Party's guidance and central planning at the Seventh Party Congress held in June 1991. This was the road China has tried to follow since 1978, rejecting the Soviet development model. The Congress, attended by 1,176 delegates representing the Party's 2,155,022 members, elected a new 146-person Central Committee and a 13-member Politburo. (Douglas Pike 1992, 74-74) Most of the original old guard leadership was now gone except for Do Muoi, who transferred from Prime Minister to Party General Secretary replacing the ailing Nguyen Van Linh. Sixty percent of the Politburo members were new and about 30 percent of the Central Committee members were first timers. Only three of the Politburo were clearly identified reformers: Vo Van Kiet, Pham Van Khai, and Vo Tran Chi. This conservative bent of the Party's leadership contrasted with the relatively progressive economic program Nguyen Van Linh outlined before the Congress.

In a big reshuffle of the Council of Ministers, only five out of 22 were holdovers. Foreign Minister Nguyen Co Thach, Interior Minister Mai Chi Tho, and party secretariat member Nguyen Duc Tam were all dropped from both the

Politburo and Central Committee. They were replaced by other hardline leaders. The second highest position in the Politburo has gone to General Le Duc Anh who, later elected to the Presidency in September, 1992, has been critical of economic liberalization and opening to the West.

The Seventh Party Congress passed new bylaws profoundly altering the Party's internal structure to extend authority and responsibility downward from the center in Hanoi to the provincial level apparatus. Two comprehensive plans were introduced at the Congress for Vietnam's future: the first one was the "Program for Construction during the Period of Transition to Socialism" which was to revitalize the Party through better recruiting and cadre training. The second plan, titled "Strategy for Year 2000: Socio-Economic Stabilization and Development." The instrument to be employed was termed "market mechanism economy" which meant capitalist economic methods. (Douglas Pike 1992, 74-74)

5. The New Constitution and Political Stability

The measures for economic reform have been recently joined by initial manifestations of political reform. This can be seen in the revised Constitution of Vietnam, formally approved on April 15, 1992, which is called Amendment to the 1980 Constitution. (Russell, Heng Hiang Khong 1992, 221-30) During the debate on the amendments, Party General Secretary Do Muoi admitted: "The activities of the National Assembly have become increasingly practical and effective in promoting democracy. However, for many reasons, its operations have not adequately reflected the democratic and spirited activities of the entire society." (FBIS-EAS, March 26, 1992)

The most evident move to bring the Constitution in line with present realities is the removal of the old socialist rhetoric. The words like "US imperialism", "the militant solidarity of the three Indochinese countries", "the great and effective aid from the Soviet Union", and "the extension of the world socialist system" are no longer found in the Preamble of the new Constitution.

The new Constitution has also downgraded the Communist Party somewhat by describing it as "the leading force of the state and society", instead of the previous description as "the only force leading the state and society". One other

line in the Preamble broadly sums up the party-state relationship: the Party is the leader; the people, the master; and the state, the manager. While the Party provides broad guidelines in policy-making, the State, in the form of the National Assembly, enacts the laws which even the Party has to obey like everybody else. The political strengthening of the National Assembly seems to be a step in the direction of democratization.

In all policy making, the rule for change in Vietnam is that it would not threaten to destroy the system. Hanoi leaders are resisting the threat of instability at all cost. Vietnam's population might be willing to risk the destroying forces of revolution, but their leadership is not. Political stability, a key factor in attracting foreign investment, was strengthened by the 1992 summer elections that gave the key leadership, including Prime Minister Vo Van Kiet and First Deputy Prime Minister Pham Van Khai, resounding victories at the polls.

This trend was upheld by the VCP's mid-term national conference held in Hanoi from January 20-25, 1994. At the conference, the Politburo membership was expanded to 17 by appointing 4 additional members. In the political report delivered by Party's General Secretary Do Muoi at the opening of the conference, the Party reconfirmed the Doi Moi program enthusiastically. Do Muoi also bragged about the Party's achievements: socio-economic progress, political stability under the party's firm leadership, its categorical rejection of pluralism and multiparty system, and the expansion of external relations. The report called for a greater pace in an effort to attain the goals in the socio-economic development strategy by the year 2000. (*The Vietnam Courier*, January 23-29, 1994; *The Vietnam News*, January 26, 1994)

