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THE ECONOMIC POLICY OF NORTH VIETNAM



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THE ECONOMIC POLICY OF NORTH VIETNAM*Summary and Conclusions

The Communist regime of the Democratic Republic of Vietnam (DRV) is dedicated to the establishment in North Vietnam of a thoroughgoing Communist society and to the reunification of North and South Vietnam under Communist auspices. Forced to give up attempts, at least temporarily, to reunify the country by force, the regime has concentrated on the building of a Communist state that will outproduce the Republic of South Vietnam and attract the South Vietnamese to emulation and eventual partnership.

Pre-DRV political and economic factors have exerted influence on the framing of DRV economic policies, but such factors have been increasingly subordinated to those arising from Communist ideology. The transformation of North Vietnam from an underdeveloped, agricultural country to an industrial nation is to be achieved within the traditional Communist framework of the socialization of private property, the rapid expansion of agricultural and industrial production, and the restriction of increases in consumption in favor of large increases in investment. A cardinal aspect of economic policy has been North Vietnam's increasing orientation toward other members of the Sino-Soviet Bloc, especially Communist China. Its economy has depended on substantial material and technical assistance by the Bloc in the form of shipments of machinery and equipment, the dispatch of technicians to North Vietnam, and the training of the North Vietnamese in science and technology.

The DRV has adjusted, when necessary, Communist principles of economic development to the realities of existing conditions in North Vietnam. Recognizing the limitations in economic resources, DRV leaders have spoken of the potential of the economy in terms of self-sufficiency in food, the development of a limited range of industries, and economic integration with the rest of the Sino-Soviet Bloc, but they have not proclaimed the more ambitious goal of the USSR and Communist China of economic self-sufficiency. In contrast to the USSR and China, North Vietnam from the beginning has given full attention to the development of agriculture. Agricultural policies have aimed at the fuller employment of North Vietnam's abundant labor force

* The estimates and conclusions in this report represent the best judgment of this Office as of 1 January 1961.

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through the adoption of labor-intensive methods of increasing crop yields. The relatively great emphasis on light industry has been an accommodation to limitations in capital plant and to the shortage of technical and managerial skills rather than an ideological deviation from the traditional Communist policy of a rapid expansion of heavy industry. Finally, in contrast to Soviet and Chinese emphasis on the construction of large-scale industrial facilities, the DRV has relied on the operation of small-scale industrial facilities, which employ available labor in quantity and afford the greater use of traditional production processes.

Although similarities in the population-resource base of Communist China and North Vietnam -- notably the enormous population relative to the amount of arable land -- have invited similar approaches to economic development, North Vietnam has been proceeding along the path of socialist development at a slow pace compared with China. DRV policies have fallen short of Peking's bold measures in breadth and vigor. The excesses of ideological persecution in China have not been duplicated in North Vietnam, nor has the DRV pushed forward so urgently its programs for socializing agriculture and developing heavy industry.

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I. Economic Administrative Structure

The USSR pioneered the development of central planning and direction of a socialist economy. Communist China borrowed heavily from Soviet administrative organization and techniques of planning, and North Vietnam in turn has adopted the Chinese economic administrative structure.

