

SOME THOUGHTS ON THE ROLE OF THE VIETNAMESE STATE IN THE PROCESS OF SHIFTING TO THE MARKET ECONOMY

Tran Anh Tai^(*)

Nowadays, in the world, there are many different economic operation models at varying levels of success. Yet there is no model that operates without the State's interference. A strong and intelligent state is one of the determinants for the success of an economic operation model.

Shifting from a centrally planned economy to the socialist-oriented market economy under the regulation of the State, the formation and development process of the market economy in Vietnam, which is associated with the State's role of regulation, will have many differences from the ordinary market economy.

1. Typical Characteristics of the Process of Shifting to Market Economy in Vietnam and the Role of the State

1.1. Background of the Shift to Market Economy in Vietnam

** Domestic Context*

After a long time operated under the centralized bureaucratic and State-subsidized mechanisms, the Vietnamese economy will have following features when shifting to market economy:

- Low development level; under-developed labor divisions; backward techniques and technology; agriculture-based economy with traditional farming; rice monoculture; imbalanced and weak industrial structure; low living standard, high unemployed rate. These not only caused difficulties for the industrialization and modernization but also created and fostered disadvantages for the formation and development of the market economy.

- The relations of production were set up and maintained by the domination role of public ownership of means of production under 2 types: the people ownership and collective ownership. Private ownership was not accepted and was the object of transformation and abolishment.

- Production and exchange were primarily maintained on the basis of material relation. The relation between commodity and money created an opposite system that was, in fact, not accepted and was restrained to its maximum development. The market relations were almost not set up or existed in a formal and distortional manner.

- The economy was a closed, self-existing and severely imbalanced system. The official economic operation mechanism was the ordered mechanism. In this

^(*) Dr., Faculty of Economics, Vietnam National University, Hanoi.

mechanism: the State regulated economic activities through a system of production plans and product distribution, and through a system of price, foreign exchange rate and interest rate that are stipulated strictly and subjectively.

- The production structure had its characteristic of monopoly. The state focused its operations on State owned enterprises that were established and spread on a large scale without competition. The production relations were vertical under the mechanism of issue and delivery, making the horizontal relations a very difficult situation.

- Finance was weak, unstable, based on a less developed economy that bore heavy consequences of war. The high inflation lasted too long, domestic savings was not yet existed, and the bureaucratic, centralized and state-subsidized management mechanisms were not appropriate to objective rules of the market economy.

** International Context*

Vietnam was shifting its economy to market economy when the international context and the world situation had substantial changes. Some of which are as follow:

- The trend of internationalization, integration into the world economy and the development process of an organic world market caused many changes in the economic relations between nations, creating opportunities for the poor

countries to join in international exchange and co-operation easier and more equal.

- The trend of regionalizing the development went along with enhancing the protectionism. This trend is contrary to the first one and is the essence of market development. However, in that current situation, it occurred from typical causes, of which the direct cause was the dynamic development of new industrialized countries.

- The collapse of Socialism in the former Soviet Union and Eastern Europe created a significant space in the development of Vietnam. There are two sides of a coin here. Along with escaping from a closed and subsidized system, Vietnam has chances to join in an opened world economy with a more effective operation. Also, Vietnam lost a reliable and firm support.

1.2. The Regulation of Context to the Role of the State in Shifting to Market Economy in Vietnam

In the above-mentioned specific context, when considering the role of the State in the process of shifting to market economy in Vietnam, in our opinion, we should pay attention to the followings:

- In Vietnam, there is a historical fact that the State had a decisive role in economic development for decades. Its foundation is the popularity of public ownership and the homogeneousness between the centrally planned and subsidized economy with materialized

economic relations and the autarky economy.

From that starting point, the reform can only be implemented effectively if it is initiated by the State.

- Vietnam is in the process of shifting to market economy, so the role of the State is not just limited in overcoming and correcting the negative effects and defects of the market economy, but its main duty is to establish the foundation for the development of market relations themselves. Here, the development of market relations is associated with the re-awareness process and, therefore, it is necessary to overcome step by step and correct the defects and failures of the participation of the State in regulating the economy in the past decades to conform to the tasks in the new stage.

