

# The Diplomacy of Economic Reform in Vietnam

: The Genesis of *Doi Moi*, 1986–1989

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## I. Introduction

Ever since the leaders of the Vietnam Communist Party(VCP) officially announced a policy of *doi moi* (renovation) in December 1986, the successes and failures of Vietnam's economic reform program have been extensively studied, both at home and abroad.<sup>1)</sup> This interest was far more than just theoretical. For instance, the Vietnamese way to pro-market reforms appeared effective enough to arouse the interest of the North Korean leadership, which has sought to find a formula for improving the DPRK's economic performance within the framework of a one-party system. In October 2007, a North Korean delegation headed by Prime Minister Kim Yong-il visited Vietnam to learn about *doi moi's* policies, such as Hanoi's methods to attract foreign investment.

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1) For a partial list of publications about the Vietnamese reform process, see, among others, Le Binh P.(2005) in [http://coombs.anu.edu.au/Biblio/biblio\\_doi\\_moi.html](http://coombs.anu.edu.au/Biblio/biblio_doi_moi.html)

Still, certain aspects of the Vietnamese reform process received much less coverage than others. Of the wide array of publications about *doi moi*, relatively few inquired into the possible influence of external factors — diplomacy, military policies, and foreign trade — on the economic decisions made by Vietnam’s reform-oriented leaders. Vietnam’s post-1986 foreign relations did generate great interest, but primarily among specialists of international relations and national security studies. Most of the economics experts and sociologists who sought to explain the reform program focused their attention on strictly domestic factors, such as the government’s concern with poor economic performance and sociopolitical discontent, the factional debates within the leadership, the “fence-breaking” activities at the grassroots level, and the role played by the informal private sector. Of the scholars who laid a greater emphasis on the external factors which shaped *doi moi*, one may mention, among others, Gary Klintworth, Ronald J. Cima and Vo Dai Luoc.

Most authors expressed the opinion that *doi moi* was not strongly influenced by contemporaneous Soviet reform policies. “Although the triumph of economic liberalization was helped by the ascendance of Mikhail Gorbachev in the Soviet Union and his sponsorship of ideological revisionism on the economy, it was driven primarily by developments in Vietnam itself,” Gareth Porter concluded (Porter 1993, 151). Taking a step further, Donald B. Freeman pointed out that the start of the Vietnamese reform program actually predated the measures of Gorbachev’s perestroika. He also discounted the possibility of that the Vietnamese reformers might have made a conscious decision to imitate Deng Xiaoping’s economic policies (Freeman 1996, 193). Adam J. Fforde stated that there was “little evidence” for any substantial reduction of Soviet economic as-

sistance to Vietnam before the collapse of the Soviet bloc (Fforde 2007, 32; 41). While several authors, such as Pietro P. Masina, drew parallels between *doi moi* and the East Asian developmental state model (Masina 2006, 23-48), there has been relatively little research on how Vietnamese reformers evaluated the achievements of the East and Southeast Asian NICs.

It appears worth paying more attention to this topic, however, because many of the problems which the Vietnamese reformers had to solve in the late 1980s — a high inflation rate, a persistent budget imbalance, a heavy dependence on imports and foreign assistance, and an economic embargo — were closely interlocked with Hanoi's foreign relations. As emphasized by Tetsusaburo Kimura, Ton That Thien and others, Vietnam's military conflicts with Kampuchea and China (1978-1979) led to massive defense spending, which in turn deepened the country's fiscal deficit and thus contributed to the inflationary spiral. Under such circumstances, Hanoi had a great need for foreign aid, yet due to the international embargo resulting from the Vietnamese occupation of Kampuchea, only one source of economic assistance remained available for it: the Soviet Union and its East European satellites. The absence of alternative donors and allies gave Moscow substantial leverage over Hanoi as long as Sino-Vietnamese and Vietnamese-American relations remained tense. From the Kremlin's perspective, Vietnam, an underdeveloped but strategically important country, was far more a diplomatic and military partner than a commercial one. For this reason, any increase or decrease in Moscow's political commitment to Hanoi was likely to influence the extent of Soviet readiness to make economic concessions to Vietnam.

## II. Pre-Gorbachev Soviet-Vietnamese Discord

But if diplomatic and military factors produced such a strong effect on the pre-reform Vietnamese economy, could they have influenced the genesis of *doi moi*, too? This question is of great practical importance, since if the Vietnamese reform program was at least partly shaped by external circumstances, it might be difficult to adopt the methods of *doi moi* in a country whose foreign relations are too dissimilar from that of post-1986 Vietnam. For example, Vietnamese and North Korean foreign policies had little in common in the last two decades, and this difference may have been interrelated with the dramatic contrast between Vietnam's economic boom and North Korea's recurrent setbacks.

To answer the aforesaid question, we need evidence, above all, from the Vietnamese and Russian archives, but it may also be useful to study the declassified reports of the East European Communist diplomats who were accredited to Hanoi in the 1980s. To be sure, the latter had less insight into the motives of the decisions made by the VCP leadership than their Soviet counterparts, let alone the Vietnamese cadres. For instance, the Vietnamese officials informing them often sought to conceal the occurrence of any disagreements between Moscow and Hanoi, claiming that the two sides reached unanimity even if that was not really the case. Nor were the Soviet diplomats ready to admit that the Kremlin ever put pressure on its allies or interfered in their internal affairs. In the pre-1989 years, the officials of the Hungarian Foreign Ministry rarely, if ever, questioned or criticized Moscow's diplomatic maneuvers, and whenever they became aware of a difference of opinions between the USSR and

Vietnam, they invariably sided with the Soviets. Still, the Hungarian diplomats whose reports I read managed to collect an impressive amount of confidential information about economic matters, state-society relations, and diplomatic negotiations, because many VCP cadres, having conversations with the “fraternal” diplomats, spoke about the country’s internal problems with remarkable frankness.<sup>2)</sup>

A careful analysis of these documents reveals that the limits of Moscow’s commitment to Hanoi started to manifest themselves as early as 1982–1983, i.e., several years before Gorbachev’s *perestroika*. The Soviets repeatedly refused to finance certain Vietnamese projects which they considered wasteful and impractical, and the arguments they made during the brief rule of Yuri Andropov were remarkably similar to the ones they would use in 1986–1989. “While analyzing the country’s situation at the 5<sup>th</sup> Congress of the VCP [held in March 1982], the Vietnamese leadership became increasingly aware of that they must solve the country’s problems under unchangingly difficult external and internal conditions, primarily by exploiting their own resources,” a Hungarian diplomatic report written in September 1983 stated. “It became clear that the countries of the socialist community — with the exception of the Soviet Union — are not able to increase their support to Vietnam. The extent and order of magnitude of

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2) My research has been primarily based on archival documents located in the Hungarian National Archives (Magyar Országos Levéltár, MOL), the overwhelming majority of which were written by the Hungarian diplomats accredited to Vietnam and Laos. In the process of writing this article, I have accumulated a number of debts to my friends and colleagues, such as Changyong Choi, Stephen Denney, Adam J. Fforde, Courtney Frobenius, Christopher E. Goscha, Joe Hannah, Andrei Lankov, Lorenz Luthi, Pietro P. Masina, Steve Maxner, Ryan Nelson, Quang X. Pham, Sophie Quinn-Judge and Tuong Vu, for their invaluable assistance.

their assistance tends to decline, and in any case it is not comparable to the extent of the support they provided during the liberation struggle.” The Vietnamese “must put up the means needed for development mainly from their own resources, and no one is able, and will, perform this task on their behalf.”<sup>3)</sup>

The economic targets announced at the 5<sup>th</sup> Congress were indeed more modest than the ones set in 1976, but differences of opinion between Hanoi and Moscow continued to crop up. In October 1983, a Soviet party and government delegation headed by Gaidar Aliyev visited Vietnam. To the astonishment of the VCP leaders, Aliyev sharply criticized the deficiencies of Vietnamese economic policies, particularly the inefficient use of Soviet aid. He also pressured Hanoi to increase its exports, pointing out that while the value of Soviet exports to Vietnam stood at 700 million rubles, Vietnamese exports did not exceed 300 million rubles. Revealing Moscow’s import preferences, Aliyev expressed much more readiness to help Vietnam in constructing fruit and vegetable processing plants than to assist the development of heavy industry. He bluntly rejected Hanoi’s requests for a nuclear power plant and a new hydropower station, partly on the grounds that these projects would be too costly and excessively ambitious, and partly by stressing the Soviet Union’s own economic difficulties. In lieu of a steelworks with a capacity of 1.5 million metric tons, he offered only a smelter with a capacity two-thirds less.<sup>4)</sup>

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3) Hungarian Embassy to the Socialist Republic of Vietnam, Annual Report, 14 September 1983, MOL, XIX-J-1-j Vietnam, Top Secret Documents [henceforth VTS], 1983, 125. doboz, 005031/1983.

4) Hungarian Embassy to the SRV, Ciphred Telegram, 18 November 1983, VTS, 1983, 125. doboz, 162-505, 005996/1983. On early Soviet-Vietnamese debates over aid, see

It may be noted that Aliyev's debate with the VCP leaders occurred in a period when Soviet and Vietnamese strategic interests started to diverge from each other. As described by Robert C. Horn, from 1981 the Kremlin made persistent efforts to reach reconciliation with China, a process viewed with distrust by Hanoi(Horn 1987, 730–734). To illustrate this divergence, we may mention that during a visit to Cuba(12–19 October 1982), Truong Chinh, then chairman of the Vietnamese State Council, paid lip service to the Soviet tactic of driving a wedge between Washington and Beijing, but kept emphasizing that the Chinese were still “in cahoots with imperialism.” If Cuba or other Soviet–bloc countries improved their trade relations with China, Beijing would try to use this opportunity to undermine the unity of the “socialist camp,” Chinh asserted.<sup>5)</sup>

Hanoi's reluctance to follow Moscow's example seems to have induced the CPSU leadership to put diplomatic, and possibly economic, pressure on its independent-minded ally. Noteworthy, Aliyev's visit and his clash with the VCP leadership over economic issues took place right after the third unsuccessful round of Sino–Soviet talks. Aliyev's talks in Hanoi resulted in the publication of a joint communique in which the Vietnamese side, for the first time, grudgingly gave some public support for the Soviet policy of seeking a rapprochement with China(Horn 1987, 733–734).

