ECONOMIC HISTORY OF VIETNAM

Pete Mavrokordatos, Tarrant County College
Paul Jumi, Cyprus College
Stan Stascinsky, Tarrant County College

INTRODUCTION

The sole purpose of this section, is to present some historical events that played a major role in Vietnam over the years, as well as introduce Vietnam to the reader in preparation of what to expect in the sections that follow.

A country's geographical circumstances are very important to its course of history, and this is the case in Vietnam as well. Due to its location, the lives of the Vietnamese people have been influenced tremendously. As a result of 1000 years of foreign domination, Vietnam has been exposed to a lot of foreign influences, but because of proximity, the strongest influence was that of China, in fact more than any other Southeast Asian country. The Chinese influence can be found even today in all aspects of Vietnamese life, such as the country's political institutions, the people's philosophy and religious practices, the Vietnamese literature and art, and finally even in the legends that describe the origin of the Vietnamese people and state. Vietnam gained its independence from China in 939 AD.

Vietnam was not destined though to remain an independent country. After several attacks, finally the French were able to incorporate Vietnam into the so-called French Indochina by 1893, and they were the last conquerors of Vietnam. As is the case with any other conqueror, the French also tried to benefit from Vietnam by investing primarily into the exploitation of the country's natural resources, for direct exports of such things as rice, coal, rare minerals and rubber. Eventually, after a number of attempts, Vietnam again gained its independence by 1954, but unfortunately this time it was divided into two areas, the North Vietnam, which was the Communist side under the leadership of Ho Chi Minh, and South Vietnam.

Looking back in the history of Vietnam, there are some key dates that need to be mentioned at this point. As mentioned above in 1954, Vietnam gained its independence from the French, and was divided into two areas, the North and the South. Then in 1959 we have the beginning of the Vietnam War, when there was a rebellion against the South Vietnamese government. As a result of this rebellion, and due to a previously signed agreement between the United States and South Vietnam, in 1965 United States' forces landed at DaNang and began fighting in Vietnam to support the South Vietnamese. Even though this involvement was not supposed to be very extensive, the end result was that almost 60000 Americans were killed, more than 300000 wounded, and the monetary cost just for the U.S. was more than $150 billion. Finally, by 1973 the United States ended its involvement in Vietnam by withdrawing its troops, and then by 1975 South Vietnam surrendered to the North, and they were officially reunited. The most recent, and probably some of the most important developments for Vietnam, took place in the mid to late 1990s. The first one took place in 1994, when the United States ended its long-standing trade embargo against Vietnam, and the second one took place in 1995 when the United States established full diplomatic relations with Vietnam.

SURVEY OF LITERATURE

After reading the previous section, one can realize in what kind of economic condition Vietnam was in after the war. As a result, the newly formed government of the new united Vietnam had to do something to improve the situation.

As previously mentioned, North and South Vietnam was united by 1975, and since 1976 the country's economy was centrally run, and was guided by five-year plans. Under this system, heavy industry was promoted at the expense of other sectors of the economy, but as a result of the close central control and poor management of the economy, this led to a decline in industrial and agricultural production. This situation, with no growth, shortages of food, budget deficits, and high inflation, forced the government to hold the Sixth National Congress of Vietnam's Communist Party during December of 1986, and at this meeting they came up with a complete overhaul of their economic policy. This new policy was known as "Doi Moi" and its goal was to create a country that was self sufficient in food, and improving the standard of living of Vietnam's people. Some of the initial steps were the following:

a) prices were liberalized
b) multiple exchange rates were canceled
c) the central state bank and the commercial banks were separated
d) in agriculture, farmers were given more autonomy

Five years later, in 1991, the Vietnamese government held the Seventh National Congress, at which the most important thing was to reinforce their commitment to a multi - sector, market oriented economy, and to introduce more reforms as well. Some of these new reforms, were to liberalize trade, to allow private firms to participate in external trade, and the government developed new methods to promote exports. The results of these reforms were known fairly soon. These reforms were successful, and this is supported by the fact that by 1994 exports grew by 20%, in 1995 export earnings reached $5.3 billion, and this was five times higher than 1988. But exports were not the only beneficiary from these reforms. By the late 1990s, growth reached 8-9 percent, and both private and public foreign capital started coming into Vietnam. Finally the overall economic picture of Vietnam has improved tremendously, and this is documented by the fact that the proportion of people classified as poor has fallen in the range of 30-35 percent. The government of Vietnam could not accomplish all these by itself. The Worldbank was also committed to assist, and its assistance fall in the following areas:

a) improving macroeconomic stability and competitiveness to secure long term growth
b) strengthening the financial sector
c) promote corporate restructuring for the purpose of using resources more efficiently
d) promote rural development and environmental protection, for the purpose of generating employment and reducing rural poverty
e) investing in people, such as education, healthcare, and poverty programs in order to improve competitiveness and welfare

The Worldbank has been in negotiations with the government of Vietnam since the late 1980s, and the lending begun in 1993. Since then it provided Vietnam with $1.65 billion.