- Vietnam is shifting to market economy from a poor, backward and agriculture-based economy. Most of Vietnam's population is in rural areas. Therefore, in order to bring into play the key role of agriculture and to help the farmers understand the benefits and, there from, mobilize the majority of people to take part in the development, especially in the first stage, the role of the Government is crucial. Besides, how a poor country can cope with poverty while assuring the economic development is also a big challenge to the Government.

- As a developing country, Vietnam should not bypass stages but should utilize the advantages of a country that

follows, bring into full play the internal forces of its economy, and learn effectively from successes and experience of the pioneer countries. In that condition, it could not be left for the "invisible hand". A strong and intelligent State is one of the determinants for the success.

Given this, it is possible to say that when shifting to a new stage, the role of the State is not decreased but increased. On the other hand, it has shown a trend that contrary to the changing process of the role and economic function of the State of Vietnam. Shifting to market economy means shifting to a new system, where the market with its objective rules will shape a new power regime is that independent of the State. The market itself contains a self-adjustment mechanism and that is the main mechanism to regulate the economy. This is completely different from the old system in which the State directly controlled the economy. So, these two economic systems have two different regulation mechanisms, two different power regimes, and the specific method of and the extent to which the State participates in regulating the economy are also different. The transition to market economy relatively reallocates the regulation power between the State and the market in the way that limits the State's power and extends the market's power. However, the nature of the matter is not to abolish the economic role of the State, but the method, domain, and scope to implement that role will base on other rules that are more subjective and economical.

- In accordance with subjective logics of market economy progress, it could be separated into two tasks relatively to the two stages of market economy progress: the stage of shifting to market economy and the stage of operating the structured market economy.

Basically, Vietnam is in the process of carrying out the first task to achieve a structured market economy with the primary mission to develop an institutional framework. The nature of this task is to create market subjects and a free business environment, structure functional market: labour market, financial market, stock market, tax system, price and interest rate.

Succeeded to and concomitant with the first stage is the operation of the structured market system. In this stage, the State's influences are associated with the long-term economic growth and to develop macro balances as the conditions for that growth.

2. Economic Reform in Vietnam from the Policy Process Perspective

The realities in the last 15 years have shown that the shifting to market economy has depended a lot on policy process. The reform is fast or slow, stable or troubled, grew or receded – all these are originated from what policies does the State implement? To what extent they are right? Therefore, it is reasonable to consider the reform process from the policy process perspective. However, it does not mean to identify the subjective process with the

objective operations of the State. The shifting of Vietnam economy since 1975 has shown that the economic reform is a struggle between orthodox economic system (centrally planned mechanism) and unorthodox one (free market), following the tendency of confirming the market mechanism. That process could be considered in the following 3 periods:

1. Period 1975 – 1986

From the policy perspective, the economic reform in Vietnam started from 1979 by the resolutions of the 6th Plenum of the Party Central Committee (4th Party Congress). This was the result of a long accumulation of restrictions and contradictions during nearly two decades of existence of the centrally planned, bureaucratic mechanisms with State subsidies. The economic reforms included: firstly, the Directive No.100 of the Central Committee's Secretariat (1/1981) officially regulated the product Contract in agriculture; secondly, the Decree 25/CP on the 3 portions in industrial production; followings were the Resolution 26 of the Politburo and Directive 109 of the Central Committee's Secretariat on the improvement of distribution and circulation, especially the Resolution of the 5th Party Congress, 8th Plenum (6/1985) on adjusting the price level, reforming the salary regime in compliance with abolishing material supply, shifting to paying salary in money.

Besides, the State allowed enterprises, manufacturing companies and local export

companies to directly have business relations with foreign companies; step-by-step abolished the former monopoly in foreign trade; step-by-step restructured the investment to overcome the dispersed, non-synchronous and not effective investment. Both in view and in reality, it was gradually shifting to focusing on agriculture and light industry.

Briefly, the renovation in this period of time, demonstrated by the above-mentioned Resolutions, reflected an objective trend of shifting process from the centrally planned economy to the market economy. However, in fact, this was a period of extremely troubled, unstable economy that, in its essence, contained a serious crisis about economic institution and regulation mechanism.