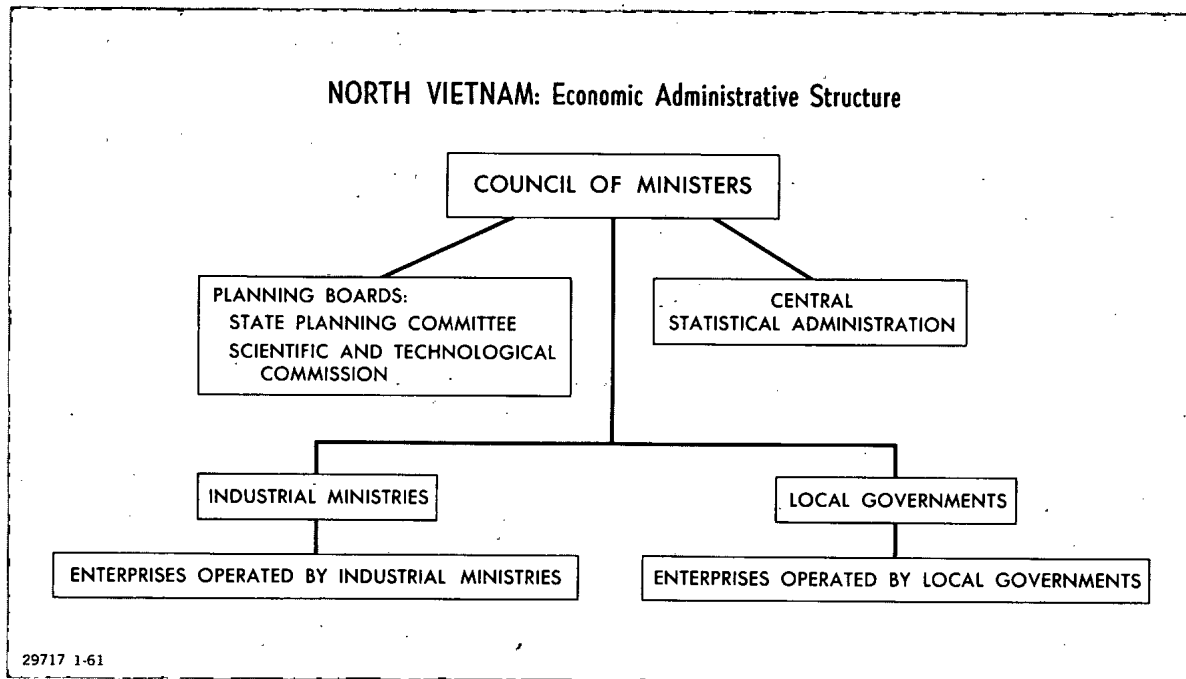
The North Vietnamese leaders have created a highly centralized, authoritarian government structure firmly in the hands of the Communist Party. Key Party leaders hold important administrative positions and direct the mass organizations that implement decisions of the Party directorate. All important economic decisions are framed by the Politburo of the Party Central Committee, which is made up of the dozen or so most powerful leaders of the Lao Dong (Communist) Party. Decisions of the Party are translated into specific programs of action through a national economic plan. Whereas the formal execution of the national economic plan is the primary responsibility of the administrative hierarchy of the government, a Communist Party structure paralleling and often interlocking with that of the government provides the top leadership of the Party with an effective means of overseeing the execution of plans at all levels of operation.

The Council of Ministers, the highest executive organ of the government, is responsible for the formulation and execution of national economic plans (see the accompanying chart*). The Council of Ministers has established an economic planning commission -- the State Planning Committee -- that functions as a staff department for planning. Within the context of economic policies prescribed by the Party, the State Planning Committee draws up the annual and long-range plans that govern the operation of the economy. Unlike the USSR and Communist China, North Vietnam has never assigned the functions of annual and long-range planning to different economic commissions. A second important planning commission -- the Scientific and Technological Commission -- has important responsibilities in the economic field. It performs the specialized function of selecting and promoting new production techniques, coordinating long-range technical developments, and insuring the widest possible adoption of technical innovations throughout industry and agriculture.

The State Planning Committee has no direct authority over execution of the plans. The Council of Ministers issues instructions on plan execution through the economic ministries of the central government -- which exercise jurisdiction over large industrial establishments -- and through provincial and district governments -- which

* P. 4, below.

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exercise jurisdiction over small industrial establishments. Detailed targets for all sectors of the economy, such as the level of production for major commodities, the amount and types of capital construction, and the allocation of labor and materials, are sent down to individual operating units through this economic control structure.

The system of economic control in North Vietnam requires periodic reporting by all operating units. Statistical reports are prepared according to uniform standards established by the Central Statistical Administration, which is attached directly to the Council of Ministers and works very closely with the two planning commissions. At regular intervals, individual producing units report to supervising authorities -- a central economic ministry or local government -- on the degree of plan fulfillment. The individual reports, when added together at the national level by the Central Statistical Administration, give central planners an over-all view of plan performance and data for future planning. On the basis of these periodic progress reports, top-level administrators may order adjustments in the allocation of labor and materials to insure fulfillment of announced plan goals, or they may revise plan targets in keeping with changed economic conditions.

