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Economy and Industry of the Socialist Republic of Vietnam

1985

from G. Petek

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Technical Notes

The quality of any assessment of the overall performance of the national economy of the Socialist Republic of Vietnam (SRV) and its sectoral components is severely impaired by various constraints:

1. As to the compilation of national accounts, the growth patterns of the industrial, agricultural and tertiary sectors and the concommitant structural changes of the economy, no systematic survey has been published for the period after 1978-79. This holds true for Western analysts as well as for Soviet researchers on Vietnamese affairs.

2. Due to various reasons recent data (after 1978) released by official and semi-official Vietnamese sources do not really permit a consistent and comprehensive review of major development trends over the last five years.

- with regard to the macro-economic level the statistical figures published by Vietnamese sources generally refer to relative growth data (percentages or statements such as "three and half times"). Only exceptionally are they presented in absolute terms. Besides, the figures usually cannot be made compatible as they are frequently based on different reference years the mention of which is primarily be determined by political and other non-economic events.

- the above-mentioned difficulties in evaluing Vietnamese economic affairs are further aggravated by major problems of definition. In many cases it is not feasible to establish what the respective terms exactly mean.

- apart from that there exist specific uncertainties in comparing the "real level" of performance of Vietnam's economy with other developing economies. Price policies

have been determined by domestic political factors. Thus price relations substantially deviate from international terms of trade. Output values for industry, in particular for heavy industry tend to be overstated whereas those of agriculture are understated.

- finally no adequate solution has been found regarding the conversion of value figures in Vietnamese currency (Dong) into US dollars. The most meaningful method (re-calculation of Vietnamese prices on the basis of international dollar prices) cannot be applied as sufficient information on Vietnamese pricing is not available.

The afore-said constraints imply of necessity that any relevant evaluation of development tendencies and patterns of the SRV's national economy at most reach the quality of rough approximations which are best described as "guesstimates".

I. Demographic Aspects

Country Data

Land Area:	329 600 sq km
Population (Estimates)	
- Size:	58.8 mn in 1984
- Density:	178.4 inhabitants per sq km
- Growth Rate:	2.1% (annual average 1980-84)
- Labour Force:	"about 27 million" in 1984
- Rural-Urban Distr.:	78.6% - 21.4%
- Age Groups:	45% fifteen years and under, 4.8% sixty-five years and up
- Life expectancy:	53.5 male, 56.7 female

Sources: Own calculations based on

1. The Economic Intelligence Unit, Quarterly Economic Review (henceforth QER) of Indochina: Vietnam, Laos, Cambodia, Annual Supplement 1984.
2. Stewart E. Fraser, "Vietnam's Population: Current Notes", in Contemporary Southeast Asia, June 1984, pp. 70-87.
3. Vietnam Courier, 10, 1983, pp. 27-28 (SVR publication in English)

Recent demographic projections from Vietnam indicate that the country's population is to reach "about 60 million" in the course of 1985. It is maintained that the population grows at a rate of natural increase of 1.9%-2.0%. Details on these projections are difficult to be obtained. It is said that they are based on the most recent census conducted in October 1979 (release of figures in April 1980). The census revealed a growth rate of 2.6% for the late 1970s. Since then the authorities are said to have stepped up campaigns for implementing nation-wide family planning programmes. However, due to the short time-span and the limited material scope of the programmes the targeted decrease to 1.9%-2.0% must be treated with reservation.

Quotation:

> "The birth control campaign has not been conducted widely. A number of localities have not paid adequate attention to it."
>
> (VFF Family Planning Mobilisation Conference of April 1983)

This means that contrary to official statements the Vietnamese population may well have increased to 61-62 million by 1985. Per capita estimates must thus be regarded with corresponding "deference".
Based on the current official growth rate the SRV will have to sustain a population of more than 95 million in the year 2 000. The government's long-term target is to achieve a population size of about 75 million by 2 000. The actual future size will probably lie somewhere between those two figures. As the Vietnamese agriculture is characterized by substantial underemployment employment policies will have to provide employment opportunities outside of agriculture proper. With regard to the growing size of the problem current attempts at diversifying the rural economy are evidently insufficient.

