

**VIETNAM'S SOCIALIST-ORIENTED MARKET ECONOMY MODEL: ESSENCE,
PROBLEMS, AND SOLUTIONS**

By

Nguyen Nam

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

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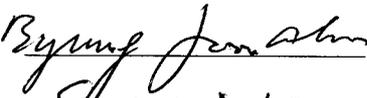
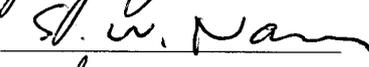
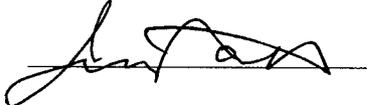
MASTER OF PUBLIC POLICY

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Approval as of November, 2008

ABSTRACT

VIETNAM'S SOCIALIST-ORIENTED MARKET ECONOMY MODEL: ESSENCE, PROBLEMS, AND SOLUTIONS

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From a country seriously torn by war and then a decade of ineffective economic performance, Vietnam launched the Doi Moi or the renovation cause in 1986 to develop its economy in a new situation. To many extents, Vietnam has successfully performed in a globalized world by carrying out its crucial economic reform, dismantling the old centrally-planned model and setting up a new economic model for development, the socialist-oriented market economy model. The achievements recorded so far proves that this is a sound and effective model for Vietnam in the new era, though it still has to cope with a lot of difficulties and challenges. In essence, the socialist-oriented market economy model is a political economic concept reflecting the fact that market economy is applied to serve the goal of socialism in Vietnam. This concept has been drawing so many debates among scholars as there is almost a vacuum both theoretically and practically in explaining why market economy can also be attached to socialism while it is the very product of capitalism. With a political economic approach, the thesis argues that the application of market economy in the transition period to socialism in Vietnam is a logical necessity, contrary to the conventional wisdom that market economy can only exist in capitalist countries. Moreover, as the outcome of a long economic reform process, the market economy applied in Vietnam, while manifesting the 'universality' of a market economy, is the 'specificity' of Vietnam as it conforms to the country's specific

conditions and characteristics, and as such generalized as the socialist-oriented market economy model. In order to show the logical necessity of the application of market economy and provide an in-depth analysis of the unique essence of the socialist-oriented market economy model in Vietnam, the thesis would focus on three core issues, namely proving that a market economy can operate in the environment of socialism and it is the best to serve the cause of socialist orientation in Vietnam; pointing out the features of that socialist-oriented market economy; and suggesting solutions that should be taken to further perfect this model (or to make it become more effective to better serve the cause of building socialism). Thus, the thesis would, hopefully, partly contribute to enriching theories and practices of building socialism in the world, especially for countries who are also in transition process like Vietnam.

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Dedicated to my family

ACKNOWLEDGEMENTS

Until the completion of this thesis, I have received invaluable assistances and supports from many people, to whom, on this opportunity, I very much would like to express my special thanks.

First of all, I would like to express my deepest gratitude to Professor Byung Joon Ahn, my thesis supervisor and also my esteemed teacher in the two courses that I took during the time I studied in KDI School in 2007. I owe him a great debt for all his help in these two courses, especially his precious advice and sympathy with me while I wrote the thesis. Without him, I could not revise my thesis to a better end.

Secondly, I would like to thank Professor Hun Joo Park, who was also my teacher in other interesting two courses in KDI School in 2007. From one of these two courses, I have drawn the idea and inspiration to write the thesis. Moreover, the seminar courses that he provided have helped a student like me to shape an independent thinking in dealing with an academic issue.

Thirdly, I would like to convey to Professor Yuri Mansury, my advisor Professor in KDI School, my most sincere thanks for all his assistances and encouragements throughout my time in KDI School. The two courses, one of which was the core for MPP student, that he taught me is

very useful in analyzing and understanding policy-making issues, especially those related to the economic sphere. This knowledge would go with me for the rest of my career.

In all, I am greatly indebted to all professors and staff members of KDI School for all their help and sentiments extended to foreign students who studied in here. Life and study in Korea was so much meaningful with their standing by my side.

Thank you very much.

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INTRODUCTION

For the last several decades, with the rapid development and under the influence of the modern science and technology revolution as well as the trend of regionalization and globalization, the world economy has been witnessing drastic and significant changes. Today, Vietnam is one of the countries which have succeeded in seizing opportunities and overcoming challenges in a globalized world. It has over the last 20 years made impressive progress in the renovation cause, also well-known as Doi Moi¹, with economic reform process towards reaping the benefits of globalization. Facing a new world with the disintegration of East European socialist camp in late 1980s and the collapse of the Soviet Union in early 1990s, under the pressure of globalization and domestic situation, Vietnam has responded to the challenges by abolishing the old ineffective centrally-planned economy of Soviet style and opening up its economy to shape a socialist-oriented market economy model. While there are still defects to be corrected, the new model of economic development proves that Vietnam has been on the right way of industrialization and modernization towards socialism. This unique model is created on the basis of “learning by doing”, and it is Vietnam’s strategy that the socialist-oriented market economy model will be closely attached to Vietnam’s development and building socialism in the new era.

It is necessary to note that the history and practice of the world economy have seen various kinds of theoretical and practical models of market economy, but so far, there has been

¹ Doi Moi, or the renovation cause, is the landmark in the development history of Vietnam. Launched by the Sixth National Congress of the Communist Party of Vietnam in 1986, it is related to every area such as economic, political, social, cultural...in which economic reform is the key of the renovation cause. This is the reason why Doi Moi is mostly known by the international community as economic reform.

almost no theoretical or practical models of socialist-oriented market economy like the one in Vietnam, except for the one in China which share many similarities as well as differences. In the world, the market economy is hundreds of years old, however, is of and for capitalism. There is almost no precedence in developing market economy in the conditions or environment of socialism or in a country with a socialist orientation like Vietnam. A basic theory on the socialist-oriented market economy model is a brand new issue not only for Vietnam but also for the world. Before Vietnam, China has already initiated economic reform since 1978 and is now in the process of perfecting both theoretical and practical model of “socialist market economy (or socialism) with Chinese characteristics”, and of course, with means or methods different from those of Vietnam.

In such context, Vietnam’s developing a socialist-oriented market economy model is considered as another new experiment in the road to socialism. But that experiment would not bear positive results without building a socialist-oriented market economy model based on scientific arguments and Vietnam’s own conditions. The practice in Vietnam is that though its socialist-oriented market economy model have been confirmed and developed for years now but the debate on it is not therefore on the wane. In Vietnam, though there are many researches on the socialist-oriented market economy model in the aspect of industrial economics, managerial economics and developmental economics but there are just a few which focus directly on the socialist-oriented market economy model of Vietnam, explaining it from a macro political economic approach. The current literature also shows that most of foreign scholars conducts their works on concrete issues of Vietnam’s economy, arguing that Vietnam is now trying to

“orchestrate a marriage between market economy and socialism”, and in essence, Vietnam is now moving towards accepting capitalism.

In practice, Vietnam’s economy has been in transition from a centrally-planned to a market economy aimed at serving the building of socialism. This is the very reason that triggers fierce debates among both domestic and foreign scholars about what is happening with Vietnam’s economy as the market economy is the product in the development process of capitalism and is attached to capitalism, not socialism. And this is also the very theoretical vacuum in explaining how the market economy can operate in the environment of socialism or socialist orientation. This is an extremely difficult theoretical issue that need further scientific researches. Because of this, it is the need to study in a comprehensive and systematic way Vietnam’s socialist-oriented market economy model which would very much contribute to the science of political economy as well as the creation of macro policies in Vietnam now.

With that purpose and from a political economic approach, the thesis is focused on clarifying the essence of Vietnam’s socialist-oriented market economy model, a political economic concept reflecting the fact that market economy is applied to serve the goal of socialism in Vietnam. As such, the thesis argues that the application of market economy is a logical necessity in the transition period to socialism in Vietnam, contrary to popular opinion that market economy does not exist in the environment of socialism or socialist orientation. In addition, as the outcome of a long economic reform that has been taking place in Vietnam since 1986, the socialist-oriented market economy model, while manifesting the ‘universality’ of a market economy, is the ‘specificity’ of Vietnam as it conforms to the country’s specific

conditions and characteristics. The core objective of the socialist-oriented market economy model is developing modern production forces which is closely linked to building new and advanced production relations. The argument of the thesis would be made clear on three aspects. Firstly, the thesis proves that a market economy can operate in the environment of socialism and it is the best to serve the cause of socialist orientation in Vietnam (or the best option for Vietnam to build socialism). The evidence for this aspect would be drawn from practice and theories about building socialism in the world, especially from Marxist-Leninism (or the relevance of Marxist-Leninism, Vietnam's orthodox ideological system, as the theoretical basis for the new model). Secondly, the thesis analyzes the essence of the market economy applied in Vietnam, which over time has been built and generalized as the socialist-oriented market economy model with its own structural features. Thirdly, the thesis proposes main solutions to further perfect the socialist-oriented market economy model in the new era which is witnessing opportunities and challenges brought about by both the internal demand of development and the external the trend of globalization and regionalization in the world.

In the scope of a small research, it is unlikely that the thesis could go into details but rather would cover just the core issues related to the socialist-oriented market economy model of Vietnam with the methodology of using dialectical and historical materialism, analyzing and generalizing theories, history and reality. The thesis is divided into three chapters with contents as follows:

Chapter I

SEEKING FOR THE NEW MODEL

I.1. The need to build a new model

In Vietnam, socialism is the ultimate goal that its people have been striving for the past many decades. And to reach that goal, due to objective conditions and subjective perception about socialism, Vietnam had for a long time pursued the Soviet-style centrally-planned economic model as it believed that this model was the quickest way to build socialism. However, the reality proved that this model could not work effectively, especially for a country with a very low starting point like Vietnam who was heavily damaged by war and characterized by an backward agrarian economic base. Partial reforms had been carried out with a hope to boost socialist development, yet those reform efforts were made within the framework of the old model, and thus, just bore limited results. It can be said that, by 1986, the need to completely abolish the old model and build a new one had become clearer than ever before because of the two following factors:

I.1.1. External environment

In mid-1980s and later on, there were important changes in the world. A fast growing trend of globalization took place when the Cold War between the Socialist Bloc, of which Vietnam was a member, led by the Soviet Union and the Capitalist Bloc led by the United States drew to an end. In such context, Vietnam could not enjoy favorable conditions with its position

in the international arena and its thinking in conducting foreign policy. It still considered the Soviet Union as the backbone of its foreign policy with the signing of the November 1978 Treaty of Friendship and placed great importance in the relations with the socialist countries. Thus, Vietnam's foreign economic relations was focused only with the socialist countries within the framework of the Council for Mutual Economic Assistance (Comecon or CMEA), an economic organization of the socialist countries which offered Vietnam's membership in 1978. During the 1981-1985 period, the Soviet Union provided Vietnam with some US\$5.4 billion in balance-of-payments aid, project assistance, and oil price subsidies. Total economic aid for 1986 in particular was an estimated US\$1.8 billion. For Vietnam, the Soviet Union was a major supplier of food and commodity aid on a mostly grant-aid or softcurrency basis. To a larger scale, international economic relations among socialist countries, and mainly within CMEA, not only accounted for most of their foreign trade, but also shaped the domestic economies by aligning the Eastern European and other socialist countries on the Soviet model, and isolating them from the outside world. This happened the same to Vietnam.

While the East Asian countries' pursuit of the road of market economy development, including China's economic reform, achieved great successes, the world witnessed the disastrous reforms in the Soviet Union and the Eastern European countries. In the Soviet Union, after coming to power in 1985, Mikhail Gorbachev introduced ambitious reform programs known as Perestroika and Glasnost, meaning restructuring and openness respectively. But these reform programs soon triggered serious turmoil in socio-economic and political life in the Soviet Union. Other reforms in Eastern European countries proved no better. The economies of these countries also suffered output collapses following their initial reforms. The reforms in the Soviet Union

and the Eastern European countries led to the dismantling of the monopoly power of the Communist Party in these countries and their inevitable collapses in the late 1980s and early 1990s.

Such situation exerted a distinct impact and huge pressure on Vietnam to develop its economy on its own way without much support and financial aid from socialist countries as before. The situation became worse because the country was under an embargo imposed by the United States and was isolated in international relations, even with China, a big socialist camp member, and other neighbouring countries in the region. Grants and credits from the Soviet Union and Eastern European countries rapidly decreased in the 1980s and ended in 1991 with the precipitous collapse of the CMEA trading bloc which delivered negative supply and demand shocks and these shocks were big. Indeed, the collapse of the Eastern European countries and the disintegration of the Soviet Union deprived Vietnam of huge financial aid which, in the 1970s, used to account for over 40% of its budget revenues, 70% and 50% of Vietnam's imports and exports respectively. It was hard to imagine how Vietnam could stand on its own feet to overcome these difficulties as the challenge it faced was so formidable with the end of foreign support and domestic crisis.

I.1.2. Internal situation

In the context of a fast-changing world and the reforms in the socialist countries, Vietnam was standing on the brink of crisis because of the failure or incompatibility of the old economic model in the new situation after the country was reunified in 1975. The old economic model was

transplanted from the Soviet Union because the leaders of Vietnam perceived it as the quickest way to build socialism and develop the economy given the backward state of its agrarian economy. The most highlighted characteristics of the then economy are:

First, the State economic sector, including the State-owned enterprises (SOEs) and cooperatives was the backbone of the economy.

Second, the SOEs operated via various plans which were determined and imposed by the State.

Third, there was no role for the market mechanism in allocation of resources. The resources were allocated by plans. Other instruments like price, interest rates or exchange rates were also determined in the plans.

Fourth, the State held the monopoly power in almost all trading activities, particularly the foreign trade.¹

It needs to be stressed that this economic model was suitable for this period of time when Vietnam had to mobilize all resources to fight an unequal war against the United States for national salvation and independence. This model brought about undeniable achievements as an insurance determining the victory in the war and laying initial essential foundation of socialism. But in the time of peace, this economic model is not a wise option to develop economy. Objectively speaking, Vietnam's economy belongs to the so-called "really-existing" socialist economic system as scholars usually refer to. As such the failure of Vietnam's economy is undoubtedly one example of this whole economic system's error. In his "Economics of Shortage" (1980), the Hungarian economist Janos Kornai provided the non-Marxist comprehensive approach of the "really-existing" socialist system. In centrally-planned

¹ Vo Dai Luoc, *Vietnam's Economic Renovation along Socialist-Oriented Market Economy* in International policy conference on transition economies commissioned by UNDP, 31 May – 1 June 2004, Hanoi, p.5.

economies, the enterprise works with a view to implementing and overfulfilling the plan. The plan itself is always taut, and anticipates a volume of output higher than the production capacities would allow for, because the planning authorities expect that the enterprise will find ways of under-reporting its capacities and over-reporting its output. Thus there is no “slack” in the system. The enterprise hits a resource constraint. It thus tries to expand its capacities in hoarding labor, inputs, and investment goods, extracted from the central allocator-planner. It is not constrained by demand as it has a soft budgetary constraint: if it does not meet its financial indicators it is always rescued by the authorities. As all the producers have a resource constraint and as the plan is taut, all the agents are always in short supply for some resources while keeping other resources in excess of their needs. Shortage and surplus coexist and cannot be netted out; the surpluses cannot be used while the shortages are a permanent constraint. This is the very ineffectiveness of the “really-existing” socialist centrally-planned economies.¹

In fact, the economic model of the “really-existing” socialist system is a mechanistic replication of the Soviet Union’s economic model and is a big mistake both theoretical and practical as it is also contrary to what the founders of socialist theories proposed. Vietnam’s economy is not an exception. Generally, the subjective imposition of new production relations on low-level production forces is against the objective law of development. The application of this model, not paying due attention to commodity production and the market economy, slowed down the development of the production forces. Social production and economic activities were both rigid and passive, waste and corruption increased while labor productivity and economic effectiveness were lowered. The personal interests of the laborer and the interests of the whole

¹ Marie Lavigne, *The Economics of Transition – From Socialist Economy to Market Economy*, St. Martin’s Press, Inc., United States of America, 1999, p.266.

society were affected. The mode of bureaucratic centralized management and administrative commandship together with the subsidy-based and egalitarian mechanism created many breaches which increased corruption and special privileges. On the other hand, an incorrect understanding and handling of the relationship between the economic and social factors led to a confusion of interests and weakened the driving force behind social development. Conditions were thus created for a dissociation of economic policies from social policies. The social issues and the social consequences arising from economic policies and measures were not fully realized. At the same time, due attention was not paid to the economic and material guarantees required by the implementation of social policies. As a result, the old model and the social development policies resulting from it hindered the building of a just society and the implementation of the motto: power really belongs to the people who are the masters, all the fruits of labor, all material and cultural values created by the people belong to the people, each person enjoys real happiness and is in a position to develop, and to realize the prospects of future life.