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II. Reconstruction (1955-57)

Economic policy in North Vietnam in 1955-57 was essentially a policy of reconstruction after long years of international and civil war. The chief efforts of the regime were devoted to the reconstruction and rehabilitation of basic transportation and communications facilities and to the restoration of prewar levels of production. Comprehensive government control was established over banking, modern industry, foreign trade, and domestic wholesale trade. The government moved slowly in the socialization of agriculture, subordinating the goal of collectivization to the goal of increased production.

The DRV was faced, at the outset, with the immediate necessity of providing minimum supplies of food in spite of disrupted production, epidemics, and inflation. The short-run goal of the regime was an increase in production of food to prewar levels. Agriculture, as a sector, was afforded a much greater emphasis than it had ever been given in the economic planning of other countries of the Sino-Soviet Bloc, receiving about 20 percent of total capital investment allocated under the 1956 state plan. The increase in agricultural production in 1955-57 (see Table 1) was attributable to favorable weather conditions and to the strenuous efforts of the regime to (1) reclaim abandoned land, (2) expand irrigation and flood control measures, (3) increase the use of chemical and natural fertilizers, and (4) insure better methods of cultivation. All segments of the North Vietnamese population -- farmers, Party activists, and soldiers -- were mobilized for work in the construction of irrigation and flood control projects and the planting of crops.

Table 1.

North Vietnam: Gross Value
of Agricultural and Industrial Production
1955-59 and 1960 Plan

| | Million Constant Dong | | | | | |
|-------------|-----------------------|-------------|-------------|-------------|-------------|------------------|
| | <u>1955</u> | <u>1956</u> | <u>1957</u> | <u>1958</u> | <u>1959</u> | <u>1960 Plan</u> |
| Agriculture | 1,582 | 1,851 | 1,914 | 2,228 | 2,411 | 2,687 |
| Industry | 334 | 646 | 971 | 1,056 | 1,383 | 1,648 |

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DRV authorities displayed considerable flexibility in adjusting to problems arising from agrarian reform, the source of most of the unrest and tension that afflicted the regime. The government moved slowly in the socialization of agriculture, reflecting in part a decision to follow the precepts of Communist China and in part a respect for the militant independence of the peasants. Agrarian reform -- involving the redistribution of land, the mobilization of peasants under Communist Party supervision, and the institution of a compulsory labor program in rural areas -- was patterned after China's land reform program of 1949-52. It provided for the confiscation, requisition, and expropriation of lands belonging to those classified as landlords, traitors, and reactionaries and the formation of manpower-exchange teams (called mutual aid teams in China) as the first step in collectivization. Implementation of the plan for agrarian reform, however, did not keep pace with the timing of events as originally planned. By the end of the reconstruction period in December 1957, only about 27 percent of North Vietnam's peasant households were enrolled in these manpower-exchange teams.

About 25 percent of state investment funds were allocated to the restoration of North Vietnam's transportation and telecommunications networks during 1955-57. Top priority was given to the reconstruction of the rail system, particularly the two lines running north from Hanoi to the south China border. Because of Communist China's special interest in these rail lines linking Southwest China, via North Vietnam, with the main Chinese rail net, it was natural that Peking should take a leading role in the early rehabilitation of the Vietnamese system. The use of Chinese laborers and engineers -- more than 2,000 Chinese laborers and supervisors are estimated to have been working on the North Vietnamese railroads in 1956 -- was largely responsible for the rapid progress in railroad construction.

With major material, financial, and technical assistance from other countries of the Sino-Soviet Bloc, the DRV undertook the rehabilitation and expansion of industrial capacity. Somewhat more than one-half of the increase in industrial production in 1955-57 -- the gross value of industry rose from about 335 million constant dong* in 1955 to about 970 million constant dong in 1957 -- was the result of the restoration of existing large plants. By the end of 1957, nearly all the important prewar installations had been restored and, in some cases, re-equipped and enlarged. Emphasis had been placed on the rehabilitation

* Dong values in this report are given in current dong unless otherwise indicated. Dong may be converted to US dollars at a rate of exchange of 4 dong to US \$1 and to rubles at a rate of exchange of 1 dong to 1 ruble.

