Introduction

Dubbed a “development success story” by the World Bank, Doi Moi, Vietnam’s economic reform sustains economic growth rates of 6.4% on average. These reforms increased its GDP from a meager $9.8 billion to $103.5 billion in the span of less than 20 years (Le Hong 149). With credits to its economic reforms, Vietnam is now the fastest growing Asian economy after China (Le Hong 149). The reform is an economic “revolution” that saw a shift from a socialist centrally planned economy to a market-oriented one (Migheli 939). Doi Moi, introduced in 1986, is a set of economic reform policies that emphasizes agriculture, privatization, and foreign investment development. In an unlikely political setting to embrace capitalist market approaches, these reforms are still transforming development dynamics within the country today. This expansion does not however, result in optimal outcomes for all civilians in the county.

Throughout this paper, I will be describing and discussing the implementations of various reform aspects of Doi Moi: agriculture, privatization, foreign investment, and civil society, under the light of Dambisa Moyo’s theory for development. Moyo’s theory of development supports large-scale economic reforms even at the expense of political and civil rights. These large-scale changes will ultimately relieve a general population from cycles of poverty. First, I will explain the origins behind the reform in 1986. Secondly, I will explain the reform’s effects on agricultural development. Thirdly, I will explain the shift from centralized to a decentralized deregulated economy. Fourthly, I will discuss the effects of the entrance of foreign direct investment into Vietnam. Finally, I will explain the different social impacts that Doi Mo has indirectly implied.
Origins

There are numerous domestic and international factors that led the Vietnamese government to implement open-market policies in 1986. The economic and social state of the country under the rule of its socialist party was deteriorating in the late 70s and early 80s. As well, the influence of other Asian Tigers and the IMF urged it to adopt open-market policies.

Prior to its economic reforms, Vietnam was one of the poorest country in the world with a $100 per capital income (World Bank). Still recovering from one of the longest and most devastating wars of the twentieth century as well as departing from French colonial rule in the 1940s, Vietnam did not had much time or ability to stabilize its political and economic institutions (Kolko 1). As well, it was far from being self-sufficient. Vietnam was heavily reliant on outside aid, mostly from the Soviet Union (Kolko 46). Socialist ideals of land reforms and agricultural cooperatives were highly inefficient in food production. Widespread resistance against agricultural cooperatives arose and people began leaving farming cooperatives (Le Hong 148). With the legitimacy of the socialist government being threatened and social unrest looming ahead, drastic changes had to be made in order to improve civilians’ living conditions.

Additionally, international factors also played a large role in economic reform decisions. The 1980s saw the economic prosperity of Asian Tigers, notably China, a socialist country that developed and prospered from open-market liberalization. This provided evidence to the Vietnamese government that socialist parties could adopt open-market policies that embraced capitalist ideals and still retain political power. If Chinese success in market policies served as a pull factor, debts and ties to IMF served as the push factor. Kolko argued that the IMF was the “most significant influence” in Vietnam’s economic reforms (33). In the early 1980s, Vietnam owed about a billion dollars’ worth of debt to non-communist countries including debts from
IMF loans (Kolko 34). In 1985, the IMF announced that it would block credits to the country unless it started to adopt “reasonable set of policies” such as decentralizing decision making, imposing social service fees, and eliminating subsidies—essentially creating a more open-market economy (33). Even throughout Doi Moi’s implementation into the 1990s, Vietnam was still compromised by external debt that pushed it to continue adopting IMF policies towards an open market (Kolko 35). Other Doi Moi skeptics would point to Vietnam’s oil export in the wake of the Gulf War as another important foreign factor for its success. Soaring oil prices in the Middle East helped Vietnam increase its oil exports by more than ten times from 1988 to 1994 and set the stage for an export-oriented economy (Kolko 34).

Vietnam prior 1986 very much resembles Dongo, the fictious country bedridden with widespread poverty-related issues typical of underdeveloped countries created by Moyo (71). Vietnam was an underdeveloped country with staggering poverty rates, hardly any access to trading opportunities with the outside world and mounting debts to numerous foreign lenders. The economic reform proposed in 1986 share many similarities to the strategies that Moyo proposes—increase in trade, relaxed market regulation, and foreign investment. Large-scale and immediate reforms were required in order to change the lives of the majority of Vietnam’s population. As well, large-scale development was required to keep the ruling party in power and independent of outside aid.