The overwhelmingly rural population of Vietnam tends to be concentrated in a few major rice-growing lowland areas. The most densely populated agricultural centres exhibit population densities of 1 000-1 500 per sq km. The uneven distribution has led to the implementation of continuous resettlement drives over the last five years. But the economic success of the resettlement centres (New Economic Zones) in supplying the planned food and agricultural surplus has been more than limited. Under purely economic considerations the resettlement programmes are not rational. They constitute areas which can be opened up for cultivation only after comprehensive prior overhead investment programmes. Those

areas which can be settled merely by peasant labour and inputs of "farm resources" have since long been overpopulated. As, for example, China has proved since 1978, it is far more meaningful to allocate the scarce resources to the traditional centres of cultivation in order to increase area yields and to improve the processing of agricultural products. This presupposes the accelerated expansion of agro-oriented light industries and of those heavy industrial branches which are the main suppliers of industrial inputs for agriculture. Verbal recognition has been lent to such a pattern ("apply to the practical situation of our country the line of 'giving priority to the rational development of heavy industry on the basis of developing agriculture and light industry' in order to build an agro-industrial structure"), but practical investment policies remain inconsistent or even run counter to the theoretical "line".

Parallel to the rural-urban breakdown of the overall population the estimated labour force displays the following composition: (1982)

Total Labour Force: 24.5 mn; thereof agriculture 17.4 mn (71%), industry 3.4 mn (14%), remainder 3,7 mn (15%).

Source: Far Eastern Economic Review, Asia 1984 Yearbook, pp. 6-9.

The QER (Annual Supplement 1984, p. 7) lists the following figures for 1982:
Total Labour Force 25.2 mn; thereof agriculture 18.4 mn (73.0%), industry and construction 3.0 mn (11.9%), services 1.0 mn (4.0%), remainder including military 2.8 mn (11.1%).

Out of the total labour force less than 10% are currently employed by private enterprises.
Plan targets envisage for the next decade that about one third of the total labour force is eventually to be employed in agricultural and industrial export production. In order to achieve this aim the training level of the labour force would have considerably to be increased. At present only 1.7 million of the total workforce (6.3%) comprise skilled workers, technicians and other categories of personnel with advanced training. Up to now investment in general education as well as in institutions of professional training has been lagging when compared with the requirements of rapid non-agricultural ~~requirements.~~ development.
In 1980 12.1 million pupils received elementary schooling (4 years) whereas only 2.2 million were secondary school students (6-8 years of schooling). 146 000 students attended institutions of tertiary learning and 133 000 were enrolled in technical schools. (Vietnam News Agency VNA, in BBC, SWB, March 24, 1982) Since then the educational system has slightly expanded, but not to the extent required by the above-listed targets.

II. Macro-Economic Trends

Selected Basic Indicators (Estimates)

Gross National Product	9.0 bn US$ in 1982
Per Capita Income	160 US$ in 1982
Agriculture as % GNP	45
Industry as % GNP	26

Source: Far Eastern Economic Review, Asia 1984 Yearbook, pp. 6-9.

	1980	1981	1982	1983
Gross Value of Industrial Output	8.2	8.6	10.4	12.1
Gross Value of Agricult. Output	7.6	7.9	8.5	8.9
Combined Gross Value of Agric. and Ind. Output	15.8	16.5	18.9	21.0

Source: QER, Annual Supplement 1984, p. 8, and QER, No. 4, 1983.

As has been stated above, aggregate data which permit some reasonable assessment of national income and other national accounts figures are not sufficiently available. OECD estimates have come to a "real product per caput" approximating 170 US$ in 1980. This would represent 9.12 bn US$ in absolute terms. Based on relative Vietnamese growth figures for the country's national income, the 1983-product would thus have amounted to about 11.5 bn US$ and to about 200 US$ per head of the population. These figures appear too low. If it were feasible to recalculate the SRV's national product on the basis of international prices and price relations, it would probably be equivalent to 18-21 bn US$ (at current prices) and 300-350 US$ per head of the population in 1983-84. The reason for this "guesstimate" will be given below.