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of the mining and electric power industries and the food-processing and textile industries.*

The major industrial facilities reconstructed during 1955-57 were largely taken over by the state; in 1957 the output of the public sector of industry accounted for about 35 percent of total industrial production. Socialization of small-scale and handicraft industry, on the other hand, was not pressed vigorously. Counting on private enterprise to supply an important part of locally produced consumer goods, the regime made various tax and price adjustments to encourage private production. Indirect control of private industry was obtained, however, by state control of domestic wholesale and foreign trade and by nationalization of the banking system.

III. Three Year Plan (1958-60)

The major goals of the DRV Three Year Plan (1958-60), as revealed in the government report to the National Assembly in December 1958, are as follows: (1) large increases in agricultural and industrial production, (2) extension of state control over all aspects of economic life, (3) a limited improvement in material standards of living, and (4) the strengthening of national defense.

The Three Year Plan has called for substantial increases in agricultural and industrial production, aiming, in the first place, to provide an adequate food supply and greater export surpluses and, in the second, to lay the foundations for an industrialized state. Overall production in 1960 was originally planned to be 82 percent more than production in 1957, the goal for agricultural production being an increase of 79 percent and the goal for industrial production an increase of 89 percent. As a result of difficulties encountered during 1959, however, these Three Year Plan goals recently have been revised -- total production is now scheduled to increase by 50 percent, agricultural production by 40 percent, and industrial production by 70 percent. The planned increases in agricultural and industrial output are to be achieved through a doubling of state investment in 1958-60 compared with 1955-57.

The Three Year Plan has called for the "basic completion" of socialization by the end of 1960. Originally identified with the goal of 100 percent of peasant households in low-level cooperatives, basic completion of agricultural cooperativization is now represented as the inclusion of only 75 percent of peasant households in low-level

* Installations that were restored during 1955-57 include the Cao-bang tin mine, the Hon Gay coal mines, the Haiphong wool and silk factory, the Nam Dinh weaving mill, and the Hanoi distillery.

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cooperatives. Basic completion of industrial socialization has been equated with the goal of 100 percent of nonhandicraft industry in state or joint state-private establishments and 75 percent of handicraft industry in low-level producer cooperatives.

A. Socialization

Socialization policies of the Three Year Plan are designed to transform the mixed private and state economy of North Vietnam into a uniform socialist economy. At the outset of the plan, socialist control was predominant only in wholesale and foreign trade and in large factory industry. During 1955-57 the emphasis had been on reconstruction and production rather than on the establishment of complete state control over the economy. During 1958-60, production has continued to be stressed, but there has been a new and concerted effort to collectivize remaining private areas in the economy.

North Vietnamese policies for socialization have followed closely those established by Communist China, although socialization in North Vietnam has proceeded at a much slower pace. In converting the bulk of private enterprise to the socialist system, the regime has followed the Chinese example of staged economic transformation. Collectivization of agriculture has progressed through the formation of manpower-exchange teams to the formation of low-level agricultural producer cooperatives and finally to high-level cooperatives on the order of the Soviet collective farm.* Socialization of agriculture has proved a difficult and uncertain task, forced on a reluctant and individualistic peasantry. To make the masses of peasants more willing to join cooperatives, the regime has organized hundreds of national, provincial, and local conferences of workers and farmers and has launched an intensive propaganda campaign in all the mass media. A comparatively small proportion of the North Vietnamese farm population was in agricultural producer cooperatives in December 1957, but by December 1960 the regime claimed that about 85 percent of peasant households were organized in cooperatives. The sudden spurt in

* Manpower-exchange teams are a rudimentary form of socialization in which peasants pool their labor to accomplish certain farm jobs but retain ownership of land, buildings, animals, and tools as well as of the crops produced. The agricultural producer cooperative is a higher form of agricultural collectivization in which peasants retain ownership of the means of production but in which all farm work is done in accordance with a government-sponsored cooperative plan and the crop is divided on the basis of the peasants' contributions of land and capital as well as of labor. In high-level cooperatives the means of production are owned in common, and a member's share of the collective income is determined solely on the basis of work performed.

