



# Doi Moi and the Remaking of Vietnam

## By Hoang Anh Tuan

**It has been more than two decades since Vietnam unleashed the forces of economic and political reform, and the results are clear in the form of sustained economic progress.**

**Less obvious are the numerous ways that reform has reshaped Vietnam's regional and international agenda, writes Vietnamese diplomat Hoang Anh Tuan.**

The reform policies launched in Vietnam in 1986 known as *Doi Moi*, translated literally as “restoration,” have brought profound changes to the country — rescuing it from the failures of central planning and self-isolation adopted after unification of the country in 1975. From a country on the brink of economic collapse, Vietnam has revived itself and is now on a path to economic prosperity, enjoying greater international status through participation in various regional and international institutions such as the Association of Southeast Asian Nations, the Asia-Pacific Economic Cooperation forum, the World Trade Organization and the United Nations.

A closer look, however, reveals that Vietnam accomplished this from a low starting-point and during a period when it enjoyed the longest peace in its contemporary history. Evidence also shows that Vietnam made the most of its early advantages as a new adherent to globalization. Though these initial achievements have created favorable impetus for further reforms, they are by no means an assurance of future success. That will depend on how bold Vietnam is in deepening and expanding its economic reforms and integration into the global economy — and the responsibility it exercises as a member of the international community.

### FROM ISOLATION TO PROSPERITY

By the mid-1980s, the development model Vietnam had borrowed from the former Soviet Union and its East European allies had revealed numerous flaws and was proving outmoded. On the political and diplomatic front, tense relations with China, the heavy burden of Vietnam's troop

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presence in Cambodia and strict sanctions imposed on it by the US placed Vietnam in a difficult bind. On the one hand, the country was blocked from cultivating new relations with other countries; on the other, it had become ever more dependent on the Soviet Union for political support and economic and military assistance.

The turning point came with a dramatic reduction in Soviet economic and military assistance after the mid-1980s and the economic hardship this caused. For the sake of the country's survival, Vietnam's leaders were forced to adopt economic and political reform, or *Doi Moi*. In essence, *Doi Moi* in its early stages was focused mainly on the removal of self-imposed barriers to progress and the utilization of various market-oriented measures, including liberalization of the domestic market, encouragement of foreign direct investment, or FDI, and the private sector, and reduction in subsidies to state-owned enterprises (SOEs).

These steps quickly brought positive results. From a country faced with perpetual food shortages, Vietnam in 1989 for the first time exported 1.4 million tons of rice. It has since remained a rice exporter. In 2008, it exported 4.7 million tons, becoming the world's second largest rice exporter after Thailand. Indeed, Vietnam's exports were instrumental in stemming the threat of a severe international food crisis in early 2008.

What impresses most, however, is the continuous high economic growth rate that Vietnam has recorded in the 20 years since the introduction of *Doi Moi*. Vietnam recorded average annual economic growth of 6.5 percent over that period, one of the highest rates among developing countries. And with annual per capita income of \$1,000 in 2008, Vietnam was removed from the list of the world's least developed countries. The high economic growth rate in turn helped reduce Vietnam's poverty rate from 70 percent in the mid-1980s to 37 percent in 1998 and 19 percent in 2007.

#### **TRANSFORMING DIPLOMATIC AND ECONOMIC RELATIONS**

On the diplomatic front, the end of the Cold War and the improvement in relations among major powers led to a unique situation: for the first time since independence, Vietnam did not and could not sustain a relationship of formal alliance with any of the major powers. This was initially a big concern for the Vietnamese leadership, because previously the country had relied on a security alliance with at least one major power. As it turned out, this was not such a bad thing after all, because it opened up new opportunities to establish friendly relations with all major powers. The normalization of relations with China in 1991

and the establishment of diplomatic ties with the US in 1995 illustrated this. This also opened up opportunities for Vietnam to establish new diplomatic ties, deepen its relations with many other countries and join various regional and multilateral institutions.

As a result of economic reform and opening, Vietnam's foreign policy has also become more pragmatic, flexible and less ideological. In the new thinking, national security and economic development goals have now become intertwined: security and domestic stability provide essential conditions for Vietnam to attract FDI, tourism and to devise long-term macroeconomic policies conducive to economic development. At the same time, high growth rates and sustainable economic development provide a solid foundation for Vietnam to meet its national defense needs.