In contrast to the above estimates by QER and Asia Yearbook my own estimates come to the following orders of magnitude:

National Income+	1983	33.4 bn 1975-Dong 8.54 bn 1975-US$
Per Capita NI+	1983	148 1975-US$
Gross Domestic Product	1983	37.4 bn 1975-Dong 9.57 bn 1975-US$
Per Capita GDP	1983	166 1975-US$

These estimates have been arrived at by the following steps and under the following assumptions:

1. In order to convert "gross value of industrial output" (GVIO) and "gross value of agricultural output" (GVAO) into "net value" (Western term "value added"), net ratios of 0.35 (industry) and 0.65 (agriculture) have been applied. These ratios have been valid for China's economy in the mid-1970s. As no Vietnamese ratio figures are available, the application of the Chinese ratios seems to be reasonable, especially since the "productive" set-up and the structures of the SRV's economy of today closely resemble those of China ten years ago.
2. Starting from the QER 1980 GVIO figure (8.2 bn Dong) and from data from Vietnamese sources which reported an annual average of industrial growth of 11.8% in 1981-83, the 1983 GVIO would amount to 11.45 bn Dong. (Radio Hanoi, in BBC, SWB, Jan. 4, 1984) An alternative calculation starts from an overall increase in GVIO++ by 25% in 1978-83. (Radio Hanoi, in BBC SWB, March 2, 1984)

++ "Industry" defined as comprising mining, manufacturing, construction, local small-scale industries and handicraft

+ Socialist concept of national income, i.e. so-called net national material product

Based on the 1978 QER figure of 9.5 bn Dong one arrives at 11.88 bn Dong for 1983.

3. The respective net values (value added) of industrial output come to 4.01 and 4.16 bn Dong. The net share of industry in national income is reported to be 37.5% (1983). (VNA in English Nov. 18, 1983) The SRV's national income would thus have amounted to 10.69 bn Dong or 11.09 bn Dong, respectively.

4. The combined gross value of industrial and agricultural output is reported to have grown by altogether 30% in 1980-83. (Radio Hanoi, in BBC, SWB, March 2, 1984) Starting from the 1980 gross figures given by QER and converting them into net figures one arrives at a combined net value of 10.23 bn Dong for 1983.

5. Agricultural net value (value added) can be calculated by deducting the industrial value added from the combined net value. This leads to 6.07-6.22 bn Dong for 1983. The relative share of agriculture in national income would thus come to 54.3%-58.2%.

6. If the above assumptions are correct, the share in national income of the "production-oriented" segment of the tertiary sector would comprise merely 4.3%-8.2%. Such a low share does not seem to be plausible. On the other hand it must be noted that a substantial part of tertiary sector activities has been conducted by private enterprise and persons avoiding control by the state. If one takes the Chinese economy of the mid-1970s as a yardstick, the actual share of the tertiary sector ("production-oriented"part only) probably comes to about 25-27%, thus increasing the national income figure to about 13.2 bn Dong. Chinese economists who recalculated their country's national income according to Western GDP methods recorded a difference of 12% in favour of GDP. This percentage would lead to a GDP figure of about 14.8 bn Dong for Vietnam in 1983.

7. The above Dong-figures have been compiled at 1970-prices. The deflator 1975 being estimated at 2.53, Vietnam's 1983 GDP comes to 37.4 bn 1975-Dong. In the same year the UN conversion rate between Dong and US$ was 3.91:1, thus reflecting a 1983 GDP of 9.57 bn 1975-US$ and 166 1975-US$ per head of the population, respectively.

The above process of estimation is of necessity crude and possibly not devoid of errors, but due to the fact that most information on macro-economic developments in Vietnam is of little value, there does not exist a more refined way. However, if the above GDP estimate in 1975-US$ approximates the reality of the Vietnamese economy, the SRV's current GDP level at current dollar prices must roughly be twice the size, thus amounting to the above-mentioned per capita product of about 300-350 US$. In spite of all these uncertainties, one fact seems to be clear. The SRV belongs to the low-income economies and there is not much prospect that it will rise to the level of the lower-middle income economies in the foreseeable future.
In 1984 plan targets for industrial and agricultural output anticipated growth rates of 9.5% and 7.0%. Actual figures have not yet been published, but various critical reports indicate that the economy remained clearly behind the targeted growth. Grain production, the main agricultural component, almost stagnated at 17.1-17.2 mn mt. In per capita terms it decreased to about 290 kg. 300 kg per head of the population is the level which the Vietnamese authorities themselves have described as the "border between food sufficiency and starvation". The industrial progress was hampered by the reapearance of major bottlenecks in the supply of energy, raw materials and spare parts. The "utilisation rate of mechanical equipment"came to no more than 50%. Complaints were voiced on the reemergence of such phenomena as "scattering, duplication and division". National investment was