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enrollment in collectives -- from about 55 percent of peasant households in July 1960 to about 85 percent in December 1960 -- has been reminiscent of the dramatic advance in collectivization in Communist China during the winter of 1955/56. The rapid completion of the drive for socialization would indicate, however, that cooperatives in North Vietnam may require considerable consolidation before they are effective organizations for state control over production.

A major aspect of industrial policy in North Vietnam in 1958-60 has been the extension of state control and, in most cases, state ownership to manufacturing enterprises. Through nationalization of French-owned mines and factories in 1955-57, the DRV had gained possession of a substantial portion of modern industrial capacity. Following the pattern set by Communist China, the DRV has adopted a policy of gradual nationalization of the remaining private enterprises, featuring an intermediate stage of joint state-private ownership. Under joint public-private ownership, private owners continue to direct the day-to-day manufacturing and technical operations of their businesses but are subject to the orders of Party officials on over-all policy, including prices, wages, and level of output. As of December 1960, private large-scale industry in North Vietnam has been completely eliminated. Wholly state-owned enterprises -- particularly important in mining and in the cement, electric power, and machine tools industries -- now account for about 44 percent of total industrial production, and joint state-private enterprises for another 10 percent.

At the present stage of economic development, the regime is encouraging handicraft production of light consumer goods. The handicraft sector of industry -- which accounts for about 46 percent of total industrial production -- is made up of a large number of artisan and handicraft workshops operated by family groups. It has been the policy of the regime to reorganize these craftsmen into low-level handicraft cooperatives that subsequently are to be developed through successive stages of increasingly intensive socialization. Handicraft producers have been the subject of the increased tempo of socialization during the last few months of 1960. Embracing about 65 percent of all handicraft workers in December 1959, low-level handicraft producer cooperatives included about 84 percent of handicraft workers in December 1960.

B. Investment

A fundamental economic policy of the DRV -- like other Communist governments -- is to insure a rapid rise in investment as a percent of gross national product (GNP). Only since 1958, however, has the regime been able to raise investment as a percent of GNP to the level generally associated with rapid economic development (15 percent or more).

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Gross domestic investment in North Vietnam during the period 1955-57 averaged about 12 percent of GNP (see Table 2) -- not a very impressive allocation of resources to investment, especially by Communist standards. In the period of economic recovery (1955-57), most of the small GNP of North Vietnam was used, by necessity, to bring a starving population up to a tolerable level of subsistence. Foreign economic assistance extended to North Vietnam by other members of the Communist Bloc was used not only to support the small initial program of investment but also to furnish desperately needed consumer goods.

Table 2

North Vietnam: Percentage Distribution
of Gross National Product, by End Use
1955-59

| | <u>1955</u> | <u>1956</u> | <u>1957</u> | <u>1958</u> | <u>1959</u> |
|-----------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| | Percent | | | | |
| Consumption | 89.3 | 87.5 | 92.0 | 85.2 | 83.1 |
| Gross domestic investment | 9.6 | 13.2 | 13.4 | 15.2 | 18.8 |
| Government | 12.4 | 10.6 | 10.8 | 9.8 | 9.3 |
| Net exports of goods and services | -11.3 | -11.3 | -16.2 | -10.2 | -11.2 |
| GNP (million current dong) | 2,112 | 2,859 | 2,809 | 3,402 | 3,830 |
| GNP index in current prices (1955 = 100) <u>a/</u> | 100 | 135 | 133 | 161 | 181 |
| GNP index in constant prices (1955 = 100) <u>a/</u> | 100 | 124 | 137 | 161 | 176 |

a. See methodology, Appendix A, p. 24, below.

The DRV has been able to increase the share of investment in GNP to about 20 percent only because of the continuing large net inflow of goods and services from the Sino-Soviet Bloc, an inflow amounting in 1955-59 to 10 to 16 percent of GNP (see Table 2). Economic aid to North Vietnam at about the present absolute level will be needed during the next few years in order to retain the momentum of growth, and such aid will almost certainly be forthcoming. It is believed, however -- on the basis of analogy with North Korea -- that the USSR

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and Communist China hope to reduce the drain on their own resources by reducing foreign aid to North Vietnam as soon as North Vietnam can support its own investment program. Rivalry between the USSR and China, on the other hand, could prevent a decline in economic assistance to North Vietnam.