With an ineffective model of development, a serious economic crisis broke out in Vietnam in the late 1970s and lasted throughout the 1980s. Due to the crisis, Vietnam had to find a way out and had actually taken the first solutions prior to 1986 but still could not overcome the crisis. The early 1980s witnessed a series of successive reforms which resulted in humble success in Vietnam. These measures which involved experiments and attempts to solve major economic difficulties within the framework of the old mechanism, could not curb inflation and economic recession. Indeed, a slow-down in economic growth occurred while assistance from the former Soviet Union and Eastern European countries decreased and the US embargo continued, not to mention the military conflict and political tensions with China. All these further

aggravated Vietnam's economic and social difficulties. The 1985 general readjustment of price-wages and monetary reform carried out in a massive, all-round way in a short period of time, creating a massive shock, deal a severe blow to the whole economy, and spread the crisis, originally an economic one, to other fields. In 1986, galloping inflation reached 774.7% while the declining agricultural production could not meet domestic demands.¹ These further worsened the living conditions of the people. People faced with the scarcity of food and insufficient supply to meet demand. The country was a big importer of almost every kind of goods and much relied on the aid from the socialist countries though they even had to cope with their own difficulties at that time. About two million people suffered from hunger by the end of 1987. The economic crisis became all the more serious and the situation prevailing at the time urgently required that the old model should be discontinued. Some foreign scholars used the expression of "hard reform socialism" to characterize this period in Vietnam.²

It can be said that the domestic economic crisis and the collapse of the Soviet economic model facilitated an emergence of a new economic thinking to eliminate the centrally-planned, bureaucratic, subsidy-based economic mechanism. But a question arose as to what models of economic development were to be chosen? This was not a simple option. In 1986, the Sixth National Congress of the Communist Party of Vietnam, a landmark event in the modern history of Vietnam, officially asserted the elimination of the subsidy-based bureaucratic mechanism and

¹ Institute of Finance Research, Ministry of Finance, S.R.of Vietnam, *Reforming Vietnam*, Finance Publishing House, 1999, p.48.

² Fforde and De Vylder, 1996.

a shift to developing a socialist-oriented multi-sectoral commodity. In fact, this is the “call for the coexistence of multiple forms of ownership and the acceptance of the market”.¹

I.2. The option for market economy

Generally speaking, the external environment and internal situation in the mid-1980s had been the two main factors that made Vietnamese leaders to go to a historic decision, abandoning the centrally-planned model and opting for the market economy as a new means to build socialism. This has triggered fierce debates as in the past market economy had always been considered the own product of capitalism, and if Vietnam accepted market economy, the socialist development would be reversed. In fact, the application of market economy in Vietnam is a logical necessity as market economy can operate in the environment of socialism and it is the best way to serve the cause of building socialism in Vietnam. Theoretically, this is not going against Marxist-Leninism, Vietnam’s orthodox ideological system, but rather a creative application of Marxist-Leninism in concrete conditions of Vietnam. Practically, prior to reform in Vietnam, the application of market economy in China, a socialist country which shares many background similarities with Vietnam, had brought about significant success that further consolidated the right option for market economy in building socialism. Moreover, the very early experiments in Vietnam, though could not help bring the country’s economy out of crisis, had proved that market mechanism could generate positive results in production and consumption, contrary to the centrally-planned bureaucratic mechanism. In other words, Vietnam’s option for market economy has been based on firm theoretical and practical grounds.

¹ John McMillan and Barry Naughton, *Reforming Asian Socialism – The Growth of Market Institutions*, The University of Michigan Press, 1996, p.283.

I.2.1. Theoretical basis

I.2.1.1. The way of building socialism

In the history of the world economy, there have been so many debates about the economic aspect of capitalism and socialism. A few years after the 1917 Russian revolution which brought into being the first proletarian government in the world, neo-classical economists asked whether a socialist economic system was viable. They concluded that it could not operate rationally. Ludwig von Mises demonstrated in 1920 that in a complex socialist economy, with thousands of plants operating, it would be impossible to the government to efficiently allocate labor and producers' goods. To Mises this impossibility was due to the original sin of socialism, which had been to abolish private ownership on producers' goods. Hence, the only way to an efficient economy was to get rid of socialism itself. Other economists, socialist-oriented, attempted to show that resource allocation could be rational in a socialist economy, even though the actual Soviet regime was not functioning that way. Thus emerged in the 1930s the debate on "market socialism". Though Oskar Lange never used the phrase he is generally considered the father of market socialism theory. Perhaps, market socialism is one of the most important concepts explaining for socialism in economic sphere, receiving both support and criticism. In his book "Whither Socialism?" Joseph Stiglitz shows that the market socialism model as expressed in the Lange blueprint was based on a wrong model of a market economy, assumed to be Pareto-efficient in conditions of perfect competition: "Market socialism took seriously the neo-classical model, and that was its initial flaw".¹ However, though socialism cannot provide for a workable economic model, either in its command economy version or according to the market

¹ Joseph E. Stiglitz, *Whither Socialism?*, MIT Press, Cambridge, 1996, p.197.

socialism blueprint, the quest for a society more humane and egalitarian than standard capitalism remains.

Meanwhile, most scholars have conceded that market economy is attached to capitalism which is characterized by the private ownership on the means of production and they almost never thought that market economy can work for the building of socialism. According to them, socialism is based on the public ownership on the means of production, a condition that does not tolerate the performance of market economy. This is the very theoretical vacuum to explain the existence of market economy in the environment of socialism, or socialist orientation. Thus, the question for Vietnam is what can be a theoretical basis for the application of market economy? The answer may be found in Marxism-Leninism. In other words, Vietnam chose to apply market economy to build socialism as it is not against Marxist-Leninism, Vietnam's orthodox ideological system. At this point, it should be acknowledged that, right now, after more than 20 years of renovation and building the new economic model in Vietnam, the debate on the socialist-oriented market economy is still under way, especially about Marxist-Leninism as its theoretical basis. The collapse of the Soviet Union and the Eastern European socialist countries has been likened to the demise of the socialist economic model based on the sole public ownership regime and the centrally-planning mechanism. When the practical model collapsed, the doubt on its orthodox theoretical basis, the Marxist-Leninism, is unavoidable. The doubt became clearer when the practice has chosen a contrary way, which was denied in the past, to build socialism, that is the market. This is the reason for the emergence of a theoretical vacuum explaining for the practical trend which is contrary to the conventional wisdom. This has created a seemingly insurmountable hurdle against building a new theory accounting for and predicting

the practice of renovation, a reality that has gone beyond old theories. However, it is not difficult to overcome this theoretical hurdle in principle. Because the theoretical basis is available right in Marxist-Leninism. But still, it is necessary to differentiate Marxism from Leninism as well as to clearly understand Marxist-Leninism as a whole on how to build socialism. In the theoretical framework of socialism in terms of economy, the simple combination of the viewpoints of Marx and Lenin results in a mistake. There are two issues:

First, Marx and Lenin didn't create a theoretical system on socialism in its true sense as a complete system. Those they proposed were just basic viewpoints, logical arguments, scientific prediction, incomplete sketch on the prospect of the new economy and social regime. With the theoretical development of socialism in the next Marxist-Leninist generations, placing a firm belief in such an incomplete theoretical state and imagining it as a complete theoretical system, and on that basis, turning it into a dogmatic system with immutable rigid principles has brought about dangers in thinking and action. This means that while reviewing Marxist-Leninism, it is necessary to consider it as a historical product with both values and limits. As such, taking advantage of its values and overcoming its limits to further supplement and perfect it in the contemporary time requires a creative understanding and application.

Second, about the road to socialism, Marx and Lenin proposed two different scenarios. In principle, Marx said that only when the market economy develops at the highest level (this also means that the capitalism reaches its climax of development), does the capitalism become socialism or communism as a logical necessity. But Lenin didn't think that way. According to him, the evolution process to socialism or communism would succeed even in backward

countries, and that, the centrally-planned economic model based on the sole public ownership regime on main means of production can be applied effectively in an underdeveloped economy which still does not pass the period of developing the market. This is the difference between Marx and Lenin in their original views about the road to socialism in terms of economy. And this is a normality in social and political science, in the perception about the world with its continuous developments. The problem is that despite these two different views, since the Russia's October Revolution in 1917, Lenin's view has existed as the dominant, the sole orthodox, and the common value of Marxist-Leninism. With this practice, the review of Marx's original opinion means that for those economies which do not experience the market or the market of which has not developed to its climax, the return to or going through market is a logical necessity to reach a higher level of history. In terms of doctrinal or theoretical analysis, this is not anything new for Marxism. This is the return to the true Marxism.

About these two views of Marx and Lenin, it is very important to note that Marx didn't point out clearly what is a capitalism reaching its climax of development. In fact, he didn't predict accurately the time when the capitalism becomes socialism, first of all in the Western Europe. At the end of his life, Friedrich Engels corrected this prediction and said that he and Marx were responsible for that prediction. However, scientifically speaking, both Marx and Friedrich Engels could not point out the climax state of the capitalism, could not specify the accurate time of this revolutionary change from the capitalism to socialism because of the lack of objective conditions (the practical state of the capitalism) and because of the fact that they are both absolute materialists. For his part, also at the end of his life, Lenin realized that "it is necessary to completely change our perception about socialism". Regrettably, the practical

economic model that should have been changed was not changed at all. That model was still applied by Joseph Stalin in the former Soviet Union and all other socialist countries (this does not mean that one can ignore Joseph Stalin's historical contributions to the development of the former Soviet Union in particular and to the world in general). Moreover, it was considered as the common heritage of Marxist-Leninism although Marx didn't propose this practical economic model, and Lenin, at the end of his life, already denied this model as his mistake.

The differentiation between Marx's and Lenin's original standpoints about the road to socialism shows that the theoretical basis for the development of the market economy can be found in the original Marxism and what Lenin said at the end of his life, not his original view. However, it is necessary to note that this is a very basic approach, the deep root of this theoretical basis. Marx had never written directly about this issue. For Lenin, in his work of "Discussion about the food tax", he talked about the need to change the way of building socialism, the need to develop market relations as a logical necessity. He touched on this issue directly in his famous New Economic Policy (NEP) in 1921 as well as hinted behind the idea of "completely changing the perception about socialism" at the end of his life. However, the orthodox viewpoint about building socialism after Lenin's death seemed to have omitted this very important self-criticism of Lenin, still used his original opinion to deny the role of market's relations and the market economy in the cause of building socialism. In other words, the orthodox viewpoint about socialism has not reflected the true understanding of Marx and Lenin, the founders of Marxist-Leninism. With this theoretical approach, there is a basis to assert that the building of socialism through the market economy is not to go against Marxist-Leninism or the bankruptcy of Marxist-Leninism. On the contrary, that is simply a logical development

pointed out in Marxist-Leninism as well as shown in the history of humankind. Of course, this is not the return to Marxist-Leninism as a constant value. Marxist-Leninism is an open thought and today's history has surpassed their time.

It can be said that, Marxist-Leninism is a historical choice of the Vietnamese people both in the past and the contemporary time. The collapse of the Soviet Union and the Eastern European socialist countries is not the demise of Marxist-Leninism as a scientific theory. What collapsed was the “really existing socialism”.¹ Yet, it must be noted that a scientific theory is not a bible for dogmatic understanding as it has both creativity and inevitable limits resulted from the historical conditions on which it was born. To have a determination in building the socialist-oriented market economy, Vietnamese leaders have undergone a very serious thinking renewal process to review Marxist-Leninism scientifically and objectively. It is easy to understand that the concepts such as market, private ownership are hard to be accepted in Vietnam, a country imprinted by the Cold War's ideological struggle against the capitalism through the two fierce wars fighting the French and the United States for national independence and reunification. But the review of Marxism-Leninism about the way of building socialism in the economic sphere has led to a new understanding that market economy can be an option for those countries who are in the process of building socialism. This option would conform to the logical and natural trend of development of humankind. To put it another way, the once orthodox paradigm and forced application of Marxist-Leninism in former socialist countries did not reflect the true essence of Marxist-Leninism and thus inevitably resulted in the collapse of their Soviet-style economic models as the socio-economic conditions in those countries had not been ripe enough to apply the socialist production relations, the centrally-planned economic model. Moreover, a successful

¹ Marie Lavigne, 1999, p.91.

development strategy must not be built on a mechanistic replication of some general identical model, but on responding pragmatically to specific national circumstances.

I.2.1.2. Market economy and socialism

The above review of Marxist-Leninism has opened a new thinking about the way of building socialism. With the basis found in Marxist-Leninism, it would be more convincing to further prove that market economy does exist and well operate in the environment of socialism, and it is able to serve the cause of building socialism.

Historical materialism indicates that, in the history of humankind, without regarding to social and political but with only economic view, there have been two types of economy namely the natural self-subsidy and commodity ones. But if the social and political view is added, there have been 5 types of socio-economy, or 5 ways of organizing social life, 5 different social regimes which are primitive communism, slavery, feudalism, capitalism, and socialism (communism in higher level). This means that there have been many ways of organizing social life, social types, or social regimes based on the same type of economy. In history, primitive communism, slavery, and feudalism were based on the natural self-subsidy economy. The commodity economy was born in pre-capitalist societies prior to socialism. And when the capitalism came into existence, the commodity economy had favorable conditions to develop and became the dominant type of economy characterizing capitalism. In the high level of development, the commodity economy evolved into market economy, or the market economy of capitalism. Moreover, market economy, as a stage of development of commodity economy, has different levels of development. At each level, it has various models. In fact, there has been no

vague or abstract market economy for every period of development, each period of development in society is attached to a specific market economy (or specific commodity economy). This is in accordance with Marx's remarks: "Commodity production and distribution are the phenomena belonging to various modes of production, though their scale and importance are not the same... we do not know about the particular features of those modes of production and we cannot say anything about those modes of production if we only know the abstract concepts of commodity distribution, the common concepts of those all modes of production".¹ This, probably, means that market economy, as a stage of development of commodity economy, even exist in socialism as well as in the transition period to socialism. Therefore, in both capitalism and socialism, the two different modes of production, there exists market economy but with different features. The capitalist market economy is based on the capitalist private ownership regime, while the socialist market economy is based on the public and collective ownership regime.

The above approach from the historical materialism has clarified one important theoretical issue that is market economy is not a mode of production, and so it can exist in various social regimes, including socialism. This is reasonable as there is a compatibility between the characters of market economy and those of socialism. First, market and market economy are attached to basic factors such as commodities, money, prices, profits, or interests which are prevailing in various modes of production. In a socialist society, those factors still exist and are used to perceive, assess and manage the national economy. In the period of socialist development, those factors are very important. Second, the socialization of production and the development of social labor division is the precondition for the development from a simple commodity economy to market economy at a higher level. For its part, market economy affect

¹ Karl Marx and Friedrich Engels, The National Politics Publishing House, Hanoi, 1993, vol. 23, p.175.

and speed up social labor division and the socialization and internationalization of production. The socialization of production is also a basis for the formulation of the socialist production relations. Third, competition is a character of market economy. Competition forces economic actors to apply scientific and technological achievements to improve production methods, reduce prices and raise quality of commodities for more and more demands of humankind. This is one of the market economy's humaneness which is to serve human beings. Meanwhile, a socialist society in its true sense is a society based on an economy of very high productivity and this is the basis to satisfy more and more demand of the members in the society. This is a society "for and by human beings", and this is a humane goal of the scientific socialism. Fourth, the market is able to self-adjust through competition, through the guidance of supply and demand relationship, prices of commodities as well as to stimulate new supply and demand to satisfy at a higher level. This helps the economy develop actively, and at the same time, raise its capacity to satisfy higher demands of human beings. This is also a humane meaning of market economy. Fifth, in market economy, economic actors pursue the most basic goal namely profit. Profit is a basic concept of market economy. But a socialist society does not exclude profit, instead, very much needs profit because if there is no profit, it is impossible to reinvest, enlarge and modernize business, and there would be no rapid and sustainable economic growth. The problem is how profit is distributed, serving the majority or minority in the society.