The profound effect that Hanoi's dependence on the USSR — a result of the breakdown of Sino–Vietnamese relations — produced on Vietnamese

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also Ton(1983–1984, 703).

5) Hungarian Embassy to Cuba, Report, 3 January 1983, VTS, 1983, 125. doboz, 162–103, 00789/1983.

foreign and economic policies becomes even more visible if we compare Vietnam's situation with the room for maneuvering that North Korea enjoyed in the same period. Maintaining economic cooperation with both Communist giants, the North Korean leaders were often able to resist Soviet economic and political demands. While they did find it advisable to introduce periodical economic "corrections" in order to please their aid donors, these superficial measures invariably fell short of real reform (Szalontai 2005, 241-256).

### III. Soviet-Vietnamese Trade and the Debate over Industrialization

The aforesaid tendencies of post-1981 Soviet foreign policies — unwillingness to support Hanoi's heavy industrialization drive, pressure on Vietnam to increase its exports, and readiness to improve relations with China — became particularly intense under Gorbachev. During and after the Extraordinary 41<sup>st</sup> Council Session of the Council of Mutual Economic Assistance(COMECON), held on 17-18 December 1985, Hanoi's allies adopted a new standpoint. The Soviet government promised to increase its long-term credit to Hanoi, and agreed to postpone the repayment of Vietnam's debts until 1990. In contrast, several East European Communist countries rejected Vietnamese requests for a similar postponement, and in some cases stopped giving commercial credit to Hanoi. The "fraternal" Communist states were increasingly prone to demand that economic cooperation with Vietnam be based on mutual interests, rather than on uni-

lateral concessions to Hanoi.<sup>6)</sup>

Following the 41<sup>st</sup> COMECON session, the Vietnamese delegation headed by Premier Pham Van Dong had to undertake to double Hanoi's exports during the next five-year plan(1986–1990), whereas Vietnamese imports were to grow only by 40 percent. Special emphasis was to be laid on joint oil drilling and the development of food and consumer goods production with the aim of reducing Vietnam's trade deficit through the export of agricultural, light industrial, and consumer electronics products. In 1986, the main items of Vietnamese exports to the USSR were indeed fruits, vegetables, soybeans, peanuts, natural rubber, shoes, and parquetry. Industrial-scale petroleum extraction by a Soviet–Vietnamese joint venture started in March. The Kremlin also undertook to assist Hanoi in the manufacture of footwear and textiles, but proved much less cooperative in the field of heavy industry.<sup>7)</sup> In June and October, Soviet diplomats told their Hungarian colleagues that the USSR decided to suspend its support to certain planned large-scale projects in metallurgy, coal mining, and chemical fertilizer production on the grounds that the uninterrupted operation of existing plants should take priority over the building of new ones. As they put it, it was high time to re-examine and modify the form of Soviet–Vietnamese economic cooperation. Efficiency, rather than quan-

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6) Hungarian National Planning Office, Memorandum, January 1986, VTS, 1986, 147. doboz, 162-50, 00900/1986; Hungarian Embassy to the SRV, Memorandum, 24 March 1986, VTS, 1986, 147. doboz, 162-513, 002614/1986; Hungarian Embassy to the SRV, Annual Report, 27 May 1986, VTS, 1986, 147. doboz, 142, 003253/1986.

7) Hungarian National Planning Office, Memorandum, January 1986, VTS, 1986, 147. doboz, 162-50, 00900/1986; Hungarian Embassy to the SRV, Memorandum, 24 March 1986, VTS, 1986, 147. doboz, 162-513, 002614/1986.

tity, should come first.<sup>8)</sup>

To grasp the long-term effect of these Soviet commercial priorities, it is important to note that the products on which *doi moi's* export offensive has been based were, among others, crude oil, rice, rubber, coffee, sea products, textiles, garments, footwear, and later electronics and computers. Of these items, rice, rubber and coffee had played a prominent role in pre-1975 South Vietnamese exports, but oil, textiles, and footwear did not.<sup>9)</sup> That is, certain important branches of Vietnam's present export sector started large-scale operation in the period of Soviet-Vietnamese economic cooperation. Once again, the contrast with North Korea is striking. What the Soviet Union wanted to import from North Korea was, above all, a variety of non-ferrous metals, but after 1961, the North Koreans became increasingly reluctant to sell such valuable raw materials to the USSR. They sought to export them to capitalist countries, and tried to force the Kremlin to purchase their poor-quality finished products instead.

Moscow's bias against heavy industrialization may have also influenced the outcome of the Vietnamese intra-party debates over economic policy. The Hungarian diplomats reported that before and during the 5<sup>th</sup> Congress, the VCP leadership was sharply divided over the development strategy to be adopted. One group of leaders held the view that the foremost task was to secure the adequate supply of food for the population.

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8) Hungarian Embassy to the SRV, Ciphared Telegram, 20 June 1986, VTS, 1986, 147. doboz, 162-20, 003570/1986; Hungarian Embassy to the SRV, Ciphared Telegram, 22 October 1986, VTS, 1986, 147. doboz, 162-50, 00900/6/1986.

9) Nguyen(2002, 3; 16-18). On the pre-1975 South Vietnamese economy, see, among others, Beresford(1991, 122-125).

In the second phase of development, small-scale industry and handicrafts were to be developed in order to provide the people with basic consumer goods, while in the third one, the government should concentrate on exploiting the country's raw material resources. In contrast, other party leaders asserted that once the problem of energy shortage was solved and the foundations of an industrial sector were laid, it would be much easier to solve the problems of agriculture, after which the country could enter the next stage of industrialization.<sup>10)</sup>

Actually, both conceptions had some merits, because Vietnam suffered not only chronic food shortages but also a serious shortage of energy supplies. In 1983, per capita grain production was less than 300 kilograms, and average daily calorie intake did not exceed 1,500 calories. Domestic production of electric power was only 4.3 billion kWh per annum. Of the annual 1.5 to 2 million metric tons of oil imported from the USSR, only a few hundreds of thousands were actually used for industrial and transport purposes, not least because of massive military needs. Proponents of the "food-first" conception could back up their position by stressing that the initial rural reforms introduced in 1979–1985, such as the subcontracting of cooperative land to peasant households, brought about a substantial increase in food production, whereas their opponents could point out that it would be difficult to achieve any further agricultural growth without the intense use of machines, chemical fertilizers, and pesticides.<sup>11)</sup>

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10) Hungarian Embassy to the SRV, Annual Report, 14 September 1983, VTS, 1983, 125. doboz, 005031/1983.

11) Ibid.; Hungarian Embassy to the SRV, Report, 5 December 1986, VTS, 1986, 147. do-

As Ton That Thien's description indicates, at the 5<sup>th</sup> Congress the two groups finally reached an uneasy compromise, for the plan targets then announced laid special emphasis both on food production and energy generation(Ton 1983-1984, 699). By 1986, however, the balance seems to have shifted in favor of the "food-first" conception. In October, the head of the National Planning Commission's International Relations Department informed two Hungarian diplomats about the main objectives of the 1986-1990 economic plan. Priority would be given to the development of the agricultural sector, Comrade Nghiem said. He went on enumerating the plan's other goals, mentioning consumer goods production second, exports third, and energy generation only fourth. Within the energy sector, the completion of the ongoing thermo- and hydropower projects was the most important task.<sup>12)</sup> At the 6<sup>th</sup> Congress of the VCP(15-19 December 1986), the leaders indeed declared that the previous policy of heavy industrialization, combined with the neglect of agricultural and consumer goods production, had yielded disastrous results. Henceforth, they announced, the development of agriculture would be the foremost task of the government.<sup>13)</sup>

Although the USSR could not interfere in Vietnamese internal affairs as directly as in Mongolia or Eastern Europe, Moscow's pro-agricultural, anti-heavy industry standpoint probably played an indirect role in this cru-

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boz, 50, 00900/7/1986. On Vietnam's early economic reforms, see Fforde(2007, 25-37; 131-161), Ton(1983-1984, 692-701).

12) Hungarian Embassy to the SRV, Ciphered Telegram, 22 October 1986, VTS, 1986, 147, doboz, 162-50, 00900/6/1986.

13) Hungarian Foreign Ministry, Memorandum, 28 December 1986, VTS, 1986, 147, doboz, 25, 001072/17/1986.

cial shift in emphasis, because it threw the enormous weight of Hanoi's largest aid donor behind the arguments made by the "food-first" group of VCP leaders. Since the strategy of heavy industrialization required massive external assistance, it was difficult, if not impossible, to implement it without Soviet backing. In this sense, the Kremlin made a substantial contribution to the dismantling of what Adam Fforde aptly called the "neo-Stalinist" model of Vietnamese industrialization (Fforde 2007, 54–58). To highlight the importance of this Soviet intervention, it is worth mentioning that in North Korea, the last time the USSR managed to force Kim Il Sung to slacken his industrialization drive was in 1957; after that, the North Korean leaders pursued their heavy-industry-first policies more or less unhindered by Moscow's occasional disapproval (Szalontai 2005, 115).

Still, it would be a mistake to assume that the Soviets' views were completely identical with that of the Vietnamese reformers. For instance, the unsuccessful monetary reform of September 1985 was carried out in defiance of the firm opposition of the Soviet advisers.<sup>14)</sup> In February 1986, the Hungarian diplomats reported that the Kremlin regarded Vietnam's decentralized structure of economic management, such as the "excessive" autonomy enjoyed by the provinces and districts, as a harmful practice. Nor were the Soviets satisfied with the Vietnamese model of "collective leadership" (which stood in a marked contrast with North Korea's despotic political system). In their view, the division of power between Le Duan, Truong Chinh and Pham Van Dong effectively prevented each of the three leaders from enforcing his will. The optimal situation envisioned by

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14) Hungarian Embassy to the SRV, Annual Report, 27 May 1986, VTS, 1986, 147. doboz, 142, 003253/1986.