Under *Doi Moi*, Vietnam is firmly committed to being on friendly terms with all countries. This new approach is also in line with Vietnam's high degree of economic openness and integration into the global economy. From 2000 to 2008, for example, Vietnam's foreign trade grew at an average annual rate of 23 percent, or three times higher than its economic growth for the same period. The ratio of Vietnam's total trade-to-GDP has also been widening — from 1:1 in 2000 to 1.17:1 in 2004 and 1.45:1 in 2008.

These figures are indications of the increasing interdependence between Vietnam's economic security — and hence, national security — and its relations with the outside world. They also indicate that Vietnam is becoming more exposed and vulnerable to external economic and financial fluctuations than ever before. Indeed, the impact of the current global crisis on Vietnam is much more severe than was the Asian financial crisis of 1997-1998. As the crisis drags on, Vietnam is expected to see moderate economic growth of 5.5 percent in 2009 compared to 6.5 percent in 2008 and 8.3 percent in 2007. In contrast, Vietnam was relatively immune from the 1997-1998 crisis, posting growth of 8.5 percent in 1998 at a time when many other East Asian economies were suffering badly.

However, it should be noted that the economic interdependence that Vietnam enjoys with its major economic partners is asymmetric due to the modest size of the Vietnamese economy. For example, while total Vietnam-US trade volume accounted for 11 percent of Vietnam's total trade in 2007, it accounted for less than 0.5 percent for the US. The same can be said about Vietnam's trade with China, with the comparable figures standing at 15 percent and 0.9 percent, respectively.

In terms of regional and national groupings, APEC constitutes the single most important group for Vietnam, accounting for 34 percent of Vietnam's exports and 72 percent of imports. The Group of 8 industrial nations, however, is the biggest market for Vietnam, accounting for 46 percent of exports. Since the markets of ASEAN+3, Europe (the EU, Eastern Europe and Russia), North America (the US, Canada) and Australia and New Zealand account for more than 90 percent of Vietnam's trade — a trend that will likely remain unchanged for at least five to 10 years — Vietnam will, therefore, devote more efforts to consolidating its relations with these national groupings.

The case of ASEAN needs further examination. Though ASEAN remains an important market for Vietnam's exports, its economic importance for Vietnam has been in comparative decline. ASEAN's share of Vietnam's total trade now stands at 21 percent, compared to 25 percent just ten years ago. However, ASEAN is of much greater importance to Vietnam in terms of politics and security. ASEAN long ago proved itself to be the most successful regional grouping in the developing world even before Vietnam was admitted as a member. ASEAN is without a doubt the main force behind the formation of regionalism in Southeast and East Asia and is therefore being wooed by all major powers. As a member of ASEAN, Vietnam has been able to capitalize on the association's reputation and networking opportunities.

Vietnam's international profile as well as its cordial relations with the major powers can be credited to its membership in ASEAN. The experiences that Vietnam has gained through participation in ASEAN have helped prepare it to play a greater

role in East Asia and the world through its participation in ASEAN+3, the building of the East Asian Community, the Asia-Europe Meeting (ASEM), the Asia-Pacific Economic Cooperation forum, the World Trade Organization and the UN.

Apart from trade, Vietnam is also heavily dependent on foreign direct investment and overseas development assistance. Combined FDI and ODA accounted for 13 percent of Vietnam's GDP in 1999, 10.5 percent in 2007 and 9 percent in 2008. Six out of the top 10 investors in Vietnam are from East Asia, namely South Korea, Singapore, Taiwan, Japan, Hong Kong, and Malaysia. The emergence of the US as one of the largest investors in Vietnam is especially noteworthy. When Vietnam and the US normalized relations in 1995, US investment was almost non-existent. By 2005, the US was Vietnam's seventh largest investor, and in 2008 and the first-half of 2009, it had climbed to No. 1.

In terms of ODA, Japan remains the largest donor, accounting for one-fifth of all ODA Vietnam receives. Unlike other ODA donors, whose assistance is of a smaller scale and focused mainly on poverty reduction, Japan's ODA is an essential source for development of Vietnam's infrastructure, such as seaports, bridges and highway systems.