The compatibility between market economy and socialism is also related to the two-face essence of market economy which is reflected both in the capitalist and socialist environments. In other words, promoting this compatibility depends on how making full use of its positive face and limiting its negative face. It can be said that, in one hand, market economy with its basic

laws such as the law of supply and demand, the law of value, the law of competition-bankruptcy-monopoly, or the law of money circulation and so on has contributed to the rapid development of the economy, speeding up the process of social labor division, promoting the socialization and internationalization of production. Market economy is able to attract and fully exploit the resources in society. Market economy also stimulate the development of science and technology, improve production methods for higher productivity, higher quality, reducing prices of commodities to satisfy more and more demands of humankind. This is the market economy's undeniable positive face which is to serve human beings. And because of this very positive face that market economy is regarded as the indispensable step in the socio-economic development process of humankind. And also with this meaning, the development of market economy has been so far the indispensable and only way leading to the wealth and prosperity of each nation as well as the whole humankind. But on the other hand, in the development process of market economy and under the impact of its basic laws, the economic actors pursue their own profits so they look for and choose to invest in the places or industries which have favorable conditions for production and consumption, ignoring those which would bear few profits or backward areas with low consumption. This would cause the polarization of economic space and the imbalance of economic structure. As a result, market economy would trigger an imparity between urban and rural areas, the gap between the rich and the poor, unemployment, monopoly and so on. Moreover, because of their goals of looking for profits and in order to exist in an environment of fierce competition, the economic actors sometimes would use any ploys, including those are inhumane and immoral to reach their goals. This is one of the main reasons explaining for social degeneration and dehumanization, or social evils as a phenomenon which is irresistible in the development of market economy.

To sum up, market economy, in essence, is not a mode of production, but rather it is an effective way of organizing the economy, or a “technology” invented by humankind to use and allocate effectively the social resources for economic development. The concept of market economy reflects the existence and development of the economy in conformity with market mechanism. All the questions on what to produce, how to produce, produce for whom, how to distribute would be answered or decided through market. So far, history has proved that there has been no other more effective “technology” applied by humankind than market economy to organize the economy. Market economy has two faces of which the positive face is more prominent and is of a revolution meaning for humankind’s socio-economic development. But the negative face may become an obstacle for economic development if it is not limited in a proper manner. The problem here is how to promote the positive face and limit the negative face of market economy in different social regimes or modes of production, capitalism and socialism, which are based on private ownership and public ownership on the means of production respectively. In other words, market economy may have and may not have the capacity to support for socialist development. This is the dialectics of development of market economy as a social phenomenon. The effect of the application of market economy will depend on a country’s policies, or what kind of market economy model is created.

I.2.1.3. Vietnam's socialist orientation

Vietnam is a country in the transition process to socialism or it is developing with a socialist orientation. This clarification is of significant meaning as the socialist orientation decides which kind of economic model should be applied. In general, socialist orientation is a concept indicating the existence and development of a society, a nation in a special period of time before entering socialism as a goal of that existence and development. That existence and development is not spontaneous but conscious and logical in the history of a nation. At the same time, that existence and development is organized and guided consistently from a center which is the Communist Party. This is a special transition period between capitalism and socialism or between pre-capitalism and socialism, the beginning of which is marked by the setting up of the government led by a Communist Party, the establishment of a public ownership regime on the main means of production, the basis for building socialism. The end of this period is when the goal of socialism becomes practical. The length, nature and complicatedness of this special period depends on its departure, from a pre-capitalist or capitalist society of high development level, which will decide direct or indirect transition. On the other hand, this transition period will also depend on the "intelligence" of the center of leadership which is the Communist Party. With this definition, Vietnam has entered the transition period since 1954 in the North and since 1975 in the whole country. Because the departure point of the transition period to socialism was from a colonial and half-feudal country seriously hit by war, and with a backward agrarian economy, so the socialist-oriented development period in Vietnam will be very long and complicated. This is an indirect kind of transition, not a direct one to socialism. Therefore, the economic model

applied in Vietnam in its transition to socialism would reflect the natural development, experiencing unavoidable objective commodity production stages, including market economy.

This can be further clarified through V.I.Lenin's argument. In his theory on the State capitalism under the Communist (proletarian) government, V.I.Lenin said that the period between a pre-capitalist and a socialist society after the proletariat seized power and established a public ownership regime on means of production is a special period in which the state capitalism is implemented under the proletarian government. He considered this period as a step between a small production regime and a socialist society. According to V.I.Lenin, "from a small agricultural production regime to socialism is a process of socializing small farming production under the proletarian government, a process that needs a series of transition steps, including placing small firm bridges of the state capitalism to socialism".¹ In his opinion, the implementation of the state capitalism is the shortest and firmest path, the smartest choice to take backward countries where the small farming production is still prevalent, to socialism. "The implementation of the state capitalism is the doorstep or threshold of socialism".² In a society that is still in the transition period to socialism, there exist the elements of a pre-capitalist, capitalist and socialist society at the same time. In the economic sphere, this feature of a socialist-oriented society is manifested in the mixture of various economic sectors such as the State sector, the private sector, the private capitalist sector, the State capitalist sector, and so on. This means that in a socialist-oriented society, the elements of socialism do not exist independently and develop by themselves but still are based on those of the former societies, the pre-capitalist and capitalist elements. However, the elements of socialism become more and

¹ V.I.Lenin, vol. 44, 1978, p.189.

² V.I.Lenin, vol.45, 1978, p.102.

more prominent and affect other ones in the development process to make the whole system become consistent or synchronous in the end. This viewpoint of Lenin means that for socialist-oriented countries, the development of a multi-sector commodity economy and the application of market relations in that economy is inevitable. In other words, with the theoretical basis in Marxist-Leninism, Vietnam's orthodox ideological system, the application of market economy is a logical necessity and an inevitable choice of Vietnam in the road to socialism. Moreover, the market economy applied in Vietnam would be different from those in other countries, including the countries in transition process like Vietnam. V.I.Lenin wrote: "All the nations would inevitably go to socialism, but not in the same way. Each nation takes its own features into different forms of democratic regimes, different types of proletarian absolutism, different paces of the socialist reforms of various aspects of social life".¹

I.2.2. Practical lessons

With the theoretical basis from Marxist-Leninism about building socialism, there is grounds to say that the application of market economy is a logical necessity for a socialist-oriented country and is conformed to the natural law of development, the objective evolution in the history of humankind. Furthermore, prior to Vietnam's renovation in 1986 and its building of the socialist-oriented market economy later on, there are practical lessons to prove the right option for market economy in the process of building socialism. "There were ample evidence from other countries in the region, in particular from Vietnam's ideological soulmate, China, that

¹ V.I.Lenin, vol.30, 1978, p.160.

the market system can work”.¹ China’s success since reform in 1978 can be considered a creative application of Marxist-Leninism in a country’s concrete conditions. And Vietnam’s very early experiments, though could not bail the country out of the socio-economic crisis in the 1980s, had opened a new thinking that once market relations were respected, the economy would produce positive results, contrary to the centrally-planned mechanism with its negative effects. Hence, the option for market economy was just the political will of the Vietnamese leaders as theoretical and practical bases were available.

I.2.2.1. China’s model implications

In the 1970s and 1980s of the 20th century, the former Soviet Union and other Eastern European socialist countries, under the impact of the modern science and technology revolution, exposed their backwardness, stagnation, and crisis which brought about new opportunities and challenges. This situation inclined China to actively explore a road to build a new society in conformity with its domestic conditions as well as the common trend of the time. The previous halfway reforms carried out by the Soviet Union, Yugoslavia, Hungary, Bulgaria indicated that it would be impossible to mechanistically replicate the Soviet-style economic model but rather there should be a creative application of Marxist-Leninism according to concrete circumstances of each country to build new models.

The Chinese leaders headed by Deng Xiao Ping after a long time of exploration and experiment, have bravely applied a new way of building socialism in conformity with China’s practice which was called by Deng Xiao Ping as “socialism with Chinese characteristics”.

¹ Wing Thye Woo, Stephen Parker, and Jeffrey D.Sachs, *Economies in Transition: Comparing Asia and Eastern Europe*, The MIT Press Cambridge, Massachusetts, London, England, 1997, p.189.

China's economic reform was marked by the Third Plenum of the 11th Party Congress in December 1978 when Chinese leaders confirmed a strategic shift, correcting its previous mistake that put class struggle at the center and moving towards modernization with the focus placed on economic development. In March 1979, Deng Xiao Ping said that China had to persevere with 4 principles namely socialism, people's democratic absolutism, the leadership of the Communist Party, Marxist-Leninism and Mao Thought. According to him, "if China abandons any of these four principles, it would change the whole socialist cause, the whole modernization cause".¹ In his opening remarks at the 12th China's Party Congress in September 1982, Deng Xiao Ping said: "Our modernization cause must be based on China's practice. Revolution or national building are both to study and refer to foreign experience. However, the replication of other countries' experience and models has so far proved unsuccessful. At this point, we have so many lessons. The combination of Marxism's universal verities with our country's practice to go on our own road, to build socialism with Chinese characteristics is the conclusion that we have after reviewing our lasting historical experience".² China's theoretical system about the road to socialism was gradually perfected through the 13th Party Congress in 1987 and the 14th Party Congress in October 1992 when it scientifically generalized its theory about building socialism with Chinese characteristics. In the economic sphere, this theory has clearly identified the socialist economy (or the economy in socialism) that is the socialist market economy: on one hand, it acknowledged that market economy is the common "achievement" of humankind, not the "own product" of capitalism; the capitalism's practice of hundreds of years has proved that market mechanism is the best environment to promote economic development; on the other hand, market economy under the socialist regime is of the socialist characters and features. This is a

¹ Vu Quang Vinh, *Some Issues about China's Reform and Vietnam's Renovation*, The Youth Publishing House, Hanoi, 2001, p.41.

² Vu Quang Vinh, 2001, p.45.

brand new theoretical and practical issue that should be based on reality for further study, supplementation, and generalization. In 1992, Deng Xiao Ping theoretically generalized the essence of socialism based on the socialist public ownership, that is emancipation of production forces, development of production forces, eradication of exploitation, elimination of bipolarization, and reaching common prosperity in the end.

One theoretical issue of great importance is that Chinese leaders have identified the country has already entered the first period of socialism. This period would last at least hundreds of years, through tens of generations. The main task of this period is to develop the production forces, of which science and technology as the primary production force plays the key role in economic reform. The experience of economic reform has shown that there exists no contradiction between socialism and market economy. What important is the methods or measures taken should better develop the production forces. This can be understood through four reasons: first, a planned economy does not mean socialism as capitalism also has its planning; second, market economy does not mean capitalism as socialism also has its market; third, the difference between socialism and capitalism is not planning or market; fourth, planning and market are both economic methods. Planning or market doesn't matter, both are useful as long as they can serve the development of the production forces. If they serve socialism, they belong to socialism, and vice versa, if they serve capitalism, they belong to capitalism. More planning or more market is not the difference in essence between socialism and capitalism, "there exists no basic contradiction between socialism and market economy".¹

¹ Vu Quang Vinh, 2001, p.117.

For the world, the great achievements recorded from the economic reform have brought about a new image for China, raising its international standing. After nearly two decades since Deng Xiao Ping and China's reformers announced the Four Modernizations that has transformed China into a socialist market economy with Chinese characteristics, China has benefited from very rapid growth, averaging 9.4% between 1978 and 1995. Given the context that the real socialism was falling into crisis, China's initial success unfolded a new period for diversification of socialist economic models and the creative application of Marxist-Leninism's universal verities into each country's circumstances. Moreover, under the impact of the modern science and technology revolution that the modern capitalism has self-adjusted, adapted and further developed, China's initial success has helped the international community imagine the main features of modern socialism with characteristics conformed to new conditions of history, proving that the transformation of the centrally-planned model into market economy is a logical necessity in the process of building socialism.

I.2.2.2. Vietnam's early experiment

In Vietnam, the 10-year period from 1976 to 1986 witnessed a big question of how to carry out the socialist transformation of the Vietnamese society. In such context, some significant partial reforms had been experimented, but just in the framework of the old model. Though constrained by the centrally-planned mechanism, these experiments had generated positive signals for the national economy, bringing about a clear comparison between the effects of the old model and those of a new one, market economy. And this, perhaps, was one of

determinative factors that inclined Vietnamese leaders to realize that market economy would be the best option for the cause of building socialism.

The Sixth Plenum of the Fourth Party Congress, in September 1979, adopted two market-oriented reforms, although because of an apparent struggle between the “reformers” and the “hardliners”, the implementation of these reforms was delayed until January 1981. The first of the two major reforms was the initiation of a “contract” system in agriculture, which set quota for household units rather than for entire cooperatives and allowed households to retain and trade any output in excess of their quota. In effect, the cooperatives were reduced to a subsidiary role of allocating land, supplying inputs, and providing technical assistance. The response to this reform was a remarkable acceleration in agricultural output, as quotas were successively raised in the succeeding years, especially in 1983 and 1984. The introduction of the contract system into production was regarded as a breakthrough, presenting new impetus for production development and checking the downfall in agricultural production in the late 1970s. Agricultural reform became an experiment and a basis for the whole market reform process later on.

The second major reform was directed at industry and became known as the “three-plan system”. Under this system, State-owned enterprises were subject to three plans. Under plan one, the enterprises were provided with the inputs at subsidized prices and in turn were required to supply set quantities of goods to the State. Under plan two, the enterprises could produce beyond the amount specified in plan one and use revenues to purchase additional inputs. Plan three gave enterprises the right to engage in sideline activities more or less on a free market basis, which became known as the “fence-breaking” movement. In industry, also, the introduction of even a

limited amount of economic freedom had a tremendous effect, with industrial growth rising from an average of 0.6% in the period of 1976-1980 to about 7% in the years from 1981 to 1985.

Table 1. Growth and inflation rates (1980-1986)

	1980	1981	1982	1983	1984	1985	1986
Real GDP growth (%)	-3.7	5.1	8.2	7.1	8.4	5.6	3.4
Agricultural growth (%)	6.8	5.8	3.2	8.1	8.0	4.2	1.5
Industrial growth (%)	-9.6	12.5	13.9	6.7	6.7	13.2	4.6
Inflation rates (%)	125.1	169.5	195.5	149.5	164.9	191.6	487.3

Source: Wing Thye Woo, Stephen Parker, and Jeffrey D.Sachs, 1997, p.192.

Hence, in Vietnam, the period from 1976-1986 was characterized by significant rural liberalization that involved contracting responsibilities over agricultural production to households; entry into industry and (to a lesser extent) trade by non-State producers that created significant competition; and freedom granted to State firms to transact at market prices outside the plan. These measures implied that a significant shares of transactions took place at prices that equated supply and demand. Flexible prices that equated supply and demand quickly came to play an important role in the Vietnamese economy. It is essential to recognize what was accomplished in this initial stage:

First, the government's control over the price system was substantially eroded. Without monopoly barriers and facing significant competition, the government was unable to enforce the traditional socialist price system. The government's inability to impose control over commerce was accompanied by a similar inability to impose control over the price system. The ultimate

result was that prices were substantially closer to their ultimate market equilibrium relations than in pre-reform planned economy. As a result, market price signals were readily available in the economy, providing reasonably accurate information to State and non-State firms alike. Moreover, subsequent price decontrol involved much smaller destabilizing price movements. Without control over the price system, the government was unable to harvest revenues from monopolistic State factories and was forced to cast about for other instruments to raise fiscal revenues. This created additional pressures to move forward with further reforms.

Second, producers throughout the economy had been introduced to the market and the need to operate on the market. Incentives began to shift: State firms were no longer rewarded solely for fulfilling plans, but rather had to rely on the market for some of their income. An important benefit of the legitimacy given to market prices was that transaction between the State and non-State sector were permitted, and they developed into a remarkable variety of forms. Various kind of joint ventures and cooperative arrangements grew up, as profit-seeking, State-run enterprises looked for ways to reduce costs by subcontracting with rural non-State firms or private businesses with lower labor and land costs. Firms and households of all types were increasingly imbedded in a market environment, and an environment was created in which learning and institutional development could occur.

What Vietnam had achieved with the experiments were really encouraging compared to the performance during the second five-year plan (1976-1980) when the old centrally-planned mechanism completely overwhelmed market relations. Just five years after the stunning victory

and political reunification of the country in 1975, the socialist economy of Vietnam was at the brink of disaster, with real per capita income falling from an already intorably low level.

Table 2. Growth rates by sector during the Second Five-Year Plan (1976-1980).

	Target growth rate(%)	Actual growth rate (%)
National income	13-14	0.4
Agriculture	8-10	1.9
Industry	16-18	0.6

Source: Wing Thye Woo, Stephen Parker, and Jeffrey D.Sachs, 1997, p.191.

In spite of the positive responses to economic liberalization in industry and agriculture, the influence of “hardliners” in the Communist Party was restored by the mid-1980s. Given the opportunity, the Vietnamese leadership backed away from reform, and between 1985 and 1986, Vietnam regressed. As aforementioned, the serious socio-economic crisis in 1986 was surely the last warning for the Vietnamese leaders about the failure of the old economic model, and thus, the option for market economy was irreversible. The reality of experiments had proved that the application of market economy is a logical necessity in the process of building socialism.

