CAPITALISM

How Capitalism Beat Communism in Vietnam

It only took a generation to go from ration cards to exporting electronics.

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(Photo: Hanoi, Vietnam, 1985; Christopher Pillitz/Gettya; Photo: Hanoi, Vietnam, 2020; Manan Vatsyayana/AFP via Getty)

Eight-year-old Phung Xuan Vu and his 10-year-old brother were responsible for fetching food for their family, which was in the constant grip of hunger. They were living in Vietnam in the 1980, so this required ration cards.

One of the family's most important possessions was a booklet of vouchers for food. As the older child, Vu's brother took care of the booklet, knowing that if he lost it, the family would have nothing to eat. The vouchers inside were printed on waxy yellow tissue paper. They meant the difference between going hungry and having something to eat, although it was never enough.

The vouchers had to be redeemed at food distribution centers. People often had to wait hours, sometimes all day, to get a little food, and those who wanted a better chance of leaving with food came at night. They were already queuing up before the food was even delivered, in the hope that it would arrive at some point. Once it was finally your turn, you often found yourself face-to-face with harsh officials. As Vu told Nancy K. Napier and Dau Thuy Ha in their 2020 book *The Bridge Generation of Việt Nam*: "The officials were not friendly. They were bossy and had power. We felt like we had to beg for the food that was rightfully ours."

The amount of food you got depended on your family's status. State employees received more, factory workers less. If there was not enough rice, people received wheat instead, though hardly anyone knew what to do with it: Even if they knew how to bake bread, they couldn't normally get hold of the other ingredients. In any case, they needed electricity to heat an oven, but electricity was available only a few hours a day.

Today the Vietnamese call this era *Thoi Bao Cap*—"the subsidy period." It was the time of a socialist planned economy, before the free market reforms of the late 1980s.

In 1990, with a per capita gross domestic product (GDP) of $98, Vietnam was the poorest country in the world, behind Somalia and Sierra Leone. Every bad harvest led to hunger, and Vietnam relied on food aid from the United Nations and financial assistance from the Soviet Union and other Eastern Bloc countries. As late as 1993, 79.7 percent of the Vietnamese population was living in poverty.

By 2020, the poverty rate had fallen to 5 percent. Vietnam is now one of the most dynamic countries in the world, with a vibrant economy that creates great opportunities for hardworking people and entrepreneurs. Once a country unable to produce enough rice to feed its own population, it has become one of the world's largest rice exporters, and a major electronics exporter too.

War and Central Planning

After the French colonists were defeated, Ho Chi Minh established a system modeled on the Soviet planned economy in North Vietnam. In 1975, after the pro-American government in South Vietnam fell and the last U.S. troops left the country, the newly united country's government decided to bring Soviet-style socialism to the south too.

The war had devastated the country. Some 14–15 million tons of bombs and explosives fell on Vietnam, 10 times as many as had been dropped on Germany in World War II. Napalm inflicted heavy civilian casualties. The South Vietnamese alone lost 1.5 million people, including 300,000 civilians. By the end of the war, there were almost a million orphans in South Vietnam and at least a million war invalids. Civilian losses in North Vietnam were lower than in the South, but it lost far more soldiers.

The planned economy meant yet more devastation.

In 1977, the government started collectivizing agriculture and nationalizing nearly 30,000 privately owned small businesses. Many peasants in the South regarded collectivization as particularly unjust because the communists had given them land during the war to secure their support and now wanted to take it away from them again. Many of them resisted collectivization, and some left their land or sold their animals rather than work in collectives. By 1980, only 24.5 percent of the rural population in the South worked in collectives, compared to 97 percent in the North.

"The peasants in South Vietnam reacted by restricting production, which was primarily oriented towards their own needs," Claudia Pfeifer explained in her book *Konfuzius und Marx am Roten Fluss* (in English, *Confucius and Marx on the Red River*). "Within a few months, the agricultural sector almost completely collapsed."

Less than 10 percent of the cultivated area for annual crops could be artificially irrigated and drained, even though pumps were available for about 40 percent of the area—power shortages and blackouts often made their use impossible. Only 30 percent of the agriculture sector's electricity demands were satisfied.

State-owned cooperatives received 40 percent of the government's funds, though they contributed only 5 percent of total agricultural production. The state collectives did not reward members for the amount of rice they produced, but instead counted how many days they had worked. If you worked 30 days, you got 30 points, which gave you the right to a defined share of the harvest. If you worked 20 days, you got 20 points and correspondingly less.