described as displaying "low labour productivity, bad project quality and low efficiency". The economy was characterized by a "dispersed investment situation". After "initially succeeding in checking the recession of 1979-80" new constraints have become apparent. The impact of these constraints on the economy as a whole and on the industry in particular forced the planning authorities to scale down the 1985 plan targets.

Selected 1985 Plan Targets

Combined GV of Agric. and Ind. Output	6.5%	
GVIO	6.7%	(Plan 1984 9.5%)
Investment	0.0%	(Plan 1984 31.4%)
Transport in tonnes	7.0%	(Plan 1984 11.0%)
in t/km	3.0%	(Plan 1984 7.0%)
Export	11.0%	(Plan 1984 22.0%)
Expansion of cultivated area for cash crops	38.0%	(Plan 1984 12.0%)
Coal	14.0%	(Plan 1984 8.0%)
Timber	6.0%	-
Electricity	9.0%	(Plan 1984 12.0%)
Cement	12.7%	(Plan 1984 46.0%)
Textiles	9.0%	(Plan 1984 23.0%)
Paper	12.0%	(Plan 1984 26.0%)
Refined Sugar	12.0%	(Plan 1984 35.0%)
Food procurement by state	-2.3%	-

Source: Vietnam Courier (SRV publication in English), No.2, 1984, pp. 4-7 and VNA in English, Dec. 31, 1984.

III. Industrial Development

Deviating from the Western classification the SRV's overall industrial production is divided into Group A "heavy industry" and Group B "light industry". This classification is to some substantial degree, but not completely coterminous with "capital goods" and "consumer goods industry". Group A in turn is subdivided into AI (production of capital goods for capital goods industry) and AII (production of capital goods for consumer goods industry). Group B is subdivided into industries based on processing agricultural primary commodities and industries using other raw materials. Further subdivision includes branches, departments and subdepartments. As far as can be ascertained industrial production - as measured by GVIO - includes mining, manufacturing by the state sector, manufacturing by collective units (mostly local small-scale industries), construction, handicraft and timber production.

"Heavy industry" encompasses mining, metallurgy, coal industry, crude oil/natural gas, non-metallic minerals industries, machinery industry, chemical industry, electric power, building materials and timber production.

Metallurgy (including the manufacture of iron and steel products, the mining sector which provides the respective raw materials, the attendant manufacture of iron and steel, the smelting of non-ferrous metals and the machinery industry) has up to now been central to Vietnam's heavy industry. The machinery industry in particular would represent a very high share of total industrial production if that total were confined to manufacturing.

The different classification of Vietnam's industrial economy leads to certain problems in comparing value data on industrial output and data on the relative shares of single industrial sectors with figures for other developing economies without prior redefinition. Further difficulties

arise since the SRV's industrial classification also depends on the use made of the products. The same product can be counted under heavy industry if it is used for production purposes and under light industry if used for consumption. Such chemical products as paints, pharmaceuticals, synthetic detergents etc. are classified as light industrial products whereas cement and glass constitute heavy industrial products. In contrast to the two-tier sector and product-use method in production, investment is classified solely by secotrs and branches. This means that part of investment in heavy industry actually constitutes light industrial investment and vice versa. Calculations of labour productivity, investment cost per unit of labour or per unit of production etc. are thus made correspondingly problematic.

If one were to reclassify the Vietnamese industry according to international classification standards various light industrial branches and/or departments would be transferred to the heavy industrial sector and vice versa. Lacking sufficient information on the subject, such a reclassification cannot be attempted. As a rule it can, however, be maintained that the SRV classification makes the country's light industry excessively comprehensive and that when based on international standards Vietnam's heavy industry would become even more preponderant.