Obviously Vietnam has been very successful with all its reforms and it has become a textbook example of how reforms should be adopted. The following though are some of the most outstanding achievements of Vietnam:

a) fundamental changes in economic management mechanism, as a result 60% of the GDP was non state-run sector
b) world leading economic growth rate attained, 91 - 96 an average of 9% growth of GDP, industrial production grew by an average of 13.5%

c) controlled and driven back inflation. In 1991, prices increased by 67.5%, but thanks to the anti-inflation measures the increase in 1993 was only 5.2% and 4.5% in 1996
d) opening and integration - Vietnam has already established diplomatic relations with 164 countries, and economic - commercial relations with 120 countries
e) living standards improved, especially through education and health care

Finally, in 1996 we have the Eighth Congress, at which the ultimate goal was set to turn Vietnam into an industrialized country by the year 2020, through modern technical and material facilities, a suitable economic structure, high material and moral living standards, well secured national defense, wealthy people and a civilized society.

The following information provides some financial statistics that support everything that was presented above. On the GDP side, in 1994, he GDP of Vietnam was $15.5b, where as by 1998 this same figure was up to $26b. This shows that in just five years the GDP increased by 68%. This of course increased the per capita GDP by more than 55%, which means that now people have more money to spend and invest, and this is reflected in the improvement of their quality of life.

There are a lot of other economic statistics we can use to show what has been happening in Vietnam, but two of them seem to be describing the whole picture. Foreign Investment and Trade Deficit. With respect to Investment from other countries, as of May of 1998, there was a total of $31.99b, with Singapore leading the group with $5.7b, and a total of 2330 of projects, with Taiwan leading with 502 projects. The conclusion that is derived from these figures, is that these countries are not investing in Vietnam for no reason. They invest there, because Vietnam offers a lot of room for growth, and that makes it very attractive. On the Balance of Trade issue, during 1995, Vietnam had a deficit of $2.3b. Obviously, Vietnam had a big shortage of domestic production for their needs. By 1999, less than 4 years, this figure dropped down to $320m, and this is an indication that now they can satisfy their needs by producing domestically.

In concluding this section, it is important to mention that the overall economic picture of Vietnam now is not as promising as it was a year or two ago, and there are at least a couple of reasons for that. The first reason, which is also the most important, is the East Asian financial crisis. This affected Vietnam through sharp declines in foreign direct investment, as well as stagnation of export earnings. Both of these combined had a total impact of 12% of GDP. The second reason, is a major typhoon and a major drought which caused declines in incomes in some rural areas.

STATISTICAL ANALYSIS

This section is designed to provide the reader with some statistical documentation, to support everything that was presented in the previous section. In their attempt to do that, the authors chose to present and discuss, three very important and widely used economic indicators, those being the inflation rate, (1987 – 2000), growth rates, (1987 – 2000), and trade, exports and imports, (1987 – 1998).

Table 1 shows the growth rates for Vietnam since 1987. As can be seen, the growth rates were fairly low prior to 1991, but starting with 1991 through 1997 the growth rates ranged between 6% to 9.5%. Obviously, very respectable rates. Since then the rates have dropped a little, and this year they are estimated to be around 4.5% to 5%, which still is a descent growth rate.

Figure 1 shows graphically Table 1. It shows the ups and downs over the years and the steady high growth between 1991 and 1997.

Table 1
Growth Rates 1987 - 2000

YEAR	GRATE
1987	3.9
1988	5.1
1989	8
1990	2.3
1991	6
1992	8.6
1993	8.1
1994	8.8
1995	9.5
1996	9.3
1997	8.2
1998	4
1999	5
*2000	4.5

Source: http://us-asean.org/vietnam/vietnam_economic_data.htm
http://hcgvn.vps.org/west_au/lks96.htm