In 1980, Vietnam produced only 14 million tons of rice, though the country required 16 million tons to meet its population's basic needs. Every failed harvest led to immediate food shortages, and to rationing. The second Five-Year Plan envisaged an increase in GDP of 13 percent to 14 percent per year for 1976 to 1980. In fact, it went up only 0.4 percent—and this with a rapidly growing population. Agricultural production was to increase by 8 percent to 10 percent per year; it went up by 1.9 percent. The plan envisaged annual increases in industrial production of 16 percent to 18 percent; the actual annual average was just 0.6 percent. In the entire northern half of the country, the per capita supply of paddy rice declined by about a third in the second half of the 1970s.

Most of the yield was produced on the fraction of the land that was privately farmed. From 1976 to 1988, more than 60 percent of cooperative members' income came from the 5 percent of land they were allowed to keep after 95 percent of the land had been collectivized.

At first, South Vietnam's new rulers declared that they wanted to nationalize only foreign-owned enterprises. Vietnamese-owned enterprises were transformed into so-called parastatals (enterprises with state participation). But this was meant to be a temporary measure: The plan was that all enterprises would gradually become fully state-owned. The same problems arose in industry as in agriculture. Production stagnated, and state-owned industrial production actually declined by 10 percent from 1976 to 1980.

International sanctions against Vietnam—imposed in response to the country's 1978–1979 invasion of Cambodia—exacerbated the country's economic crisis. Later that year, China went to war with Vietnam, heightening the problems.

But 1979 also marked the first attempt to relax the socialist policies. Like several foreign communist governments before it, going back to Vladimir Lenin's New Economic Policy in the 1920s, the Vietnamese regime realized that survival required a retreat from its ideology. "At the beginning of the 1980s, the free market, in which prices were based on cost calculations and supply and demand, was once again allowed," Pfeifer wrote. "At the same time, the first cuts to subsidies for state-owned enterprises were introduced."

These initial reforms legitimized what had already taken place as spontaneous developments in several villages. Many agricultural collectives and even state-owned enterprises had long been turning a blind eye to official rules and regulations. Farmers refused to work in collectives and concentrated their work on the little land they owned themselves, because they could sell the goods they produced here at market prices. There were unauthorized contracts between collectives and families and between state farms and private traders. Such spontaneous grassroots developments, not the party, were the ultimate source of the reforms.

Changes to policy began at the local level and then were applied nationally. The provinces in the Mekong Delta, for example, moved from the rationing subsidy system to a market-based system as early as the 1980s. "Without such illegal or pilot procedures," Tran Thi Anh-Dao wrote in the 2022 book *Rethinking Asian Capitalism*, "there is evidence that market mechanisms could never have emerged so rapidly."

Here we see parallels with developments in communist China. There too, movements from below were at least as important as top-down, state-initiated reforms. Long before the ban on private farming was officially lifted in 1982, there were spontaneous initiatives all over China to reintroduce private ownership, even though this was officially prohibited. The result was extremely positive: People were no longer forced to go hungry, and agricultural yields increased significantly. As it became apparent that the yields were much higher, party officials let the people have their way.

The Vietnamese reformers' initial focus was on agriculture, at the time the most important economic sector by far. In 1981, for example, the state introduced Directive 100, which allowed individual families to use cooperative land. In the words of Vu Le Thao Chi, this "placed the unwritten custom of family-based production into an officially sanctioned framework."

In the early 1980s, a number of other reforms were introduced in Vietnam. Firms would now be responsible for their own profits and losses. Enterprises could decide for themselves what to do with any excess profits. Planners maintained strong controls, but if nothing else this legalized what had already been taking place illicitly. "For instance," the political scientist David Wurfel found, "when materials were short, goods could be sold in the open market to raise cash to buy supplies, or perhaps to pay bonuses to workers and thus raise productivity. Though largely illegal, these initiatives became more and more widespread. Thus, the first key reform decree for state industry in January 1981 required factories to register all activities they conducted outside the plan at the same time that it allowed them to acquire and dispose of resources as needed to increase their supply of inputs."

Though these reforms improved the situation, supplies of basic foods could still not meet people's needs. Vietnam remained one of the five poorest countries in the world. Officially, there were about 4 million unemployed people in Vietnam, but in April 1987 the Vietnamese ambassador told the foreign minister of Hungary in a confidential conversation that the real figure was 7 million. Meanwhile, inflation rose to 582 percent by 1986.

"Since monthly salaries provided no more than a week's living expenses, almost all households had to find extra sources of income to make up the shortage," the Japanese scholar Mio Tadashi wrote in the 1989 book *Indochina in Transition*. "It became common in Hanoi for families to use one room of their apartment house units to raise pigs. Pig-farming was the best source of extra income and most families turned one room of a three-room apartment over to pigs, hardening themselves against the noise, odor, and poor hygienic conditions."

Doi Moi

Control of the Communist Party shifted back and forth between reformers and a faction more suspicious of change. After the first reforms were introduced in the late 1970s, there was a period in which liberalization was frozen. At the Fifth Party Congress in 1982, those opposed to further changes were in the ascendancy.