As measured by GVIO figures the rate of increase in Vietnam's industrial production averaged 0.6% in 1976-80 and 11.8% in 1981-83. (VNA in English, Jan. 6, 1984) Planned growth of the industry in 1984 was to be 9.5%. Actual increase came to probably no more than 5%. Growth in value added terms must have been even lower as due to uneven growth patterns (plans for a variety of vital products such as coal, cash crops for light industry, transport etc. not fulfilled) did not but lead to the "padding" of inventories. The average growth rates for the medium-term periods do not reflect the highly erratic nature of industrial growth over the last decade. Production increased by 16% in 1976-78, then declined by the same figure in 1979-80, rose again by almost 40% till 1983 and currently witnesses an incicive levelling off. The question is what the rates of increase as well as the unevenness of the growth pattern as reflected by the statistics really mean.

First of all, the GVIO figures tend to overstate the real industrial performance. This is among others made evident by comparing net growth and gross increase. The combined gross value of industry and agriculture, for example, grew by altogether 30% in the years of 1980-83, whereas the net increase of national income came to no more than 25%. (Radio Hanoi, March 2, 1984) The gross-net differential originated mainly from the industrial sector as is indirectly evidenced by data on industrial labour productivity. The latter is purported to have increased by merely 8.1% over the period of 1980-83. Being defined as annual GVIO per employee of the industrial sector, it stands to reason that in value added terms industrial labour productivity must have been near stagnation, if not retrogressive.

The industrial growth pattern is representative of the stage of "extensive reproduction". In part the differential between net and gross increases can be explained by the inclusion of rejects, unfinished products and inventory in gross output figures. A lack of concern for the need to economize has also contributed to inflating the gross figures because large amounts of intermediate goods are used up in production.

Furthermore, there is considerable reason even to doubt the lower net figures. The very low rate of operation of industrial production facilities (1983 50%, Radio Hanoi, Jan. 11, 1984, in BBC, SWB, Jan. 25, 1984) cannot really be reconciled with the reported annual growth rates approximating the double-digit level. Apart from that the scattered statistics show that it is usually the same sectors which tend to overfulfil plan targets whereas again the same sectors frequently do not achieve their stipulated objectives. These opposing tendencies result of necessity in grave structural imbalances and problems of excessive inventories. The intra-industrial production structures have neither been adequately adjusted to each other, nor to the demand structure of the country as a whole. The results are a relatively substantial share of waste production in industry (termed "water content") and recurrent slow-downs of production.

Quotation:

"Generally speaking, the economic structure and production are still being only slowly reaaranged and reorganised. This has prolonged the situation of scattering, duplication and division which leads to the fragmentation of capital, equipment items, machinery and raw and other materials... At a time when the economy is still rife with imbalances and when it is difficult to procure raw and other materials ...quite a number of new primary instqllations have been

established, including some which are turning out products from raw materials that are currently in critically short supply. As a result, only part of the equipment output is used." (Nhan Dan Commentary of Aug. 7, 1984, in BBC, SWB, Aug. 13, 1984)

Taking the summary effect of the above factors into account and reconsidering the specific SRV price structures (in particular the relatively high prices for heavy industrial products), it can be maintained that the level of industrial performance - as compared with international standards - did not surpass the estimated 1983 figure of 4.01-4.16 bn Dong or 2.6-2.7 bn 1975-US$, respectively. The industry's share in the estimated GDP figure of 9.57 bn 1975-US$ would thus amount to at most 27%-28%. Taking, for example, China's industrial breakdown by sectors of the mid-1970s as a reference base, the share of manufacturing in Vietnam's GDP would approximate at most 16%-17%.
It has to be repeated that the value added share of agriculture in Vietnam's GDP is clearly undervalued. If this share were recalculated on the basis of international prices it would certainly increase the country's GDP figure and thereby simultaneously decrease the industrial share to less than 15%. Thus it can be stated that the Vietnamese distribution of GDP does not substantially deviate from that of other low-income economies. The major deviation stems from the disproportionally lopsided value added contribution of the heavy industrial sector to the industrial production as a whole.

The SRV's statistical system compiles the statistics for the values and quantities of industrial production by sectors on the basis of about 70-80 priority products. Unfortunately, no more than ten to twelve of these items have been covered by more or less continuous and consistent publicizing of figures whereas figures for the remainder have been made known at random or not at all.