Chapter II

BUILDING THE NEW MODEL

II.1.Capitalist countries' experience

Market economy has now become popular in the contemporary world. However, the application and implementation of market economy is very vivid and different for each country. In the world history, capitalism is hundreds of years old, and before the market economy models are applied in the transition socialist countries, including Vietnam, the market economy in the capitalist countries has gained huge achievements, bringing about significant science and technology inventions which in turn has contributed to the modernization of the capitalist countries and the development of the world in general. In capitalist countries, market economy has underwent many ups and downs with both failures and successes manifested in different models, evolving with the development of the production forces and economic relations, under the impact of the science and technology revolution. The market economy models in those countries have witnessed significant changes and have adapted to new situation to exist and further develop. In recent years, based on differences and similarities, the market economy models currently operating in capitalist countries are divided into three groups: the laissez-faire market economy (such as the economies of the United States, Britain, Australia...), the social market economy (such as the economies of Germany, Sweden and other Northern European countries), and the developed-state market economy (such as the economies of France and Japan).

In the first group, the economies have a market mechanism which is freer and purer than other economies. In these market economy models, economic relations are mainly handled

through the market and the state's intervention is very limited. Therefore, all the defects and failures of the economy are resulted from the errors and unsynchronous development of the markets. In these models, the labor market is of high flexibility and mobility, and the regulations of the labor market are inclined to protect the capital owners rather than the laborers. The second group has developed since the end of World War II as the result of the compromise of four major schools of thought with different advocacies on how to recover the economy of the war-ravaged Germany. As a variant of the laissez-faire market economy model, the essence of the social market economy model is the reasonable market-based combination of the socio-economic and political factors. For these models, the markets are necessary but not sufficient conditions, and laws, state, and morality are as important as economic and financial policies. The state's role of regulation and adjustment and social welfare are undoubtedly highly important. For the third group, the main function of the state in these models is to promote growth and long-term economic development. Hence, the state has to actively implement the policy of positively shifting the economic structure based on the achievements of industrialization and knowledge-based reindustrialization in order to get accustomed to rapid changes of the market's demands and continuously create new comparative advantages, heightening competitiveness and not passively accepting the international division of labor based on available advantages. The State not only concerns the rules of the market economy but also closely guides, steers, and directs economic activities to implement the developmental function of the State. The theoretical basis of the developmental function of the State is the analyses of "comparative advantages" of the knowledge-based economy. The State enterprises always play a significant role in the economies of the countries who pursue these models.

Besides those differences, the three groups also share fundamental similarities. They are all built on and operate according to four key principles namely private ownership, self-interest, market competition, and Western-style democracy and freedom. Moreover, the institutions and policies once considered non-economic such as education and training, science and technology have now become top priorities as they are the main driving force or impetus for growth and development in recent decades. Thanks to huge investments in education and training as well as science and technology that the United States has become the leading country in new and modern industries, gaining bulky profits in the semiconductor, computer, internet, and biotechnology industries. This is the main basis for the US economy to maintain its growth in recent years. Over the past decades, though the sustainable and human development has surpassed the conventional logics of the capitalism, but this is the inevitable demand of the contemporary time that the capitalism cannot resist, so, not only the United State but also other capitalist countries have to seek for ways to adapt themselves. In fact, all the three groups of models are related to the State's macro management of the economy, however, the State's role has changed flexibly in conformity with the objective demands and developments of the practical circumstances. The governments of these countries have taken measures of intentional intervention to support some industries playing important role in the long-term development of the economy, or control and limit the development of the enterprises or industries that exert adverse impact on the economy.

Each market economy model has its own superiorities as well as its limits and defects. There is no firm basis to assert which model will dominate in the long-run and become the common value for all countries in the world. Yet, for now, the market economy model of the

United States, which is based on the neo-liberalist theoretical system, the military, science and technology might and the expanded support of IMF, WB, WTO, is showing its supremacy over that of Germany, Japan, Sweden and East Asia despite undeniable huge challenges to cope with. From this, the US government itself has tried to impose the rules of game to dominate international multilateral organizations to make its market economy model become typical, transferring its values to developing or transition countries in the name of “Washington consensus”. Most of these countries who have been implementing the policy of developing the market economy have gain different successes as well as failures. Some of them have succeeded and gained rapid and stable economic growth such as the East Asian NICs or NIEs since the 1970s and 1980s, which usually referred to as the Eastern Asian miracles. But some other have failed with slow economic growth, recession, and even crisis such as the African and Latin American countries. The lessons here are that as the economies of the capitalist countries like that of the United States have experienced hundreds of years and developed to a very high level, so the laissez-faire model is suitable for their economic performance and also demonstrates that level of development, with mature institutions, high productivity and limited intervention of the state in the economy. Nonetheless, this does not mean that the State has no role in the economy, rather it is very important, especially in times of recession. The East Asian experience suggests that the State has a major, positive role in reforms, for them the laissez-faire model is not optimal. The State’s role is crucial in making markets work, dealing with externalities, and facilitating public investments. Reforms fail not because market liberalization proceeds too quickly, but because supportive, institutional reforms proceeds too slowly. Rapid market reform depends on having in place market-oriented institutions and market-specific human capital. The inadequacy of such institutions in Eastern European countries and the former Soviet Union has hindered the

effectiveness of liberalization. Those countries need to build a market-ready foundation of institutions and skilled people to allow rapid reforms to take hold and have an impact.

In a word, as much relevant as the capitalist countries' experience may shed light for Vietnam, the building of a market economy model is indeed related to the issues of the State's role in the economy and the institution-building capacity to make the economy become more market-oriented and competitive, how best to make and let the market forces effectively perform, thus contributing to strongly developing production forces and production relations. The essence of the building of Vietnam's economic model is, in fact, to reform the old institutions, to create new markets where they have not existed, and to well handle the state-market-enterprise relationship, ensuring the socialist orientation while accepting the natural laws of market economy. On the basis of the undeniable achievements of the capitalist countries, Vietnam's building of a new economic model, instead of following the way of its former Eastern European socialist brethren, should, to some extents, proceed like its neighbouring East Asian countries, especially China, who shares many similarities in political, cultural and initial economic background. China's approach works at the margin, building market institutions incrementally, as the role of the old planning institutions is cut back. This strategy has worked in China, and may have some implications for other low-income transitional economies. It may or may not be replicable, however, in countries with different characteristics. And Vietnam should creatively apply these experience.

II.2. Vietnam's approaching the new model

It can be said that, for Vietnam, the application of market economy to build its own economic model has been uneasy, though, theoretically and practically, there are convincing bases to do that for a socialist-oriented country. Since 1986, when Vietnam officially launched the renovation cause and decided to accept market economy in its socialist transformation process, a new economic model has been gradually taking shape, and now it has been confirmed as the socialist-oriented market economy. How has Vietnam built this model? The answer may be reflected through the following aspects:

II.2.1. Process of going market

In Vietnam, “going market” to build the new economic model is a gradual incremental process that has unfolded within limits set by political constraints. Frankly speaking, shifting alliances and conflicts among Communist Party leaders has affected the determination of what types of economic policies were legitimate from a “socialist standpoint”. This is because developing market economy is a brand new issue for Vietnam, where the centrally-planned economic model had deeply taken root for decades. The perception on the new economic model is a process of critical thinking renewal and reviewing the vivid practical experience of economic reform started in 1986, perfecting the available theoretical basis for the new economic model. Generally, there have been four main steps in creating the new economic model in Vietnam:

First, accepted market mechanism but did not consider Vietnam’s economy as market economy. Here, market mechanism was just management mechanism, not all the features, essence, and contents of the economy. Therefore, while seriously criticizing the centrally-

planned, bureaucratic, and subsidized mechanism, and advocating reform in economic management, (part of the overall comprehensive renovation), the Sixth National Party Congress in 1986 asserted that the new mechanism in economic management is the planned one based on the socialist business accounting with democratic principle. It pointed out the objective existence of commodity production, market and affirmed a shift to a socialist-oriented open-door multi-sectoral commodity economy while attaching importance to the harmonious combination of the personal, collective and social interests, fully taking care and promoting human elements with new perception on social policies. Going further, the Seventh National Party Congress in 1991 confirmed that “Vietnam’s economy is the socialist-oriented multi-sectoral commodity economy, operating on a market mechanism with the State management” and asserted that “developing the multi-sectoral commodity economy is a long-term strategy in the transition period to socialism”.¹

Second, considered market economy as not the own product of the capitalism, not contrary to socialism. At a Party convention in the middle of the Seventh tenure in January 1994, Party leaders judged that the structure of the multi-sectoral economy was taking shape and the socialist-oriented market mechanism with the State management was becoming the real operating mechanism of the economy. This meant that Vietnam’s economy is a multi-sectoral commodity economy with a socialist orientation while the operating mechanism of that economy is the market mechanism with the State management. At the end of the Seventh tenure, a Party Poliburo’s resolution on theoretical studies confirmed that “market and market economy is not the own product of the capitalism but is the common achievement of the humankind”. According to this confirmation, market and the market economy used to exist and develop through various modes of production. It appeared prior to, developed in, and would exist even after the

¹ *Vietnam’s Seventh National Party Congress Document*, The Truth Publishing House, Hanoi, 1991, p.21.

transformation of capitalism. If prior to the birth of capitalism, market economy had only been in a fledgling state, then when the capital came into being, it developed to such a high level that it could influence all aspects of people's life in capitalist society, inclining people to think that market economy is capitalism. Thus, in the transition period from capitalism to socialism, the existence of market economy is logical. This is the stance of the Eighth National Party Congress in 1996 when it assessed that "the market mechanism has made great positive effects on socio-economic development; it is not only not against but also a necessary objective factor of building and developing the country on the socialist path" and advocated to "build the multi-sectoral commodity economy operating on market mechanism and at the same time strengthen the management role of the State with socialist orientation".¹

Third, considered the socialist-oriented market economy as Vietnam's general economic model in the transition period. The Ninth National Party Congress in 2001 clearly stated that the Party and State advocate the consistent and long-term implementation of the policy of developing the multi-sectoral commodity economy operating on market mechanism under the State management with the socialist orientation, that is the socialist-oriented market economy. The goal of the socialist-oriented market economy is to develop the production forces, develop economy to build the material basis for socialism, improve people's living standard. Developing the modern production forces goes hand in hand with building new production relations in three aspects namely ownership, management, and distribution. The socialist-oriented market economy consists of many types of ownership, many economic sectors of which the State sector holds the key role, and together with the collective sector, will become increasingly firm foundation of the national economy. According to the resolution of the Ninth Congress,

¹ *Vietnam's Eighth National Party Congress Document*, The National Politics Publishing House, Hanoi, 1996, p.26.

economic sectors operating under laws are all important components of the socialist-oriented market economy. Those sectors are the State sector, the collective sector, the private sector, the private capitalist sector, the State capitalist sector, and the foreign-invested sector. The Ninth Congress clearly pointed out that “developing the socialist-oriented market economy is the consistent strategy, the general economic model in the whole transition period to socialism in Vietnam”.¹

Fourth, attached Vietnam’s market economy with the global market economy and full international integration. The Tenth National Party Congress in 2006 advocated: “To go to socialism, we have to develop the socialist-oriented market economy, speed up industrialization and modernization, build an advanced culture with strong national identity as the spiritual basis of society, build the socialist democracy, implement the great national solidarity, build the socialist law-governed State of the people, by the people, for the people, build a strong and healthy Party, firmly ensure the national defense and security, actively integrate into international economy”.² It stressed the continuation of perfecting the institutions of the socialist-oriented market economy with four most important theoretical issues which are closely following the socialist orientation in the national economy, strengthening the State’s role and improving the State’s management, harmoniously developing and effectively managing the operation of the basic types of market with a healthy competition mechanism, and strongly developing the economic sectors and various kinds of production and business. More important is, with the theme of “actively integrating into international economy”, the Tenth Congress decided to boost

¹ *Vietnam’s Ninth National Party Congress Document*, The National Politics Publishing House, Hanoi, 2001, p.86.

² *Vietnam’s Tenth National Party Congress Document*, The National Politics Publishing House, Hanoi, 2006, p.69.

external economic activities, fully integrate with global economic institutions as well as regional and bilateral ones, serving national interests as the highest goal.

II.2.2. Contents of going market

II.2.2.1. Applying market mechanism

Over time, most of the vestiges of central planning have been removed. The market mechanism has been applied in the spheres of price, exchange rate, interest rate, eliminating the State-determined mechanism and setting the market-determined one. Certainly, output quotas and targets exist in some sectors and some prices are fixed or closely regulated by the State, but most inputs and outputs are allocated through the market mechanism and most prices are set by market supply and demand. The market allocates resources in Vietnam much as it does in other so-called market economies, the differences being only a matter of degree and indeed the markets for some things are freer in Vietnam than in some non-socialist market economies. At present, almost all prices of goods and services in Vietnam are determined by market, only some such as electricity, water, public transportation, communication equipment, cement, steel, fuel, and fertilizer, are determined by specific State corporations with monopoly power. Since 1989, when Vietnam carried out a nearly complete decontrol of State-fixed prices, exchange rate has been adjusted to get close to market rate, and especially since 1999, exchange rate has been determined on a daily basis by the inter-bank market with a vacillation band of 2%. The salient advance in the determination of interest rate is that Vietnam has switched from a mechanism of State-determined interest rate, which was constantly lower by far than the inflation rate, to a mechanism of determining a positive interest rate, and an interest ceiling for loans. At present, even the regime of interest ceiling for loans has been eliminated and replaced instead by a

mechanism of determining a basic interest rate operated by the major banks with a certain fluctuation band.

Despite some defects, price, exchange rate and interest rate in Vietnam are getting increasingly characterized by market and determined by market. This is an essential change, which makes it possible for market mechanism to exert an effective impact in Vietnam.

II.2.2.2. Developing multi-sectoral structure

The reform advocacy is highlighted in official documents of the Communist Party of Vietnam as to consistently implement the policy of developing a multi-sectoral economic structure in which the economic sectors operating legally are important integral components of the socialist-oriented market economy; with the State sector playing the leading role, these economic sectors would cooperate and engage in a fair competition with each other such that they will increasingly become the foundation of the national economy.

Prior to reform, as mentioned in Chapter I, in Vietnam there existed only the State and the collective sectors. However, with the new policy, non-State economic sectors have developed vigorously. One of the most important aspects of building the new economic model in Vietnam is the encouragement of domestic and foreign private investment, and thus creating a new structure of ownership of various economic sectors. Foreign direct investment (FDI) has complemented an important part to the capital source for economic development in the process of transfer from centrally-planned mechanism to market mechanism.

Table 3. FDI projects licensed in some years

Year	Number of projects	Registered capital (\$m)	Disbursed capital (\$m)
1991	152	1,291.5	328.8
2000	391	2,838.9	2,413.5
2006	987	12,004.0	4,100.1

Source: General Statistics Office of Vietnam (GSO).

The Constitution has been amended to recognize the existence of private sector, including foreign-invested enterprises, and a new Civil Code which recognizes individual ownership has been passed. Many laws, ordinances, and degrees have been enacted to create a level playing field for the development of all economic sectors. Another key element in shaping the multi-sector structure of the new economic model has been the country's adoption of policies to reduce the State intervention in business and reform the State sector. The number of State-owned enterprises (SOEs) has dropped significantly from 12,300 in 1989 to just over 5,600 in 2001 and around 3,000 at the end of 2005 through mergers, dissolution, and equitization. During the 2001 – 2005 period, around 2,000 SOEs was equitized. The State sector has been stripped off some subsidies and other privileges, while at the same time given greater autonomy in business. SOEs now operate as one-member limited liability companies.¹

II.2.2.3. Monetary and fiscal reform

This area has experienced major reform. The banking system has been reformed into a two-tier system, which separated a central State Bank from commercial banks and opened the way for the entry of private banking. The State Bank now operates much like a conventional

¹ Vietnam Trade Office in the USA, <http://www.vietnam-ustrade.org>.

central bank, having separated itself from its more functional activities of the past by establishing separate agricultural, industrial, and trade banks. The State Bank now monitors reserve requirements and other features of both its own functional banks and other shareholder banks that are now authorized to operate within the banking system. It sets the monetary policy and controls the rate at which it will lend to other banks in the system. It adjusts this discount rate to stabilize and control the monetary regime. A tight monetary policy has been adopted to check inflation. Instead of printing money to cover budget deficits, as it had done previously, the government has issued bonds and treasury bills to finance deficit spending. Whereas, an inter-bank market is planned, with an overnight inter-bank rate. Foreign banks may also operate in Vietnam and the number is seemingly increasing. Vietnam thus appears to have moved a substantial distance toward a Western-style banking and foreign exchange system, with a central bank exercising broad macro-economic control, interest rates set in a largely free-market environment, and quite effective convertibility of the domestic currency.