FIGURE 1

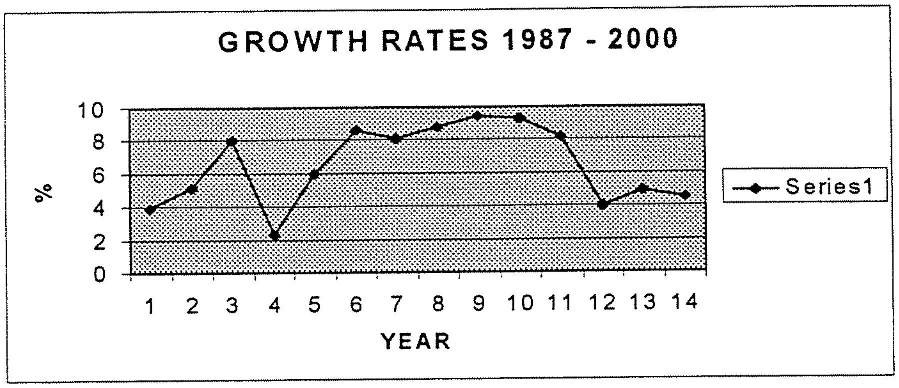


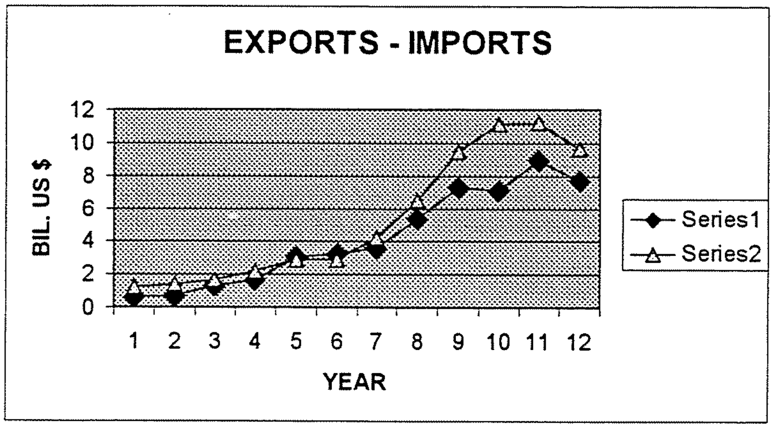
Table 2 shows the exports and the imports of Vietnam between 1987 and 1998, and basically supports the findings of Table 1.

Table 2
Trade Exp./Imp. Billions Us $

Year	Expo.	Impo.
1987	0.6	1.2
1988	0.7	1.4
1989	1.3	1.7
1990	1.7	2.2
1991	3.1	2.9
1992	3.2	2.9
1993	3.6	4.2
1994	5.3	6.5
1995	7.3	9.5
1996	7.1	11.1
1997	8.9	11.2
1998	7.7	9.6

Source: http://www.wg-vietnam.com/economics_2htm
http://www.stat-usa.cov/85256722005a5d10...080d3actd6b8525687300682508
CHINN,FRANK,"Import/export and Current Account Balance," Citibank Vietnam Investment Guide, Saigon Times, 1998

FIGURE 2



Total trade was increasing starting with 1991, and reaching its highest point, 20.1 billion US $ during 1997, which was also the last year the Vietnamese growth rate was rising, (8.2%).

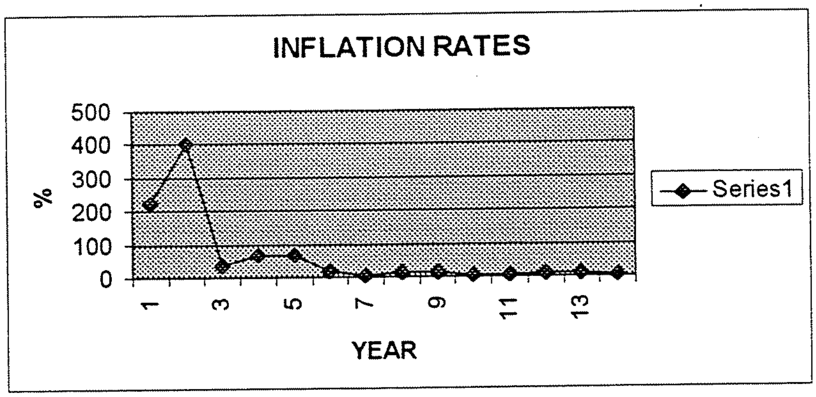
The last economic indicator presented is inflation. This really shows that the Vietnamese are serious about getting their economy to develop.

Table 3
Inflation Rates
1987 - 2000

Year	Infla.
1987	223.1
1988	400
1989	34.7
1990	67.5
1991	67.4
1992	17.6
1993	5.2
1994	14.4
1995	12.7
1996	4.5
1997	3.6
1998	9.2
1999	7
2000	6

Source: http://www.us-asean.org/vietnam/vietnam_economic_data.htm
Asian Development Bank

FIGURE 3



One can see here that Vietnam has gone through some very serious inflationary periods. For example 1987 inflation was 223.1% and then it reached the peak next year at 400%. It has been dropping though since then, and it has been low and steady since 1996. All these can also be seen in Figure 3.