Selected Indicators of Industrial Output

	1980	1981	1982	1983	1984
Electricity (bn kWh)	3.7	3.8	4.0	4.73	4.93
Raw Coal (mn mt)	5.3	6.0	-	6.5	6.35
Cement (mn mt)	0.64	0.54	0.79	0.93	1.36
Cloth (mn m)	175	158	220	260	302
Sugar (mn mt)	0.17	0.16	0.22	0.24	0.32
Timber (mn cb m)	-	-	-	1.85	2.0
Paper (1 000 t)	-	42	-	-	-
Fertilizer (1 000 t)	313	273	-	-	-
Pig Iron (1 000 t)	28	13.6	-	-	-

Sources: 1980-82 QER, Annual Supplement 1984; bfai, "Wirtschaftslage in Vietnam", Beilage zu den NfA, Oct. 1983.
1983-84 own calculations based on dispersed data culled from Vietnamese sources.

Provided that one adds the regularly published figures for per capita grain production to the above-listed indicators, the major economic problem areas and constraints become implicitly clear: Supplying the raw materials, in particular energy resources which are needed by the economy and covering the basic needs demand of the growing population.
The disparity in the growth of commodities covered by the above indicators means that coordination between raw materials and energy production, basic materials production, assembly and processing is still marked by substantial difficulties.

In fact, due to the poor linkage between the various stages of industrial production and due to the emphasis placed upon industries with high energy consumption, there has gradually evolved what has been called a "bottleneck multiplier" in the Vietnamese non-agricultural economy. (W. Brus describes the "bottleneck multiplier" as the opposite of Keynes's multiplier. It indicates how shortages and/or cuts in one sector spread to other sectors and reduce overall output.)

As to energy production, coal output has redeclined in 1984 and there is not much prospect for adequate increases in the medium-term future. Electricity generation has increased mainly because large-scale hydropower projects have been made operational. There is some further potential with regard to the utilisation of smaller-scale (local) hydro-projects. Nonetheless, electricity supply which in 1985 is short of the country's minimum need by at least 15% (BBC, SWB, FE/W1323/A/31, Jan. 30, 1985) will remain one of the most critical elements. This holds especially true because coal constitutes the major primary energy resource for electricity generation. Up to now the much publicized offshore oil exploration programmes have led to only very modest results. The recline in coal production is not primarily due to a lack of deposits. Economically recoverable reserves are estimated at about 130-150 mn mt. Underinvestment in opening new mines and in grading up existing facilities have led to the current bottleneck.
Similar inadequacies have largely contributed to corresponding bottlenecks in the supply of other vital raw materials. The state of geological surveying is grossly underdeveloped. Up to now only 5% of the national territory have been covered. (Vietnam Courier, No. 5, 1983, pp. 15-17) Nonetheless, economically exploitable deposits of ferrous metals (iron, chromium, titanium and manganese) have since some time been discovered. The same holds true for non-ferrous metals such

as copper, nickel, lead, zinc and important reserves of bauxite. Copper deposits are large. Those of other non-ferrous metals are small to medium-size.

In contrast to the critical situation in the supply of energy and metals, the supply and demand balance for basic needs commodities seems to have improved since 1979-80. The upturn in production has been the direct result of the agricultural reform programmes which reduced state control over the productive activities of the peasant population. It appears, however, as though the upswing has commenced to level off again. The main reason is that capital construction investment in the light industry branches has been insufficient. Especially the growth of production of durable consumer goods has not met the increase in rural purchasing power resulting from mounting agricultural household outputs. Inflation started to soar to the upper range of double-digit figures. (1984 estimate - increase in consumer goods prices of about 70%)
Selected growth figures for major consumer goods industries show that the initial upswing has lost much of its momentum over the last two years. In order to achieve a long-term supply and demand balance, a considerable redistribution of investment resources seems to be unavoidable.

Growth figures for selected consumer goods industries:

Consumer goods industries (total)	1982-83	19% - 10%
Textiles/Clothing	1983	16%
Food industry	1983-84	18% - 8,3%

Sources: VNA in English, Jan. 25, 1984; BBC, SWB, FE/W1271/A/27, Jan. 25, 1984.