Moscow was a single powerful leader with a definite conception of development, who would put the country's resources under strong central control, and increase consumer goods production through the construction of additional small and medium plants.<sup>15)</sup>

Soviet criticism was mirrored by Vietnamese skepticism about the efficiency of Soviet methods. In April 1986, a Hungarian diplomat named Jozsef Nyerki reported that the economists at Vietnam's Central Institute for Economic Management Research(CIEM) no longer considered the Soviet model of development the sole correct one: several of them concluded that the methods used by South Korea and other NICs might be equally worth imitating.<sup>16)</sup>

Another manifestation of new thinking was Vietnam's growing interest in the Chinese reform program. In July 1986, the Vietnamese Foreign Ministry asked the Cuban charge d'affaires to forward a request to the Chinese embassy. Namely, Hanoi wanted to send thirty middle-ranking cadres to China for a research trip aimed at studying China's new economic mechanism, such as the effective utilization of foreign aid and foreign capital investments.<sup>17)</sup>

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15) Hungarian Embassy to the SRV, Ciphared Telegram, 14 February 1986, VTS, 1986, 147. doboz, 162-22, 00901/2/1986.

16) Hungarian Embassy to the SRV, Report, 24 April 1986, VTS, 1986, 147. doboz, 50, 00900/1986.

17) Hungarian Embassy to the SRV, Ciphared Telegram, 21 July 1986, VTS, 1986, 147. doboz, 162-108, 004042/1986.

#### IV. Caught between Domestic Difficulties and External Challenges: The Vietnamese Leadership's Dilemmas in 1986

The discussions held at CIEM were closely interlocked with top-level debates over foreign and military policy. The VCP leadership "is increasingly convinced that it is necessary to normalize [Vietnam's] foreign relations as soon as possible if the economy is to be developed," Nyerki noted in April 1986. "Without this, it is difficult to achieve any lasting recovery." Since COMECON generosity tended to decrease (at least in certain fields), it was all too necessary to find additional economic partners, but the international embargo proved a formidable obstacle to obtaining imports, assistance, credits, and investment from countries outside the Soviet bloc.

The issue of reducing defense expenditures also kept cropping up. In 1976–1985, "the intention of catching up with the more developed countries of the region constituted a part, but not a decisive factor, of the leadership's policies. It considered it more important to keep its military strength at an unchanged level, [an approach] seemingly necessitated and justified by the events. But in the current constellation of foreign policy [factors] it is increasingly apparent that the considerations of self-defense and security no longer necessitate the maintenance of such a mighty military machine. Despite Soviet support, the army, with its massive manpower, is a great burden on the underdeveloped, fragile domestic economy; it is one of the factors hindering the development [of the economy]." <sup>18)</sup> In fact, in the 1980s military expenditures constituted the largest single item in the budget, their share constituting approx. 50 percent (Kimura

1986, 1051). A presentation prepared for a Central Committee(CC) plenum in March 1989 stated that defense expenditures exceeded the total amount of state investments in the economy.<sup>19)</sup>

Despite their awareness of these problems, the leaders could not reach a quick decision on which course normalization should take. As Foreign Minister Nguyen Co Thach and other ministers told Hungarian Ambassador Bela Benyei on 3-4 February 1986, “the opportunities to solve [Vietnam’s] economic difficulties are closely intertwined with international conditions, and the latter are difficult to foresee.”<sup>20)</sup> Another reason was the difference of opinions within the Politburo. Some leaders preferred a rapprochement with the United States and the Association of Southeast Asian Nations(ASEAN), while others advocated reconciliation with China.<sup>21)</sup> That is, they did realize the necessity of a major foreign policy change, but their approaches still had much in common with the tactics used in 1982-1983. At that time, Hanoi had made repeated, but ultimately fruitless, attempts to play out ASEAN against China, or China against the U.S. Preparing for the 6<sup>th</sup> Congress, in 1986 the VCP leaders were readier to make concessions than before, but apparently continued to believe that a simultaneous rapprochement with all their real and potential opponents was hardly possible or desirable.

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18) Hungarian Embassy to the SRV, Report, 24 April 1986, VTS, 1986, 147. doboz, 50, 00900/1986.

19) Hungarian Embassy to the SRV, Ciphred Telegram, 3 March 1989, VTS, 1989, 92. doboz, 162-2, 001697/1989.

20) Hungarian Embassy to the SRV, Ciphred Telegram, 5 February 1986, VTS, 1986, 147. doboz, 162-50, 00965/1986.

21) Hungarian Embassy to the SRV, Report, 24 April 1986, VTS, 1986, 147. doboz, 50, 00900/1986.

It was a general opinion within the party that the VCP had rarely held a congress under such difficult circumstances, CC Secretary Hoang Tung told Benyei in February 1986.<sup>22)</sup> He had every reason to say so. "In the last ten years, the rate of inflation had been approx. 100 percent per annum, but in the recent years it has multiplied," the Hungarian Foreign Ministry noted in November 1986. "Due to the frequent replacement and devaluation of money, and because of the shortage of goods, there is no trust in the [national] currency. The change of conditions in the distribution of goods is aggravating political tension: broad strata live with insecurity, real wages are undergoing a substantial decrease. Living standards have not become stable; differences in the living standards of various social groups are greatly sharpening; [the living standards] of the strata of urban residents, employees, and workers are plummeting. Wages constitute less than 50 percent of personal incomes."<sup>23)</sup> In April 1987, Vietnamese Ambassador Nguyen Lung told the Hungarian Foreign Ministry that while official statistics mentioned four million unemployed, their real number was as high as seven million.<sup>24)</sup>

The unsuccessful monetary reform of September 1985 particularly aggravated the already serious social and political tension. The reform, combined with an attempt to reduce the yawning fiscal deficit by abruptly eliminating the state subsidies on food and consumer goods and dis-

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22) Hungarian Embassy to the SRV, Ciphred Telegram, 6 February 1986, VTS, 1986, 147. doboz, 162-20, 001072/1986.

23) Hungarian Foreign Ministry, Memorandum, November 1986, VTS, 1986, 147. doboz, 20, 003570/1/1986.

24) Hungarian Foreign Ministry, Memorandum, 9 April 1987, VTS, 1987, 136. doboz, 162-20, 009/6/1987.

continuing to provide state employees with allowances in kind, failed to curb inflation but caused astronomical price rises. The regime eventually found it necessary to reintroduce rationing in the urban centers.<sup>25)</sup>

Public mood became highly critical of the leadership's economic performance. As the Vietnamese cadres in charge of economic policy told the Hungarian diplomats, people kept saying that top-level personal changes, such as the replacement of General Secretary Le Duan or Premier Pham Van Dong, were needed if inflation and price rises were to be curbed. In contrast with North Korea's tightly controlled society, in Vietnam the power of public opinion influenced the regime's policies to a considerable extent. On 31 January 1986, Minister of Health Dang Hoi Xuan confidently informed Benyei about that the Politburo decided to dismiss Deputy Premier Tran Phuong, the chief architect of the monetary reform, in order to reassure public opinion. A few days later, on February 5, Hoang Tung and other party cadres also told the ambassador that Phuong was replaced mainly because "it was impossible to ignore the pressure of public opinion." For the same reason, his dismissal was to be followed by others, but in a gradual process, because a sudden large-scale change "might produce an undesired effect" on state-society relations.<sup>26)</sup>

The social groups whose discontent the VCP leadership had to take

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25) Hungarian Embassy to the SRV, Annual Report, 27 May 1986, VTS, 1986, 147. doboz, 142, 003253/1986; Hungarian Embassy to the SRV, Report, 5 December 1986, VTS, 1986, 147. doboz, 50, 00900/7/1986.

26) Hungarian Embassy to the SRV, Ciphred Telegram, 3 February 1986, VTS, 1986, 147. doboz, 162-22, 00901/1986; Hungarian Embassy to the SRV, Ciphred Telegram, 6 February 1986, VTS, 1986, 147. doboz, 162-20, 001072/1986; Hungarian Embassy to the SRV, Ciphred Telegram, 7 March 1986, VTS, 1986, 147. doboz, 162-50, 00900/1986.

into consideration were, above all, the state employees and the workers. Particularly vulnerable to inflation and price rises but enjoying a relatively prestigious political status, they constituted a potential source of protest. For instance, it was the state-affiliated trade unions whose pressure compelled the regime to reintroduce rationing after the failure of the monetary reform.<sup>27)</sup> But even certain elite groups kept pressing the CC for changes. In September 1986, the director of the Institute of World Economy told a Hungarian diplomat that after the death of General Secretary Le Duan (July 1986), the reform proposals made by the leaders of county-level party committees greatly helped the newly elected provisional general secretary, Truong Chinh, in modifying the conservative economic guidelines which the 10<sup>th</sup> CC plenum (May 1986) had set for the 6<sup>th</sup> Congress.<sup>28)</sup> Of the higher-ranking party cadres, southerners — e.g., Vo Van Kiet and Mai Chi Tho — were over-represented among the officials strongly committed to the idea of market-oriented reform.<sup>29)</sup> After all, in post-1975 South Vietnam, despite the imposition of the Communist system, the private sector was by no means eliminated as thoroughly as in the North, and some cadres were willing to harness its potential for growth.

In sum, the domestic situation the VCP leadership faced at the end of 1986 was bleak enough. Worse still, domestic problems were accompanied by external challenges. As the Soviet charge d'affaires remarked in

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27) Hungarian Embassy to the SRV, Report, 5 December 1986, VTS, 1986, 147. doboz, 50, 00900/7/1986.

28) Hungarian Embassy to the SRV, Ciphred Telegram, 3 September 1986, VTS, 1986, 147. doboz, 162-25, 001072/6/1986.

29) Hungarian Embassy to the SRV, Ciphred Telegram, 2 December 1986, VTS, 1986, 147. doboz, 162-25, 001072/12/1986. See also Hoang (1991, 36).