The investment program has been financed primarily through the consolidated state budget, which includes foreign aid. State investment* in 1958-60 was more than double state investment in 1955-57. State investment was planned to increase by about 57 percent in 1960, rising from 494 million dong in 1959 to 775 million dong in 1960. Total nonstate investment was planned to increase from about 53 million dong in 1959 to an estimated 59 million dong in 1960, an increase of 11 percent (see Table 3). It is believed that these investment plans have been essentially fulfilled.

Table 3

North Vietnam: Gross Domestic Investment
1955-59 and 1960 Plan

| | Million Current Dong | | | | | |
|-----------------------------------|----------------------|-------------|-------------|-------------|-------------|------------------|
| | <u>1955</u> | <u>1956</u> | <u>1957</u> | <u>1958</u> | <u>1959</u> | <u>1960 Plan</u> |
| Budgeted state investment | 155 | 280 | 290 | 295 | 494 | 775 |
| Miscellaneous budgeted investment | 12 | 58 | 46 | 173 | 174 | N.A. |
| Nonstate investment | 35 | 41 | 42 | 49 | 53 | 59 |
| Total | <u>202</u> | <u>379</u> | <u>378</u> | <u>517</u> | <u>721</u> | N.A. |

Although the DRV expects ultimately to achieve a high degree of industrialization, the regime has been realistic enough to concede that the country at present lacks the capital plant and the technical and managerial skills to carry out such a program. In contrast to both the USSR and Communist China, North Vietnam has begun its planning with full attention to the basic importance of agriculture in

* State investment is investment under the state plan for increases in fixed assets. It excludes certain miscellaneous budgeted investment such as increases in inventories of goods or expenditures for geological surveys.

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the economy. DRV policy has emphasized investment in irrigation, production of fertilizer and agricultural implements, and the processing of agricultural commodities.

State investment in agriculture has amounted to about 10 percent of total state investment in 1958-60 (see Table 4*), indicating that much reliance has been placed on nonstate (local) investment in agriculture, which requires considerable labor but relatively little capital equipment. Local investment accounted for a little more than one-half of the total investment in agriculture of 66 million dong in 1955 and in 1959 represented about 55 percent of total investment of 96 million dong. The primary emphasis of local investment is on small-scale irrigation and flood control projects that permit expansion of double cropping and an immediate increase in agricultural production. The influence of state investment on agricultural production is primarily long-term, in that it is directed to large-scale irrigation and water conservation projects, reforestation, and other activities the effects of which on agricultural production will not be felt for many years. During 1958-60 the government has constructed 26 medium and large-scale irrigation projects, thereby increasing the area under irrigation to 3,800 square miles, an increase of 1,400 square miles compared with 1957. ¹/_{**} The largest of the projects -- the Bac Hung Hai irrigation system -- will provide drainage and irrigation facilities for more than 800 square miles southeast of Hanoi, in the Tonkin Delta. Relative to investment in irrigation and water conservation projects, only small amounts have been directed to the improvement of agricultural techniques, land reclamation, mechanization, and the organization of state farms.

Approximately 46 percent of state investment in 1958-60 has been allocated to the industrial sector, light industry accounting for nearly 70 percent of total industrial investment. In contrast to Communist China's overriding emphasis on heavy industry, allocation of industrial investment in North Vietnam has stressed the production of consumer goods (especially textiles, paper, and plastics), the processing of agricultural commodities, production of fertilizer and farm tools, and mining. A large part of industrial production has been channeled into agriculture in the form of agricultural machinery, chemical fertilizer, and construction materials. A substantial percent of investment in industry, therefore, has represented indirect investment in agriculture.

* Table 4 follows on p. 13.