But the country's problems became ever more pressing, and gradually the reformers prevailed. At the Tenth Plenum of the Fifth Central Committee in May 1986, Deputy Prime Minister To Huu and others opposed to the reforms lost their seats on the Council of Ministers. And at the Sixth Party Congress in December 1986, large numbers of representatives from South Vietnam supported market reforms. (As Balazs Szalontai pointed out in the *Journal of Asiatic Studies*, in the South "the private sector was by no means eliminated as thoroughly as in the North, and some cadres were willing to harness its potential for growth.")

The Party Congress was marked by an outpouring of radical self-criticism. In one speech, a delegate openly stated: "The people have lost faith in the party." The official report for the first time dispensed with a detailed description of the long, heroic struggle of the Vietnamese people and contained only the briefest enumeration of the party's successes. The leadership openly admitted that 1976–1980 were lost years in which there had been effectively no economic growth, and the report bluntly addressed such issues as unemployment, inflation, corruption, low manufacturing output, declining labor productivity, and environmental damage.

It says much for the Vietnamese that they did not try to blame external factors, such as natural disasters or the wars with China and the U.S., for their dire situation. The final resolution of the Party Congress declared that the "reasons for the current situation are to be sought above all in mistakes and errors of leadership and direction by the Party and the state." And the Vietnamese drew the right political lessons: The reforms endorsed at the Party Congress and advanced over the next few years focused on pushing back the all-powerful state. It was a seminal event in Vietnam's history, the beginning of the fundamental reforms that came to be known as *Doi Moi* ("Renewal").

The reforms adopted in the next couple of years included permission for private manufacturers to employ up to 10 workers (later increased), abolition of internal customs checkpoints, elimination of the state foreign-trade monopoly, reduced restrictions on private enterprise, elimination of virtually all direct subsidies and price controls, separation of central banking from commercial banking, dismantling major elements of the central planning and price bureaucracies, the return of businesses in the South that had been nationalized in 1975 to their former owners or their relatives, and the return of land seized in the '70s collectivization campaign if it was "illegally or arbitrarily appropriated."

As in China, Vietnam's leaders did not try to implement a new system from the top down in one fell swoop. They started with experiments at the local level. Where these were successful, they were adopted more widely.

At the end of 1987, family farmers won the right to lease land from cooperative and state farms on a long-term basis. These farmers' rights of disposal over land were expanded in the 1992 constitution and the 1993 Land Law. Although land could not be bought and sold as private property, the transferability and inheritability of land on long-term leases (up to 75 years) was guaranteed.

The character of the agricultural cooperatives changed. The collectives were dissolved, and farmers now joined together voluntarily. The new cooperatives became providers that offered certain services to the farmers, much more cheaply than the collectives had done in socialist times. Their services became both better as well as cheaper.

In the industrial sector, too, enterprises enjoyed much more autonomy. The state headquarters' ability to intervene directly in economic activity was restricted. Economic relations between the enterprises were to be regulated by mutual contracts. The planned economy was not abolished entirely, but planning now only meant setting strategic goals over extended time frames. The setting of wages and the exploitation of profits became a matter for the individual enterprises to determine. As Pfeifer notes, "Enterprises were even granted the right to sell, lend, or rent out capacities that could not be used by the enterprise at a specific moment in time" (though the business's assets remained state property).

There was no great tidal wave of privatizations, as in some Eastern European countries. Instead, state-owned enterprises simply declined in significance in relation to the private economy. Their subsidies were reduced, forcing them to work more efficiently and compete in the marketplace. Many unviable enterprises had to file for bankruptcy, and the overall number of employees in state-owned enterprises fell by about 30 percent (more than 800,000 workers) from 1989 to 1992.

Previously, the only private enterprises allowed in Vietnam had been family businesses, which were not allowed to employ wage labor—at least officially. Now companies were allowed to hire as many workers as they wanted or needed. In 1990–1991, the legal structures of sole proprietorship, limited liability company, and public limited company were introduced. This development culminated in 1992 with Article 21 of the new constitution, guaranteeing the protection of private ownership of the means of production against expropriation.

Before 1989, the state had fixed all prices. Now such regulations applied only to electricity, petrol, cement, steel, and transport services. This liberalization of prices led to an improvement in the supply of goods. Although many prices continued to rise sharply for a while, the prices of basic foodstuffs actually remained stable, and in the case of rice they fell.

Until the reforms began, the state dominated every aspect of Vietnam's foreign trade, which was mainly with the socialist bloc, first and foremost with the Soviet Union. Opening the country meant welcoming foreign investment and integrating Vietnam into the world economy. After a Foreign Investment Law was passed in 1989, money started to flow into Vietnam from Western Europe, Singapore, South Korea, Thailand, Hong Kong, Japan, Australia, and other countries.