Even though these economic indicators are not the only ones available, they are strong enough, and along with the Appendix that follows at the end of the chapter, they give us a good indication of what is happening in Vietnam.

CONCLUSION

Finally, in this section we'll summarize everything that was discussed in the previous sections, evaluate the Vietnamese economy, make some projections for the future, and at the end make some recommendations.

Since the end of the war, Vietnam has achieved a lot of things with respect to its economy, with the assistance of other countries of course. Some of the most important achievements though during 1999 were the following:

1. GDP grew by 5%
2. Agricultural production grew by 5.5%
3. Rice output reached 33.8 million tons
4. Industrial production grew by 10.3%
5. Export turnover grew by 22%
6. More investments in agriculture, and in the rural and remote areas
7. Number of poor households was reduced
8. Progress in education, science, technology, culture and health
9. National defense and security ensured
10. Created 1.2 million new jobs

Basically, what these ten things are doing, is supporting everything we have been saying all along, that the Vietnam economy is changing and improving. Obviously, the recent past has been good. But what about the future? A fairly accurate answer to this question is given to us by the statistical section.

By reviewing the statistical section, and Tables 1, 2 and 3, we can see that eventhough inflation (Table 3) remains constant and low, the growth rates in Table 1 are declining, and total trade in Table 2 is declining as well. If this situation continuous, obviously it will be the turnaround of the economy. This means that the year 2000 brings with it some major challenges for Vietnam, and these are:

a. To arrest and then reverse the declining growth rate
b. To maintain socioeconomic stability
c. To implement reforms
d. To continue investing in education, science and technology

Even though these are very important challenges, foreign investment is even more important. The Vietnamese government must find ways to improve the confidence of foreign investors, that their investments in Vietnam will be profitable, and convince them to start investing. All of us know how important foreign capital is to an economy.

Finally, the Vietnamese National Assembly set the following targets for the year 2000:

1. Agricultural growth – 3.5 – 4%
2. Rice output – 33.5 – 34 million tons
3. Growth of industrial production – 10.5 – 11%
4. Growth in services 5 – 5.5%
5. Growth in exports – 11 – 12%
6. Inflation rate – around 6%
7. Budget deficit – less than 5%
8. Create 1.2 – 1.3 million new jobs
9. Reduction in poor households to 11%
10. Reduce the birth rate by 0.5%

The question here is: Can they reach these targets? So far they have proved that they can reach the goals that they set, so there is no reason not to achieve their targets for the year 2000, since they have tremendous support from the World Bank and other industrial nations.

In conclusion, Vietnam has been very attractive, with respect to investments during the last 10 – 15 years, and there is no reason not to continue. It is to their advantage that they realized early that their economy is turning around, and they are implementing policies to correct that, even though foreign assistance is very critical as well. So if they are able to achieve their targets for 2000, investor confidence will improve, and the Vietnamese economy will continue growing.

As mentioned above, the purpose of the paper is an overall evaluation of the economy of Vietnam, and it is the intention of the authors to continue improving this paper, and eventually develop an empirical model to support all the findings, as well as draw more interest to the topic for further research.

APPENDIX

In the Appendix we try to use a more advance statistical model to show what has been happening in Vietnam, along with the causes, by running regressions for different variables.

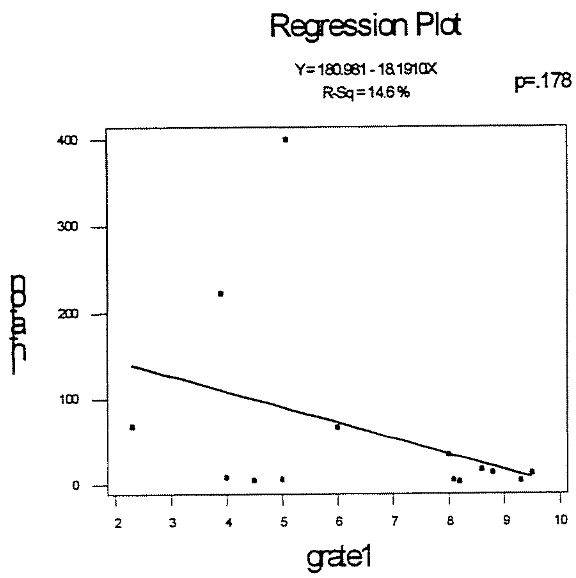
In the first model, we used inflation as a dependent variable and the growth rate as the independent variable. The Hypothesis to be tested: The growth rate does not affect the inflation rate.