July 1986, in the mid-1980s the USSR and the East European countries had improved their political and economic relations with China, and thus Vietnam had to follow suit or face isolation.<sup>30)</sup> In fact, Hanoi was hardly pleased by Gorbachev's new diplomatic initiatives. Symptomatically, certain parts of Gorbachev's famous Vladivostok speech(28 July 1986), in which he made concrete proposals to improve Sino-Soviet relations and declared that a renewal of "comradely dialogue" between China and Vietnam would be advantageous to Soviet interests, were not published in the Vietnamese party newspaper *Nhan Dan*. Moreover, the editorial covering the speech held Beijing solely responsible for the post-1975 deterioration of Sino-Vietnamese relations.<sup>31)</sup>

True, Gorbachev's Vladivostok speech, as noted by Horn, did not offer any concession with regard to the Kampuchean question(Horn 1987, 742). However, Beijing did not let Moscow dodge this thorny issue. At the ninth round of Sino-Soviet talks(October 1986), negotiations stalled over the Kampuchean problem. The Chinese side made it clear that no breakthrough in Soviet-Chinese relations could be achieved unless Moscow ceased to support the Vietnamese occupation of Kampuchea. Since Beijing refused to enter direct talks with Hanoi on the grounds that such talks would be tantamount to the de facto recognition of that occupation, the Soviets were eventually compelled to put pressure on Vietnam if they wanted reconciliation with the PRC.<sup>32)</sup>

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30) Hungarian Embassy to the SRV, Ciphared Telegram, 21 July 1986, VTS, 1986, 147. doboz, 162-108, 004042/1986.

31) Hungarian Foreign Ministry, Memorandum, 22 August 1986, MOL, XIX-J-1-j Soviet Union, Top Secret Documents [henceforth STS], 1986, 136. doboz, 145-143, 004166/7/1986.

## V. The 6<sup>th</sup> VCP Congress: Long Procrastination after a Good Start

Facing both a domestic crisis and Moscow's efforts to mend fences with Beijing, the VCP leaders did announce a program of renovation at the 6<sup>th</sup> Congress. As early as the months preceding the congress, they involved rank-and-file party members and broad strata of non-members in the intra-party debates about the country's problems and the tasks to be performed. They described Vietnam's economic problems — inflation, shortage of goods, fiscal deficit, indebtedness, and unemployment — in detail, admitting that the main cause of these difficulties had been their own impatience and intolerance. Having condemned the previous conception of excessive heavy industrialization and forced collectivization, they laid special emphasis on the production of agricultural, consumer, and export goods. Stressing the necessity of pursuing an "open doors" economic policy, they also expressed their intention to pass a law on foreign capital investments.<sup>33)</sup>

To confirm the Politburo's commitment to the reforms, the three supreme leaders chiefly responsible for the disastrous post-1975 policies (Truong Chinh, Pham Van Dong, and Le Duc Tho) announced their voluntary retirement. The new general secretary, Nguyen Van Linh, seems to have been a compromise solution. An official of northern origin, he

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32) Hungarian Embassy to the SRV, Ciphred Telegram, 19 May 1986, VTS, 1986, 147. doboz, 162-25, 00764/1/1986; Hungarian Embassy to the PRC, Ciphred Telegram, 20 October 1986, STS, 1986, 136. doboz, 145-135, 00236/3/1986.

33) Hungarian Foreign Ministry, Memorandum, 28 December 1986, VTS, 1986, 147. doboz, 25, 001072/17/1986.

had spent most of his political career in the South, and thus he appeared acceptable to both groups. A skilled tactician, Linh had done his best to show his outward respect for the incumbent general secretary, Truong Chinh, but he also gained substantial popularity in the South by promising to correct the regime's recent "mistakes." Moreover, he may have benefited from the fact that Le Duan had selected him as his potential successor. The Soviets, on their part, considered Linh much more suitable for this position than Le Duan's first choice, Vo Chi Cong.<sup>34)</sup>

The program of the congress also showed a certain willingness to re-examine Hanoi's foreign policies. The majority of deputies agreed on that it was high time to normalize Sino-Vietnamese relations.<sup>35)</sup> In fact, in the second half of 1986 the top VCP leaders repeatedly and publicly expressed their readiness to start negotiations with Beijing "anywhere, at any time, and at any level."<sup>36)</sup> At the congress, this standpoint was reinforced by some significant personal changes. Minister of Defense Van Tien Dung and Chu Huy Man, the head of the army's political department, lost their position and Politburo membership, ostensibly because they had failed to curb corruption in the armed forces but in reality because of political reasons. For instance, Van Tien Dung, having directed

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34) Hungarian Embassy to the SRV, Ciphred Telegram, 14 February 1986, VTS, 1986, 147. doboz, 162-22, 00901/2/1986; Hungarian Embassy to the SRV, Ciphred Telegram, 19 May 1986, VTS, 1986, 147. doboz, 162-25, 00764/1/1986; Hungarian Embassy to the SRV, Ciphred Telegram, 2 December 1986, VTS, 1986, 147. doboz, 162-25, 001072/12/1986.

35) Hungarian Foreign Ministry, Memorandum, 28 December 1986, VTS, 1986, 147. doboz, 25, 001072/17/1986.

36) Hungarian Embassy to the SRV, Report, 10 February 1987, VTS, 1987, 136. doboz, 162-10, 001139/1987.

the invasion of Kampuchea in 1978, doggedly supported the continued occupation of that country. “Their departure from the Politburo may create the personal conditions that are needed for a more flexible approach toward Vietnamese–Chinese relations and the Kampuchean question,” the Hungarian diplomats reported.<sup>37)</sup>

Indeed, the Political Report delivered at the congress paid much less attention to the armed forces than previous party documents. As Gary Klintworth pointed out, the report openly declared that “of the two strategic tasks presently facing Vietnam — socialist construction and defending the country — the latter, socialist construction, was the primary one.” (Klintworth 1991, 230–231). This decline of military influence, which sharply differed from the post-1995 political ascendancy of the North Korean army, was certainly a sign of reform, because the representatives of the armed forces, expecting little or no positive change in Hanoi’s external relations, were still of the opinion that national defense should take priority over economic development — much in the same way as the North Korean leaders were thinking when they announced their “military-first” (*son’gun*) doctrine. Had Van Tien Dung and his comrades had their way, they would have probably blocked Vietnam’s economic recovery, since the international embargo and the enormous weight of military expenditures constituted an apparently insuperable obstacle to development. Dung’s removal was possibly facilitated by the fact that officers and soldiers were inclined to blame his ministry for the financial difficulties they had to cope with. Due to the economic crisis, the real value of

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37) Hungarian Embassy to the SRV, Ciphred Telegram, 2 December 1986, VTS, 1986, 147. doboz, 162–25, 001072/12/1986.

military pay decreased almost as fast as the inflation rate, and military service became markedly less popular than before.<sup>38)</sup>

To sum up the program announced at the 6<sup>th</sup> Congress, the VCP leadership openly admitted not only the gravity of the economic situation but also its own responsibility for the difficulties. In the light of the urgency of the problems, the great expectations which the population had for the congress, and the thorough self-criticism the leaders practiced, it appears rather strange that the congress was followed by a long period of inaction. Public opinion experienced the first disappointment at the end of December when the National Assembly failed to form a new government [as announced at the congress] but postponed the issue until the first session of the newly elected assembly, i.e., until June 1987. It became clear that the three top leaders, despite their alleged “retirement,” retained much of their previous influence. For instance, Le Duc Tho still regularly participated in Politburo sessions. Since none of the competing groups could impose its will on the others, the leadership’s decision-making capability became seriously impaired. Many disappointed middle-level cadres openly complained that the whole country suffered because of the leaders’ inability to reach an agreement over the question of succession.<sup>39)</sup>

The inactivity of the Politburo produced a deleterious effect on administrative work. Middle-ranking cadres felt so insecure that they found it advisable to sit out the top-level wranglings. “The ministries are spending

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38) Hungarian Foreign Ministry, Memorandum, 28 December 1986, VTS, 1986, 147. doboz, 25, 001072/17/1986; Hungarian Embassy to the SRV, Report, 14 February 1987, VTS, 1987, 136. doboz, 162-20, 001284/1987.

39) Hungarian Embassy to the SRV, Report, 14 February 1987, VTS, 1987, 136. doboz, 162-20, 001284/1987.

a lot of money; according to the information available for us, meaningful work has almost completely stopped in the offices, they hold programs, and squander the money allocated for entertainment purposes,” the Hungarian ambassador reported in February 1987.<sup>40)</sup>

The economic reforms broadly outlined at the congress were slow to take a concrete shape. The old methods of centralized planning were no longer as predominant as before, but the new system of economic management had not yet been put into practice. As a consequence, economic efficiency underwent a further decrease. Following the guidelines of the congress, investments were redirected from one sector to another, but under chaotic conditions. As Benyei put it, “They already know what not to develop, but they do not know yet what should be done in other fields.” In the two months following the congress, the rate of inflation was higher, rather than lower, than before. Instead of lessening, popular distrust of government policies actually increased after the congress. The leadership’s inertia created a feeling of lethargy and hopelessness among the masses.<sup>41)</sup>

Several months later, the aforesaid problems still persisted. On 9 April 1987, Vietnamese Ambassador Nguyen Lung openly told the Hungarian Foreign Ministry that the resolutions passed at the 6<sup>th</sup> Congress were good, but there had not been yet any progress in putting them into practice. In the opinion of many Vietnamese cadres, the appointment of the new president and premier was postponed primarily because of factional struggles. For instance, the northerners’ candidate for premiership

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40) Ibid.