Meanwhile, in 1999, the Vietnamese government for the first time published information on the State budget, representing an important step towards fiscal transparency. And since 1999, the tax system has been reformed with the broadening of the tax base and the introduction of new taxes such as a value-added tax (VAT) and a corporate income tax to replace the turnover tax and the multi-rate profit tax respectively. Together with the tax system reformed, the State's budget has been decentralized, encouraging responsibility of local authorities and restructuring budget spending with the gradual removal of State's subsidies. Thus, it can be said that Vietnam's efforts in macro-economic stabilization during the 1990s were very successful in combating inflation and placing government finance on a more sustainable basis. Inflation has

been brought under control by a combination of monetary, fiscal and exchange rate management policies. Tight credit policies, reduction of subsidies to SOEs and enhanced revenue collection addressed fundamental fiscal and monetary source of inflationary pressure. Exchange rate unification and an effective large real devaluation early 1990s, combined with trade liberalization and the reduction of constraints on agricultural supply and the operation of the private sector, facilitated disinflation without recession.¹

II.2.2.4. Trade liberalization

Trade liberalization became an essential part in the process of going market in Vietnam, contributing to creating a market economy by allowing competitive forces coming from other economies. Since 1986, import and export restrictions have been greatly reduced. Vietnam has been moving from State's monopoly on foreign trade to free trade and from import-substitution to export-oriented policies. At present, by law, all Vietnamese businesses including private companies have the right to perform export and import business. Foreign trading companies are allowed to set up branches and representative offices in the country to conduct and promote trade.

Both tariff and non-tariff barriers to trade have been reduced and gradually eliminated. Import duties have been substantially downed while almost all export products are exempt from export taxes. Most commodities and goods are now freely imported into and exported from Vietnam. The number of products subject to export or import prohibition or restriction has been substantially reduced. The requirement of government approval of contracts and prices as well as licenses for lot shipments has been abolished.

¹ Bob Warner, *Vietnam Economic and Financial Management*, Australian Agency for International Development (AusAID), Canberra, June 2001, p.17.

With trade liberalization measures, Vietnam has appeared to be a fairly open economy. Especially, from a country who had to import a bulk of commodities, Vietnam has become an export-oriented one with successful records. Vietnam's major exports currently include crude oil, garment, footwear, seafood, wood products, electronics and computers, coal, handicraft, rice and other agricultural commodities. One of the first important achievements of market reform came from agriculture when Vietnam became the third largest rice exporter in the world, and now the ranking is second with the total rice export value of 1.4 billion USD in 2007.¹ This achievement is remarkable as before reform Vietnam could not supply sufficient food to its people. And Vietnam's trade liberalization partly resembles the models of Asian Tigers years ago with their export-led growth strategies.

Table 4. Vietnam's trade value over time (Unit: US\$ millions)

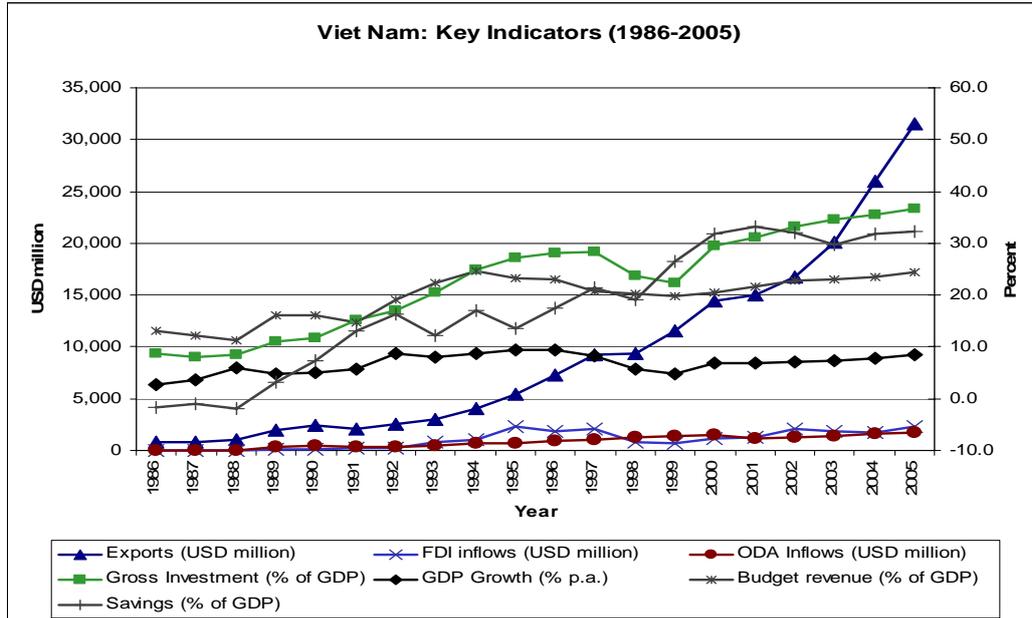
Year	2001	2002	2003	2004	2005	2006	2007
Export	15,029	16,706	20,149	26,485	32,442	39,826	48,561
Import	16,218	19,746	25,256	31,969	36,970	44,891	62,682

Source: Vietnam's Ministry of Trade and Industry.

Vietnam is now a member of ASEAN, AFTA, APEC and ASEM, which means Vietnam has a great opportunity to promote trade with other countries. Besides that, Vietnam also maintains bilateral trade relations with important countries such as signing the Bilateral Trade Agreement with the United States in 2001. Especially, Vietnam's formal entry into WTO in January 2007 as the 150th member after 11 years of marathon negotiation is regarded as "an international certificate" for all achievements it has recorded since going market in 1986.

¹ General Statistics Office of Vietnam, <http://www.gso.gov.vn>.

Figure 1. Key Economic Indicators



Source: Raymond Mallon, April 2006.

II.3. The essence of the new model

II.3.1. General approach

After 20 years of developing market economy since 1986, the Tenth National Party Congress in 2006 asserted that the new economic model that Vietnam has built is the socialist-oriented market economy and this is the general economic model for the whole transition process to socialism in Vietnam. In other words, the socialist-oriented market economy model is undoubtedly the result of a long process of going market with its essential contents, and is still being perfected throughout the transition period to socialism.

The socialist-oriented market economy model can be understood as a political economic concept, reflecting the fact that market economy is applied to serve the cause of building

socialism. It can be said that there is no abstract market economy model that is separated from a concrete form of socio-economy or the socio-political regime of a country. As such, in order to distinguish different market economy models, it is necessary to touch on the political and socio-economic goals that a country and its people have chosen as the orientation determining the development of that economy. For Vietnam, its ultimate goal is socialism and a new relevant mode of production. Moreover, this economic model is also determined by the very economic base of the country, and for Vietnam, that is a backward agrarian country with low level of industrialization. As Vietnam is still in the process of transition to socialism, meaning that a new society is gradually taking shape, so the elements or factors of the former society with its economic base, a poor backward agrarian country, still exist and determine the superstructure of that society, or what economic model should be applied in Vietnam. Therefore, in the socialist-oriented market economy model, there exist two groups of factors namely that of market economy and that of socialist orientation. The factors of market economy will promote the development of the production forces and the national economy as a whole while the factors of socialist orientation will guide the direction of development towards the political goal of socialism, the establishment of new production relations and a new mode of production. These two groups of factors are intertwined and interrelated but the latter will gradually dominate the whole economy when the goal of socialism is reached.

Thus, the essence of the socialist-oriented market economy model is reflected in the combination of socialist orientation and market economy factors. As such, the Ninth National Party Congress in 2001 and then the Tenth National Party Congress in 2006 made it clear that Vietnam's socialist-oriented market economy is an economic model, which both conforms to

principles of market economy, and is based on and guided by principles and nature of socialism in terms of the ownership, management organization and distribution. One may think that there is an uneasy “marriage” between the socialist orientation and market economy, however, the reality has proved this combination in the new economic model of Vietnam is worthwhile. With the process and contents of going market since 1986, as already analyzed in the previous part of the thesis, it can be concluded that a market economy has been being built in Vietnam, from applying market mechanism, to creating new markets, trade liberalization, attracting FDI, and international integration. As a multi-sectoral commodity economy, which is regulated by the market, under the State’s management, the socialist-oriented market economy is comprised of many ownership types and economic sectors, in which the State-owned economic sector plays the vital role. But beyond the issue of ownership, in fact, the role of the State is very important in management and it is regarded as a “goal keeper” and the one who creates a level playing field for everybody with the rule of law. Once applying a market economy, there will be certain inequalities in various areas of life, and it is the duty of the State to reduce this negative effects. The development of the socialist-oriented market economy shows the country is very selective about achievements of humankind civilization, in order to develop the active role of the market economy in boosting the production forces, labour socialisation, technology advances, while improving product quality, contributing to enriching society and improving people’s living conditions. However, it is necessary to devise effective measures to limit negative phenomena of market economy, including pure profits, fierce competition, excessive exploitation and division between the rich and the poor. Under the leadership of the Communist Party and management of the socialist State of Vietnam, this economic model limits weaknesses arising from the

spontaneity of the market, so as to better serve the interests of a majority of the population and the sustainable development of the entire nation.

In short, it can be said that the socialist-oriented market economy is an economic model of a society in its transition from a low economic level, small production, to a higher level, large production, toward a new society - the socialist regime. The major goal of the socialist-oriented market economy is to improve people's well-being, develop production forces and production relations to build a firm technical and material foundation for socialism. Its essence is determined by the specific conditions, characteristics, and economic relations in Vietnam in the transition process to socialism, and is reflected through the combination of the socialist orientation and market economy factors which generates the structural features of this economic model. For this reason, this model is different from those in the capitalist countries, and even with the one in China, though it has been built on the basis of selectively absorbing their achievements.

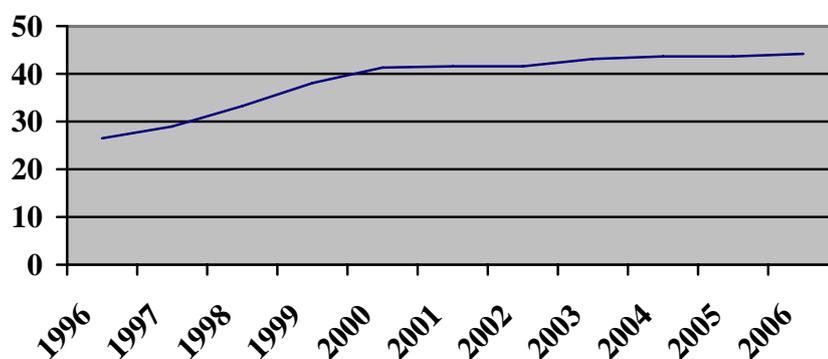
II.3.2. Structural features

II.3.2.1. Ownership

It can be said that ownership is of vital significance for any socio-political regime and it is the basis to differentiate different economic systems. With the content of going market in term of ownership as already mentioned, it is clear that the socialist-oriented market economy is based on various forms of ownership such as the all people's ownership represented by the State (or public ownership), the collective ownership, the private ownership, and the mixed ownership, of which the public ownership on the main means of production plays a key role or the backbone of the national economy. From these basic forms of ownership there appear many economic sectors with various forms of production and business organization. As set out in the 1992 Constitution: "The aim of the State's economic policy is to make the people rich and the country strong... by releasing all productive potential [and] developing all latent possibilities of all components of the economy – the State sector, the collective sector, the private individual sector, the private capitalist sector, and the State capitalist sector in various forms..." and "enterprises belonging to all components of the economy... are equal before the law". Among these economic sectors, the State-owned economic sector is significant and this is the "material" force that the State uses to directly control and regulate the economy according to its socio-economic development programs, plans, or strategies to maintain a socialist orientation. The State sector is like the economy's "locomotive" that guides and steers other economic sectors develop in the direction set forth by the State, playing as a safety valve for the performance of the national economy. As such, the State sector with its SOEs focuses on the industries or fields that produce and provide public goods and services to satisfy the society's demands, first of all in the infrastructure

investment and construction, security and national defense, medicine; the industries of means of production, the spearhead industries such as electronics, computing, new materials, biotechnology; the industries of finance, banking, and insurance; and controls important export-import industries. Other economic sectors, including the individual, private capitalist, collective, and the mixed capitalist State sectors, which consist of both domestic and foreign investors, are allowed and encouraged to freely operate in all industries except for those directly related to national security and defense, and health. Those industries are put under strict regulations by the State. In 2005, the National Assembly approved a Unified Enterprise Law and a Common Investment Law which took effect from 1 July 2006, to provide more uniform legal framework for State management of most forms of business entities and investment, regardless of the form of ownership (domestic private, State, or foreign). It must be stressed that reforms in the area of foreign investment regulation have been especially dramatic. Large inflows of foreign investment are now actively sought by the Vietnamese through joint ventures between the Vietnamese enterprises (both State-owned and private) and foreign firms. This type of ownership results in the very mixed State capitalist sector that reflects the notion of State capitalism development in Lenin's argument that has been mentioned the theoretical review of Chapter I. In fact, foreign-invested enterprises have enormously contributed to industrial production in Vietnam over the past years as the following figure shows:

Figure 2. Industrial output value of foreign-invested sector in the economy (%)



Source: GSO.

In short, with this structure, the national economy is able to enjoy favorable conditions and impetus to develop production forces and productions relations, promoting the cause of industrialization and modernization of the country, building the primary foundation for socialism. The following table will show the ratio of the economic sectors in the national economy according to their contribution in the total social investment capital over time in Vietnam:

Table 5. Investment by ownership structure (%)

Year	Total	Of which		
		State	Non-State	Foreign-invested
1998	100,0	55.5	23.7	20.8
1999	100,0	58.7	24.0	17.3
2000	100,0	59.1	22.9	18.0
2001	100,0	59.8	22.6	17.6
2002	100,0	57.3	25.3	17.4
2003	100,0	52.9	31.1	16.0
2004	100,0	48.1	37.7	14.2
2005	100,0	47.1	38.0	14.9
2006	100,0	46.4	37.7	15.9

Source: GSO.

The above table indicates that the public ownership over the years has always been the dominant form in the economy. The experience from capitalist countries is that private ownership is the basis of their economies, and this is the key difference between the market economy model in those countries with the one in Vietnam who pursues socialist orientation. At the same time, the ownership structure of the Vietnam's model reflects the fact that this model is aimed at fully promoting the development of the production forces in the whole transition period to socialism with the encouragement of developing every economic sectors. This is also a creative application of Marxist-Leninism in the concrete situation of Vietnam.

II.3.2.2. Operation mechanism

The operation mechanism of the economy is the market mechanism with the State's management. Here, the mechanism of a normal market economy has been established over the years of going market in the spheres of price, exchange rate, interest rate, etc. And for a socialist-oriented model, this mechanism is boldly characterized by the way the State manage the economy. In fact, this is related to the State-market-enterprise relationship, which is reflected through the two following aspects:

First, the State, under the leadership of the Communist Party of Vietnam, is the factor that plays the central role, guiding and controlling the economy at a macro level, creating a legal corridor and a favorable economic environment for the enterprises to operate according to the market mechanism. As Vietnam is now in the transition process towards socialism, with specific goals of socio-economic development, so the role of the State in economic management is more

important than ever. In Vietnam, the State's regulation in the economy must not be separated from the leadership of the Communist Party of Vietnam, a very typical characteristics of the political system of a socialist country. Every five year, the Communist Party of Vietnam hold a National Congress that would pass strategic programs and policies for national development. And every year, based on the resolution of the National Congress, and the guidelines of the regular plenums of the Central Committee of the Communist Party of Vietnam in the year, the State works out its agenda of action with concrete socio-economic goals that would require the approval from the National Assembly. To realize these goals, the State of Vietnam has over the years since renovation exercised its role of ensuring macro-economic stability through various tools such as fiscal and monetary, interest rates policies mapped out by the Ministry of Finance, Ministry of Planning and Investment, the State Bank... Although in the particular year of 2008, the inflation in Vietnam has rocketed to 25%, the efforts by the State of Vietnam in inflation reduction and macro-economic coordination over the past years since renovation are hailed by the Vietnamese as both a major accomplishment of their market reforms and a key component part. The decrease in inflation has provided a new found sense of macro-economic stability, and its contribution to economic growth has been accepted by Vietnamese officials as key, although to some Western economists this position might be somewhat questionable.¹ Moreover, the first and foremost public good that the State of Vietnam, like others in the world, must supply in a market economy is a legal framework that lays out the rules of a market economy and a mechanism for enforcing them. Since 1986, Vietnam has made significant progress in developing such a legal framework. With significant amendments in the 1992 Constitution which explicitly recognised a role for the private sector, laws have been passed on civil and economic contracts, on private property rights, on domestic sole proprietorships and shareholding

¹ John McMillan and Barry Naughton, 1996, p.305.

companies, on State enterprises, on foreign investment, on land use rights, and on bankruptcy. In 1994, a labor code was enacted which sets out the contractual rights of employers and employees regarding social insurance and rights to strike. In fulfilling the fundamental duty of the State to establish the rules of a market economy, the authorities in Vietnam have, perhaps, done too much of a good thing. The institutions of a market economy, including the factor markets and a legal system regulating the State-market-enterprise relationship have been gradually created.