**Agriculture**

One of the greatest changes Doi Moi brought about was the reform in the agriculture sector. Starting in 1954 in the North and 1975 in the south, agriculture cooperatives were established as the primary form of agriculture production (Migheli 941). These cooperatives were characterized by shared equipment within small farming communities. The original purpose
behind farming cooperatives was to redistribute land from large tenants to poor families (Migheli 941). However, the cooperatives were insufficient in the production of rice, the staple diet, and local peasants suffered from famine and price inflations (Migheli 941). Soon enough, resistance developed and people began leaving farming cooperatives (Le Hong 149). Widespread agricultural reform was needed since the majority of the population at the time relied on farming for their livelihood (Migheli 942).

After Doi Moi was implemented, cooperative farming was dismantled. Instead of concentrating farming in communes, land was allocated to farmers for ten to nineteen year terms based on farmers’ productivity (Tran 133). The proportion of cooperative farming dropped drastically from 96% to less than 6% from 1971 to 1986 (Migheli 941).

This reform had a significant effect on the country’s rice production capacity. Vietnam went from a country ravaged by food shortages that relied on more than 800 000 tons worth of rice imports per year to the second largest producer of rice in the world after China in a matter of years (Branigin 1990).

These reforms also helped Vietnam complete the Millenium Development Goal of eradicating extreme poverty and hunger — a drop of 50 to 3% of population below income levels of $1.9 per day. This increase in GDP through rice exports also allowed the economy to shift from traditional agricultural sectors to more modern sectors of industrialization. Industrialization grew from 25% to 45% between 1985 and 2008.

However, structural reforms to the agricultural sector do not come without disadvantages. The first few years after the reforms caused some short-term shocks to farmers. Before, the collective farming communes were largely based upon equality of outcomes for all farmers.
After a system of land allocation based on productivity was established, some of the poorest and least productive peasants lost their land to more competitive farmers (Kolko 30). The reform was also characterized by a lack of regulation on farming and left the nature of supply, or the varying profit of farmers to the market forces (Kolko 30). Previous legislation and rules on labour conditions, health and education services, and credit used by cooperatives to maintain living standards were dropped (Kolko 30). In essences, the switch of objectives from equity to efficiency left some farmers worse off than others. However, conditions eventually stabilized after the initial short-term shocks receded.

Another trade-off from rising rice exports is that it diverts rice away from local consumers towards the global market. For a “peasant nation” heavily composed of farmers whose staple diet is rice, large exports of rice to foreign countries, most notably China, implies dire consequences for the Vietnamese poor (Kolko 104). Rice that could be used to nourish the poor is instead being sold on the global market in order to increase GDP growth. As well, the intensified rice trade has increased food prices to such a point that is difficult for farmers to feed themselves with their meager incomes (Kolko 106).

Moyo would argue that the short-term shocks of a trade-oriented, productivity-maximizing agricultural system inevitably results in long-term benefits as well as short-term costs of unequal employment and rural hunger. Increased inequality is inevitable in an economy that focuses on general expansion. From Moyo’s perspective, growth that creates some losers due to market competition is still better than no growth at all. Indeed, despite the short-term shocks, Vietnam was still able to achieve the Millennium Development Goal of eradicating extreme poverty and hunger.
Decentralizing the economy

Doi Moi policies called for a decentralized government rule and an overall deregulation of the free market in order to boost growth and free trade. This represents a drastic transition from the previous Socialist model in which the state dictates all aspects of the economy to a more liberalized model that strives to reduce barriers in transactions. Deregulation expanded the scale and scope of businesses. As well, there is a decline in state-owned enterprises and increase in private and partially privatized businesses. A few private businesses emerged but most were granted a certain degree of autonomy while still retaining some state control. These hybrids were launched in a program known as Equitization in 1992 (Edwards & Phan 30). This program created partially privatized businesses with greater degrees of freedom. The effects of Equitization garnered positive and negative responses. On one hand, partially privatized businesses seem to show positive results in terms of productivity. On the other hand, skeptics point out that there is still a large degree of state control in these businesses.

A decentralized rule over the economy has produced many positive changes such as an economic growth that responds well to market forces. A number of restrictions are lifted on the number of workers that can be employed, expanding the size of many businesses (Branigin 1990). The range of salaries have also widened and are often linked to productivity rather than seniority (Migheli 940). Migheli’s research shows that aspects of market liberalization are generally approved by the public (942). Drawing from data from a World Value survey conducted in 2001 and 2006, his research shows that there is increasingly positive reactions to the competition in the free market.