III. DOI MOI AND ECONOMIC REFORMS

The Eighth plenum of the Fifth Congress of VCP passed the measures to implement the early 1980's reform policies in June 1985. New reform measures include following devices: introduction of new management, decentralization of decision making power to local and lower-level companies, abolition of state's

subsidies, wage policy based on labor productivity, self-accounting system of companies, reform in banking system, and so on.(Hoover Institution 1986, 243; Lewis M. Stern 1987a, 477-78)

However, these measures alone were not sufficient enough to turn things around. There were enough worries for the leadership to allow market price in economic planning, private ownership, and arrangements in exchange.

1. Doi Moi and Economic Reform: Since 1986

The Sixth Party Congress accepted the necessity of economic reform and expressed its strong will to pursue the Fourth Economic Development Plan.(Lewis M. Stern 1987b, 359-60; Carlyle A. Thayer 1987, 14)The Plan had put the priority on agriculture, light industry, and handicrafts with diminishing investment in heavy industry.

By enacting the Land Law in December 1987, the government allowed farmers the right of cultivating land and extended the rent period to 15 years. From 1988 on, the "net contract system" was introduced to provide farmers wouldwith greater material incentives. According to this new system, farmers would be able to recontract their production with collective farm in every 5 years and could dispense at most 40% of output except cost, tax, welfare savings. Under the new Law, land was still the property of the state, but the right to use land would be bought or sold. Therefore, the real estate market has developed on this basis.(Ngo Vinh Long in William S. Turley, ed al. 1993, 177)

Economic reforms in industry, especially property and market mechanism, have also been introduced. Subsidies to state enterprises were sharply curtailed and policies of profit-based management advocated. And a multi-sectoral economy was promoted. This meant the permit of various forms of economic unit from state ownership, cooperative ownership, joint ownership to private ownership.(Carolyn L. Gates and David H. D. Truong 1993, 73-79)

Although state enterprise held large portion of economic activities, private enterprises in service sector increased. Private enterprises flourished in Ho Chi Minh city where there were total 3,000 private enterprises in 1986. The Private Law promulgated in 1988 which promoted the establishment of private enterprise spurred the private sector not only in Southern areas but also in

Northern areas.

The mechanisms of economic management also began to rely to a greater extent on market forces. Central planning had become more indicative than imperative. (Vo Nhan Tri and Anne Booth 1992, 16-40) While state planning commission held still the power in the macro economic areas such as finance, monetary policy, exchange rates, market price became the indicators in management, production, circulation of commodities, distribution of products. And enterprises had hold the autonomy in employment, production, price, foreign trade in so far as it fulfilled the several conditions regulated by the government. (Vo Nhan Tri and Anne Booth 1992, 16-40)

Doi Moi stressed expansion of foreign trade and inducement of foreign capitals. In June 1985, export promotion measures such as acceleration of foreign trade, enlargement of government guarantee for inflows of foreign capital, limited autonomy of companies in foreign exchanges were proclaimed. The Foreign Investment Law was passed in December 1987 to induce foreign capital, and amended in June 1990 and again in December 1992. The last amendment of Foreign Investment Law prolonged foreign user's right of land to 70 years. (Russell Heng Hiang Khng 1993, 357-58)

In December 1988, An Export Processing Zone (EPZ) was established in Ho Chi Minh city. (David Wurfel in Williams S. Turley and Mark Seldon, eds. 1993, 28-33) As of July 1995, six EPZs were established throughout Vietnam.

Doi Moi since 1986 had registered remarkable success, inflation was reduced from 775% in 1986 to 68% in 1990, 1.5 million ton of rice was exported in 1989 for the first time in 50 years.

Despite these economic outcome, financial deficits were accumulated leading to 300.3 million U. S. dollars, and unemployment rate was reached to 20% in 1990. Also regional unequal development and class inequalities emerged because of reform policies. Class inequalities were more salient in Southern areas where income levels between rich farmers and poor farmers was about 9.5 times whereas it was 5.5 times in Northern areas. (Ngo Vinh Long in Williams S. Turley and Mark Seldon, eds. 1993, 190-91) Moreover, dissident voices which criticized corruption, inflation, inequalities and demand political liberalism were widely expressed among students, laborers, intellectuals.