Second, as the bridge between the State and the enterprises, the market mechanism guides the activities of the enterprises in the market with its natural laws. All the questions related to what should be produced, how should it be produced and distributed, are determined by the market. However, the performance of the market must not be separated from the State's management as the spontaneity of the market would result in its failures which the State has to deal with. Many eminent economists have analysed market failures, and see the State as having a legitimate role as mitigators of these failures, for example through regulation and compensation schemes. Regarding the fledgling state of Vietnam's socialist-oriented market economy, these market failures are sometimes very serious, putting so much pressure on the State and requiring the State to act as a "smart" center of the national economy. The State of Vietnam exercises its role of socio-economic management on the principle of combining market and planning, promoting the positive face and at the same time mitigate the negative face of the market mechanism, protecting the legal benefits of laborers and the whole people. In all economic models of the worlds, there are two kinds of economic regulation and management: the first is through direct planning and administrative measures while the second is conducted indirectly through market, taking advantage of the market mechanism to exert impact on the activities of

enterprises in the market, inclining them to develop towards the socio-economic goals set forth by the State. The difference between these two kinds is shown in the degree applied in the economy of each country. As the tools used for economic regulation and management, both market and planning have in them strength and limits. Therefore, they should be used with a harmonious combination. In the socialist-oriented market economy of Vietnam, this combination has so far helped promote the development of the production forces and the relevant production relations, accelerating economic growth and ensuring the right direction towards socialism. In the past, the State Planning Committee was the main body concerned with economic planning and used to formulate a whole array of complex plans: annual, five-year, ten-year, quarterly, national, regional, sectoral, and others. Since renovation, these plans became only indicative, providing indications of where the economy may be headed, but without any imperative content. They contained no orders or requirement of execution on the part of economic agents involved. In 1995, the State Planning Committee was transformed into the Ministry of Planning and Investment who on behalf of the State and government is in charge of “overall strategies, plannings, projects, long- term, five-year and annual plans on national and territorial socio-economic development, the major balances of the national economy, including financial and monetary balances, and fundamental construction investment capital, which shall serve as basis for the formulation of financial-budgetary plans”.¹ Thus far, market-oriented reforms have progressed in a manner consistent with the socialist orientation of Vietnamese society. With the State planning at a macro level, the market mechanism still operates naturally, reflecting its essence and laws, promoting the development of production forces and production relations. Since the price decontrol in 1989, prices of most goods and services has been determined by the market. At the moment, although the prices of a few strategic commodities and services such as

¹ Sources from Ministry of Planning and Investment of Vietnam, <http://www.mpi.gov.vn>.

electricity, water, public transportation, communication equipment, cement, steel, fuel, and fertilizer are still controlled, they are now allowed to change in response to changes in production costs. This kind of the State's control and intervention relating to goods and services which are viewed as strategically important is aimed at correcting the market failures resulting from the free market mechanism. Electricity, for example, is a good that was or is subject to price ceilings in many countries. Vietnam is not an exception.

It can be said that the State and the market are the two most important factors in the economy and determine the development with a socialist-orientation of the economy. These are the two most powerful forces that determine the performance of any economy. As such, the focus of the debate on economic transition and the development of the socialist-oriented market economy is about how to handle the relationship between the State and the market, the functional interaction mechanism between the State and the market, so that the goal of economic effectiveness, democracy, and equality can be reached. In the transition period, whether the market can develop or not, whether it can realize the development of a democratic and equitable society with a socialist orientation or not depends on how the State handles the functional relationship between the State and the market. The State creates a favorable stable legal and socio-economic environment for the economic actors to operate in the market. It directs the socio-economic development by promulgating plans, socio-economic development programs and policies, especially financial, credit and monetary policies, which incline economic actors to implement its plans and programs. In addition, organization is an important function of the State in economic regulation and management in that it arranges and organizes economic units, especially State-owned enterprises, economic zones towards an adequate economic regional

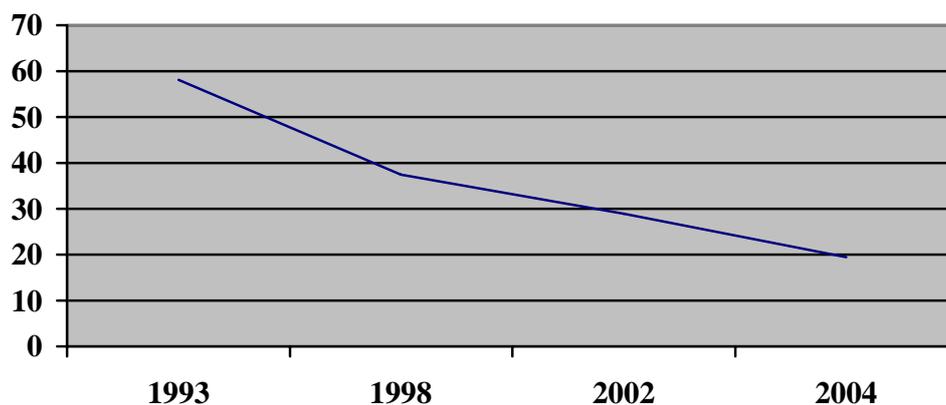
structure of a market economy, rearranges the State agencies in charge of economic management, reforms institutions and administrative formalities, establishes economic relations with other countries and international economic organizations.

II.3.2.3. Distribution

Like ownership and operation mechanism, distribution is one of the key features of the socialist-oriented market economy model, a factor that determines the socialist development of the country. The socialist-oriented market economy model is based on a tight combination between the socialist distribution principles and that of a market economy such as distribution according to labor, distribution according to capital, talent, distribution through social welfare funds... of which the principle of distribution according to labor and economic effectiveness is the foundation of the regime. This combination has brought about the coexistence of various types and mechanisms of distribution and redistribution of income. The regulation of income distribution is conducted through two main channels. First, the State is the sole agent who regulates the redistribution on the whole social scale to ensure social equity and welfare for the whole people. Second, the regulation of distribution is conducted on the principles of market. The principles of distribution according to labor, capital, assets, talent... applied in enterprises of every economic sector are placed in the orbit of the market mechanism, governed by the market mechanism. Here, again, this feature is related to the role of the State in socio-economic regulation and development. In order to direct the economy towards serving the goal of raising people's living standard and ensuring social equity, it is the duty of the State to actively regulate distribution relations, combining the handling of profit issue with the settling of social problems,

combining the principles of socialist distribution with that of the market economy, regulating the distribution between social classes, reducing the bipolarization of the society as much as possible. All these contents have been manifested through the social policies that have been so far implemented by the State of Vietnam with its efforts in reducing the gap between the rich and the poor, the imbalance of development between regions, ethnic minorities and other social segments of people. Those social policies include the policy of labor and employment, the policy of social security, the policy of combating social evils, especially the policy of hunger eradication and poverty reduction has been considered as one of the most successful achievements recorded by the State of Vietnam in its renovation cause.¹

Figure 3. Poverty reduction during the 1993-2004 period (%)



Source: GSO.

Poverty and inequality reduction is reflected in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) of Vietnam. This strategy is situated in a broader framework of government strategies and plans, known as Vietnam Development Goals, a localized version of

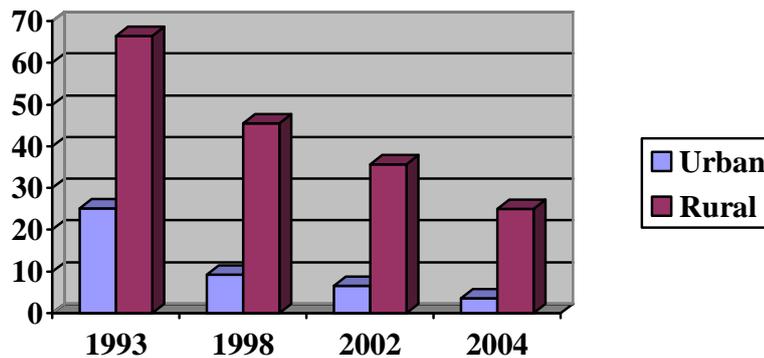
¹ According to the assessment by the CIA World Factbook, deep poverty, defined as a percent of the population living under \$1 per day, has declined significantly and is now smaller than that of China, India, and the Philippines, <http://www.cia.gov>.

the Millenium Development Goals (MDGs) that were adopted by 189 member States at the United Nations Millenium Summit in 2000. In the Millenium Declaration, the world leaders pledged to reach 8 MDGs by 2015, of which the eradication of extreme poverty and hunger is the number one goal. The CPRGS of Vietnam is therefore a strong commitment to international community and the success of Vietnam is praised as an outstanding example for other developing countries in the world as Vietnam has reached ahead of schedule the target of poverty and inequality reduction that was set forth in the Millenium Declaration. The major contents in the national poverty reduction programs involve construction of rural infrastructure facilities, support in healthcare, support in education, support for housing improvement, provision of credit for poverty reduction purposes, and allocation of agricultural land to landless households. Now, all the programs and policies for poverty reduction are coordinated by a National Steering Committee led by one of the Vice Prime Ministers of the government and members of this Committee are representatives from other Ministries, of which the Ministry of Labor, Invalids and Social Affairs (MOLISA) is the standing one and in charge of management.

Objectively speaking, though poverty has declined rapidly over the past years, this does not mean that all segments of the society enjoy the same success. There have been significant variations in progress in poverty reduction across regions as well as across population groups. From a policy perspective, this indicates the need to identify and prioritise appropriate interventions to help more disadvantaged groups to catch up with the rest. Despite substantial improvements in rural living standards, rural residents still overwhelmingly dominate the poor population in Vietnam. The gap between the urban and rural poverty rates has been substantial

and persistent although rural poverty has been falling at a faster pace over the past years as the following figure shows.

Figure 4. Urban and Rural Poverty Rate (%)



Source: GSO.

To sum up, the structural features of the socialist-oriented market economy in Vietnam has made this model become typical for a country that is still in its transition process towards socialism. This is also the basis to differentiate this model with other economic models in the world, though it may share some similarities. Once again, it can be concluded that for every economic model in the modern world now, including the model of Vietnam, the two main factors that determine the development of an economy are the State and the market. The interrelations and interaction between these two factors reflect the level of development of an economy and its relevant characteristics. In other words, the future development of an economy would depend on how to handle the relations between these two factors, an issue that will be touched on in the next chapter of the thesis.

Chapter III

PERFECTING THE NEW MODEL

III.1. Opportunities and challenges

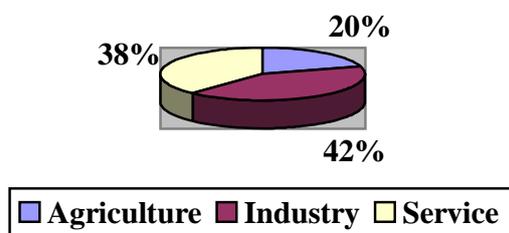
III.1.1. Opportunities

The dream and expectation of Vietnam to be a civilized society and an industrialized country have always been in the focus of its development strategy. In the past, however, Vietnam failed to bring its dream into reality mainly because it pursued a centrally-planned economic model with a relevant system of institutions lacking incentives and efficient resource allocation. With the new economic model and international integration process, Vietnam has not only entered a new stage of development, but also enjoys good opportunities coming from both inside and outside to be successful in industrializing and modernizing its economy.

Generally, the process of transforming Vietnam's Soviet-style centrally-planned economy into a new socialist-oriented market economy model over the last two decades has shown that the trend of market mechanism and market economy development has been confirmed. Almost all the contents of market reform have already been implemented. And it can be said that such reform has brought about a comprehensive change for Vietnam as the results obtained are unprecedented in its history. Over the 20 years of Doi Moi, the annual average economic growth rate is 7.5%, with the 2007 rate of 8.48%, thus helping Vietnam's economy become the second fastest-growing in Asia, only after China, and one of the highest in the

world.¹ At present, Vietnam maintains trade relations with more than 170 countries and economies and total export turnover has risen by an annual average rate of 20% in recent years, marking a characteristics of an export-oriented economy. In 2007, the export value was equivalent to over 60% of the country's GDP, with main export goods such as rice, crude oil, textiles, footwear, coffee, other agricultural and aquacultural products.² The national economy has been restructured towards raising the share of industry and service, reducing the dominance of agriculture.

Figure 5. GDP by economic sector in 2007



Source: GSO.

By pursuing the policy of attracting FDI and Official Development Assistance (ODA), Vietnam has mobilized huge capital resources needed for socio-economic development. Vietnam now has investment relations with more than 70 countries and territories, many groups, big MNCs and TNCs that possess great technological and financial capabilities. With nearly US\$ 30 billion in about 9,400 foreign-invested projects, Vietnam is now considered one of the most attractive countries for FDI in the region as a new wave of foreign investment flows in.³ FDI has helped accelerate economic restructuring, industrialisation, modernisation, development of production forces and job creation. Through foreign donors, Vietnam has been able to avail itself

¹ GSO, <http://www.gso.gov.vn>.

² GSO, <http://www.gso.gov.vn>.

³ *Vietnam Investment Review*, August 11-17, 2008, <http://www.vir.com.vn>.

of a rather large amount of ODA with a total commitment of US\$ 35 billion from 1993 to date.¹ This provides an especially important source of capital to develop infrastructure, narrow down the development gap and reduce poverty. In the sense of socialist orientation, Vietnam has shown effectiveness in maintaining a balanced socio-economic development, of which the most prominent is the success in reducing poverty and inequality as aforementioned. In 1993, 58.1% of the population lived in poverty, but then this rate dropped as dramatically as to 14.75% in 2007.² Three fourth of the poverty share were reduced in only around a decade. In other words, more than one third of the total population was lifted out of poverty in such a short time. All Vietnam's successes in Doi Moi process has been usually praised by the international community as "Vietnam phenomenon". Vietnam now is known as economic development, not as a war any more. And it is clear that, the achievements in Vietnam's market reform have become its opportunities and has laid the ground for further development in the future.

In another aspect, Vietnam's further perfecting the new economic model must be placed in the context of the world economy's development. Vietnam is entering into the period of industrialization, modernization at a time when great political and economic changes are taking place in the world. Peace and cooperation for development have become critical requirements of nations and countries worldwide. Many countries have given priority to economic development and need a peaceful and stable environment and open policy. Globalization and regionalization have become one of the major trends of the modern international relations and will continue to vigorously develop in the years to come of this century. This trend has been clearly seen in the very fast increase of international exchange of goods, services, finance and production factors.

¹ Ministry of Planning and Investment of Vietnam, <http://www.mpi.gov.vn>.

² GSO, <http://www.gso.gov.vn>.

Globalization and regionalization have also been seen in the establishment and consolidation of international and regional economic organizations. Under the impact of this trend, a great number of global economic and commercial institutions as well as inter-regional organizations have been established and have been affecting the development of most countries in the world, remarkably WTO with its 153 members making up more than 90% of total value of international trade, APEC with its 21 members counting for 56% of the world's GDP and 46% of total value of world trade, regional organizations such as EU, ASEAN/AFTA (ASEAN Free Trade Area), NAFTA, other institutions such as G7, WB, IMF, and various development triangles and quadrangles.

