June 9, 1978

TO THE POLITICAL COMMITTEE

Dear Comrades,

The following article from the May 26, 1978, issue of Far Eastern Economic Review should be read in preparation for the Vietnam point, which will be on the agenda of this Thursday's Political Committee meeting. The author, Nayan Chanda, is a journalist who has been following developments in Vietnam closely since the victory of the liberation forces in 1975.

Fred F.

Hanoi takes a grip on the south

By Nayan Chanda

Hongkong: Three years after the collapse of the anti-communist Saigon regime, Hanoi has launched its first major socialist reform in southern Vietnam. Faced with worsening economic difficulties — ascribed mainly to the predominant role of the private sector in the south — Hanoi has abandoned its soft-pedal approach to socialist transformation.

In two successive blows in March and May, more than 30,000 private businesses in southern Vietnam were closed and cash hoarding was swept away by the introduction of a new currency. Thousands of businessmen are now being transferred to the countryside to engage in farming or to set up small-scale industry.

A surprise announcement by the Government on March 23 ordered that "all trade and business operations of bourgeois tradesmen are to be abolished" but allowed small merchants "to retail those goods not controlled by the State" (REVIEW, Apr. 14).

Tens of thousands of youth volunteers, communist cadres and security force members were mobilised to close all businesses and make a thorough search to prepare inventories of goods held in shops or businessmen's residences. After the inventory was made, guards were posted in front of every shop to prevent dispersal of goods pending takeover by the Government.

Although the Government promised to pay compensation for the seized stocks — cost price plus 10% profit — insistence that owners produce purchase receipts as evidence of the cost meant many businessmen had to forego this payment.

Apart from the fact that most stocks of cloth and luxury items date back at least to 1974-75, businessmen acquired a large part of their recent stocks of consumer goods illegally, making it impossible for them to show receipts. In fact, if the factories or traders had respected official regulations the goods would mostly have been sold by State shops and cooperatives.

Since the beginning of 1978 there have been rumours about a government clampdown on business and another currency reform (the first one took place in September 1975 — REVIEW, Oct. 3, '75) but the massive search operation took the businessmen by surprise.

For a few days all business activity apart from restaurants came to a halt in the southern cities. When small traders and vendors — who were outside the scope of the closedown — returned to open their roadside stalls, prices, already very high, rocketed.

Then on April 16 the Government again launched its cadres and youth brigades to clear out open-air markets, including the "thieves' market" in Ho Chi Minh City which has been doing brisk business in selling stolen and second-hand goods from hi-fi sets to aftershave lotion.

Like their compatriots in the north, Vietnamese in the south have now started queuing to buy supplies from State and cooperative shops.

Meanwhile 30,000 families of businessmen have been asked to prepare to leave Ho Chi Minh City to go either to their native villages or to New Economic Zones — resettlement areas on virgin land. The rich among them who offer to invest their legal funds in setting up industrial joint ventures with the State will be allowed to stay in the cities, while others are obliged to go to the countryside to start farming or invest their resources to develop handicrafts or small-scale industry.

According to the Vietnam News Agency, 300 families of businessmen have already left Ho Chi Minh City to take up farming, animal husbandry and set up food-processing factories.

The drastic trade clampdown, which appears to have nearly paralysed urban life in south Vietnam and has dramatically pushed up the number of people fleeing the country, marks a significant change in Hanoi's strategy.

Since the takeover of the south the main concern of the Hanoi planners has been to restore production quickly and solve the problem of nearly 3 million unemployed. To achieve this goal, pragmatic party leaders were willing to let private trade and industry continue under State supervision.

An article in the party theoretical journal *Hoc Tap* in April 1976 said that "as an immediate goal it is necessary to guide, encourage and help the private economic sector so that it will devote its capabilities to developing production and business activities to the benefit of national welfare and the people's livelihood [REVIEW, July 9, '76]."

Politburo member and Foreign Minister Nguyen Duy Trinh pointed out that not everything in the capitalist system in the south was bad and that "positive factors" could be used by the socialist regime.

Even the Communist Party congress in December 1976 which laid down the guidelines for the next four years underlined the gradualist approach in transforming private trade, industry and agriculture.

"On the basis of developing the socialist economic sector as the nucleus of the national economy," the resolution adopted during the congress said, "we should turn all other capacity to promote production to full account, meet the people's needs satisfactorily, serve socialism well, restrict and eliminate negative manifestations of the capitalist sector and the spontaneous character of small-scale individual production."

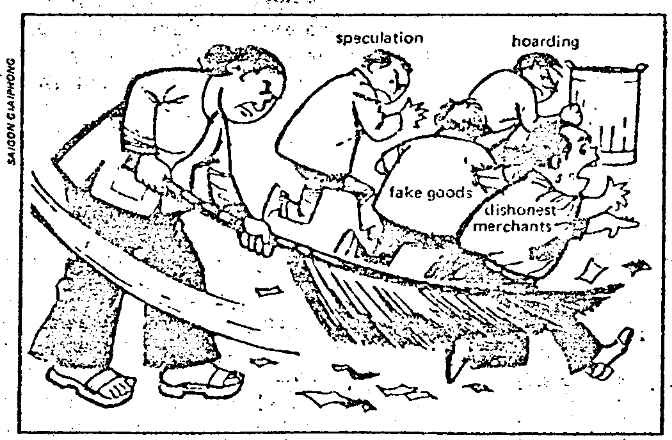
But the serious economic crisis that gripped the country in 1977 seems to have led to a serious rethinking in Hanoi. The enormous task of reconstructing the ravaged country and putting the economy back on the rails was seriously hampered by a succession of crop failures, bad management and lack of resources.