In response to these situation, the Party has adopted second phase of Doi Moi. It combined the acceleration of economic reform with tight control on political and social life. During this period, Vietnam has undergone a relatively successful transition from central planning to a market economy. After experiencing a difficult period of reform and adjustment in the first stage of Doi Moi, Vietnam in the early 1990s enjoyed rapid, export-led growth with low inflation. By early 1994, formal ties with the multilateral institutions had been renewed and the US trade embargo lifted. The reform process has resulted in accelerated growth with price stability.

2. The Future of Vietnamese Market Socialism

Vietnam's attempts at micro-reform in the first stage of Doi Moi exacerbated macro-imbalances and brought IMF-style stabilization program in 1988-89. Since 1988, Vietnam has given first priority to maintaining macro-stability while concentrating its limited administrative resources on strengthening the institutional base of its emerging market economy in order to promote micro-stability. The promotion-of micro-efficiency in Vietnam has focussed on price liberalization, on creating space for the growth of the private sector and, finally, on imposing market discipline on state-owned enterprises(SOEs) both by removing the soft budget constraint and by exposure to international competition.(George Irvin 1995, 725-50) Vietnamese economic reforms marked success in agriculture. It is very important because Vietnam was basically a peasant country with an egalitarian distribution of land assets.

Vietnam will continue to pursue its "socialist market economy" by maintaining its own style and pace of reform for the foreseeable future. At least, several factors should be considered in bringing a successful transition to a market-led growth in the future:

First, perhaps most importantly, throughout the reform period Vietnam has enjoyed political stability and continuity. However, whether the Party will continue to maintain political stability depends upon Hanoi's ability to sustain rapid growth and to mitigate any adverse distributional consequences of reform in the course of economic development.

Second, state role has to be confined to set-up macro economic conditions,

arrangement of macro-economic policies such as finance, monetary system, and exchange system, leaving much autonomy to market economy.

Third, privatization of state enterprises and fostering private capitalists would be the central task for the Party if it wishes to furthering economic development in Vietnam.

Fourth, economic special zones needs to be spread to internal area in order to reducing the regional inequalities.

Fifth, educational reforms need to provide high-quality labor forces and other legal and administrative reforms should be followed.

IV. DOI MOI AND THE KOREAN EXPERIENCES

The major object of Doi Moi is to convert the self-reliance development strategy to export-led development one. During the first decade after the reunification, the conservative wing of the Party has hold the power and maintained the strategy of self-reliance industrialization. This strategy was regarded as an only option to resist the pressure from the advanced countries and to prevent from the exploitation of its resources.

At the Sixth Party Congress held in 1986, however, Vietnam declared that it would take part in the international division of labor and promote the relationship with the other foreign countries based on the equality and reciprocity. This means that they could not but perceive the reality that no economic development would be possible without participating in the world market.

This sounds like that Doi Moi will be able to get some lessons from Korean experiences. However, Korean export-oriented industrialization succeeded only after paying a high price and it was done only because there existed some specific conditions. The strategy of export-oriented industrialization cost Korea the political and economic dependence on the United States. Korea's heavy reliance upon the world market also brought the insecurity and cyclic crisis to its national economy. However, the demand of the world market helped Korea in keeping the economic policy consistent and coherent regardless of the political

instability or the transition of leadership.

On the other hand, East Asian model of export-oriented industrialization does not mean only entering the capitalist world market or pushing the industrialization through borrowing foreign capital. The Korean experiences clearly demonstrate that they were not penetrated by the forces of world market and they made the import-substitution and the industrialization for export at the same time. Since the mid-1960s, Korea has promoted the production of intermediate goods based on the export of labor-intensive consumer goods and attempted import-substitution for capital goods. Through such an organic harmonization of the import-substitution and the export-orientation, Korea has rightly managed to become an economic power.

Far from that of Latin America, South Korean policy of importing foreign capital focused on borrowing loan or joint investment rather than on the direct investment of foreign capital. Korea's experience of limiting the internationalization of domestic market when she built the zone of the free export can give Vietnam useful lesson since Hanoi is now operating "Zone of Fabrication and Exportation"- in which foreign companies would be free to import commodities, assemble products, use low-waged local labor, and re-export final products.