Actually, that situation was generated from the transitional stage of mechanism, in which the old economic system was inertial and had a strong defensive ability. The State, in its capacity as a power apparatus, with the strongest economic power, was still not fully and clearly aware of the indispensable trend, therefore, was not resolute in abolishing the direct administrative management to shift to the indirect management.

The reform progress in this period could be considered and assessed in the two dimensions that follows:

Firstly; the State step by step accepted the market mechanism and oriented the economy accordingly. This was an important sign, which meant that the

ordered economic system began to escape from its "sclerosis" situation, and shifting to a more dynamic economic system. That was also the significance of the policy reform progress, and that is why it acted as the role of the State during this period of time.

Secondly; the non-synchronous, unthorough and passive change of policies is one of the main reasons for causing the economy into troubled, weakened situation in a long time. It could be said that this was the unavoidable cost for the transitional stage from the old mechanism to the new one.

2. The Period of the 1986 – 1996

The Renovation, shifting to market economy was confirmed at the 5th Party Congress and continued to develop at the 7th Party Congress.

Since then, more synchronous, fundamental, and radical changes have been made.

- Multi-sector economic policy has been confirmed and implemented.

- Macro management tools to push up the shifting process to market economy have been used.

- A flexible exchange rate system, reformed tax system in step 1 has been applied.

- Open-door economy policies have been implemented.

- Management apparatus in step 1 has been reformed.

Thanks to its determination and perseverance in implementing the renovation, Vietnam has gained great achievements, brought the country out of socio-economic crisis and stepped into a new pace of development: the stage of fast economic growth, speedy industrialization and modernization. The average growth rate in the 5 year period of (1991 – 1996) were as follows: GDP increased by 8.2%; total agricultural yield increased by 4.5%; food production converted to paddy reached 25 million tons (1993); rice export 1.95 million tons (1992); total industrial production increased by 13%; export turnover increased by 20%; achieved 11.2 billion US dollars in 4 consecutive years.

Investment for economic development in the 4 years also increased. In 1990, it was just 11.5% of GDP; 1991: 14.3%; 1993: 14.4%, and reached 20.5% in 1994 and 31.6% of GDP in 1995.

The economic structure began to change: the industry proportion in GDP increased from 18.8% in 1990; 20.5% in 1993; 22% in 1994 to 28.76% in 1995. In this period, the service proportion also increased from 36.3% to 38.2% and then to 39%.

Inflation was controlled, the national finance was healthy, and the Vietnam currency was stable. Inflation decreased from 67% in 1991 to 17.5% in 1992, 5.2% in 1993; 14.5% in 1994 and to 1.27% in 1995. The budget mobilisation rate increased rapidly, more than 20% of GDP

in 1993; budget retrieval increased by 27% in 1994.

The two-way foreign trade increased 20% in average. Up till September 1994, 1000 investment licenses were issued with the total registered capital of 10 billion USD.

The achievements in the first 5 year period of 1991-1996 were quite encouraging, however the Vietnam economy still had weaknesses: Firstly, it had a good growth rate, but, in general, that growth was not stable. The quality and effect of the economy had many limitations. Secondly, finance and the monetary systems could not meet the requirements of the economic development, and could not become the most decisive and effective tool for macro management. Generally, Vietnam had not yet developed a national finance that is appropriate to macro economy operating in a market mechanism. Thirdly, foreign trade was still weak.

3. The Period from 1997 up to Now

This is the period in which the international context contained many factors which are not advantageous for the development of Vietnam's economy.

Firstly, the financial crisis broke out in the region, affecting strongly and persistently our economy. Secondly, the world market was unstable. Prices of Vietnam's main exports had a trend to decrease drastically. Especially, in recent years, the globalization has been going on

vigorously with new moves, the unsteadiness of the economy has accelerated more rapidly, especially after the terrorist attacks on 11 September 2001 and the collapses of a series of economic groups operating in high-tech field.

Facing with those difficulties, the Vietnamese economy also had critical changes that maintained a rather high growth rate, and restrained and reversed the trend of decreasing growth rate. In 1996, the GDP grew 9.34%; in 1997: 8.15%; in 1998: 5.76%; in 1999: only 4.77%; but increased in 2000 to 6.74%; in 2001: 6.78%; and in 2002: 7.04%.