41) Ibid.

was Vo Chi Cong, whereas the southerners proposed Vo Van Kiet. The leadership proved so unable to make a quick decision that Pham Van Dong and Truong Chinh were allowed to stay in office for another half a year, though both had lost their CC membership at the congress.<sup>42)</sup>

## VI. Unresolved Diplomatic Problems: An Obstacle to Economic Reform?

The hesitation and inactivity that followed the 6<sup>th</sup> Congress caught the attention of several observers, Vietnamese and foreigners alike. In a brief summary of the period between December 1986 and June 1988, Le Dang Doanh noted: “The inflation rate remained high: 487 per cent in 1986; 316 percent in 1987; and 306 percent in 1988. The macro-economic regulations of the state did not change a lot.”(Le Dang Doanh 1991, 82). “The economic results of the first 2 years [of *doi moi*] were dismaying: instability accelerated and the state budget deficit became critical,” Pietro P. Masina concluded(Masina 2006, 61). Ronald J. Cima also stated that “Linh’s campaign for *doi moi*(renewal) was launched immediately following the congress, but the progress of change, particularly economic change, failed to keep pace with expectations.” In Cima’s opinion, this

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42) Hungarian Embassy to the SRV, Ciphered Telegram, 3 January 1987, VTS, 1987, 136. doboz, 162-20, 009/1/1987; Hungarian Foreign Ministry, Memorandum, 9 April 1987, VTS, 1987, 136. doboz, 162-20, 009/6/1987. In June 1987, the two groups finally reached a compromise by selecting Pham Hung for the premiership.

procrastination was caused mainly by “the resistance efforts of a strong conservative coalition of party leaders made up of ideological conservatives, bureaucrats, and members of the military establishment,.... Both Defense Minister Le Duc Anh and Chief-of-Staff Gen. Doan Khue have publicly expressed their concern that economic reform is being emphasized at the expense of national security.”(Cima 1989b, 789).

It is indeed worth placing the leadership’s inactivity into a wider military and diplomatic context. Remarkably, in 1986–1987 the slowness of the economic reform process had much in common with Hanoi’s simultaneous reluctance to overhaul its foreign policy. In these years, the VCP leaders were becoming increasingly aware of the necessity of modifying their diplomatic standpoint, but they did their best to snatch at least a partial victory from the jaws of defeat.

On 4 February 1986, Nguyen Co Thach told Benyei that Vietnam did not find it urgent to find a political solution for the Kampuchean problem: “It is Indonesia and ASEAN, rather than the Indochinese countries, which will miss the train.” If no political solution was reached in 1987, Thach said, the Kampuchean question would be settled without the involvement of Hanoi’s opponents, who demanded free elections and the establishment of a coalition government composed of the Kampuchean resistance groups. That is, in 1986 Vietnam did its best to enhance the capabilities of the Kampuchean armed forces, trying to enable the pro-Vietnamese regime of Heng Samrin to stay in power even if the Vietnamese troops would have to leave Kampuchea.<sup>43)</sup> These efforts, as Nayan Chanda

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43) Hungarian Embassy to the SRV, Ciphred Telegram, 5 February 1986, VTS, 1986, 147.

pointed out, yielded only meager results(Chanda 1987, 118-122). At the 6<sup>th</sup> Congress, the VCP leadership went a step further by supporting both the Laotian government's efforts to seek a rapprochement with the PRC and Heng Samrin's proposal to enter negotiations with certain opposition groups. However, it still insisted on excluding the Khmer Rouge — China's favorites — from the Kampuchean peace process. In essence, the congress addressed the problem of Sino-Vietnamese conflict in a primarily bilateral framework, rather than accepting the Chinese approach that considered the Kampuchean question the root cause of the deterioration of Vietnamese-Chinese relations.<sup>44)</sup>

Instead of reciprocating Hanoi's policy of small steps, China regarded it as an attempt to dodge the Kampuchean issue, and decided to develop a sophisticated counter-strategy. On the one hand, it demonstrated its goodwill [and sought to drive a wedge between Vietnam and its Laotian satellite] by sending a delegation to Laos in the first high-level contact between Beijing and Vientiane since 1978(stuart-Fox and Kooyman 1992, xxxix-xliii). On the other hand, it continued to refuse entering direct talks with Hanoi, and actually increased its pressure on Vietnam. In December 1986, Chinese forces resorted to various provocative acts along the Sino-Vietnamese border. Anxious not to lose an opportunity to normalize Sino-Vietnamese relations, the VCP leadership at first refrained from making sharp comments on these incidents. Thereupon on 5-8 January 1987,

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doboz, 162-50, 00965/1986; Hungarian Embassy to the SRV, Annual Report, 27 May 1986, VTS, 1986, 147. doboz, 142, 003253/1986.

44) Hungarian Foreign Ministry, Memorandum, 28 December 1986, VTS, 1986, 147. doboz, 25, 001072/17/1986.

the Chinese troops launched attacks of a far larger scale in Ha Tuyen county. After this clash, the VCP leaders, having concluded that reconciliation with Beijing was not likely in the near future, decided that they would no longer make public the peaceful proposals which they occasionally addressed China.<sup>45)</sup>

Hanoi's disappointment over Beijing's tough stance probably reinforced the position of the "hawkish" wing of the VCP leadership at the expense of the economic reformers, at least temporarily. After all, Beijing's recent demonstration of its military might apparently necessitated a renewed effort to strengthen national defense, discrediting the idea of cooperative diplomacy. If this was really so, the slow progress of economic reforms after the 6<sup>th</sup> Congress may have been at least partly caused by Hanoi's external difficulties, since, as noted before, the military leaders put national defense first and economic development second.

A comparison with Laos may support this hypothesis. The Laotian Communist leadership launched its own economic reform program at the 4<sup>th</sup> Congress of the Lao People's Revolutionary Party (LPRP), which was held in November 1986, i.e., a month before the 6<sup>th</sup> VCP Congress. In contrast with Vietnam, the Laotian reform process, as emphasized by Grant Evans and Adam Fforde, showed considerable progress in the period between late 1986 and early 1988. For instance, the regime reduced controls on private trade, introduced a price reform, and legalized all sorts of economic associations. In December 1986, the authorities released thousands of political prisoners — a measure Hanoi would take only in the fall of

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45) Hungarian Embassy to the SRV, Report, 10 February 1987, VTS, 1987, 136. doboz, 162-10, 001139/1987.

1987, i.e., after having reached an agreement with the U.S. These achievements of the Laotian reform program were possibly facilitated by the fact that in 1986-1987, Vientiane, unlike Hanoi, managed to improve its relationship with Beijing. On 20-25 December 1986 a Chinese delegation visited Laos, and on 30 November 1987 the two governments announced the resumption of full ambassadorial level relations.<sup>46)</sup>

In March 1987, a Soviet diplomat told Benyei that the Kremlin regarded Nguyen Van Linh as a “lone leader” who lacked majority support in the Politburo and the Central Committee. He went on to say that the VCP leadership was sharply divided over the Kampuchean question. The group headed by Nguyen Co Thach was of the opinion that Vietnam’s economic crisis could not be solved without improving Hanoi’s relations with the Western countries and China. For this reason, they urged that a political solution be reached in Kampuchea by 1990, because a delay would aggravate domestic political tension in Vietnam itself. In contrast, the top brass of the army considered a complete troop withdrawal from Kampuchea too risky. Like Heng Samrin, they stressed that in 1990 the Kampuchean army would not yet be ready to fill the gap to be created by the departure of the Vietnamese troops. The Kampuchean armed forces were indeed ill-prepared for tackling the guerrilla threat, but, as the Soviet diplomats quickly pointed out, their limited capabilities resulted, to a large extent, from a previous Vietnamese policy of deliberate neglect. Namely, a substantial part of the brand-new Soviet military equipment that was sent to the Kampuchean army via Vietnam failed to arrive, be-

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46) Evans(2002, 197-200); Stuart-Fox and Kooyman(1992, xxxix-xliii); Fforde(1995, 20;26-27)

cause the Vietnamese authorities intercepted it, and sent used arms and vehicles instead.<sup>47)</sup>

During the visit of Soviet Foreign Minister Eduard Shevardnadze in Vietnam (11–13 March 1987), certain signs indicated that Soviet patience with the Indochinese problem was wearing thin. Shevardnadze sharply castigated the Soviet embassy for not having taken a sufficiently critical tone in its reports about the situation in Vietnam, and emphatically told the VCP leaders that due to China's geopolitical importance and its willingness to cooperate with Moscow, Hanoi should initiate a dialogue with Beijing as soon as possible. "Comrade Shevardnadze stressed that both the Afghan and the Kampuchean question caused great difficulties to the socialist countries," Ta Huu Canh, a high-ranking cadre of the Foreign Ministry, told the "fraternal" ambassadors. "Therefore, for the sake of the general strategic objectives of the socialist community and for the purpose of enhancing the prestige and attraction of socialism, the Indochinese countries must find a settlement to the Kampuchean [problem] *within a short time* [emphasis in the original]."<sup>48)</sup>

Adding teeth to his adjuration by criticizing Hanoi for the inefficient use of Soviet aid and credits, Shevardnadze extracted a promise from the VCP leaders to take quick measures to make Soviet–Vietnamese economic cooperation "mutually beneficial."<sup>49)</sup> This was in line with the guide-

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47) Hungarian Embassy to the SRV, Ciphred Telegram, 23 March 1987, STS, 1987, 126. doboz, 145–135, 002103/1/1987.

48) Hungarian Embassy to the SRV, Ciphred Telegram, 19 March 1987, STS, 1987, 126. doboz, 145–135, 002103/1987; Hungarian Embassy to the SRV, Ciphred Telegram, 23 March 1987, STS, 1987, 126. doboz, 145–135, 002103/1/1987.

49) Hungarian Embassy to the SRV, Ciphred Telegram, 27 March 1987, STS, 1987, 126.

lines set in January by a special team of the Soviet Central Committee, which, according to Gerald Segal, “decided that more aid would be forthcoming but only if it was used in the cause of reform.”(Segal 1988, 3). Shevardnadze concluded that Hanoi had finally realized the unfeasibility of solving the Kampuchean question by purely military means. He told the Vietnamese that not only Sihanouk but also the “masses of the Khmer Rouge” should be involved in the peace process; only Pol Pot and other high-ranking Khmer Rouge leaders were to be excluded. His prodding seems not to have been entirely in vain. Shortly after his visit, the Vietnamese charge d’affaires to Budapest told a Hungarian colleague that thanks to the recent talks with Shevardnadze, Hanoi decided to renew its efforts to establish unofficial contacts with China.<sup>50)</sup>

## VII. Towards a Breakthrough: Hanoi Finds New Partners

Despite Soviet pressure, progress on the Kampuchean question continued to be slow in the coming months. Still, in the summer Hanoi did manage to perform a major diplomatic feat by reaching an agreement with the U.S. government over humanitarian issues. In 1985–1986, Vietnamese–American talks on the problem of finding the remains of the

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doboz, 145-135, 002103/3/1987.