The problem with which Vietnam is confronting now is how to successfully emulate the East Asian model of industrialization, that is to say how to ensure that the import-substitution of labor-intensive light industry will be converted into the export-oriented industry, and again the import-substitution of capital into the export of capital.

1. The Roles of State and Entrepreneurs

In general, it is argued that the economic growth of rapid industrialization in South Korea has been achieved by the strong state which effectively played the central role in the accumulation of capital and economic planning. As we have observed in many cases in the history, the problems of economic growth could be solved with a kind of political decision and a decisive state intervention.

As a matter of fact, the economic development achieved by Korea, Taiwan, Singapore and the other East Asian countries is the outcome of the powerful will

of each country's political leadership. It may not be overstated that Korea risks all of her fortune in achieving rapid economic growth in order to offset the illegitimacy of May 16 coup d'etat and to prolong the political power of the late President Park Chung Hee.

Korea has forced capitalists, laborers, and farmers to follow the government-led growth policy and to pursue their respective interests within the context of the national interest which was necessary for consolidating the material base of the regime as well as its political stability.

Korean state not only placed the strict regulation on the foreign direct investment, which made Korean economy dependent on the world market rather than on the foreign capital, but also employed the policy protecting the market rather than regulating it. Korea allowed the foreign investment only in the zone of free export with some exceptions permitting foreign investment in the field where domestic enterprise could not produce qualified commodities.

If Doi Moi has any desire to achieve the economic growth led by the Party and the state, the quality should be emphasized. How to back up or coordinate with the private enterprise is therefore a linchpin in determining the success. It is no wonder that the World Bank has regarded the development strategy of Japan, Korea and the other East Asian countries as the functional growth and paid serious attention to the fact that the role of competent bureaucrats in restricting the price fluctuation to some extent and building up the investment-environment positively.

The secret of Korean success in industrialization should be considered in terms of its capability of bringing harmonization between state and entrepreneurship. It should be emphasized that economy could be prosperous when the entrepreneur plays his own role. In other words, Korea's economic success confirms the traditional proposition that entrepreneur is the prime driving force to achieve industrialization.

Korean entrepreneurs 1) took advantage of the partially admitted political pluralism, 2) mobilized the abundant qualified labor-force disciplined by the high social mobility and intensive education, 3) used at the full the financial benefit and low-waged labor assured by state in reward for offering the material base of the regime, and 4) took the chances such as Vietnam War and the

construction boom in the Middle East to the full account.

Since 1986, Vietnam has worked hard to decrease its support on the state-run enterprise. The Doi Moi reflects the expectation of new generation asking the economic vitality and social change, but at the same time it has to face the challenges from the more conservative elements of the society such as the bureaucrats and the military.

Nevertheless, Vietnam announced a series of laws in 1988 that intended to help free the Vietnamese economy by giving the more autonomy and by granting entrepreneurs the right to pool capital and setting up their own business organizations. Vietnam is now pushing the economic liberalization and privatization ahead even though they officially emphasize the leading role of the Party following the concept of market socialism. Vietnam is now also encouraging the privatization of state-owned enterprise and the joint venture with the foreign capital through such three types of process as follows ; 1) leasing by which the state maintains formal ownership but all management and production organization is decided by the firm's managers and workers ; 2) the state's outright selling or the state-owned enterprise to a private enterprise ; and 3) the state's selling shares of the state-owned enterprise to a private or cooperative enterprise, with the state maintaining partial ownership and partial management rights. (Carolyn L. Gates ed al. 1995, 73-79)

The privatization of state-owned enterprise can be seen in bringing the entrepreneur back in the position to achieve the economic growth. With the stress on the entrepreneur in promoting Doi Moi, the positive role of state cannot be ignored yet. The leading role of state is necessary because Vietnam lacks the infrastructure such as road, railway and harbor and they find it difficult to do their parts without state's strong intervention.

But Korean experiences show that the state-involvement in economy should be qualitative within the limit backing up the entrepreneur even though the provisional emphasis on such state's involvement would be justified.

As seen in the failures of the Soviet and the East Europe's Communist countries, the economic activity managed by the state and the Party only bears ineffectiveness and low-productivity. So, the state's involvement in Vietnamese economy is justified only to the extent that it will make the frame of economic

activity more stable or firm, raise the weak competitiveness to the strong one, and back up the entrepreneur with the capital and technology.