The problem was compounded by the operation of private traders in the south, who foiled a rationing system — first by cornering surplus rice from the Mekong Delta peasants by offering a higher price than the Government, and then through speculation and hoarding which aggravated the general shortage.

Chaotic conditions in the southern market — more than 65% of which was under private control — and the increasing bribery and corruption that it engendered also started affecting the more spartan north. Post-war relaxation and availability of consumer goods from the south led to the growth of an open-air market in Hanoi and even a small black-market in foreign currency and imported goods.

During the past year, Hanoi newspapers have been replete with complaints about shortages, corruption and illegal business operations. This experience seems to have swung the scales in favour of tough measures before the situation ran out of control.

A clear indication of the change in party line on transformation was provided by an editorial in the par-



Private enterprise: Official view.

ty daily *Nhan Dan* on April 13.

After admitting that elements of the party and Administration had "shown signs of leaning to the Right in their political orientation," the editorial went on to ridicule those who contended that the abolition of capitalism is not necessary, that socialism can win by setting a good example and that "the good points of the capitalist and private economic systems can be of use."

According to the paper, the experience of the past three years showed that despite restrictions "the capitalist economy continued to rule the roost." The conclusion was that "so long as it [the private sector] exists, the reorganisation of agriculture and handicrafts along the socialist line will be very difficult. Similarly, as long as capitalist trade survives, it will be impossible to build a strong socialist trade."

In other words, Hanoi finds it difficult to launch southern peasants on the path of collectivism while private traders compete with the Government to buy their output and control the distribution of consumer goods. Nor can it control the supply of goods or prices in competition with clever and resourceful businessmen.

One important reason why businessmen could evade official restrictions and even corner goods produced by State-run or joint State-private factories was the cupidity of officials. Maintenance of private trade in the south in a way posed a more serious threat to the purity and hence prestige of the party than merely causing trouble in the market.

A *Nhan Dan* editorial on April 12 frankly admitted that apart from ending "exploitation by capitalist traders" and eliminating "laziness, deceitfulness, theft and trickery," one important objective of the clampdown on private trade is to "put an end to the corrupt practice of cadres and State personnel colluding with dishonest people in the theft of public property for sale on the free market of goods which they are charged with distributing, thus disrupting prices . . ."

While Hanoi has genuine cause for concern about the corruption of the cadres, the shutdown of private business may not prove to be the permanent cure for an ill produced in a condition of general shortage, inflation and poor salaries.

Seizure of hidden stocks of cloth and grain may eventually ease supplies in urban centres but for some time the Government will face great difficulty in filling the gap caused by the precipitate closure of private business before the setting up of an alternative distribution network.

Cutting off the private traders' link with the peasants will not in itself mean a greater flow of grain to the government warehouses if better prices or consumer goods are not assured. The peasants' surplus rice production may simply vanish.

The May 3 decision to introduce a single new currency for the whole country, replacing the different currencies for the two zones — a logical follow-up to the clampdown on private business — dealt a further blow to the rich and upper-middle class in the south.

The first currency reform in the south in 1975, which aimed at curbing money supply and controlling inflation, was largely foiled by smart businessmen who through clever dispersal of their currency holdings and bribes managed to obtain large sums of the new currency.

This initial capital and their stock of goods helped them to make more money — so much so that by this year, thanks to hoarding of notes by businessmen, notes of big denomination had almost disappeared from circulation and the State bank was reduced to paying officials in newly-introduced one dong coins.

To avoid the mistakes of 1975, the Government not only imposed tough restrictions on how much a family could retain in cash after the exchange (new Dong 100-Dong 500 in urban areas and Dong 50-Dong 300 in rural areas) but also made it obligatory for non-businessmen to explain their source of earnings if they tried to exchange money above the Dong 500 ceiling. Legally-held savings above the ceiling have to be held as bank deposits.

During the 1975 currency reform there was no limit on how much an individual could change, though the amount over a fixed ceiling could not be withdrawn from the banks immediately. The latest restrictions, however, rule out the possibility of the rich dispersing their cash hoardings on a large scale.

The regulations concerning withdrawal from banks of amounts over the maximum of Dong 500 also make sure that businessmen or industrialists cannot obtain any amount over the minimum for living expense unless they decide to invest their money in a joint venture with the Government or agree to lend it to the Government at a fixed interest.

Apart from bringing about an economic levelling of different classes in Vietnam, the currency reform finally provided Hanoi with a firm grip over the whole economy, an essential step to taking the south on the path of planned socialist development. While the measures will gladden the theoreticians in the party, only coming months will show how effective they are in spurring the individualistic south into greater productivity.