In the increasingly globalized world, any country which does not want to be eliminated from development stream has to strive for integration into the common trend, adjust their policy, gradually decrease tariff barriers and abolish non-tariff barriers so that the exchange of goods, capital circulation, labor force, technology and techniques worldwide can be more smooth. Vietnam is not an exception. Since renovation in 1986, Vietnam's policies have been to broaden its international relations and cooperation. With its active integration into the international community, Vietnam has great opportunities for development. Potentially, late comer countries like Vietnam can have quick access to management experience, capital, modern technology, and global market to accelerate their development, though, in reality, translating these potential opportunities into development benefits is not easy, especially when protectionism tends to grow in the developed world. So far, Vietnam has set up trade relations with over 170 countries, signed bilateral trade agreements with 72 countries. In 1992, Vietnam signed a trade agreement with the EU. In 1995, it joined ASEAN and is now a member of the AFTA. In 1998, it became a

member of the APEC, and in the year 2000, signed the Bilateral Trade Agreement with the United States which came into force in December 2001. Vietnam has also joined regional integration clubs such as ASEAN-China Free Trade Area (2002) and ASEAN-Japan Comprehensive Economic Partnership (2003), and most recently was admitted to WTO in January 2007. International economic integration has contributed significantly to expanding Vietnam's market, economic and trade partnership, and promoting export and import. From a mere trade turnover of less than US\$ 5 billion with most of key trading partners found in Eastern Europe during the late 1980s, Vietnam's two-way trade in 2007 reached US\$ 109.2 billion with more than 170 trading partners all over the world.¹ In the years to come, this trend is set to continue with high growth.

In short, the building of the new economic model in Vietnam over the past years has been taking place under the impact of the trend of globalization and regionalization, thus has been paralleled with its integration into the world economy. The lessons of success in the reform and development process and the active integration of Vietnam indicate the great social and economic benefit of this process. Robust and sustainable export growth contributes to high and sustainable GDP growth over many years, strengthening the balance of payment, accumulating savings, and attracting foreign investment. Opening up to external economic relations also contributes to job creation, especially in the export-oriented and labor-intensive processing industries. This further boosts the industrialization of the country with socialist orientation. These outcomes also strengthen the public confidence in the policy and strategy of the Party and the State, proving the correct path of developing the market economy with socialist orientation, linking integration with sovereignty and self-reliance of the past 20 years of reform. Yet,

¹ GSO, <http://www.gso.gov.vn>.

together with the opportunities it has, Vietnam also faces huge challenges coming from its very internal development situation as well as the two-side effects of globalization and regionalization through Vietnam's international integration process. These challenges would, therefore, become the factors, among others, that determines the policies Vietnam should pursue in the future to further perfect the new economic model.

III.1.2. Challenges

The development objectives of Vietnam in the first two decades of the New Millennium are quite ambitious. Vietnam expects to sustain high economic growth with poverty elimination and to substantially improve the Human Development Index (HDI) during the period 2001-2010. The overall goal of Vietnam is to accelerate industrialization and modernization process in order to bring the country out of underdevelopment and create a foundation so that by 2020 Vietnam will basically become "a modern-oriented industrialized country".

However, Vietnam is currently facing great challenges that, like the opportunities it enjoys, also coming from the country's internal situation and the world's developments. Vietnam is still a low-income economy in transition, striving for industrialization in order to catch up with more advanced countries in the region. While Vietnam has recorded remarkable achievements in socio-economic development, some imbalances in growth have emerged. The economy has recently exposed weaknesses and vulnerabilities in several areas such as in the SOEs sector, the financial system, public investment, especially some weaknesses, mainly the structural ones, have become clear after the 1997 Asian financial crisis, which highlighted the problems in the

Vietnamese economy and temporarily allowed opponents of reform to slow progress toward a market economy. Poverty elimination and inequality reduction is still to be made more sustainable, and other serious problems like corruption need to be curbed. Vietnam can benefit from trade liberalization and economic international integration like joining WTO but the existing problems and weaknesses may be exacerbated as the economy integrates more deeply into the regional and the world economy. The adjustment costs during integration process could also be significant. Generally, the challenges to its economic model are resulted from the followings:

First, Vietnam needs to develop market-based institutions dealing with production factors such as capital, labor, land, many aspects of which are related to the concept of “socialist orientation”. It is clear that after 20 years of renovation, Vietnam has been trying to combine building the institutions of a true market economy together with maintaining the socialist orientation, yet much work remains to be done. This would require the role of the State in a series of issues related to ownership, operation mechanism of the economy, distribution or social equity that have been analyzed in the structural features of the model. Vietnam has to consistently solve a whole range of problems such as acceleration of SOEs reform, more effective fiscal expenditure, and enhancing the capacity of the banking system, development of factor markets such as real estate market, labor market, capital market, and etc. This is very important premises to change the mechanism and the orientation in resource allocation, especially the public investment, to better tap on the comparative advantage and competitiveness of Vietnam. The way of thinking, policy-making and resource allocation rooted in the legacy of the centrally-planned economy should be changed completely. The gradual approach to reform

had certain advantages, but also several disadvantages because the reform could be characterized by stop-and-go steps, inconsistency with business cycles, unpredictability of investment and business environment, and possible conflict between central and local authorities. To a significant extent, this approach may be not appropriate in the new context of globalization, international integration, and technology revolution. In short, all these things are related to an appropriate handling of the relationship between the production forces and the production relations, the performance of the system of institutions in the socialist-oriented market economy model of Vietnam. This means that the new economic model must be able to meet the requirements of better developing the production forces and production relations with a relevant advanced system of institutions for the goal of transition to socialism. This issue is concerned with a clear differentiation between the role of the State and the role of the market in the socialist-oriented market economy model that will be further analyzed in next part of the thesis.

Second, perfecting the new model should be consistent with the process of international integration. It is not an exaggeration to say that the reform process in Vietnam is now an international commitment-based reform process. In other words, the new economic model must not only meet the internal requirements of national development but also must be able to overcome the challenges generated from the trend of globalization and regionalization of the time. The new developments of the world economy entail great challenges to late comers like Vietnam in the sense that the reaction by the State or firms must be prompt and effective in a high-speed global game. The cost of integration into the global economy is high, especially to the poor countries, and competition at the global scale becomes vigorous. While the traditional comparative advantage based on natural resources and low labor cost is diminishing in

importance, knowledge and skill become determinants of competitiveness. The big challenge to late comer countries is how to continuously improve their comparative advantage and dynamic competitiveness, created by human beings in an integrated environment, under the impact of economic globalization. This is the reason why many scholars have argued that the traditional understanding of the production forces in Marxist-Leninism has to be changed when knowledge has been incorporated into the production forces as an indispensable independent component.

Thus, the new characteristics of the world's developments, on one hand, make countries, including Vietnam, to change their conventional thinking in solving economic issues, and on the other hand, has created critical difficulties that Vietnam has to overcome. Firstly, the level of Vietnam's economic development and the competitiveness of its enterprises, in both production and service sectors, are low while Vietnam has to compete with the powerful competitors both in the international and domestic markets. The competitive pressure will increase when protection of domestic production is reduced under the international commitments. This forces firms to restructure to improve their competitiveness, and to create new competitive capacity. To succeed in integration and WTO, Vietnam must improve its competitiveness at the national and firm levels, and of its products. This is the key in the whole integration process of Vietnam in the coming period.¹ Secondly, the mechanism of a market economy in Vietnam is in the process of formation and Vietnam's legal system has not yet been completed. A number of rules and regulations or policies in the field of economic external relations are either in the shortage or not in line with international practice. Many regulations in trade in services and rules of intellectual property right are new to Vietnam. WTO accession requires a strengthening of legal institutions

¹ According to UNDP sources, in 2007, Vietnam's economy ranked 77th out of 125 countries concerned in terms of competitiveness, <http://www.undp.org.vn>.

and transparency to be in line with the international practices. Building market-oriented economic institutions, creating a fair competitive environment for all firms based on the international principles are keys steps to be taken. Thirdly, Vietnam's integration is taking place at a much later stage as compared with many countries in the region and in the world (GATT/WTO has come into being for half a century, ASEAN 30 years, and APEC since 1989), therefore, Vietnam must try to catch up with the common pace while there is a tendency to push up further liberalization at a larger scale and deeper level. Fourthly, integration is a difficult process of modulation and selection that requires a scrupulous consideration, strong determination, internal consensus on the strategic line as well as the selection between the local and immediate benefits and the total and long term interests. Fifthly, Vietnam's understanding and preparation for the integration process is rather limited, especially, Vietnam's enterprises have not been duly prepared for this process. For Vietnam now, the awareness of integration and WTO by the public at large, the firms, and other players is still limited. The international experience has suggested that limited awareness can be a big hindrance to the integration process. The situation of integration in many countries around the world indicates that different understandings may exist in different sectors, levels, enterprises, and the public at large about the benefits and obligations of the stakeholders in implementing international commitments. Vietnam needs to clearly understand this threat, otherwise it would be hard to come up with timely measures to cope with challenges.

It can be concluded that the challenges that Vietnam is facing to perfect its economic model for the cause of industrialization and modernization towards socialism are tremendous, intertwined and have to be dialectically perceived and analyzed. These challenges can be seen

not only from the very internal weaknesses of the country's economy and the State's capacity but also from the outside pressure. Experience shows that globalization does not affect all countries to the same extent. Especially, developing countries or countries in transition like Vietnam, usually with their institutional weakness and ineffective public administration systems, are more vulnerable to the effects of globalization. In a word, the biggest and most important challenge of the reform process is to create best conditions in the country for Vietnam to effectively participate into the international labor division and successfully compete in the world market. Vietnam's economic model must be flexible enough to effectively respond to the outside pressure. As such, Vietnam has to well prepare in terms of domestic conditions for the implementation of international commitments, especially in terms of improving the competitiveness of the economy, firms, and products. It is necessary to strengthen the economic and social institutions, to ensure stability in front of potentially negative impact of globalization. All solutions to better off the socialist-oriented market economy model in Vietnam must satisfy these requirements.

III.2. Main solutions

Generally speaking, after 20 years of building the new model of development, though the opportunities are huge and the achievements recorded are spectacular, but the difficulties and challenges ahead are also tremendous. The quality of economic growth and development is low while the competitiveness capacity of enterprises and the whole economy is still very weak and slowly improved. The incompleteness and ineffectiveness of development are still pervasive, and

thus, the goal of socialist orientation is hard to be reached. The solutions to further developing the socialist-oriented market economy model of Vietnam in the future lay in the followings:

III.2.1. Strengthening the leading role of the State

It can be said that, for the years to come, no issue is more critical than that of the role of the State in the economy. Practically, everywhere in the world, the role of the State is changing, and nowhere more dramatically than in the transition economies. The State and the market, or the visible and invisible hands, are the most powerful factors in the economy. The lessons of many countries in the world as mentioned in Chapter II of the thesis, have shown that, in modern economic models, while the natural objective laws of the market must be respected, the degree of the State's intervention in the economy is extremely important, including the most advanced capitalist countries like the United States and Western Europe, and on that basis, would characterize an economic model. For a transition economy like Vietnam, the role of the State is even more important, and will determine the socialist development of the country. This view has been shared by many international and Vietnamese scholars.¹ Weak States are not the answer in the time of globalization.² Thus, how is the role of the State redefined? In principle, what belongs to the State's function must be continued while what does not belong to it must be returned to the market forces. Many leaders in Vietnam insist that the State should continue to have a "leading role" in the economy. Regardless how this concept is defined, the role of the State is absolutely critical as socio-economic success or failure is mainly determined by the way

¹ *Vietnam Towards 2010*, the joint research project by Vietnamese governmental and UNDP experts for Vietnam Ten-Year Socio-Economic Development Strategy 2001-2010, The National Politics Publishing House, Hanoi, 2001.

² Guido Bertucci and Adriana Alberti, *Globalization and the Role of the State: Challenges and Perspectives* in UN World Public Sector Report 2001 on "Globalization and the State", United Nations, 2001, p.13.

the State performs its role. In fact, the concept of the leading role of the State in the economy covers all the contents of the three structural features that have been analyzed in Chapter III, namely ownership, operation mechanism, and distribution in the economy. The problem here is what the State should do with its leading role to contribute to the development of the production forces and production relations as well as to make the market economy of Vietnam not derail from socialist orientation, meaning maintaining and promoting the three structural features of the economy? This is an extremely difficult problem to deal with, both theoretically and practically. If the leading role of the State means setting the rules of the game and investing in public goods, then this role has now to shift away from direct involvement in productive activities and towards the provision of institutions, social and physical infrastructure, and a competitive environment for business. In this way, the State can play a crucial and positive role as a catalyst to long-term sustainable growth, ensuring the socialist-oriented development of the country. This is manifested through the following aspects:

First, the State ownership in the economy. Ownership issue is always important in an economic regime, and in order to ensure the leading role of the State in the economy, it is vital to maintain and further develop strong State groups and corporations to be core players in the industries of means of production and public services such as petroleum, electricity, coal mining, airlines, railways, maritime transport, telecommunication, mechanical engineering, construction materials, fertilizers, banking, insurance, auditing, though some of these services should be more opened to non-State sectors. And if the role of the State has to shift from direct productive activities, then more autonomous rights should be also given to the State sector. Regarding this, it is very important to further strongly reform SOEs, a key sector of the economy. Experience of

countries worldwide shows that when the State owns or controls enterprises, it tends to use its ownership and control to serve other interests than long-term profitability, and that therefore State ownership is normally at variance with the goal of market efficiency. The dominance of SOEs in the Vietnamese economy, particularly in the industrial sector, is to maintain the socialist orientation, yet now it is the reality that most of these SOEs are inefficient. As the large operating losses have to be financed out of the budget or through the banking system, the SOEs problem threatens macro-economic stability and crowds out more worthy borrowers from the credit market. The State has to solve this problem as quickly as possible.

Second, provision of institutions, social and physical infrastructure, and a competitive environment for business. It is very likely that the role of the State will be the most important in promoting growth by focusing on policies, research and development, and infrastructure investment. Vietnam lags behind other low-income country averages in energy, transport, telecommunications and information infrastructure. Several strategic measures are needed to catch up including diversifying the sources of financing, improving the efficiency of the investments and improving access to infrastructure in the rural and remote areas. A socialist-oriented market economy would even go beyond this by providing preferential treatments to the poor, making pro-poor investments, and introducing social safety nets and a taxation system that benefits all citizens including the poor, reducing as much as possible social inequalities. Income inequality is usually measured by the Gini Index which is now 0.37 for Vietnam and should be further improved. There must be more spending, and better management as well, on education,

health care, agricultural research, infrastructure development and support for vulnerable groups in society.¹

Third, in order to meet the demands of a more modern market economy, the State has to strengthen its management capacity and create confidence among the people. A well organized public administration system will be required with an efficient and better paid civil service. Transparency and accountability of State decision-making and of public resource management will also be needed. In addition, people's participation needs to be encouraged, the dialogue between the State and the people improved, and access to information strengthened. The State would also need to increase the awareness of legal rights and obligations, and promote a rule-based and open society where laws matter and the behavior of the State is largely predictable.

It can be concluded that the role of the State is extremely important for a transition economy like Vietnam, and the situation has become more complicated as the country has to maintain its socialist orientation while developing a market economy. In the future, this role should be focused more on providing public goods, social services, institutional framework, the most basic obligations and paramount responsibilities of the State. As the experts from Harvard University said, the success of Vietnam in the future is within the hand of the State.

¹ Harvard University Report on Vietnam's economy, John.F Kennedy School of Government, January 2008.

III.2.2. Perfecting the institutions of a market economy

The transformation into a market economy is of a key content, namely changing the participation and regulation function of the State in the economy, from direct to indirect participation and intervention through new economic management tools instead of the former centrally-planned ones. And the indirect intervention of the State in the economy can only be implemented through an intermediate system, the market institutions system, based on which the supply and demand in the market expose their interactions. The logic is that the weaker this system is, the stronger the State's intervention would become, and in many cases, to an extent that infringes on or even paralyze the performance of the market as in the former centrally-planned model. So far, after a long process of going market, it is still not self-confident for Vietnam to say that the institutions of a true market economy has been shaped. Further building the institutions of a true market economy is critical for emancipating the production forces and developing the relevant production relations in the new economic model of Vietnam in the future. Here, the institutions of a market economy should be understood in a broad meaning, and it is undoubtedly related to the role of the State in the economy.

First, it is the factor markets of the economy. These include the monetary and financial market, the capital market, the real estate market, and the labor market. The development of these markets must be through a historical process from low to high level, from small to large scale, which cannot be achieved overnight. The financial and banking systems in the United States or Western European countries have experienced hundreds of years to reach the current level of development. For Vietnam, everything is just in the beginning, and the past 20 years of

going market have shown that the system of these markets is still fledgling and very weak, very vulnerable to outside affects. This situation may be exacerbated in the time of globalization, and of course, requires the role of the State to handle. According to the UNDP and Harvard University experts, the weakness of the financial and banking system is one of the most serious inherent problems of Vietnam's economy.¹ As such, upgrading the financial and monetary system to make it more flexible and effective is the urgent task now. There are much work to be done such as restructuring the banking system, which is witnessing the seemingly uncontrollable mushroom growth of new banks, the taxation system in conformity with the country's situation and commitments to the world. The State budget also needs to be restructured to increase savings for development investment, promoting the socialization of the public sectors and ensuring basic social welfare for the poor, reducing inequalities. The fiscal policy must be tightened, reducing huge public investment projects, making them more effective to curb the current surge in inflation, contributing to stabilizing the macro-economic environment.