2. War and Social Mobility

Surviving the Japanese colonialism and Korean War, Korean people were encouraged to be so vital that they could achieve the economic growth despite the poor condition that there was virtually no rich natural resources. The land reform following the division of Korean Peninsula and the tragedy of Korean War paradoxically brought forth the driving force to push the economic growth ahead with the well-disciplined labor-force, family-focused confucian tradition and the zeal for education.

Korea's land reform performed after Liberation, even if partially, caused the landlords to decline, who might resist the industrialization. Followed by the land reform, the Korean War, which broke out in 1950, finally ended the old agrarian elite of the Korean class structure. With the war's end emerged a poor but a highly fluid and egalitarian society in South Korea. Born in such a political and economic calamity, Korean society enjoyed high mobility throughout all sectors of society which helps mobilizing people's vitality. Park's military regime played the role enforcing the order with the social demand caused by these mobilizations restricted.

Relating with Korean economic growth, the strong achievement motivation was also germinated from such social mobility. In other words, one of the reasons making Korean laborers interested in the professionalism and high technology was in fact that they could attain high social status and increase income to great extent if they obtained the technology and educational background.

In Korea, such a high social mobility interrelating with the high consideration of education could be said as a secret of success. Because the two factors contributed to provide the well-disciplined laborers and high technology essential for industrialization.

As far as war was concerned, Vietnam had undergone much more bitter and longer history than Korea. Vietnam had been wrapped in the war for 45 years until they made the peace contract with Cambodia on October 1991. Such

lasting and destructive wars prevented Vietnam from taking advantage of their potentialities for growth. As the war experiences of Japan and Germany as well as Korea have told, however, the destruction and suffering caused by the war have not always played as a negative role. In the case of Vietnam, too, they raised the sense of unity, pride and confidence among themselves.

Considering that 30-year-long war before the unification destructed the feudal structure of classes and ensured the high social mobility, it is easier for Vietnam to bring forth the vitality and dynamics from the inside of its society. In order to increase its potentiality and vitality, above all, Vietnam must get rid of the restrictions on economic activity, which means that the subject of economic activity should not be the state or Party, but be an entrepreneur.

Relating with the mobility, the intellectual mobility must be mentioned. Establishing close relationship with the United States, Korea has acquired the Western institution, customs, technology and know-how indispensable for industrialization through Korean students studying in the advanced countries, especially in the United States. Keeping in touch with the advanced knowledge through such deep cultural ties has been one of the most important source for advancing Korean economy. On such intellectual mobility, Vietnam at least has two advantages. One is the Vietnamese returnees from the former Soviet Union and East European countries, who have the real experience watching the failure of socialism. Also, a huge number of refugee-turned civilians now living in Western capitals will probably be valuable assets to the Vietnam's development in the future. There is no doubt that Vietnamese people who were experiencing advanced political and social system will constitute the powerful sources forcing Vietnam to be in the right path to the market economy and political development in the future. At the same time, we must not forget the fact that Ho Chi Minh City has long been the center of the market-economy and capitalism until the Fall of Saigon in 1975.

V. ECONOMIC COOPERATION BETWEEN KOREA AND VIETNAM: EMERGING TRENDS AND FUTURE DIRECTION

1. Current Pattern of Economic Cooperation

(1) Trade Patterns

During the past several years, the two nations have seen brisk activities in investment and trade. Until the end of 1994, Korea exported \$1,027 million worth of commodities to Vietnam, and imported \$114 million worth of goods, a striking 74 percent increase from a year earlier. Major export items were chemical products, textiles, steel products and electronics goods, while import items include anthracite coal, farm and marine products and scrapped iron.

(2) Investment Patterns

Two countries have emphasized the development of Vietnamese manufacturing industries and natural resources in joint ventures rather than trade for long-term economic cooperation. As of the end of 1994, Korean companies has invested \$888 million in 161 projects. Korea ranks fourth in investment in Vietnam, following Taiwan with \$1,9014 million in 164 projects and Hong Kong with \$1,551 million in 164 projects, Singapore with \$1,059 million in 77 projects, according to the Vietnamese State Council for Cooperation and Investment.