The food industry and textiles/clothing are the most important light industries. Having achieved estimated net values of production of each more than 1.5 bn Dong (gross value "over 10 billion Dong", BBC, SWB, FE/W1322/A/29, Jan. 23, 1985) the two branches probably stand for more than three quarters of total light industrial value added.

At current, about 70% of the overall consumer goods output is produced by small-scale industries and handicraft. In 1982 the latter's share had been 76%. (BBC, SWB, FE/W 1209/A/28, Nov. 3, 1982; VNA in English, Jan. 25, 1985)

Part of the explanation for the relative decline of small-scale and handicraft output can be found in the above-average increase of output of those light industries which are not as suited to small-scale production as food and clothing. To be mentioned are among others paper, glassware, washing soap, metal household utensils, enamelware etc. But one other constraining factor seems to be that small-scale production has exhausted its potentials. Vietnamese reports state that production is increasingly "hampered by fragmentation and lack of uniformity". Medium- and large-scale enterprises will have to boost their capacity in order to balance the supply and demand situation.

As to the relative share of light industry (consumer goods) in total gross value of industrial output, a percentage of 63.6% (heavy industry 36.4%) has been released for the year 1979. (Statistical Data of the SRV 1979, in Irene Norlund, "The Role of Industry in Vietnam's Development Strategy", in Journal of Contemporary Asia, 1, 1984, pp. 94-107, henceforth Norlund.) Due to somewhat higher growth rates over the last few years the light industrial share probably has slightly increased. However, light industries usually have only low net ratios (0.18-0.22) when compared with heavy industries (0.4-0.6). Thus

the value added share of light industries in total industrial value added comes to at most one half.

As for the heavy industrial sector selected figures show the following growth pictures:

Metals and engineering industries	1982 13,4%, 1983 10.0%
Engineering and electronics industry	1982 9,9%
Chemical industry	1981-83 average of 10% 1984 23%+

Source: BBC, SWB, FE/W1323/A/31, Jan. 30, 1985; VNA in English, Jan. 6, 1983.

These figures appear impressive. Nonetheless, as other heavy industry branches, in particular basic industries and mining did fare less well, the overall growth pattern of the SRV's heavy industry remains inconsistent and uneven. The same holds true for the transport and communications field which over the last few years did not fulfil its plan targets, thus adding to the spread of bottlenecks and chronic shortages of basic materials.

IV. Investment Policy

Vietnam's investment policy, planning and implementation have constituted the starting point for an economic set-up which can be called a "heavy-type economy surrounded by a bicycle culture". The following defective mechanism has been at work in the state's industrial development policy: High growth targets with uneven concentration upon the manufacturing segments of heavy industry - large project scale - high rate of accumulation - low rate of consumption and excessive use of equipment - retarded rate of increase in national income.

A clearcut international comparison of rates of investment is not possible because the SRV calculates investment differently than in other countries. For the sake of expediency Western publications tend to equate the Vietnamese "rate of accumulation" with gross-capital formation which somewhat overstates Vietnam's gross investment.

More relevant to assessing the investment distribution pattern is the subdivision of the concept of accumulation: 1. Capital construction investment (nearest Western term fixed capital formation) 2. Circulation funds.

Based on various non-statistical reports the share of capital construction in total accumulation can be assumed to come to about 60%.

In 1982 capital construction ("construction-installation value") amounted to almost 5.1 bn Dong (BBC, SWB, Economic Weekly, Febr. 16, 1983). Starting from my own national income and GDP estimates for the same year (about 30 bn Dong and 33.5 bn Dong, respectively) one arrives at percentages of capital construction of about 17%-15%. Total accumulation (gross-capital formation) would therefore amount to slightly over 28% and 25%, repsectively. This does not appear exceptionally high when compared with other low-income countries. However, strictly speaking the above figures constitute

gross domestic saving and not gross domestic investment. External financing of investment has to be added to internal savings, mainly transfers from the Soviet Union and other CMEA countries. At present the foreign share in total capital construction can be estimated at about 30%. This would mean that total investment in capital construction (fixed assets) actually comes to about 25% which is equivalent to a share of fixed capital formation of 21%-22% in GDP.

Capital construction is further subclassified into investment in "production-oriented" fixed assets and "non-production-oriented" fixed assets (so-called non-productive part of the economy, science, education, administration, health, social welfare institutions, urban housing, public passenger transport etc.).