Second, the multi-sectoral structure of the economy. This is related to economic actors (or sectors), their roles and relations in the economy. This is the issue of both production forces and production relations in the economy. There is no doubt that Vietnam has made great progress in its transition from a centrally-planned to a market economy. The issue is no longer whether Vietnam will have a market economy, but rather what kind it will have – a dynamic, prosperous one, or a cumbersome, inefficient one like many in the developing world. While the factor markets are still in a fledgling state of development, there are clear signs that the economic sectors are not treated in conformity with the natural laws of a true market economy. The

¹ *Vietnam Economic Times*, 4th July 2008, <http://www.vneconomy.com.vn>.

acknowledgement of a multi-sectoral economy is a great step forward, but that is not and increasingly not enough to explain the current economy of Vietnam as there is a serious discrimination between the State and private sectors, reflected in the climate for enterprises or business environment and conditions for access to resources. The free competition mechanism, the supreme law of the market economy, is thus prevalently violated. The efficiency of the State sector, specifically the SOEs, in Vietnam is a matter of great importance because it has a major influence on both the level of national income and the rate of economic growth. As in most other countries, SOEs in Vietnam are plagued by inefficiency. A large majority of the SOEs have low or negative profitability, even after having received protection from international and domestic competition, and in many cases having been accorded a monopoly advantage in the domestic market. There is an unequal access to resource allocation as the SOEs always has preferential treatments in borrowing huge investment capital from the banking system. The problem of SOEs inefficiency spreads throughout the entire economy and the Vietnamese SOEs sector has already put the financial system in jeopardy, continue to crowds out private investment and is beginning to constitute a threat to macro-economic stability. According to a report by the Ministry of Finance of Vietnam in the 22nd April 2008, with the inefficiency and waste in investment, mostly in areas out of their specialization, the total debt of the 70 State groups and corporations has reached the amount of 28 billion USD, equivalent to 40% of the country's GDP at the end of 2007.¹ The issue of inefficient and unprofitable SOEs and the difficulty of equitizing or privatizing SOEs is increased by the absence of a strong private corporate sector. The evidence from Taiwan, China mainland, and other Southeast Asian countries is that privatization of SOEs is not necessary condition for rapid growth provided that a dynamic private corporate sector emerges. Some enterprises could remain as SOEs in non-commercial sectors in the economy in

¹ *Vietnam Economic Times*, 7th July 2008, <http://www.vneconomy.com.vn>.

the future, provided they are restructured and then are allowed to be operated independently, but the much more important issue for the State is to remove all barriers, creating a level playing field, equal access to resource allocation for private sector growth, especially the small and medium-sized enterprises. In addition, it is necessary to diversify the ownership structure in the economy by encouraging the development of private capitalist economy, regardless of scale in sectors that are beneficial for the people and the nation, promoting cooperation with SOEs and cooperatives, extending State capitalism by encouraging the cooperation between the State and foreign/local companies, treating foreign-invested companies as part of the Vietnamese economy, and promoting investment into the country from the overseas Vietnamese. This is thereby to unleash the potential dynamics of private enterprises, contributing to the all-out development of production forces and an appropriate shaping of the relevant production relations.

Third, it is the legal framework as the foundation to ensure the efficient, harmonious, and synchronous performance of the factor markets and the economic sectors. This is also related to the role of the State in the economy. One of the most important ways the State can make and let the market work efficiently is by providing the market with a sound legal framework, which is not only a set of laws and regulations, but also the institutions needed to implement and enforce the laws, such as courts, law enforcement agencies, registers for land, mortgagers, and enterprises. In market economies, most transactions are based on contracts. When laws governing property rights are clear and the mechanisms for enforcing them are well functioning, the costs of doing business are lower and the market works more efficiently. In Vietnam, although many laws have been promulgated to create an equal environment for all economic sectors to operate but there are still a lot of defects. A major problem of the legal framework in

Vietnam is the proliferation of highly differentiated laws applying separately to the many different legal forms of economic organization. In such circumstances, it is virtually impossible to honor the principle of equal treatment under the law, and avoid discriminating in favor of one class of business and against another. The proliferation of laws and numerous ordinances and decrees that are required to implement the laws constitutes a formidable entry barrier to private business, which in an economy trying to establish a market economy is counterproductive. In this sense, it is very necessary to improve the legal system so that it becomes more compatible with a market economy. The legal system should be reformed and adjusted following the international standards to ensure transparency, effectiveness, and confidence for investors. This is an instrument to deal with adverse development and disputes in international trade given Vietnam's WTO membership and international integration in general.

III.2.3. Science, technology, and knowledge-based development

Today, under the strong influence of the rapid development of the science and technology revolution, knowledge in its general meaning has become an indispensable component of production forces and increasingly more important for the development of any country. In the 21st century, with globalization taking place at an unprecedented high speed, the world will witness the shaping of the so-called knowledge-based economy which every country are striving for. Under the new techno-economic environment, knowledge, skills and creativity play a more significant role for economic prosperity than ever before. Huge opportunities are there for people to seize as the proper set of human capital (resources) when the widespread effects are created by the combination of information technologies and many other factors of the new global situation. Regarding this, the quality of a nation's workforce with strong capabilities in science and

technology has become more meaningful than ever for national competitiveness and future economic prosperity. And if the goal of the socialist-oriented market economy of Vietnam is aimed at developing production forces, then science, technology, and knowledge-based development is an objective requirement.

The increasingly outward oriented economic reform process of Vietnam was primarily based on the exploitation of natural resources and low labor costs. Experience in the region shows that this is too narrow a basis to move quickly and steadily up the value chain. Low cost labor is not proving durable as a source of comparative advantage. Countries where openness and greater integration into the global economy are based on products where main factor advantage is low cost labor have found that there is usually another country ready to offer labor more cheaply. Moving up the value chain, producing higher value products and services, and avoiding low cost labor trap relates to the changed nature of competition. Over the past several decades, competition has become much more innovation-based. The future prosperity of nations will therefore require new configurations of skills, abilities, and competencies. This also true for Vietnam, and it underscores the fact that Vietnam's successful integration into the global economy and its sustained success in international competition will depend increasingly on effective combinations of basic education, science, technology, and innovation.

As the challenges indicates, Vietnam will have to reduce its dependence on its natural resources and on products based on low cost labor. In moving the value chain and avoiding the low cost labor trap, new policies are required to develop a more knowledged-based economy, improve scientific and technological capabilities and ensure continuous upgrading of quality and

productivity of products and services. In order to do this, as many scholars have suggested, there are four issues deserving special attention if science, technology, and innovation are to contribute to the country's long-term goals of rapid and sustainable growth, namely developing guiding principles for science and technology (S&T) development, improving the existing S&T systems, assessing breakthrough technologies for Vietnam, and developing human resources. To be more detailed, Vietnam's research and development (R&D) capacity will have to be restructured and upgraded as the current system is characterized by a large number of publicly-owned institutes with very small budgets, supply-driven research output and with few links to the productive sectors of the economy. For the next decade, the S&T system must become more demand-driven and generate a larger portion of their revenues through contract research. One question of strategic importance is national priority should be given to specific technologies that are more likely than other to act as economic "breakthrough technologies" for Vietnam, and in particular to what extent such breakthroughs are possible in the three priority areas emphasized in existing Vietnamese policy, namely Information and Communication Technologies (ICTs), Biotechnology (BT), and New Materials (NM). The further development of human resources is perhaps the single most important long-term strategic priority for Vietnam, which in the words of many scholars and international leaders when they comment about Vietnam is that education is the key to success for Vietnam in the future. The objectives should include improved access to education, modernized teaching methodologies, upgraded quality of staff and infrastructure, and improved skills of the trained labor force.

Thus, it is clear that education with the focus put on training a labor force of strong capabilities in science and technology will be a strategic choice for Vietnam to develop its

economy towards a knowledge-based model, integrating into the main stream of the time. This is the experience of the capitalist countries that was mentioned in Chapter II. The institutions and policies once considered non-economic such as education and training, science and technology have now become top priorities as they are the main driving force or impetus for growth and development in recent decades. In fact, education has always held an esteemed position within Vietnamese society. Today, the State's recognition of education as a central factor for the country's industrialization and modernization guarantees that education will remain a major concern in Vietnam for the long-term future. Education as a source of producing direct input for the labor market has become much important for economic development as it has to meet the growing demand for high-quality workforce given the context that the country has deeply integrated into the world of globalization and new high technology. Like other countries, Vietnam's goal of national development is also advancing to a knowledge-based economy in the future and education has to serve this end.

III.2.4. A consistent strategy for further integration

It is clear that, in the time of globalization, Vietnam's economy is part of the world economy, and the socialist-oriented market economy model that it has been trying to build is no doubt a color contributing to the whole picture of the world economy. Like many other countries, Vietnam looks at the process of globalization with both hope and fear, and recognizes that integration presents both opportunities and challenges. Although globalization has played a central role in promoting increased prosperity in most countries, there is concern that the costs of integration in terms of redundancy, loss of sovereignty, and cultural homogenization also need to be thoughtfully managed. In order to benefit from the opportunities and at the same time limit

the risks related to integration, Vietnam must produce a consistent strategy for integration, meeting the requirement that developing a market economy must go hand in hand with international integration.

Thus, what is the content of that strategy? For Vietnam, international integration is increasingly becoming an essential precondition to emerge out of underdevelopment. However, the reality over the past years have shown that, Vietnam's integration has been taking place more on a passive manner, even after joining WTO. It seems that Vietnam has just been trying to cope with the challenges through provisional measures rather than focusing on long-term strategic issues. The roots of this situation certainly still lay in the followings:

First, the perception about market economy development and international integration has yet to be made consistent across governmental levels as well as among the people. The current ways of solving problems are not based on the benefit of developing the market economy as a whole. They are more or less affected by short-term visions and local interests of different ministries and industries. Whereas integration continues to face resistance from interests that are directly benefiting from protection from competition. There is continued hesitation on the part of those who fear adverse effects on national sovereignty or that integration will promote the spread of social evils. The fundamental problem is that those who are benefiting from current policies know how they benefit while those who bear the costs are not aware of these costs. And people understandably fear the unknown. That is why public education and the dissemination of clear road maps for future policy change are so important. A key part of the integration strategy should therefore be to provide people with information about the effects of current policies and of

reforms to help them understand what is involved and how they will benefit and to provide them with opportunities to express their views and influence policy making.

Second, as a result of the first, the roles of the State and the market (represented by enterprises and people to a larger extent) have not yet been clearly differentiated and respected. The reality is that for a long time Vietnam has had both too much and too little government, too much in production and investment control and too little in the rule of law and in the provision of public goods and services. Yet, a key point in the relationship between the State and the market is the growing demand for the development of a modern market economy which is highly integrated and competitive in the world economy. To meet this demand, the State has to assume a number of functions that had not existed before or just existed infantly, namely supporting the international integration and participating in global governance while the market forces must have favorable conditions to perform their inherent roles.

Therefore, a new strategy for further international integration has to solve these two problems which tend to hinder or even undermine the socialist-oriented development of Vietnam's market economy. The perception about market economy development and international integration must be made consistent and the roles of the State and other actors in society should be further clarified. The broad boundaries of the domain of the State should be drawn more clearly in order to clarify what the State and its agencies should do and what other actors in society should do. With the implementation of the socialist-oriented market economy model and international integration, it is clear that the agencies of the State and its capacities to manage will be seriously stretched. Most of these activities are the things that only the State can

do but a much greater share of things that can be done by the rest of society must be left to the private sector and non-State agencies.

The pressure of development resulted from international integration is rapidly increasing. The socialist orientation would become a wishful thinking if Vietnam's economy is not able to integrate into the region and the world economy in the years to come. The implementation of the integration strategy will generate pressures for structural adjustment. These adjustments will create challenges for the State's policies. There will be intense pressure from vested interests for special treatment. Moreover, the social costs in some sectors of the economy may be judged to be unacceptably high. To address this challenge, the State will need to take actions to develop mechanisms to assess requests for special treatment during the adjustment process, using criteria based on the overall national interest and not sectoral, regional or personal interest; facilitate adjustment by removing impediments facing enterprises, industries and workers; develop social investment programmes to help people acquire the education and skills required by a modernizing economy; and support the development of appropriate safety nets to assist the people lacking the capacity to take care of their own welfare regardless of the causes. A critical requirement for minimizing the costs of adjusting to integration is to remove all bureaucratic regulations and procedures that hold back the development of production forces and cause trouble to enterprises and people.

CONCLUSION

Facing a serious domestic crisis and the pressure from the outside world, Vietnam has responded by launching the renovation cause known as Doi Moi in 1986 with the focus placed on economic reform, dismantling the Soviet-style centrally-planned model and building a new one, the socialist-oriented market economy model. To have the current model, Vietnam has experienced a long process of learning by doing, from realizing the incompatibility of the former centrally-planned economic model with the new requirements of development, to going market and establishing a market economy on the basis of studying the previous experience of other countries in the world, both socialist and capitalist, and especially a very serious process of thinking renewal on Marxism-Leninism, Vietnam's orthodox ideological system. And the achievements recorded so far with the new model have proved that Vietnam is on the right way of building socialism.

To explain the essence of the socialist-oriented market economy model, the thesis argues that the application of market economy in the transition period to socialism in Vietnam is a logical necessity, contrary to the conventional wisdom that market economy can only exist in capitalist countries. Moreover, as the outcome of a long economic reform process, the market economy applied in Vietnam, while manifesting the "universality" of a market economy, is the "specificity" of Vietnam as it conforms to the country's specific conditions and characteristics. Vietnam has been trying to build a market economy, which is the mean to reach the end of socialism, and this is the reason why it is generalized as the socialist-oriented market economy. The new model applied in Vietnam is not against Marxism-Leninism, Vietnam's orthodox ideological system, and it is aimed at developing production forces and the relevant production relations to serve the cause of transition to socialism of Vietnam. In essence, market economy is

not a mode of production, but it is an effective way of organizing the economy, or a “technology” invented by humankind to use and allocate effectively the social resources for economic development. So far, history has proved that there has been no other more effective “technology” applied by humankind than market economy to organize the economy. In this sense, market economy would be the best way to develop production forces and production relations, and the effects of applying market economy would depend on a country’s policies. Thus, in Vietnam, while market economy is applied for development, the socialist orientation is manifested through the structural features of the model, most basically in ownership, operation mechanism, and distribution. As in any other country who pursue the modern market economy, the roles of the State and the market forces are the most powerful in Vietnam’s economy and would determine the socialist orientation of the country. This is especially true in the time of globalization and integration, with opportunities as well as challenges from both inside and outside, the State has to assume a leading role that both ensure the domestic political goal of economic development and make the national economy more competitive and integrated into the global economy. As such, the future of the development of Vietnam’s socialist-oriented market economy model would depend on the four key issues, namely strengthening the role of the State, perfecting the institutions of a true market economy, pursuing science, technology, and knowledge-based development, and especially the implementation of a consistent strategy for further integration.

The world in the 21st century continues to witness complex and unpredictable changes. Deepening globalization exerts impacts on all countries, presenting both opportunities and challenges. Countries, large or small, have been and will be further actively engaged in

international integration. Peace, cooperation and development remain the prevailing trend, reflecting the pressing demand of all countries during their development process. Following two decades of carrying out the Doi Moi policy in general and economic reform in particular, Vietnam's strength and position have been significantly improved. The country possesses the great advantage of political and social stability. The international environment of peace, cooperation and integration and other positive trends provide favourable conditions for Vietnam to build on its internal synergy and advantages while soliciting external resources.

However, challenges facing Vietnam are enormous. The Communist Party of Vietnam has identified four biggest threats to the country's development, namely lagging further behind economically compared with other countries in the region and the world, derailing from socialism, corruption and bureaucracy, and peaceful evolution pursued by hostile forces to change the Communist regime in Vietnam. These threats still exist with complex developments, which are intertwined and inter-related. To further build on the remarkable achievements recorded, drive back the threats, and head for a Vietnam of "a rich people, a strong country, a just, democratic and civilized society", there is no other way but to deepen reform and persevere with the foreign policy of independence, sovereignty, openness, multilateralization, diversification of external relations and proactive integration into the world under the motto: "Vietnam is willing to become a friend and a reliable partner of all countries in the world community, striving for peace, independence and development". This will help Vietnam self-confidently develop its unique socialist-oriented market economy model, which may be an example for other developing and the remaining socialist countries in the world to carry out their transition development.

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