Results:

$R^2 = .146$ and this is very low, meaning that only 14% of the inflation rate is explained by the growth rate. $P = .178$ and this is larger than the significance level of 5%, which means that the hypothesis is accepted, that the growth rate has nothing to do with the inflation rate.

The relationship is also shown in Graph 1 that follows.

GRAPH 1



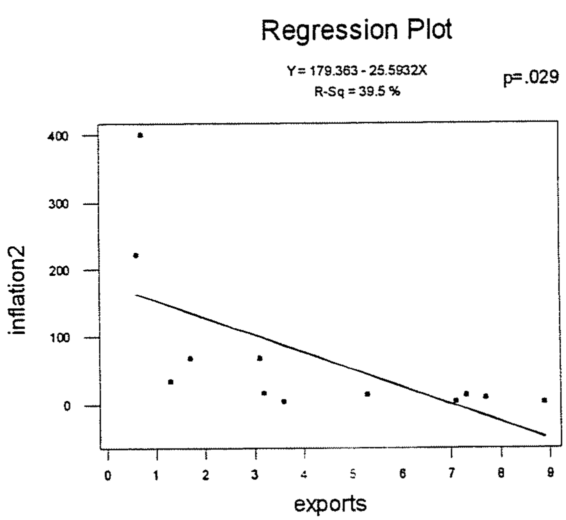
The second regression uses inflation as dependent variable and exports as independent, and the Hypothesis that is tested is: Exports do not affect the inflation rate.

Results:

$R^2 = .395$ meaning that almost 40% of the inflation is explained by exports.

P = .029 the P value is much lower than the significance level of 5%, so the hypothesis in this case is rejected, and indicates that exports have an impact on the inflation rate, shown on Graph 2.

GRAPH 2



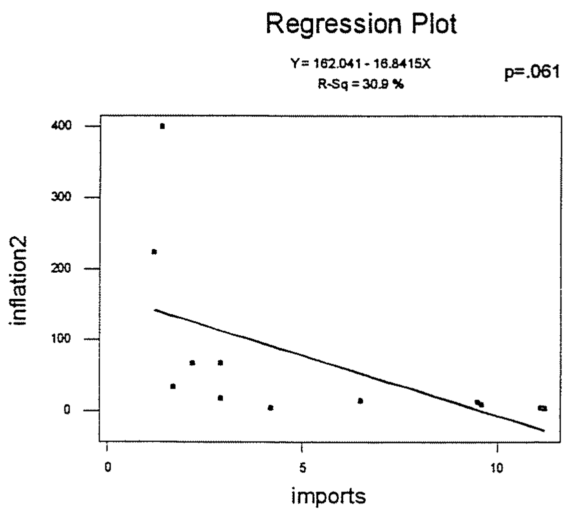
In the next model we used inflation as dependent and imports as independent, and we tried to test the Hypothesis that: Imports do not affect inflation.

Results:

R^2 = .309 and very low to explain the relationship.

P = .061 and once again this is larger than the significance level of 5%, so that the hypothesis is accepted, shown below.

GRAPH 3



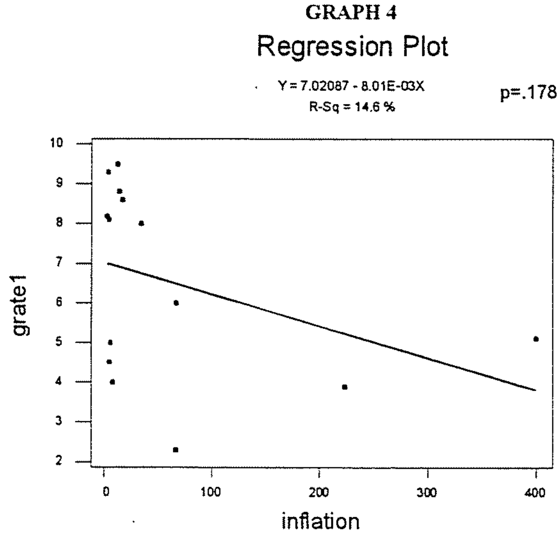
In the final regression model we used the growth rate as a dependent variable and this time inflation as the independent variable, to test the Hypothesis that: Inflation rate does not affect the growth rate.

Results:

R^2 = .146 also very low to explain any relationship.

P = .178 and this is more than three times larger than the significance level of 5% so that the hypothesis is accepted, and the inflation rate does not have any impact on the growth rate.

GRAPH 4



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