Along with efforts to diversify its economic relations, Vietnam has been trying to diversify its exports. Just 10 years ago, crude oil, rice and minerals contributed up to 45 percent of Vietnam's total exports in value terms. They are still important, but now account for less than 25 percent of exports. Other key exports now include fishery products, apparel, rubber, footwear, woody products, among others.

For geopolitical reasons, Vietnam's foreign and security policies have been focused on relations with neighboring countries — because of their direct impact on Vietnam's security — despite the fact that combined trade with Laos and Cambodia accounts for just 1.5 percent of Vietnam's total trade.

Among major countries, China and the US remain Vietnam's most important partners in terms of economics, politics and security. Having recognized their importance as well as their volatile relationship, Vietnam has been trying to maintain

the closest possible ties with both. While relations with China have been conducted along the guidelines of the so-called “four goods” — “good neighbors,” “good friends,” “good partners,” and “good comrades” — relations with the US are entering their best phase since normalization. The underlying basis for Vietnam's relations with both China and the US is: 1) to encourage them to enhance their political, economic and even security interests in Vietnam; and 2) to avoid taking sides and being caught in the crossfire between China and the US during the rough periods of their relationship.

Though China and the US are both important, their patterns of economic relations with Vietnam contrast sharply in at least four ways. First, the Vietnamese and US economies are more complimentary than competitive. Second, the US is the fastest growing market for Vietnam's exports while China is the largest source of imports. While Vietnam enjoyed a trade surplus of \$8.3 billion with the US in 2007, it ran a deficit of \$9 billion with China. Within seven years of the signing of the US-Vietnam Bilateral Trade Agreement in 2000, Vietnam's exports to the US increased nearly 14 times. Third, the US is a major source of FDI and other forms of finance Vietnam badly needs. In addition, the US is also a major source of high technology that Vietnam's manufacturing and service sectors need. Last but not least, the US is also the largest source of remittances sent home by Vietnamese Americans living in the US. In 2008, remittances were worth \$8 billion, or one-tenth of Vietnam's GDP.

Like Vietnam's membership in ASEAN, good relations with China and the US constitute both the goals and means of Vietnam's foreign policy. They have helped Vietnam to widen and deepen its relationships with a series of countries and institutions, such as Japan, India, Russia, Australia, the World Bank and the UN. As diversification and multilateralization continue to deliver economic fruits for Vietnam, they will remain a guiding force in Vietnam's foreign policy, although adjustments may be made in response to changes in the external environment and Vietnam's new status in the international arena.

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#### CHALLENGES AHEAD

*Doi Moi* has undoubtedly created powerful momentum for Vietnam to move forward. Although the country has at times experienced some severe, negative effects from changes in the external environment, policy discussions so far have mainly focused on how Vietnam should address newly emerging challenges in order to further deepen reforms and reap the benefits of regionalization and globalization. These challenges can be described as follows:

First, is the challenge to domestic stability and national security. *Doi Moi* could have not suc-

ceeded without the maintenance of peace and stability. However, in order for Vietnam to fulfill its tasks in the new environment the country's ruling elite need to address not only economic, but also other concerns of its people. Also, Vietnam's success will depend on how it works with China, ASEAN and other concerned parties to find an acceptable and peaceful solution to the disputes in the South China Sea (or the Eastern Sea, as Vietnam calls it).

The second challenge is how to restructure Vietnam's economy so as to make it more efficient and adaptable to global economic and financial fluctuations. A related issue is how to take a more balanced approach to the sometimes-contradictory demands of high economic growth and sustainable economic development. To deal with this challenge requires Vietnam to engage in a series of coordinated efforts, including restructuring the financial and banking sectors, consolidating its economic powerbase, revamping its export sector, and promoting environment-friendly development, just to mention a few.

The third challenge is how to use Vietnam's newfound economic strength to enhance the country's international status and, in turn, use the country's international profile to serve economic development and national security. Addressing these challenges requires Vietnam to further deepen its economic, political and security ties with its important partners, especially China, the US, Russia, Japan, and India. It also requires Vietnam to take a pro-active approach in institutions like ASEAN, ASEAN+3, APEC and the UN.

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