Major projects are construction of power distribution lines between Hanoi and Ho Chi Minh city undertaken by Hyundai, construction of a hotel in Hanoi and a TV plant by Samsung, modernization of a telephone switching board system by Lucky-Glodstar, a steel plate plant by Pohang Iron and Steel Company and cement plants by Halla and Ssangyong. Korean companies are very interested in participating in oil drilling projects which will be undertaken in many oil beds by Vietnam. Hanoi has allowed Yukong to take part in the oil drilling projects in the south of the Gulf of Tonking.

A total of twenty four Korean companies have branched out in Vietnam - six in Hanoi and 18 in Ho Chi Minh city. The government opened a office of consulate-general on November 19 in Ho Chi Minh city, where some 500 Korean civilians are actively engaged in business. Domestic constructors also

plan to participate in construction projects which will be financed by international institutions. Dong-ah Construction Company employs 480 Vietnamese workers on grand water way construction in Libya and plans to employ 1,000 more Vietnamese laborers on the Libyan project.

2. Vietnamese Economic Environment for Further Cooperation

(1) Vietnamese industrial policy

Vietnamese industrial policy focuses on developing light manufacturing industry such as consumer product and export-oriented industry. Major goals of 5 year plan is to provide people with necessary products and to earn foreign currency by exporting goods. Accordingly, locating labor-intensive light manufacturing in Vietnam will be beneficial to both countries.

(2) Workforce

Vietnam has one of the highest literacy rates in Asia and possesses a highly skilled pool of labor. The monthly labor wages are pretty low \$30-40 in Vietnam, compared with other neighboring countries being \$ 70-80 in Indonesia, \$120 in Philippines, \$ 140-150 in Thailand, \$ 150-160 in Malaysia.

(3) Resources

While Korea lacks natural resources, Vietnam has abundant natural resources such as crude oil and coal. Therefore, Korean participation in exploring oil field jointly with Vietnamese government will be helpful to both countries.

(4) Regulation

Besides overriding the legal and institutional framework for the encouragement of foreign investment, the Government formulated an attractive package of incentives for foreign investors. In recent years, to attract foreign investment capital, the National Assembly promulgated the Foreign Investment Law with necessary preferences.

(5) Infrastructure

One of the essential prerequisites for attracting foreign investment in the country is the existence of efficient infrastructure facilities. Vietnam has made every effort in recent years to improve the country's infrastructure.

3. Future Direction for Economic Cooperation

(1) Basic Guideline for Cooperation

Korea and Vietnam, which normalized diplomatic relations on December 22, 1992, are expected to strengthen economic cooperation.

First, Korean industrial policy for restructuring the economy can be fit into the Vietnamese industrial structure. For example labor-intensive product like garment and leather product where Korean companies are losing their competitive edge could be complementary with Vietnamese low-cost labor. This kind of industrial division of labor assist not only Vietnam in reducing unemployment problem and earning foreign currency but Korea in enhancing industrial competitiveness.

Second, economic cooperation can be toward the direction that both countries supply raw materials and parts and intermediate products which need for their economic development. While Korea may supply cement, steel product, glass, petrochemicals, Vietnam provide oil, pulp, and other minerals. Exchange of raw and intermediate products between two countries will contribute to accelerating their economic growth.

Third, cooperation in terms of exploring resources can be desirable. Especially Korean participation in oil exploration is desperately needed in that crude oil marketed in Korea make trade between two countries balanced.

(2) Possible Directions

A. Steady increase in Korean investments is expected.

As was seen above, some US\$ 888 million worth of Korean investments have been approved since 1991. Now Korea is fourth largest foreign investor in Vietnam. About half of the total amounts has been approved since both countries

signed Investment Guarantee Pact. Recent investments becomes larger in amounts in such industries as chemicals, electronics, and steel, which mostly accompanied by transfer of technology.

B. Changes in industry distribution of investments

Industry distribution of Korean investments is likely to shift from labor-intensive sector to the sector of capital-intensive manufacturing and resources development in the future. Current Vietnamese industrial policy focuses on technology intensive industries such as electronics, telecommunications, and equipments. These industries are areas where Korean manufacturing technologies adjusted for low- and medium-income level countries is well combined with Chinese workforces.