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Table 4

North Vietnam: Allocation of Budgeted State Investment
1958-60

| | Million Current Dong | | | Percent | |
|--------------------------------------|----------------------|------------|--------------|-----------------|-----------------|
| | 1958 | 1959 | 1960 Plan | 1958-60 Plan | 1958-60 Plan |
| Industry | 117 | 224 | 349 | 727 | 46.5 |
| Agriculture | | 43 | 87 | 164 | 10.5 |
| Transportation and communications | | 100 | | 274 | 17.5 |
| State trade and supply services | | | | 131 | 8.4 |
| Government administration | | | | 39 | 2.5 |
| Culture, education, and medicine | 178 | | | 91 | 5.8 |
| Research and scientific services | | 127 | | 34 | 2.2 |
| Public works | | | | 30 | 1.9 |
| Housing | | | | 74 | 4.7 |
| Total | <u>295</u> | <u>494</u> | <u>775</u> | <u>1,564</u> | <u>100.0</u> |

Investment in transportation and communications in North Vietnam -- about 18 percent of total state investment in 1958-60 -- has been second only to investment in industry in the allocation of state funds. The major portion of investment in transportation has gone to railroad construction. The prewar rail net has been completely reconstructed except for the large section between Thanh Hoa and the border with South Vietnam. In addition, a new 70-mile rail line from Hanoi northwest to Thai Nguyen, the site of the new iron and steel plant, has been recently constructed. Priority has been given to the two rail lines -- the Hanoi - Lao Kay and Hanoi - Nam Quan lines -- linking Hanoi with South China. Roughly two-thirds of the metric ton-kilometers on these lines is Communist Chinese freight in transit across North Vietnam between Kunming in Southwest China and the main Chinese rail net in South China. The recently announced policy of converting to standard Chinese gauge (4 feet 8-1/2 inches) the 1-meter gauge rail lines (3 feet 3 inches) of North Vietnam will complete the integration of the rail systems of the two countries. The DRV has followed a policy of using railroad facilities intensively, but the rail system is still inadequate to handle the rapidly increasing demands made on its services. Serious congestion has been reported, particularly at the change-of-gauge point at P'ing-Hsiang.

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The DRV policy of holding down "nonproductive" investment is reflected in the fact that only 6 percent of state investment in 1958-60 has been allocated to culture, education, and health; only 7 percent to housing and public works; and only about 2 percent to government administration. Since 1955 the regime has constructed about 1,800 general education schools, 30 professional schools, and 6 colleges. 2/ Although some new housing has been built by the Ministry of Industry with state funds, most of the new housing has been built locally with traditional construction materials. Of the total 2 million square meters of new housing constructed during the reconstruction period (1955-57), only 85,000 square meters were built by the state for workers at factory sites and in the cities, whereas the remaining 1.9 million square meters consisted of traditional style dwellings financed locally. 3/

C. Consumption

Most of the total available resources* of North Vietnam have been used in supporting a large population at near subsistence levels. In 1959, consumption accounted for roughly 75 percent of total available resources (see Table 5**).

Aggregate consumption in 1957 was about 37 percent higher than that in 1955, representing an average annual increase of about 17 percent. This increase in consumption -- although quite large in percentage terms -- reflects merely a recovery from extremely low levels of consumption during the war years. As the Communist program for socialization has given the regime increasing control over the allocation of resources and as the level of consumption has approached the prewar standard of living, increases in consumption in 1958 and 1959 have fallen off appreciably compared with increases in consumption in 1955-57. The increase in aggregate consumption in 1959 above that in 1958 of about 10 percent represents an increase in per capita consumption of about 7 percent.

In general, increases in consumption have been no greater than those considered necessary to allay public discontent. The level of consumption in rural areas has presented a special problem to the

* Total available resources are made up of North Vietnam's GNP augmented by the large net inflow of goods and services from other members of the Bloc, which during 1955-59 amounted to 10 to 16 percent of GNP. Policy decisions with respect to allocation of resources are made in terms of total available resources rather than GNP. Estimates of total available resources, by end use, are given in Table 5, p. 15, below.

