



EAST-WEST CENTER

The Challenges of Vietnam's Reconstruction

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I S S U E S

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The U.S. Congress established the East-West Center in 1960 to foster mutual understanding and cooperation among the governments and peoples of the Asia-Pacific region, including the United States. Principal funding for the Center comes from the U.S. government, with additional support provided by private agencies, individuals and corporations and more than 20 Asian and Pacific governments.

The Center promotes responsible development, long-term stability and human dignity for all people in the region and helps prepare the United States for constructive involvement in Asia and the Pacific.

SUMMARY In recent years, Vietnam has reappeared in U.S. newspaper headlines. This time the country is cast as a new land of opportunity, one whose vast natural and human resources are certain to make it—and all who invest in it—rich. Only the U.S. trade embargo seems to stand in the way. But Vietnam's development depends on more than lifting the embargo and increasing international aid and investment. The country faces challenges beyond the issues reported by the news media. Its rapidly growing population must be fed and its current high literacy rates maintained despite a shortage of land and money. Natural resources, though significant, will not bring instant national wealth, and their exploitation is already damaging the environment. Roads, telephones and other means of communication are all inadequate. And national decision-making is centralized in Hanoi, which has shown a tendency to apply development policies uniformly without regard to diversity and to look for "magic bullet" solutions to the country's many complex problems.

Half of Vietnam's population is under 20, and a million more people are added each year.

In the eyes of many American businesspeople, watching from the sidelines as their Asian and European rivals skim off the most lucrative deals, Vietnam appears as a land rich in unexploited natural and human resources, offering vast trade and investment opportunities once the U.S. trade embargo is lifted. Certainly, Vietnam has considerable development potential, and economic reform has already transformed a stagnant, centrally planned economy into a vibrant, expanding market economy. Removal of U.S.-imposed constraints on international aid and private investment can only accelerate this process.



But Vietnam's reconstruction is limited by many factors other than a shortage of funds. These include extreme population pressure, resource scarcity, environmental degradation, an inadequate and decaying infrastructure and institutional inefficiencies. Combined, these make Vietnam's development problematic.

Population, Human Resources and Development

With over 71 million inhabitants, Vietnam is the thirteenth most populous country in the world. Despite a remarkable drop in fertility rates in the past 20 years, the annual population growth rate is still 2.1 percent, which translates into at least an additional one million Vietnamese citizens each year. Even conservative projections put the population at 80 million by the year 2000 and almost 96 million by 2014. The social and environmental implications of such rapid population growth are profound and threaten efforts to improve standards of living.

Nowhere is this problem more evident than in the villages of the northern Red River Delta, where population densities already exceed one thousand persons per square kilometer. It is difficult to imagine the intensity of the struggle for survival under such conditions. A family of four must meet its caloric needs from a plot approximately half an acre, not much larger than an American suburban house lot. Virtually every square centimeter of arable land is intensively cultivated, but food production can barely meet basic nutritional needs.

Rice production is approaching the ultimate limits of even the highest yielding varieties. There is little room for increasing food production on lands that are already double- or triple-cropped. Although growing rice may not be the best use of the Red River Delta's unique conditions, persuading millions of peasants to grow specialized cash crops will be extremely difficult. The problems of marketing and securing food supplies will have to be solved first.

The Mekong Delta in the south, with its lower population density of 369 persons per square

kilometer, is Vietnam's rice bowl, exporting large surpluses. Yet its 2.67 percent population growth is higher than the north's 1.75 percent, and densities will approach northern levels within 20 years. Since little good land remains to be brought into cultivation, intensification will have to be attempted if yields are to keep up with demand. However, ecological factors are less favorable for intensification than in the Red River Delta.

A redistribution of population from the densely settled deltas and coastal plains to the lightly inhabited mountains, especially the Central Highlands, is often proposed. The Central Highlands have 16 percent of Vietnam's surface area but only 2.4 percent of its population. Several million lowlanders have been resettled in the midlands and mountains since 1954. However, conditions have not always met expectations, and a significant flow of migrants have returned to their overcrowded villages. With most of the best land in the uplands already settled, it is unlikely that many more lowlanders can be absorbed.

Paradoxically, Vietnam's large population is also its most valuable resource, offering perhaps the only real hope of achieving successful development. The Vietnamese already possess many of the social, cultural and psychological attributes needed to sustain rapid economic modernization. Vietnam's poverty places it together with Chad, Afghanistan and Haiti. Yet in terms of literacy (88 percent), the quickness to learn new technological skills and the ability to function effectively in a modern economy, its population is more like those of Singapore or Taiwan.