50) Hungarian Embassy to the SRV, Ciphered Telegram, 27 March 1987, STS, 1987, 126. doboz, 145-135, 002103/3/1987.

U.S. soldiers missing in action(MIA) yielded little positive result. In the spring of 1986, the majority of the VCP leaders concluded that this failure was caused by that the Americans, emboldened by Nguyen Co Thach's "excessive compliance," rejected the principle of mutual obligations, and demanded unilateral Vietnamese concessions.<sup>51)</sup> In contrast, the visit of U.S. Presidential Envoy John Vessey(1-3 August 1987) finally brought a breakthrough. Hanoi undertook to show more cooperativeness on the MIA issue, whereas the U.S. delegation, for the first time, accepted the idea of limited reciprocity by making a commitment to address "certain urgent humanitarian concerns" of the Vietnamese side(The Vessey Mission to Hanoi 1988, 4-7).

The Thach-Vessey talks also produced a considerable effect on Vietnamese internal politics. Pressing Hanoi to release the former South Vietnamese officials and military officers who were still being held in "re-education camps," Vessey offered to take the freed persons to the U.S. This solution enabled the regime to release its prisoners without running the risk of internal "destabilization." According to the data provided by Spencer C. Tucker and others, in September 1987, and then in 1988, thousands of political prisoners were set free. This act obviously constituted a very important step towards political liberalization, all the more so because the 6<sup>th</sup> Congress had paid much more attention to the government's economic "mistakes" than to the problem of political repression.<sup>52)</sup> The timing and background of the amnesties seem to indicate that external

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51) Hungarian Embassy to the SRV, Ciphered Telegram, 21 April 1986, VTS, 1986, 147. doboz, 162-10, 00766/1/1986.

52) Tucker(1999, 304); Amnesty International(1990, 208)

factors did play an important role in the political liberalization which accompanied *doi moi*.

In October, as noted by Segal, the Sino-Soviet talks, which otherwise could have proceeded smoothly, once again stalled over Kampuchea (Segal 1988, 4), but in November the VCP leadership finally bit the bullet. Deputy Foreign Minister Dinh Ngo Liem told a Hungarian correspondent that the Politburo, having had heated debates, decided to complete the withdrawal of Vietnamese troops by 1990, no matter whether there would be a political settlement or not. The resolution was passed by a single vote majority, Liem said. He went on to explain that this decision was motivated not only by diplomatic considerations but also by military ones. Namely, the performance and combativeness of the Vietnamese units stationed in Kampuchea proved far from satisfactory. Hanoi also decided to recall about 70 percent of the Vietnamese advisers from Kampuchea (military and police advisers were to stay) on the grounds that their professional qualities were inadequate, and their political conduct irritated Kampucheans. They often squabbled with each other, took bribes, and abused their power in various ways.<sup>53)</sup>

Remarkably, the Politburo decision on troop withdrawal strongly coincided with two important resolutions in economic policy. First, Decision No. 217 of the Council of Ministers (217-HDBT in Vietnamese), issued on November 14<sup>th</sup>, greatly increased the autonomy of state-owned enterprises at the expense of central planning. Not only was 217-HDBT of a more radical nature than its predecessors, the decrees named 306-BBT

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53) Hungarian Embassy to the SRV, Report, 27 November 1987, VTS, 1987, 136. doboz, 162-101, 005344/1987.

and 76-HDBT, but, as described by Adam Fforde, it also got considerably greater political support from the top leaders — including the conservative premier, Pham Hung — than the other two decisions (Fforde 2007, 190; 198–200).

Second, on December 29<sup>th</sup> the National Assembly passed a rather generous Law on Foreign Investment. While the usefulness of foreign direct investment had been emphasized as early as the 6<sup>th</sup> Congress, few concrete steps were taken in the following months. At the end of 1987, Hanoi once again raised the issue, this time much more concretely. In all probability, the timing of the FDI law was closely interlocked with the resolution to withdraw the Vietnamese troops from Kampuchea, since the VCP leadership knew all too well that Japan and the West European countries would not make any substantial investment in Vietnam unless Hanoi settled the Kampuchean question in a mutually acceptable way.<sup>54</sup> The difficulties of Japanese–Vietnamese trade clearly showed the importance of diplomatic factors. Due to the low level of Vietnamese exports, the Japanese companies trading with Hanoi were compelled to grant commercial credit to the Vietnamese side, but the Japanese government was unwilling to guarantee repayment until a Vietnamese withdrawal from Kampuchea.<sup>55</sup>

The VCP leaders expected FDI to create jobs, alleviate social problems, and improve Vietnamese work ethics. By striving to attract foreign

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54) Hungarian Embassy to the SRV, Report, 28 November 1988, VTS, 1988, 103. doboz, 50, 004703/1988.

55) Hungarian Embassy to the SRV, Report, 5 December 1986, VTS, 1986, 147. doboz, 162–50, 003991/1986.

capital, they sought to find a form of international economic cooperation that would be more effective and profitable than Vietnam's collaboration with the Soviet bloc. Namely, in many cases the Vietnamese were no less dissatisfied with the Soviets' economic performance than Moscow was with theirs. In September 1988, the head of a main department of the VCP CC openly told a Hungarian diplomat that "with the capitalist countries, they can arrange economic cooperation in a much more flexible, facile, and complex way" than with the Communist ones. The Vietnamese also readily adopted certain Japanese management methods, such as the practice of giving enterprise bonds to employees.<sup>56)</sup>

Hanoi's search for alternative economic partners was frequently combined with diplomatic efforts, and this was particularly true for its attitude towards ASEAN. Due to the Vietnam War and the Vietnamese occupation of Kampuchea, Vietnamese-ASEAN relations had often been strained in the 1975-1985 period, but, as emphasized by Nguyen Vu Tung, even in these years the VCP leaders made repeated efforts to reach a modus vivendi with one or several ASEAN states, not least because they could hardly afford to confront China and ASEAN at the same time(Nguyen Vu Tung 2006, 103-125). For instance, in November 1978, during a visit of Indonesian Foreign Minister Mochtar Kusumaatmadja, Hanoi offered to cease supporting FRETILIN(a leftist guerrilla organization in Indonesian-occupied East Timor) and other Southeast Asian Communist insurgency movements if Jakarta acquiesced in the planned Vietnamese invasion of

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56) Hungarian Embassy to the SRV, Ciphered Telegram, 19 September 1988, VTS, 1988, 103. doboz, 162-10, 003845/1988; Hungarian Embassy to the SRV, Report, 28 November 1988, VTS, 1988, 103. doboz, 50, 004703/1988.

Kampuchea.<sup>57)</sup>

Vietnamese–Indonesian relations underwent a substantial improvement in the Gorbachev era. The two governments, both of which were traditionally wary of Chinese intentions and hence disliked the prospect of Sino–Soviet reconciliation, had good reason to think that they had certain common interests. Noteworthily, Indonesian reactions to Gorbachev’s Vladivostok speech were not much more enthusiastic than Vietnamese ones. In August 1986, the Indonesian leaders kept warning the Soviets not to trust Beijing. Moscow, they said, should not underestimate the “perfidy” of the Chinese, who were, as the Indonesians put it, “capable of milking two cows at the same time.”<sup>58)</sup>

On 15–21 November 1987, a Vietnamese economic delegation headed by Deputy Premier Vo Van Kiet visited Indonesia. The main objective of their trip was to study the post–1965 development of the Indonesian economy, with special respect to the methods which enabled Jakarta to achieve self–sufficiency in rice and harmonize national interests with the interests of foreign investors. They visited the Chamber of Industry and Commerce, an oil field, a rice research center, an aircraft assembly plant, and a chemical fertilizer factory. To the great delight of the delegation, President Suharto explained them in detail how Indonesia had managed to solve its various economic problems. Both sides expressed their interest in enhancing economic cooperation between the two countries. The

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57) Hungarian Embassy to Indonesia, Report, 20 November 1978, MOL, XIX–J–1–j Kampuchea, Top Secret Documents, 1978, 74. doboz, 73–2, 006236/12/1978.

58) Hungarian Embassy to Indonesia, Ciphared Telegram, 21 August 1986, STS, 1986, 136. doboz, 145–143, 004166/8/1986.

CEOs of several major private companies told the delegation that they were ready to import soybeans, dry peas, peanuts, black pepper, chili, manioc, and handicrafts from Vietnam. If Hanoi passed a favorable FDI law, they would be willing to establish joint ventures in Vietnam for oil drilling and other operations, the Indonesian businessmen said.<sup>59)</sup>

The Vietnamese delegation drew many important lessons from Indonesia's development experiences. First of all, they concluded that priority should be given to the development of agriculture, particularly food production. Second, industry should serve and assist agriculture. Third, oil production would stimulate the development of chemical industry and other branches of manufacturing. Fourth, the development of the domestic economy should be based on an "open doors" economic policy, i.e., favorable conditions should be provided for foreign direct investment.<sup>60)</sup> As is well known, the architects of *doi moi* indeed pursued such a policy in the post-1988 period. Kiet's visit was also important in a diplomatic sense, because Jakarta's obvious helpfulness was a welcome contrast to the Kremlin's increasing reluctance to give Vietnam economic and political support. Cooperation with Indonesia [and possibly with other ASEAN countries] appeared to be a much-needed counterweight against Beijing, all the more so because Jakarta shared Hanoi's distrust of China. Thus the VCP leaders were not compelled to launch their economic reform program in an overwhelmingly hostile international environment. On the contrary, economic reform and Vietnamese-Indonesian cooperation were

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59) Hungarian Embassy to the SRV, Report, 26 January 1988, VTS, 1988, 103. doboz, 162-512, 00689/1988.

60) Ibid.

likely to reinforce each other.