Private ownership of firms is generally preferred over public ones according to Migheli’s survey results (952). There is a small portion of domestic private enterprises that are usually
small family-run businesses. This sector has not experienced much reform and has “limited access to state resources” (Edward and Phan 32). The larger portion of privatized businesses are equitized ones. Equitization has been credited for “raising capital and bringing in external investors” which leads to “increased revenues, profit, employment, and income” (Edwars & Phan 31).

However, it is argued that this equitization has not invoked great changes in decentralizing government rule at all. As of 2009, non-state owned or equitized firms account for the largest proportion of firms (Edwards & Phan 28). However, another sources indicates that partially privatized enterprises may still count on as much as 67% of state control (Gainsborough). For example, 70% of rice exports are still controlled by the state company Vinafood (Migheli 939). Foreign enterprises are growing in the industrial sector but state-owned enterprises still make up a majority of the industrial sector. State-owned enterprises do not respond very well to the financial crises of 2007-2008 that saw the near bankruptcy of the state-owned ship building giant Vinashin (Le Hong 20). As well, the reported success of equitized companies are reported to be unreliable and inaccurate. Reports on the success of companies were conducted by privatized companies themselves. There is also limiting evidence that privatization is the leading factor to the success of these enterprises since so many of them were state-owned prior to reforms (Gainsborough 78).

Foreign Direct Investment

Foreign Direct Investment (FDI) has played a great role in developing Vietnam’s export oriented industry. Exports from foreign corporations increased from 26% to 70% between 1990 and 2007 (Tran 132). Most of foreign investment, is directed towards the manufacturing sector, of which 40% are controlled by multinational corporations from abroad (Fukunaga 4). Emphasis
on manufacturing is important since there was a general shift in labor from traditional agricultural to modern sectors during the economic reforms. Doi Moi implemented numerous strategies, from establishing diplomatic ties to creating favourable investment environment, in order to attract foreign investment. The increase in number of approved projects rose from less than 200 to more than 1600 within thirty years as shown in figure 1. As of 2009, Foreign Direct Investment rose from 6.3% of the country’s GDP in 1995 to 18.33% (Edwards & Phan 30). However, Vietnam still retains a good balance of its GDP from FDI and State owned and domestic enterprises. FDI is still the smallest sector of employment (Edwards & Phan 30). The largest share of production sectors are still managed by state owned or domestic businesses. The nature of production between foreign and domestic producers also show several significant differences.

![Figure 1: Direct Investment: Approved Amounts, Projects](image)

**Source:** Economic Review

Forming diplomatic ties play a crucial role in attracting foreign investors. Vietnam established diplomatic relations with more than 178 countries including all the states serving on the United Nations Security Council soon after Doi Moi was implemented (Le Hong 149). Normalization of relations with the US led to Vietnam’s membership in the World Trade organization in 2009 (Le Hong 149). However, the US only accounts for about 20% of exports
and investors within Vietnam. As of 2008, the bulk of investors still come from China, Japan, and Taiwan (Fukunaga 5). Maintaining diplomatic relations is not only beneficial for gaining access into the world economy but also puts Vietnam in peaceful terms with numerous international agents including non-governmental organizations that could foster Vietnam’s development in numerous aspects. It was no longer regarded as a threatening radical communist state as it was right after the Vietnamese War.

The economic reforms are able to attract investors through creating a favourable investment environment that entails removal of export taxes and non-tariff barriers as well as lowered wages (Migheli 943). Labourers earn on average $100USD per month (Fukunaga 6), less than 50% of Philippine wages or 40% of Chinese wages. As a result, Humans Right Watch raised concerns that many manufacturing enterprises within Vietnam “do not have adequate [protection] of labour rights” (Humans Right Watch).