There are many reasons for this. Clearly, the Confucian tradition, with its high value on education, plays an important role in predisposing both government leaders to commit resources to schools and individual families to sacrifice so that their children may attend them. Marxist ideology, with its emphasis on scientific knowledge as the basis for development, reinforces this traditional value. The fact that the Viet Minh revolutionary government placed great emphasis on developing education in the midst of a desperate guerrilla war illustrates this.

Vietnam's educational achievements since 1945

are impressive by any standard. The rate of literacy has been raised from under 10 percent to almost 90 percent. Females, traditionally excluded from even limited educational opportunities, were especially encouraged to study. The number of primary schools increased from fewer than 1,000 to more than 200,000. By 1989 more than 740,000 persons had university training, compared with just 300 in 1939. The universities are staffed entirely by Vietnamese, many of whom have advanced degrees.

Vietnam faces the problem of maintaining its educational system in the face of a severe shortage of funds and a growing population, 50 percent of which is under age 20. Teachers' salaries are extremely low. Primary school teachers receive as little as \$1.70 per month, while one kilogram of rice costs 20 cents. The physical conditions of schools in rural areas are often very poor. The recent imposition of school fees as well as poor employment prospects upon graduation may undermine the accessibility of education and the high literacy rate. In addition, the cost of education has shifted from the collective to individual households, so that sons are again favored over daughters in access to educational opportunities.

Natural Resources, Environment and Development

Vietnam's untapped natural resources, particularly oil and gas, lead many development planners and economists to assume that their exploitation, accompanied by adoption of economic reforms, will lead to rapid economic growth. This may be something of an illusion. Vietnam unquestionably possesses unexploited and underexploited natural resources, some in quite large quantities in absolute terms. Nevertheless, measured against its large population, Vietnam's natural resources are not a sufficient basis for rapid national development.

Oil is the major unexploited mineral resource. Vietnam possesses relatively major reserves, estimated at about 1.7 billion barrels. Assuming a reasonable pace of development of its three existing oil fields, peak production of 350,000 barrels

*In its poverty,
Vietnam is like Haiti;
in its literacy, like
Singapore.*

The economic benefits of Vietnam's natural resources will be absorbed by its large population.

per day (about the current production level of Malaysia, a country with less than one-third the population of Vietnam) could be achieved by the year 2000. Internal demand for petroleum products is predicted to expand rapidly, however, so Vietnam should become a net importer no later than 2010. In the period during which there is a surplus to export, taxes and royalties from oil will contribute additional national income of about \$10 to \$30 per person annually, a significant sum given a total per capita gross national product of \$200. If wisely exploited, oil could provide a valuable boost to other development sectors, especially by reducing the need in the next decade to spend large amounts of scarce foreign exchange on imported oil. However, Vietnam's oil reserves do not offer the development prospects of Brunei or Indonesia.

Coal deposits are extensive and already provide much of the energy supply for domestic industry. Gold, gemstones and metals such as tungsten are also present in commercially exploitable quantities. Again, however, when measured against the needs of the population, these resources do not represent the road to instant national wealth.

The environmental side effects of development of mineral resources are serious. Mining ventures have severely damaged several watersheds and are held responsible for downstream flooding. The possibility of oil spills—which Vietnam is not equipped to contain—from offshore wells and tanker loading facilities threatens coastal regions and fisheries.

The threat to renewable resources is also great. Vietnam once possessed rich tropical forests, but years of war damage, poorly managed logging and agricultural clearance have all drastically reduced both the quantity and quality of remaining forest resources. These are already insufficient to meet internal demand for wood and forest products on a sustainable basis, and this shortage will be exacerbated in the future.

Industrial development and urbanization are adversely affecting the environment and endangering human health. Pollution of lakes and rivers from industrial toxic wastes and untreated urban sewage is a serious problem. The growing use of

chemical pesticides in agriculture contaminates village drinking water supplies, endangering the health of rural people.

In recent years, the Vietnamese government has become more aware of environmental problems and is supporting ambitious efforts to conserve its remaining natural resources. Several national parks and nature reserves have been established to protect endangered ecosystems and wildlife. The government has also recently adopted regulations mandating environmental impact assessments for all large development projects. But the implementation of conservation measures is inhibited by inadequate laws, lack of funds, shortage of trained personnel and the poverty-driven need for resources of rural people. Opportunities for corrupt cadres to make quick profits by ignoring illegal logging seriously threaten conservation efforts.

