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Vietnam's economy, battered by three successive years' of drought, floods, typhoon and cold weather, and reeling from the effects of the Chinese aid cut in July 1978, received graver blows from Hanoi's military involvement in Kampuchea and the Chinese invasion. While the Chinese attack destroyed some 2 million sq. metres of housing space, mines, factories, railway lines and bridges in northern Vietnam, diversion of enormous amount of manpower and resources to strengthen the defence put a crippling burden on the economy. Suspension of the railway link between China and Vietnam, which carried the bulk of the Soviet bloc aid to Vietnam, led to heavy pressure on the ill-equipped port of Haiphong. Shortage of fuel and lorries caused difficulty in transporting export goods. The departure of thousands of skilled workers, many of them previously engaged in key areas, also affected production. On top of this, misappropriation of funds by corrupt officials and bureaucratic mismanagement further depressed productivity.

In 1978 Vietnam's grain production not only fell short of the annual target but was even 2 million tons less than the 13 million tons in 1977. The lack of sunshine in the north, floods in the central areas, and partial drought and pest in the south combined with passive resistance by individualistic peasants made it unlikely that by the end of the year Vietnam would achieve its grain production target of 16.5 million tons. Even if this target was achieved, an official Hanoi estimate admitted, there would still be a 2.4 million-ton deficit. The Soviet bloc was expected to provide 1.5 million tons and international aid and commercial purchases to provide another 400,000 tons. This left a half-million-ton deficit which could only be met by further belt-tightening. Rice rationing throughout the country was drastically reduced: in Hanoi, it was 6-7 kg. per head per month and in Ho Chi Minh city 2-3 kg. The disastrous flood in late 1978 wiped out 20% of the cattle. A Hanoi radio broadcast in August noted that the number of cattle and poultry continued to decline. This meant an even more serious shortage of meat for a population which continued to grow at 2.3% a year.

Apart from climatic vagaries, a major problem in agricultural cooperatives in the north was bad management and the general lack of enthusiasm among members. An official assessment noted that 62% of agricultural cooperatives in the north were badly managed and failed to achieve their production targets. Shortage of fertiliser and insufficient power for irrigation pumps also hampered production. In the south, fertiliser and pump fuel shortages led to the limited use of miracle rice strains. Peasants were unwilling to join the cooperatives or sell their surplus rice to the state at a low price. They reduced production substantially and often fed grain to the cattle or made alcohol with it rather than sell it to the government. Frequent official warnings that peasants should not be coerced into joining collectives did not seem to have much effect on lower-level cadres.

Industry, which has been suffering from the lack of raw materials and spare parts, was further affected by the Chinese aid cut and the diversion of limited foreign exchange to import grain. A number of factories had to be closed completely for the lack of raw materials. Drop in coal production — due in part to the departure of ethnic Chinese miners — also affected power generation and, in consequence, the industrial output.

Since the industrial output in 1978 grew by 7% compared with the target of 21%, the 1979 target was realistically lowered to a 12% increase. But it was highly doubtful whether even this could be achieved. The mining sector, which represents 5% of GNP was seriously affected by the Chinese invasion. Iron ore and phosphate mines in Lao Cai, and tin, copper and chromium mines in the Lang Son and Cao Bang areas were damaged. The French-built aniseed-oil factory near Lang Son was also destroyed. Countries of the Soviet bloc economic grouping Comecon promised to take over some of the industrial projects, abandoned by China but very little was achieved during the year.

The 1978 plan had envisaged construction of 4 million sq. metres of housing but only 1.5 million sq. metres were built. Since cement production dropped in 1978 from the year before, it was decided to cut back on construction in 1979 and only 1 million sq. metres of housing were planned. But with the big emphasis on defence construction in the wake of the Chinese invasion, it was unlikely that even the reduced target could be met.

Canadian, Norwegian and West German companies continued their exploitation of offshore oil in the south but no commercially-exploitable quantity was found.

Exports, which showed healthy growth till 1977, started slowing down in 1978 and, in volume terms, actually declined. Imports increased from US\$960 million in 1975 to US\$1,159 million in 1978 with one third going to pay for grain imports. According to an International Monetary Fund (IMF) study, Vietnam's external reserve stood at a bare US\$88 million by the end of 1978 — or the equivalent of one month of recorded 1978 import. A worried IMF urged Vietnam to limit its external borrowing of short-term loans. The IMF study noted that maturing of some medium-term loans contracted during 1975-77 "is causing a sharp increase in the debt service payments; already in 1978 the service of the debt in convertible currencies (US\$150 million) had exceeded Vietnam's export receipt in these currencies."

Although according to the plan for 1979 export should increase by 31%, limited available data showed a considerable drop in volume and value over the corresponding period in 1978. Vietnamese exports to Japan, the biggest non-communist trade partner, showed a 32.2% drop during the first quarter of 1979.

The worsening economic situation and aid cuts by a large number of Western countries in protest against Vietnam's invasion of Kampuchea led the Hanoi planners to do some serious rethinking. An editorial in *Nhan Dan* in August admitted that there were "unreasonable points in the existing policies" which needed to be modified through new economic policies. The essential objective of the new policies was to appeal to individual initiative and the motivation of private gain. According to a new regulation, enterprises which produce export goods would be given priority in the supply of raw materials including imported ones. Their workers would receive special food allotments. Private pig-breeding was encouraged as was the production of consumer goods through small family-sized private enterprises. Peasants who made use of fallow or virgin land, or land not used by cooperatives, to produce food grain were given tax exemptions. In order to facilitate small-scale private trade and the circulation of goods between the city and the countryside, highway checkpoints were abolished by a prime minister's decree in August.

As the year drew to its end, it was unclear how much positive effect the new policies were having on the economy. But the leaders showed realism by refraining from holding out any hope of immediate improvement. Addressing the national day meeting in September, acting Premier Le Thanh Nghi admitted that the country faced "great and endless difficulties on the economic front" and called for an "extraordinary effort by all Vietnamese" to overcome them. He urged cadres to be less selfish in the period of shortage by quoting Ho Chi Minh: "It is not a matter of shortage but one of fair distribution." There was, however, no indication that the venal officials and privilege-seeking cadres were making much effort to lighten the suffering of the people.