Figures for 1977-79 show (Norlund, p. 99) that the share of "non-production-oriented" investment in total capital construction investment has been extremely low (10.9%-14.5%). In contrast to that the share of fixed assets investment in industry came to 31.5%-35.9%. Investment in the agricultural sector which is supposed to be the "base" of national development amounted to 26.8%-29.5%.

Outwardly this proportion does not appear unduly restrictive especially since investment by the collective rural units themselves has to be added. But apart from human labour inputs collective investment is not very sizeable and constitutes only a small fraction of total agricultural investment. On the other hand, when compared with other low-income economies, overall taxation of agriculture seems to be slightly lower. Nonetheless, due to the so-called "price scissors" policy between agricultural products (artificially low pricing) and industrial products (artificially high pricing, in particular for capital goods) there takes place a substantial net drain of resources from agriculture to

the state-sector economy. The relative and absolute amount of this drain can only be guessed. When, again, compared with China's agriculture of the mid-1970s it may well represent 20-25% of the declared agricultural value added.

With regard to the industrial sector one has to take into account that the overwhelming share of foreign resources has been channeled to this sector. If foreign inputs are added to the internal investment resources to which the above figures refer, the actual share of industrial capital construction (fixed assets) is bound to increase by a large margin. It is safe to assume that the industrial sector claims a share of 45%-50% of total fixed assets investment of Vietnam.

Under such circumstances the results of the SRV's industrialization policy over the last decade are poor. Investment plans did not reach their stipulated targets mainly because the rate of completion of fixed assets investment tended to decrease (1981-83 91.4% of planned rate). The major reason for this trend has been the maldistribution of fixed assets investment (with regard to a low-income economy) which has led to an inappropriately high "investment coefficient" (roughly equivalent to the concept of marginal capital output ratio in the Feldman-Domar model). A reliable estimate is not possible, but all the relevant facts point to a coefficient in the vicinity of 3.0. For the sake of comparison one must note that this corresponds to the repsective ratios of industrialized countries.

When viewed under considerations of economic efficiency it is certainly surprising that Vietnam's economy which is evidently characterized by extreme scarcity of capital and a high surplus of labour does not pursue an industrialization policy which takes labour intesity much more into account. One has to surmise that due to non-economic reasons there is the following negative circle mechanism at work:

High growth targets - high rate of fixed assets investment - disruption in supply of material resources - imbalances between industries - construction delays and increases in unit investment costs. As long as there does not ensue a basic reorientation in politico-economic thinking the prospects for sustained long-term improvement of this state of affairs do not seem really promising. Patchwork reforms of the 1979-82 scope will merely lead to temporary results.

V. Final Remarks

It is difficult to assess to what extent the Vietnamese politico-economic leadership will eventually be prepared to recognize the necessity of further economic reforms and of basic changes in development priorities.
There are some signs that the deteriorating external economy (external debt at end of 1984 about 6 bn US$, thereof about 70% CMEA, debt service ratio "over 100%" of exports, continuous annual trade balance deficits etc.) has forced at least some influential segments of the leadership to reconsider more realistic short- to medium-term measures. Apart from the transfer of human labour to CMEA countries (about 60 000 workers) the following measures have been given priority status:

1. Development of tourism, precondition is the improvement of hotel facilities, transport and supply of water/electricity, plan target 1985 1 mn tourist days.
2. Relaxation in the control of foreign remittances to Vietnamese citizens, right of individual disposal except "speculation".
3. Promotion of direct foreign investment based on the "Regulations of foreign investment in the SRV" of April 1977, joint equity ventures and purely foreign ventures in case of export production; up to now results have been very modest.
4. Enhancement of the export structure, build-up of 25 so-called "main export lines" and diversification of commodity structure, weaknesses of export activity are lack of information, bad quality control, transport bottlenecks and insufficiently diversified commodity structure as well as inflexible foreign trade organisation.

Provided that concrete steps will be undertaken, in particular that investment in export production facilities will be increased, there is some prospect for a limited change to the better. Ultimately the success will, however, depend on the overall implementation of a development strategy which is suited to the specific factor endowment of a low-income economy.