One may draw a parallel with the reassuring effect that President Kim Dae Jung's "Sunshine Policy" produced on North Korea. Namely, the economic reform program launched by the North Korean leadership in July 2002 may have been at least partly stimulated by South Korea's cooperative attitude. Domestic factors alone seem to have been insufficient to trigger a change. After all, the reforms were initiated as many as seven years after the outbreak of the 1995–1997 famine, rather than in quick response to the catastrophe. Under unfavorable international circumstances, neither the Vietnamese nor the North Korean leaders seem to have been willing to introduce radical reforms.

Nevertheless, in November 1987 Vietnamese foreign policy had not yet reached the point of seeking a simultaneous rapprochement with every potential opponent. The decision to withdraw Vietnamese troops from Kampuchea, a major turning point as it was, should not be considered a step aimed at fulfilling China's demands. On the contrary, Hanoi took it on purpose to exclude the PRC and its Khmer Rouge allies from the Kampuchean peace process. By improving its relations with ASEAN and the Western powers, Vietnam sought to drive a wedge between China and the West. As Dinh Ngo Liem put it, "It is China, and not the West, that still poses a danger to Kampuchea's internal development."<sup>61</sup> To underline its standpoint and counterbalance the concession it made on the Kampuchean issue, on November 26<sup>th</sup> Hanoi issued a declaration in which it reiterated its claim to the Paracel and Spratly Islands. Since the

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61) Hungarian Embassy to the SRV, Report, 27 November 1987, VTS, 1987, 136. doboz, 162–101, 005344/1987.

Paracels had been under Chinese occupation since 1974, and Beijing laid claim to the Spratlys as well, this statement obviously ran counter to China's interests.<sup>62)</sup>

The CCP leaders did not hesitate to strike back. In January 1988, Chinese naval forces started building an observation station on two previously uninhabited islands in the Spratlys. They disregarded Vietnamese protests, and on 14 March, the conflict escalated into a naval clash, which ended with a Chinese victory. The confrontation had several important lessons for Hanoi. First of all, it revealed the unfeasibility of a military-first policy, since Vietnam obviously lacked the means to openly defy the PRC. In contrast with North Korea, the nuclear option, which could have partly offset China's military superiority, was beyond the capabilities of the Vietnamese armed forces. Second, the clash made it clear that a strategy aimed at settling any major Southeast Asian issue [including the Kampuchean question] in direct violation of Chinese interests was bound to fail. Third, the Soviet Union turned out to be an unreliable ally. Much to the chagrin of the VCP leaders, Moscow refused to recognize Vietnamese sovereignty over the disputed islands, and, as Cima and Segal noted,<sup>63)</sup> remained passive during the naval clash. Fourth, the clash confirmed the usefulness of cooperating with ASEAN. The ASEAN states, several of which also had latent territorial disputes with China, showed much more understanding for Vietnam's security concerns than the Kremlin. Having criticized Beijing's forceful action, in the spring of 1988 they had

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62) Hungarian Embassy to the SRV, Report, 8 January 1988, VTS, 1988, 103. doboz, 162-10, 00692/1988.

63) Cima(1989a, 70); Segal(1989, 102).

successful talks with Vietnamese Deputy Foreign Minister Tran Quan Co about the Kampuchean question and the prospects of economic cooperation with Vietnam.<sup>64</sup>

### VIII. "The Light at the End of the Tunnel": A Turning Point in Foreign Policy and Economic Reform

The real breakthrough in Hanoi's Kampuchea policy occurred shortly after the conflict over the Spratlys. In May 1988, the Secretariat of the VCP CC gave an instruction on the speedy execution of the November 1987 Politburo resolution on troop withdrawals.<sup>65</sup> 50,000 troops were to depart by the end of the year. This time the leadership certainly meant business, because it also announced a plan to reduce the armed forces to approx. one percent of the population. By March 1989, hundreds of thousands of soldiers were demobilized.<sup>66</sup> Apart from the effect of the naval clashes, these developments may have reflected Soviet prodding as well. In May 1988, Thai Premier Prem Tinsulanonda visited the USSR, and, in the opinion of a Soviet diplomat accredited to Kampuchea, received guar-

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64) Hungarian Embassy to the SRV, Report, 28 April 1988, VTS, 1988, 103. doboz, 162-10, 00692/4/1988; Hungarian Embassy to the SRV, Ciphred Telegram, 13 May 1988, VTS, 1988, 103. doboz, 162-135, 002621/1988.

65) Hungarian Embassy to the SRV, Report, 30 November 1988, VTS, 1988, 103. doboz, 162-20, 001899/2/1988.

66) Cima(1989a, 66-68); Hungarian Embassy to the SRV, Ciphred Telegram, 31 March 1989, VTS, 1989, 92. doboz, 162-2, 001697/1/1989.

antees for that the Kremlin would increase its pressure on Hanoi for the sake of a speedy troop withdrawal.<sup>67)</sup>

Once Hanoi made a firm commitment to withdraw its troops, Vietnamese–Thai relations underwent a speedy improvement. In the summer of 1988, beginning in June, Nguyen Co Thach paid three unofficial visits to Bangkok. The talks he had with the newly appointed premier, Chatichai Choonhavan, proved particularly fruitful. Economic cooperation was one of the principal items on the agenda. In November 1987, all what Dinh Ngo Liem could extract from the Thai foreign ministry was a vague promise to allow a few individual Thai businessmen to do trade with Vietnam. Now the Thai government showed great interest in developing its commercial relations with Hanoi. In January 1989, as many as eighty major Thai companies sent their representatives to Vietnam, and the consular section of the Vietnamese embassy in Bangkok had to handle about 1,500 Thai visa applications per month. The VCP leaders concluded that Thai–Vietnamese economic cooperation would be beneficial for both sides, because Vietnam’s newly passed FDI law provided very favorable conditions for the Thai businessmen willing to make investments in tourism and food processing. Vietnam planned to export agricultural goods, minerals, precious stones, gold, and timber to Thailand in exchange for agricultural machinery and consumer goods. Moreover, the Vietnamese thought that it was as worth learning from Bangkok as from Jakarta. “Vietnam pays special attention to the development of the Thai economy,” a Hungarian diplomat reported in April 1989, “it is of the opin-

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67) Hungarian Embassy to Kampuchea, Report, 25 January 1989, VTS, 1989, 92, doboz, 135, 00767/1989.

ion that several components of the Thai economic development model are worth imitating in Vietnam, too.”<sup>68</sup>)

Since the Thai government had repeatedly emphasized that it would not modify its attitude towards Vietnam and Kampuchea unless China did the same, Bangkok’s growing cooperativeness implied a gradual improvement of Sino–Vietnamese relations. In the summer of 1988, certain high-ranking Vietnamese party cadres indeed started to make positive comments on the PRC’s economic achievements. At the same time, Soviet–Vietnamese relations underwent a marked deterioration. In September 1988, the Soviet diplomats openly told their Hungarian colleagues that Moscow was determined to reach reconciliation with China as soon as possible, rather than waiting for the normalization of Sino–Vietnamese relations. The USSR also continued to reduce its economic assistance to Hanoi. To maintain the Kremlin’s influence in Vietnam, it was enough to help the Vietnamese in the operation of the Soviet-built factories, the Soviets thought. Many Soviet advisers were recalled, particularly from those plants whose operation proved less than satisfactory. The VCP leaders responded in kind. They became more and more unwilling to provide the Soviet embassy with information, and although they paid lip service to *glasnost* and *perestroika*, they did not consider Gorbachev’s reform program a potential model for their own. As a high-ranking official of the VCP CC remarked, for the Vietnamese the greatest benefit of *perestroika* was that they no longer felt bound by the doctrines of Communist

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68) Ibid.; Hungarian Embassy to the SRV, Report, 27 November 1987, VTS, 1987, 136, doboz, 162–101, 005344/1987; Hungarian Embassy to the SRV, Ciphred Telegram, 2 September 1988, VTS, 1988, 103, doboz, 162–10, 003852/1988.

(i.e., Soviet) ideology. Vietnam, he said, should decide by itself how it wanted to overcome its difficulties.<sup>69)</sup>

In the second half of 1988, the Vietnamese economy indeed started to recover from its long stagnation. As the VCP cadres in charge of economic policies told the Hungarian diplomats, it happened in that year that they finally “saw the light at the end of the tunnel.” For instance, in July 1988, the average rate of inflation, which had been 18 percent per month from January 1987 to June 1988, declined to 7 to 8 percent. Consumer goods production underwent a sudden and dramatic increase that baffled the deputies of the National Assembly. Due to a poor harvest in 1987, in early 1988 food prices rose by 18 percent, whereas in the second half of the year, thanks to a good harvest, their increase did not exceed 2 percent.<sup>70)</sup>

How could this have happened? In March 1989, Nguyen Co Thach gave the Communist diplomats the following explanation for the decrease of inflation: First of all, emission of money by the central bank was reduced. From January to June 1988, money emission grew by 20 percent, while in the second half of the year, only by 10 percent. Second, agricultural production improved to a considerable extent, thanks to new government decrees which guaranteed peasants a ten-year tenure and permitted them to keep a much larger share of their output than before. Third, the government liberalized most prices, with the effect that prices in the state shops became practically identical with that on the free

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69) Hungarian Embassy to the SRV, Ciphered Telegram, 19 September 1988, VTS, 1988, 103. doboz, 162-10, 003845/1988.

70) Hungarian Embassy to the SRV, Report, 10 January 1989, VTS, 1989, 92. doboz, 162-50, 00778/1989; Hungarian Embassy to the SRV, Ciphered Telegram, 23 March 1989, VTS, 1989, 92. doboz, 162-1, 001860/1989.

market. Other officials pointed out that economic recovery had been facilitated partly by the growing initiativeness of the enterprises and partly by the considerable improvement of electric power supply.<sup>71)</sup> (Paradoxically enough, this growth in power generation resulted largely from the completion of the gigantic Soviet-built Hoa Binh hydropower dam — a project that had much more in common with the policies of the discredited “heavy-industry-firsters” than with *doi moi*.)