However, foreign owned enterprises are praised for their high efficiency compared to state owned and domestic enterprises (Edwards and Pham 32). Compared to state-owned and private enterprises, foreign enterprises have the highest GDP to employment ratio (Edwards and Pham 32). Kolko’s views on Asian investors who make up most of Vietnam’s FDI, notably China, is more critical than its views on liberal western investors. The Chinese way of doing business, according to Kolko, is oriented “far less to basic longer-term industrial developments than to high returns and fast hard currency that drain on [Vietnam’s] exchange reserves” (Kolko 52). In essence, allowing Chinese investors to enter could leave Vietnam worse off than no investments at all. Also, when Vietnam first opened up to FDIs it was not without flaws. Epco, an Australian based enterprise, operated in Vietnam for 4 years before it was prosecuted for a
major corruption case in 1997. However, since then, foreign investments have become much more stabilized as shown by its high efficiency.

Finally, the nature of foreign firms are often quite different from domestic ones. Foreign firms often stray away from traditional management structures that are based on principles of Tihn Cam- a traditional Vietnamese custom. Tihn Cam, characteristic of eastern collectivist culture, emphasizes positive feelings and solidarity of managers towards employees. In relation to the work environment, traditional managers “tend to put interests of his staff before his own” (Edwards and Phan 48). This emphasizes the importance of community over individual profits. Foreign enterprises however, tend to distance themselves from traditional management relations and pursue “contemporary managements” that puts emphasis on workplace hierarchy and efficiency (Edwards and Phan 49).

Moyo is a supporter of foreign investments. In countries with capital deficit but large working potential, foreign investment brings to underdeveloped countries the resources they need in order to stimulate the economy. This is especially true for states that are not as abundant in natural resources. It is noted that Vietnam only procures 24% of its raw materials domestically (Fukunaga 5). Foreign investors provides the means to import resources from abroad for manufacturing that would otherwise be hard to do with domestic enterprises.

She also argues that underdeveloped states must do whatever it takes to “woo FDI investors” (102 Moyo). Although she does not explicitly support low wages, it is implied that lower wages would definitely facilitate efficient return on capital that foreign investors respond positively to. This is another trade-off between development or no development at all that developing countries must undertake.
Moyo does not share Kolko’s pessimistic viewpoint on Chinese investors. As her study shows, in less developed countries there is generally a positive attitude towards Chinese investments (Moyo 110). The most significant factor of an investor’s nature should be their ability to deliver the necessary infrastructure and employment which foreign investors have already demonstrated in Vietnam. China may imply low score on its human rights scale but these characteristics do not impede its ability to procure development in Vietnam (Moyo 109).

Social Impacts

Vietnam has been applauded for reducing its ratio of population living in poverty from 70% to 10% from the end of the 1980s to the 2004 (Tran 123). As well, it successfully achieved several Millennium Development Goals, a blueprint created by the United Nations in order to meet the needs of the world’s poorest that are implemented by numerous less developed countries (The United Nations in Viet Nam). Among the most notable accomplishments include eradicating extreme poverty and hunger, achieving universal primary education, and promoting gender equality (The United Nations in Viet Nam). However, several studies have shown an emergence of new social issues that can be attributed to the economic reform. As well, Humans Rights Watch has deemed the Vietnamese government’s human rights record “dire in all areas” but especially pertinent with respect to freedom of speech, opinion, press, association, and religion (Humans Rights Watch). However, with rising inequality and social problems that affect those who profit the least from economic reforms, many also argue that there is no other government more equipped and dedicated to resolving these issues than the Socialist collectivist government that has years of overcoming hardship.

The single-party rule of Vietnam has been accused by international organizations as well as civilians for its semi-authoritarian rule. As one of the only remaining socialist parties in the
world, the Communist party has remained in rule for decades. The Central Committee is chosen by a small body of party officials (Human Rights Watch). In recent years, the party’s hold onto power has been shaky. Following the economic recession of 2007-2008, “a vote of no-confidence in the Prime Minister” was called for the first time in the National Assembly’s leadership (Le Hong 170). The harsh economic conditions also stirred up more than 3,829 mass public protests nationwide in the last five years (Le Hong 170). As well, the non-democratic government has been accused of widespread unfair arrests, inhuman treatment, and often murder of political activists (Human Rights Watch). Tran claimed that these civil unrests signals Vietnamese doubts in the government’s legitimacy, more specifically, doubts in the economic reform that has exasperated inequality discussed in the previous sections.