C. Finishing bilateral governmental agreement

Since normalizing diplomatic relations, two countries signed trade agreement and Investment guarantee pact, which make extend trade and investment flows. Establishing tax treaty will further speed up bilateral relations.

D. Setting up diverse channels for economic talks

Both countries have different economic system and different historical background. In order to enhance mutual understanding, various kinds of formal and informal channels for communication are needed. At governmental level, formal economic committee for developing trade and investment relations should be built, by which both countries discuss economic issues sincerely and suggest possible way for cooperation. Also exchanging information at informal level will be very beneficial each other.

E. Governmental assistance for investment

What potential Korean investors need most is the information about Vietnam market in detail, which must be supplied by both governments. KOTRA is the organization built for this purpose. The second one Korean investors want to have is money. Particularly some companies investing in Vietnam may get some initial investment capital from EDCF by Korean government. From Vietnamese government perspective, any regulation creating costs and time-consuming documental work must be eliminated to attract Korean investments.

F. Deepening intra-industry specialization

An intra-industry division of labor is being developed between two countries.

There are many noticeable cases especially in the apparel sector. For example, Korean yarn is shipped to Vietnam for weaving, then the woven product is exported to Korea for dyeing, and finally once again exported to Vietnam for sewing into garment.

G. Projects for developing specific area

One of the interesting development between two countries could be Korea's attempt to build an industrial park for attracting Korean investments in Vietnam. Industrial park provides several benefits to both countries. Advantage from the Korean side would be to access Vietnamese market at cheaper rental, to easily share information among Korean firms, and to show collective negotiation power towards Vietnamese government. On the other hand, advantages from Vietnamese side will be to developing rural area and attracting foreign investors without incurring cost.

H. Cooperation for third market

Opportunities for industrial cooperation may be exploited in third market. For example, Korean construction expertise and capital can be combined with Vietnamese labor to develop real estate projects in third countries such as Middle East, South Asian countries. Such cooperation could be beneficial to both countries and target area as well. Korea's middle-level of technology may suit Vietnamese circumstances.

VI. CONCLUSION: PROBLEMS AND PROSPECTS

Alarmed by what happened Eastern Europe, the demise of the Soviet Union, and the events in China in 1989, the Vietnamese leaders were determined not to make the same mistakes. But at the same time they had to take steps to open up their economy, which refusing to abandon socialism.

The paramount objective of Vietnam's Doi Moi is to create an appropriate environment by which Vietnam can achieve rapid economic growth and successfully transform a still highly centralized system into a market-oriented economy in the shortest time possible. However, development has been chaotic and uneven in Vietnam. The huge gap is highly unlikely to be reduced between

the North and South, between urban and rural areas, and between rich and poor. (*The Asian Wall Street Journal*, July 2-3, 1993, 20) Political and social restrictions are continuing to be eased gradually, but a multiparty is still a taboo in the Vietnamese politics. It is obvious that the Vietnamese government is counting on its ability to develop the country to stay in power, stressing stability above all else to get the job done.

At present, most people seem to endorse the government priorities. Like China, Vietnam is delivering the benefits of capitalism while remaining a one-party state nominally committed to "socialism." Its economic transformation is taking place at a dazzling pace, especially in the cities. The public seems to be well aware that this transformation process may cause temporary dislocations and hardships in the short run but such measures are necessary of both domestic and external resources are to be used effectively and efficiently.

Despite quite a few negative factors still lingerings, the outlook for Vietnam is bullish. Several important and powerful assets of Vietnam support this optimism without reservation: a disciplined and well-educated people, abundant natural resources, a long coastline, the tough but flexible leadership following the principle that "when the going gets tough, the tough hunker down," and above all the people's determination to pull their country up by its boot-straps.

In his recent interview with an American newspaper, Vo Nguyen Giap, 82, who founded Vietnam's revolutionary army in 1944 and became instrumental for the nation's war of independence, summed up his vision of the future of Vietnam as follows: (*The Los Angeles Times* and *The Korea Herald*, January 15, 1994)

My vision of the future is based on the perspective of the past. In the past, our greatest challenge was the invasion of our nation by foreigners.... Now that Vietnam is independent and united we can address our biggest challenge. That challenge is poverty and economic backwardness. Vietnam is a poor country but its people are rich in spirit. My vision of the future is one in which the rich spirit of the Vietnamese people will cause our nation to prosper.....