Institutional Aspects of Development

North Vietnam's socialist development policies in the post-1954 period, and their imposition on the south following reunification in 1975, were ill advised. The country lacked sufficient capital or trained people to permit the rapid creation of heavy industries. Neglect of investment in agriculture was particularly damaging since 80 percent of the population lives in rural areas. Collectivization of farming also had largely unfavorable economic consequences, although the cooperative system provided peasant families with valuable social welfare benefits that privatization has put at risk.

The replacement of the centrally planned economy with a free market system has begun and is already resulting in higher productivity. Some development problems, however, may be much less amenable to the reform efforts. Among these problems are the centralization of decision-making power in Hanoi, an inadequate information base for decision-making, the uniform application of policies without taking diversity into account, seeking simplistic solutions for complex issues and a lack of efficient redistribution mechanisms.

*The bureaucracy
hurts both foreign
and Vietnamese
entrepreneurship.*

Centralized authority. The centralization of decision-making in Hanoi was accentuated by the adoption of Soviet organizational models, but it is hardly a trait alien to Vietnamese political tradition. Throughout Vietnamese history, successful regimes have always concentrated power in the capital. One undesirable consequence of the centralization of decision-making in Hanoi since 1945 has been the proliferation of the bureaucracy. Dealing with this system is one of the major costs of engaging in any joint-venture activity in Vietnam, and it will continue to constrain foreign investment and indigenous entrepreneurial activity. Obtaining the necessary permissions is time-consuming, slow and expensive. Any initiative that does not clearly fit within existing categories requires approval at the highest levels.

With the opening of Vietnam's economy, however, provincial and district governments are operating with increased independence from the central government. An important source of flexibility and innovation has been the willingness of provincial authorities to initiate reforms of the cooperative system well before the need for such change had been accepted at the national level. But widespread wheeling and dealing between foreign businesspeople and local officials, and the corruption often associated with it, represent a less benign aspect of declining central control. Unfortunately, Vietnamese tradition provides no legitimate model of decentralized decision-making that grants significant autonomy to local administrative units while ensuring that they operate within national policy guidelines.

Suspect data. The centralization of authority is particularly inefficient in situations where accurate information is expensive and difficult to obtain. Unfortunately, Vietnam's communications infrastructure is wholly inadequate for a modern economy. There are over 200,000 miles of roads, of which only 3 percent are paved, and about 2,000 miles of railroad track. The transportation network is especially poor in the north. Many rural communities are not accessible by road at all. By contrast, in the south, there are several large highways in relatively good condition from

their pre-1975 reconstruction by American engineers. An extensive network of waterways provides easy access to virtually all communities in the Mekong Delta.

Civil air transportation is poorly developed. Given the great distances between north and south, this is a real obstacle to achieving true functional integration of the country. Telecommunications have improved dramatically in recent years, but telephones remain an urban luxury.

For central planners to obtain adequate information under such circumstances is a daunting task, often made hopeless by a long tradition of "creative bookkeeping" by local authorities. Under socialism, the quality of census data has improved, perhaps because it is no longer directly linked to taxation. Local communities are still reluctant to report accurate rice production data, however, because taxes are set on the basis of yield. Thus official national agricultural production statistics derived from the data provided by the cooperatives are suspect.

Imposing uniformity. There is a strong tendency to impose uniform development policies throughout the country without taking into account environmental and cultural diversity. There are, for example, seven agroeconomic zones, and each of these is characterized by distinctive climate, soils, socioeconomic conditions and potential. Each requires a distinctive development strategy, which until recently national agricultural policies failed to recognize.

Development strategies that are well suited to the lowlands, with their predominantly Kinh (ethnic Vietnamese) population, are rarely appropriate for the radically different environmental conditions of mountains populated by many ethnic groups. The continued reliance of many upland minority peoples on shifting cultivation is especially targeted for criticism. Officials view this traditional farming system as backward, inefficient and highly destructive of the nation's forest resources.

Expensive programs aimed at "sedentarizing" shifting cultivators continue, but with very limited success. There are few alternative systems of

cultivation that are viable on a sustainable basis under upland conditions. Attempts to induce the shifting cultivators to practice Kinh-style wet rice agriculture inevitably fail in upland areas where the terrain makes the creation of flooded paddy fields impossible. Coffee, tea and other cash crops are ecologically more suitable, but at the present time such practices often are not economically practicable given the poor transportation systems and difficult access to markets in the uplands. Thus agricultural development programs specifically designed to fit the unique conditions of the uplands are badly needed.