One of the most important reforms involved abolishing the system of centrally planned specifications and letting companies manage their own exports and imports. The private import and export of goods was allowed and, in almost no time at all, Vietnam had compensated for its lost trade with socialist countries by increasing its trade volumes with capitalist countries, especially in Asia (Taiwan, South Korea, Hong Kong, Singapore, Japan) and Australia. A series of trade agreements followed, including one with the United States.

In 1999, a new Enterprise Law removed yet more bureaucratic hurdles for private companies. In the five years after it went into effect, Bill Hayton wrote in the 2010 book *Vietnam: Rising Dragon*, "160,000 enterprises were registered. Most of these were existing businesses which had been operating without licenses and took advantage of the new law to register." Here again, the reformers were sanctioning what was already happening spontaneously at the grassroots.

Successes and Failures

Vietnam's gross domestic product grew by 7.9 percent a year from 1990 to 1996, faster than any other Asian country but China. Poverty fell sharply. By the World Bank's standard for extreme poverty—living on less than $1.90 a day—52.3 percent of the Vietnamese population was living in extreme poverty in 1993. By 2008, the figure had fallen to 14.1 percent. By 2020, it was only 1 percent. That indicator was developed for "low-income economies," though, and Vietnam has now moved to the "lower-middle-income" category, where poverty is defined as living on less than $3.20 a day. By that measure, the poverty rate dropped from 79.7 percent to just 5 percent.

In 1980, life expectancy in Vietnam was 62 years. Today it is 73.6 years. Vietnam has also risen in the United Nations' Human Development Index, which aims to comprehensively measure the quality of life of people in a country. The index score for Vietnam increased from 0.463 in 1980 to 0.704 in 2020, putting it only slightly below the global average of 0.723.

Despite the incredible successes, there remains much work to be done. There are still too many state-owned enterprises, and they often operate inefficiently. In some economic sectors, such as shipbuilding and tobacco production, it is absolutely implausible that the government should need to own companies, and yet it does.

The Vietnamese government avoids the term "privatization," preferring to speak of "equitization." Whatever you call it, the process is faltering. From 2003 to 2006, a total of 2,649 state-owned enterprises were "equitized," but since then the number has been in the low three-digit or even double-digit range every year. And while the privatizations have included a number of very large state-owned enterprises, in most cases the state has retained majority stakes in such companies. (Some state-owned enterprises that failed in their original fields were forced to change their business models in order to survive. They took advantage of their ownership of land and access to cheap state loans to gain a footing in, for example, the real estate or hotel business.)

Why has privatization been slowing? For one thing, many state-owned enterprises do not operate efficiently enough to give private investors an incentive to acquire them. For another, if the government insists on retaining a controlling stake in the company, investors may suspect that the bureaucrats won't be relinquishing their control. There is also a question of motives: The leaders of state-owned enterprises belong to the party, and they have little interest in their companies being privatized.

That is not the only conflict of interest in the state-owned enterprises. In his 2021 book *Crossing the Street: How to make a success of investing in Vietnam*, investor Andy Ho offers an example: "One of my first investments in Vietnam was in a fish-processing company that had recently equitized, with the government still the majority shareholder. Upon visiting the plant in the Mekong Delta, it became clear to us that more than half of the inputs (raw fish) came from the fish farms owned by the families of [state-owned enterprise] executives. As such, the CEO was always able to guarantee a 10 percent gross margin!"

Unsurprisingly, Vietnam has a corruption problem. When Transparency International assembled its 2021 Corruption Perceptions Index, Vietnam ranked a middling 87th out of 180 countries in the 2021 ranking. Its score wasn't as bad as it had been a couple of decades earlier, but it wasn't exactly good either. As one Hanoi businessman told me: "The official lists of party and state functionaries' salaries are published in the newspapers, and many only get $500 or $1,000 a month. Nevertheless, they often drive expensive Mercedes and lead lavish lifestyles. Of course, one wonders: Where does the money come from?"

Though Vietnam has created more space for the market and the government is no longer as omnipotent as it was, the party still retains a great deal of influence. That raises the question: To what extent is it really possible to effectively fight corruption in a one-party system without a free press?

But let's not dismiss what they have accomplished. The Vietnamese could have blamed all their problems on the consequences of colonialism and war, but they didn't—they turned to the future. Even with that one-party dictatorship in control, they allowed an enormous amount of grassroots initiative. The official reforms were important, but to a substantial degree they legitimized what was already taking place illicitly in countless villages.

The best thing a country's political leadership can do is to refrain from opposing such spontaneous developments and to create a framework of legal certainty. The proof is the immense increases in both freedom and wealth that are on display today in Vietnam.

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CAPITALISM COMMUNISM VIETNAM WORLD ECONOMICS HISTORY BOOK PROSPERITY ASIA CIVIL DISOBEDIENCE WAR COLONIALISM POVERTY