It was not the American trade embargo, not the legacy of the war, and not some outside forces that made Vietnam poor. It was communism. However, the VCP remains as one of the few ruling Marxist-Leninist Parties in the world

today.

Today, two decades after the end of the Vietnam War, the VCP has failed to bring prosperity to the people it promised during the war. Since the Party's formidable reputation has been eroded by its recent performance while the millions of the new generations are too young to remember the leading role of the Party and the great heroism of Ho Chi Minh during the period of war, the VCP can no longer command the blind following of the people. Like the cases of South Korea and Taiwan, improved economic situation in Vietnam may generate soon louder peoples demand for more plural political systems. How the VCP will cope with the growing popular demand for greater political freedom as a byproduct of growing economic prosperity remains to be seen. Another challenge for the survival of the regime is the latent and growing discontent of the people in the southern provinces. Additionally, ideological rigidity, internal corruption, and the monopoly of power help provide ample rooms for other voices and ideas to play a role in the future of Vietnam.

General Secretary Do Muoi in his first visit to Korea in 1995 said that he hoped relations between Vietnam and South Korea would strengthen and develop in all fields, political, economic, cultural, scientific, not only between two governments but also non-state sectors of the two countries. When he and his delegation toured the various industrial parks in Korea, they soon figured themselves out why economic cooperation between two countries is so essential for the Vietnamese economy and in what direction its economic reform move forward. The economic transactions have developed very rapidly as the normalization of diplomatic ties built a new stage in relations between two countries in 1992. Trade volume between two countries for 1995 is expected to reach about US\$ 1,400 million, which is almost 25% increase from 1994 figure. Korea now is the fourth largest trading partner of Vietnam and fourth biggest foreign investor following, Taiwan, Hong Kong, and Singapore. Their interest in the success of Korean economy can be manifested by their leaders frequent visits to Korea to learn from the Korean experience. They include Prime Minister Vo Van Kiet, President Le Duc An, and General Secretary Do Muoi. During their visits, they signed the Agreement on Economic and Technological Cooperation and other Agreements on Trade, Aviation, and Investment

Promotion which provided stable legal basis for further strengthening economic relationship.

It is important to emphasize that Korean and Vietnamese economies are fairly complementary in terms of labor, resources, capital, and technology. More active industrial cooperation is now underway as many Korean business group or conglomerates are busy in setting up offshore plants and searching for more opportunities in Vietnam. Korea will surely help Vietnam to plan industrial growth in many ways. But at this stage Vietnam has to consider the environmental dimensions of development more seriously than South Korea. Planning industrial growth must be done in an holistic approach so that industrialization can work as a crucial factor in promoting overall level of development without damaging other potentials. A holistic approach means that consideration must be given to the interrelationships between economic growth, environmental protection, urbanization, and resources. A balanced holistic approach will be the most viable form for Vietnam to accept as its development strategy in the future, though it appears to be too slow and stifling for some ambitious political and business leaders.

Vietnam on July 28, 1995 became a full member of the Association of Southeast Asian Nations (ASEAN) when Foreign Minister Nguyen Manh Cam signed with his counterparts a declaration in which Vietnam commits itself to subscribe or accede to all ASEAN declarations, treaties, and agreements. Joining ASEAN and AFTA means an opening the world of opportunities to Vietnam. But it also means a great competition. Vietnam is now sitting in the center of bewildering capitalist market away from isolation. And we are now observing that aid-assisting investments are pouring into the Vietnam. This is actually what the Vietnamese has wished so dearly. But we see too often the Western aid and investments have reduced the economic potential of the recipient country despite the wishes of its people. What is required now is their wisdom and outside help to make them to be an exception among many LDCs in which promises have never been kept.

As we have observed the Vietnamese are just entering a high-risk future and a period of adaptation that will stretch human ingenuity and political wisdom. Particularly both Washington, Paris, Tokyo, Beijing who fought endless war

with Vietnam, and other Asian capitals including Seoul who gained a direct benefit out of the war have an obligation to ensure that their investments result in development that is sustainable, ecologically as well as economically. Whether the current generations of leaders outside the world and the Vietnamese leaders have the foresight, the determination, and the political will to confront this challenge remains to be seen.

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