The aforesaid explanations appear somewhat superficial, since they are focused on specific government measures. Several scholars, such as Adam Fforde and Donald B. Freeman, correctly emphasized that *doi moi* was at least as much a “bottom-up” process as a “top-down” policy. After all, private entrepreneurs played a highly important role in Vietnam as early as the first post-1975 decade. Without the initiative shown by the private sector, the Vietnamese economy could not have easily recovered from the crisis of the 1980s. Fforde and others also pointed out that the VCP cadres had started to experiment with various economic reforms as early as 1979–81, giving peasants and state enterprises more autonomy than before.

On the other hand, we may keep in mind that the regime’s early reform policies were hardly consistent. Following a period of relaxation, in the spring of 1983 the authorities suddenly imposed high taxes on private entrepreneurs (some of whom even had their houses confiscated), and compelled peasants to pay their new, higher taxes in kind, rather than selling their produces on the free market.<sup>72)</sup> Thus the government’s poli-

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71) Ibid.

72) Hungarian Embassy to the SRV, Annual Report, 14 September 1983, VTS, 1983, 125.

cies created a profound sense of insecurity, discouraging any long-term private investment. “The frequently changing tactics toward the various social classes and strata evoked passivity and increasing distrust from the masses, resulting in the weakening of the party’s contacts with the masses,” the Hungarian diplomats noted.<sup>73)</sup> As described before, popular distrust became particularly intense after the 1985 monetary reform and the procrastination that followed the 6<sup>th</sup> Congress.

Neither the leadership’s pre-1988 reform measures nor the private initiatives “from below” could solve two chronic problems of the economy: high inflation and lack of access to FDI. Vietnam’s high inflation rate discouraged both foreign investors and domestic savings, inducing private entrepreneurs to prefer hedging operations to productive activity. Inflation was closely linked to the massive fiscal deficit, which in turn resulted partly from state subsidies and even more so from the enormous defense expenditures. As long as the Vietnamese troops stayed in Kampuchea, military expenditures were to remain high, and there was no real prospect for foreign investment.

These problems clearly required a political solution — a solution finally achieved by the normalization of Hanoi’s external relations. As Cima pointed out, “Vietnam’s foreign policy in 1988 was rooted in its economic problems as the nation strove to end its isolation in order to participate in the economic prosperity enjoyed by its neighbors.”(Cima 1989a, 67). Remarkably, both Vietnamese foreign policy and *doi moi* reached a turn-

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doboz, 005031/1983.

73) Hungarian Foreign Ministry, Memorandum, November 1986, VTS, 1986, 147. doboz, 20, 003570/1986.

ing point in 1988–1989. Several major breakthroughs occurred in these years, more or less simultaneously: (a) the withdrawal of troops from Kampuchea; (b) military demobilization; (c) improvement of relations with Thailand, Japan, the European Community and China; (d) partial agricultural decollectivization; (e) drastic price reform and reduction of state subsidies; (f) reduction of money emission; and (g) confirmation of the law on foreign investments. Once the ball of detente got rolling, it kept rolling, giving a constant stimulation to reforms.

## IX. Conclusion

In 1979–1987, the Vietnamese leaders were clearly aware both of the gravity of the country's economic difficulties and of the intensity of popular discontent. They also received repeated warnings from their Soviet allies. Still, they failed to take quick, effective and all-encompassing reform measures piecemeal reforms alternated with renewed restrictions and periods of inactivity. Even after the official announcement of *doi moi*, progress remained slow for a substantial time. For instance, the FDI law, anticipated since December 1986 and passed in December 1987, was not confirmed by the government until September 1988.<sup>74)</sup>

To comprehend this paradox, it is important to note that throughout

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74) Hungarian Embassy to the SRV, Report, 28 November 1988, VTS, 1988, 103. doboz, 50, 004703/1988.

the 1980s, the Vietnamese government kept struggling with a crushing fiscal deficit, whose two largest components were (a) military expenditures and (b) subsidies given to consumers and state enterprises. As Max Spoor's analysis reveals, efforts to reduce this deficit in some way or other constituted a major element of the regime's various economic experiments. Stimulation of agricultural production through the subcontract system and higher procurement prices(1979-1982) was aimed at reducing food imports; development of the energy sector was expected to lessen Hanoi's dependency on imported oil; price increases(1981), higher taxes on peasants and private entrepreneurs(1983), and export incentives were to increase government revenues; elimination of subsidies and allowances(1985) and cutting of investments in heavy industry(1986-1987) was to reduce state expenditures(Spoor 1988, 111-313).

These early deficit-cutting measures were considerably hindered by two factors. First, they often produced a negative effect on other aspects of economic and social policy. For instance, higher procurement prices paid to peasants meant higher state expenditures; higher taxes resulted in a decline of production; and the abrupt elimination of subsidies and allowances seriously aggravated the social and political situation. Since these steps did not constitute a comprehensive reform program, their effect could be at best limited, and the opposition they faced from one social group or another was likely to derail them. Their inconsistency also generated popular distrust. Second, none of them grabbed the bull by the horns. The largest item in the budget, military expenditures, remained untouched until 1988.

Both massive defense spending and popular distrust of government policies played an important role in the permanently high rate of inflation

that crippled the Vietnamese economy. High military expenditures were directly responsible for a large part of the fiscal deficit and hence for the massive emission of money by the central bank. Popular distrust, which persisted even after the 6<sup>th</sup> Congress, strongly influenced the behavior of market participants. According to the theory of rational expectations, a macro-economic stabilization can be successful only if “the public believes that the government is sincere in reducing inflation, as evidenced perhaps by substantial reductions in budget deficits and moderation in the rate of growth of money” and modifies its behavior accordingly (Bomberger and Makinen 1983, 812).

High defense spending, a result of Hanoi's conflicts with China, Kampuchea and ASEAN, was unlikely to decrease until these conflicts were resolved. External tension also contributed to the widespread feeling of insecurity, and definitely discouraged foreign investment. It may not have been a mere coincidence that inflation, having slowed down in late 1987 (i.e., in a period of diplomatic opening), peaked in March 1988, during the Sino-Vietnamese naval clashes (Fforde 2007, 17). From 1986 until mid-1988, Vietnam still had conflicts with China and Thailand, which probably influenced the slow pace of reforms in these years. This is why the diplomatic breakthroughs of 1988 seem to have produced a decisive effect on economic recovery, creating a favorable environment for the stabilization carried out in 1988-1989. After all, the regime would have been probably unwilling to demobilize hundreds of thousands of soldiers, eliminate subsidies, liberalize the price system, and take other, at least partly unpopular financial measures in a period of diplomatic, let alone military, confrontation.

Finally, a few comparisons with North Korea, where the process of re-

cent economic reforms has been much less dynamic and fruitful than in post-1988 Vietnam, may give a further confirmation of the importance of political and diplomatic factors, explaining not only why Vietnam's *doi moi* has succeeded but also why the chances of a thorough and successful reform are still limited in North Korea:

1) In Vietnam, the party leadership has remained quite decentralized, instead of being dominated by a single all-powerful person. The VCP leaders also had to take the population's demands for reforms into consideration, at least to a certain extent. In contrast, the despotic North Korean regime was strong enough to enforce the leadership's policies even if these measures ran counter to the population's interests. In the DPRK, the occasional reform measures were not combined with the kind of political liberalization that occurred in Vietnam in 1986-1988.

2) Pre-1989 Vietnam had only a single powerful ally and aid donor, the USSR, which therefore possessed substantial leverage over Hanoi. The absence of alternative partners made Vietnam vulnerable to Soviet pressure: Hanoi's switch from heavy industrialization to a pro-agricultural policy was greatly influenced by Moscow's commercial preferences. In contrast, North Korea has usually managed to retain a room for maneuvering between the neighboring powers, none of which could easily impose its will on P'yongyang.

3) By 1988, the VCP leaders realized that subordinating economic development to military strength was extremely costly but failed to yield the desired results. The abandonment of this approach relieved the economy of an immense burden. In contrast, North Korea pursued a military-first policy even during the famine of 1995-1997, partly because its leaders felt that the regime's very survival, and not only its rule over another country,

was at stake, and partly because their nuclear program gave them a trump card that Hanoi did not possess. The DPRK's capability to extort aid by military threats made a reform policy look less necessary.

4) The long-term normalization of Vietnam's relations with its neighbors created a favorable environment for much-needed foreign investment. Giving the regime a feeling of relative security, it also played a role in the relaxation of domestic constraints. In contrast, North Korea's external conflicts are still largely unresolved. Only states (China and South Korea) driven by strong political interests are willing to make large-scale investments in this high-risk country. The reassuring "Sunshine Policy," combined with P'yongyang's need for new partners in the face of temporarily declining Chinese support and growing U.S. pressure, probably facilitated North Korea's July 2002 reforms in the same way as ASEAN's cooperativeness stimulated *doi moi*. However, the conflicts between Chinese, Russian, South Korean, U.S. and Japanese interests make an all-encompassing normalization very difficult in North Korea. Judging from the Vietnamese events of 1987, the normalization of relations with a selected few countries can be a major step forward but it is not sufficient for a real breakthrough.

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# The Diplomacy of Economic Reform in Vietnam: The Genesis of *Doi Moi*, 1986-1989

Balazs Szalontai

The post-1986 Vietnamese economic reform program, known as *doi moi*, is widely regarded as a remarkably successful attempt to solve the economic problems which plagued this country in the 1980s. The reform measures taken by the Vietnamese Communist leaders are well known to scholars. Still, the diplomatic context in which the reforms were launched seems not to have received sufficient attention. Vietnam's post-1978 conflicts with China and Kampuchea resulted in high military expenditures and an international embargo, which constituted insuperable obstacles to economic development. Without the decisive improvement of Hanoi's external relations in 1987-1988, it would have been hardly possible to cut defense spending, curb inflation and attract foreign direct investment. Noteworthy, *doi moi* was preceded by various reform experiments, but these earlier measures proved largely superficial, unsuccessful, or counter productive, not the least because they, having been introduced in a hostile external environment, were not combined with foreign investments and a reduction of military expenditures. The lessons of *doi moi* may also help scholars in determining whether North Korea's post-2002 economic reforms are likely to lead to sustained development or not.

**Key Words:** *doi moi*, Vietnamese economic reform, diplomatic context, economic development, Vietnamese foreign policy.