Magic bullets. Vietnamese policymakers tend to seek “magic bullets” for complex problems. In recent years, macroeconomists have been in the forefront with their claims that adoption of market mechanisms and privatization of ownership of land and other resources will result in Vietnam’s miraculous overnight transformation from one of the world’s poorest countries into a relatively wealthy newly industrialized country.

Recommendations that all land should be returned to private ownership, for example, are best viewed with skepticism. Private land ownership may well be economically and socially beneficial in urban areas where a true free market in property might function with minimum distortions. The privatization of land ownership in the densely populated villages of the Red River Delta might have serious social consequences unless alternative employment opportunities can be generated for the millions of delta peasants who depend on tiny plots of communal land for their basic subsistence.

In the past, the state provided welfare and insurance as well as basic services (i.e., education, health care) to huge segments of society. The growing use of market mechanisms threatens the provision of various “entitlements” to the needy. Social welfare will decline unless alternative social mechanisms evolve to meet these needs. Under socialism other potential mechanisms of reallocation atrophied. Some traditional redistributive mechanisms are reemerging, but it seems unlikely that these traditional mechanisms will be

adequate to meet the needs of such a radically altered system.

Civil society has always been a relatively undeveloped dimension of Vietnamese society, although at the village level some traditional institutions served some of the same functions. In other developing Asian countries, notably Thailand, nongovernment organizations (NGOs) increasingly play a role in reallocation, particularly in rural communities. Existing organizations in Vietnam (e.g., village women’s associations, seniors’ associations) are currently arms of the government and party rather than true voluntary associations. But some of these organizations are beginning to evolve the attributes of NGOs and may provide a basis for the future civil society.

Internal Politics, International Relations and Development

Despite heated discussion within the party before the Seventh Party Congress in 1991, Vietnamese leaders have rejected any significant move toward political pluralism and a multiparty system, arguing that there could not be economic reform without political stability. Vietnamese officials, however, have continued to stress in international conferences and public statements that political reform will be carried out gradually and under the leadership of the party. For the moment, political reform is limited to attempts to separate the party from the routine operations of the government and to give more power to the National Assembly.

On the economic front, the government adopted a radical broad-based reform program in 1989. This move achieved a high degree of success in stopping inflation and increasing productivity. After many years of importing food, Vietnam joined Thailand and the United States as a major exporter of rice. In 1992 Vietnam had its first trade surplus—\$70 million—in decades. The government actively encourages foreign investment, which now reaches nearly \$5 billion. While trade may flourish, attracting long-term investment may well require more fundamental reforms with regard to private ownership, the development

According to Vietnamese officials, political reform will be gradual and under the leadership of the party.

The greatest challenge facing Vietnam is to reconcile the Vietnamese who fought on opposite sides during the war.

of a rationalized legal system, better protection of private domestic investors and the liberalization of both internal and external trade policy.

Since the completion of its troop withdrawal from Cambodia in 1990, Vietnam has been able to reestablish normal diplomatic and trade relations with many countries that had previously opposed it during the Vietnam War and the Cambodian conflict. Vietnam has made serious and successful efforts to improve trade relations with Asian nations and to court foreign investment. In 1992 Japan announced it would resume its economic ties with Vietnam, including making a \$400 million loan. Nevertheless, the lack of normal relations between Vietnam and the United States remains "the biggest obstacle to Vietnam's open, diversified and multilateral foreign relationship," according to Deputy Foreign Minister Tran Quang Co. In particular, the U.S. trade embargo remains an important constraint on Vietnam's economic development as it deprives Vietnam of loans from international financial institutions.

The lifting of the U.S. trade embargo has been linked to Vietnam's cooperation in solving the emotional issues of American MIA/POWs. In late

1992 Vietnam demonstrated its willingness to increase its cooperation to finally resolve the MIA/POW issue. In response to this, in December 1992, the Bush administration announced it would allow U.S. companies to open offices in Vietnam but did not actually lift the embargo.

Like China, Vietnam will always have to balance the need for security against the need to open up the country to foreign investment, a requirement for rapid economic development. The ultimate fate of economic reform is intrinsically linked to the nature and extent of political reform, and to the capacity of Vietnamese culture to maintain acceptable levels of integration while coping with a rapidly changing world. The greatest challenge will be to achieve full reconciliation among Vietnamese living in Vietnam as well as abroad who fought on opposing sides in the long years of war. That process is just beginning. Vietnam's conciliatory moves toward the overseas Vietnamese, almost three-quarters of a million of whom are in the United States, may increase the estimated \$500 million in remittances to Vietnam and provide valuable resources for economic growth.

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