Several literature sources claim that it is also no coincidence that several social problems such as HIV and drug addiction that emerged in the 1990s coincide with Doi Moi’s culmination. Phinney claims that the creation of a “highly visible moneyed class” and the “burgeoning sex industry” that it possesses can account for increasing HIV rates (657). Additionally, a study on substance use disorders noted a dramatic increase in the number of drug users, even though opium cultivation has decreased, after the Doi Moi policy was launched (Giang 43). Relaxed trading policies probably assisted in the development of narcotic trading organizations. Perhaps, an increased exposure to the outside world after Doi Moi was implemented eased the entrance of these social ills into Vietnamese society.

These social problems are common in many countries, developed and developing, but a socialist federal government that Vietnam has is not as common. This unique form of governance that values helping those most in need may provide the best conditions for cushioning the negative side effects of Doi Moi. Tuberculosis rates were reduced from 600 to
200 cases per 100,000 residents in twenty five through increases in hospitals and clinics (McNeil 2016). Neighbourhood clinics become almost as ubiquitous as police stations (McNeil 2016). A director of the WHO organization explicitly stated that “socialist countries put a lot of resource ... doctors and clinics…into primary care” and that they really implement the policies that they adopt (McNeil 2016). Government sources also claimed to have offered treatment to more than 400 million people from 2003 to 2009 (Minh, 2010). As well, to counter the recent drug addiction issue, a new resolution in 1993 launched “Compulsory Centres” or rehabilitation centres (Giang). Although these centres responded to drug addiction, critics would also note that the centres often involves a mixture of “didactic moral teaching” or punishment and rehabilitation for drug addicts (Giang). Sources from the Vietnamese government also claim that increased GDP growth has bolstered its social insurance program to include 22 to 130 million regular beneficiaries from 1996 to 2010 (Minh, 2010). However, I find these findings a bit skeptical since Vietnam only has a population of 92.5 million. Its socialist values suggest that this socialist government is the most responsible kind for directing increased tax revenues towards social programs for those most in need of aid.

In fact, the Socialist government may be the closest thing to a “beneficial dictator” that Moyo advocates as the best government for countries in need of economic development. Economic growth is stressed to be more important than political and civil rights for a starving country. The one-party state may show common characteristics of an authoritarian government that represses certain freedoms of speech. However, it is also the same government that is dedicated towards reforming the economy and producing phenomenal results. This trade-off between certain freedoms and development may be justifiable as of now. After all, the alternative of a viable democracy with no means or objectives of developing and rising out of poverty would leave
many of its most vulnerable civilians worse off. This may be a notion that Western liberal countries are still uncomfortable with but a harsh reality for many struggling emerging democracies of the Global South.

**Conclusion**

Moyo would regard the overall improvements achieved by Doi Moi as a success. Its increased efficiency in rice production has made it one of the most competitive traders in rice on the global market. This may imply positive and negative results for farmers but in the long-run trade from agriculture helps boost Vietnamese economy. Secondly, privatization and deregulation gives businesses the flexibility they need in order to expand their scale and scope. Thirdly, FDI’s entrance into Vietnam improves productivity as well as new international trade opportunities despite the suboptimal labour conditions that they may entail. Finally, although many criticize the political and civil unrest that Doi Moi may have caused, the same government that brought about Doi Moi may also be the best equipped and most committed one to resolving these issues. Overall, the tradeoff of efficiency for equity is justified with regards to development. Any inequity that may result, can also be easily resolved over the long run as Doi Moi is a dynamic program that responds to different market forces.
Appendix: Principle characteristics of Vietnam

**Land area:** 330,972 sq km

**Population:** 92.5 million

**Language:** Vietnamese 90%, English (increasingly favoured as a second language), and minority languages: Hmong, Thai, and Khmer

**Religion:** Buddhism: 12.2%, Roman Catholic: 7%, Cao Dai: 3% Protestants: 1.5%

**Currency:** Dong (VND). Exchange rate

**Literacy:** 96.78

**Economy**

![Image of map of Vietnam](https://example.com/map_vietnam.png)

Inflation index: 774.7% (1986) to 9.5% (2010)

Unemployment rate: 12.7% (1986) - 5.88% (2010)

**Trade**

![Graph: Total merchandise trade, by value](https://example.com/trade_data_graph1.png)

![Graph: Total services trade, by value](https://example.com/trade_data_graph2.png)

*Figure 3: Trade data Source: UN data*

**Form of government:**

- One-party rule
- Communist Party of Vietnam
- National legislature composed of the 500-unicameral elected national assembly that meets biannually and serves for 5-year terms.
- President and cabinet are appointed by the national assembly
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