Investment continued to grow but much less in comparison with the previous period (11.4% compared to 23.33%).

Especially, in the situation that the regional economy fell into financial crisis and the currencies were constantly devalued, Vietnam was still able to control the "price explosion" and maintained a low inflation rate. This was a great exertion in an effort to stabilize the macro economy recently. The inflation rate in 1996: 4.5%; in 1997: 3.6%; in 1998: 0.2%; in 1999: 0.1%; in 2000: -0.6%; in 2001: 0.8% and in 2002: 4.0%. In 1999, the unemployed rate in urban areas was 7.4%, in 2000: 6.44%, in 2001: 6.28% and in 2002 was only 6%. The time-usage-rate in rural areas in 1999 was 73.49%; in 2000: 73.86%; in 2001: 74.37%; and in 2002: 75.41%.

Employment experienced some positive changes. Especially, in the last three years, the unemployment rate in urban

areas decreased and the time-usage-rate in rural areas increased.

However, it is easy to see that the Vietnamese economy has developed in recent years on the basis of a structured model with the following features:

- The economy has developed in width on the basis of existing advantages, especially on natural resources.

- The actual development mode has relied on prioritizing import-alternative industries, which used much of capital and had low high-tech and labour content, such as mining industry and processing industry.

- The market institution has not yet developed synchronically. Many fundamental structural factors were lacked or weak; the business environment was ill-shaped, and the factors of the old mechanism still existed.

- The way to approach the world market and draw FDI mostly focused on Western Asian countries.

- Solutions to reverse the trend of decreasing growth rate in the previous period were mostly situational measures that focused on external impacts but lacked solutions to overcome internal weaknesses and improve growth.

- The trend of decreasing the speed of investment growth in recent years, especially foreign investment, signaled a decline in quality of investment environment and prospect of economies.

The weaknesses and issues of our economy in recent years have reflected a paradox: the deeper our economy penetrated into market economy, opened to and integrated into the world economy, the more the factors of bureaucratic, centrally-planned and subsidized mechanism rehabilitated, such as the increasing of monopoly and subsidized situation, widespread protection, the trend of developing industries that use much of capital and have low high-tech and labor content, private sector was not adequately paid attention to, etc. Although that trend was not the determinant for the orientation of our nation's renovation and

development progress, but it reflected that the struggle between the old mechanism (centrally-planned) and the new one (opened market mechanism) of the economy is still not ended.

So, it is impossible to say that the first logical step of the above-mentioned market progress is completed. The reform is actually continuing and operating in contradictions, facing with limitations including the limitation of policy. That requires much more effort of the State in the shift to market economy in Vietnam in the next steps.

TẠP CHÍ KHOA HỌC ĐHQGHN, KINH TẾ – LUẬT, SỐ 1E, 2004

MỘT SỐ SUY NGHĨ VỀ VAI TRÒ CỦA NHÀ NƯỚC TRONG QUÁ TRÌNH CHUYỂN SANG NỀN KINH TẾ THỊ TRƯỜNG Ở VIỆT NAM

TS. Trần Anh Tài

Khoa Kinh tế, Đại học Quốc gia Hà Nội

Bài viết đề cập đến bối cảnh cụ thể trong nước và quốc tế ảnh hưởng đến công cuộc cải tổ kinh tế của Việt Nam. Tác giả chỉ ra một số khác biệt về vai trò của nhà nước trong quá trình chuyển từ nền kinh tế tập trung sang nền kinh tế thị trường.

Quan trọng hơn, bài viết còn khái quát hóa quá trình cải tổ kinh tế của Việt Nam về phương diện kinh tế quốc doanh. Tác giả không chỉ phân tích những thuận lợi và bất lợi của các chính sách mà còn bàn cả ảnh hưởng của chúng tới những thành tựu đã đạt được qua cuộc cải tổ. Tác giả kết luận, Nhà nước cần phải nỗ lực hơn nữa để phát triển nền kinh tế thị trường ở Việt Nam.