** Table 5 follows on p. 15, below.

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Table 5

North Vietnam: Percentage Distribution
of Total Available Resources, by End Use
1955-59

| | <u>1955</u> | <u>1956</u> | <u>1957</u> | <u>1958</u> | <u>1959</u> |
|--------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| | Percent | | | | |
| Consumption | 80.2 | 78.6 | 79.1 | 77.3 | 74.8 |
| Gross domestic invest- ment | 8.6 | 11.9 | 11.6 | 13.8 | 16.9 |
| Government | 11.2 | 9.5 | 9.3 | 8.9 | 8.3 |
| Defense | 7.3 | 5.0 | 5.0 | 4.6 | 4.6 |
| Government adminis- tration | 2.8 | 2.6 | 2.2 | 2.2 | 1.9 |
| Communal services | 1.1 | 1.9 | 2.1 | 2.1 | 1.8 |
| Total available resources (million current dong) | 2,350 | 3,181 | 3,264 | 3,750 | 4,258 |
| Index of total available resources (1955 = 100) | 100 | 135 | 139 | 160 | 181 |

regime, in that rural consumption has increased more slowly than urban consumption at a time when peasant discontent over collectivization is growing.

D. Agriculture

A salient feature of the North Vietnamese economy, like that of Communist China, is the enormous population relative to the amount of cultivated land.* Agricultural policies have aimed at the full exploitation of abundant human resources by the adoption of labor-intensive methods of increasing crop yields rather than capital-intensive methods of increasing output per farmer through mechanization.

* The average per capita area of cultivated land in North Vietnam is about 0.10 hectare compared with 0.16 hectare in China. (One hectare equals 2.471 acres.)

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The DRV has placed its reliance on the wide extension of relatively simple improvements, such as deeper plowing; small-scale irrigation and flood control projects; pest and insect control; improvement of transportation, storage, and food processing; extension of double-cropping; and reclamation of wasteland. Key features of the government's program to increase the level of technology in agriculture have been the establishment of schools for the training of local Party leaders in agriculture, the development of elementary technical training programs in the rural areas, and the establishment of numerous experimental plots on which improved farming techniques are demonstrated.

Collectivization of agriculture in the USSR was accompanied by a program for mechanization, requiring tremendous changes in the system of agricultural production as well as in the economic institutions of the countryside. Collectivization of agriculture in North Vietnam, on the other hand, has resembled collectivization in Communist China, in that it has been instituted within the traditional framework of increases in irrigation, improvements in application of fertilizer, and reliance on other labor-intensive methods of cultivation. Mechanization of agriculture in the modern sense is still in its infancy and is largely concentrated on state farms,* where it is used mainly in the reclamation of wasteland.

E. Industry

Contrary to the policy adopted in the USSR and Communist China, the short-run policy for industry in North Vietnam has emphasized an increase in output of consumer goods and goods that support agricultural production. This priority for light industry has been an accommodation to limitations in capital plant and to the shortage of technical and managerial skills. The regime has expected its emphasis on light industry to (1) help meet the serious shortage of foodstuffs and consumer goods, (2) provide goods for export, (3) take full advantage of the large annual additions to the labor force, (4) realize the highest output from scarce capital resources, and (5) foster the development of a body of experienced workers who may ultimately acquire the advanced skills needed in heavy industry.

Although continuing to emphasize the development of light industry, the DRV in mid-1959 embarked on a limited program to expand heavy industry. A key objective is the establishment -- with Communist Chinese equipment and technical assistance -- of an

* State farms are large farms directly owned and operated by the state. Workers on state farms are paid wages rather than sharing in the division of the product.

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integrated iron and steel plant in the Thai Nguyen area northwest of Hanoi. The Three Year Plan calls for an expansion of the small machinery, cement, and electric power industries as well as mining. In addition, several new heavy industrial plants are to be built in the metal-processing, chemical, and fertilizer industries, among them a zinc factory at Quang-yen, a petroleum-processing plant at Quang-yen, and a superphosphate plant at Viet Tri.

DRV policy in industry has been directed to a rapid expansion of production in a narrow sector of the economy -- the textile, rice milling, sugar refining, construction materials, electric power, and mining industries. Development of both heavy and light industry has stressed the fuller use of existing capacity and the concentration of production on a small number of products. Quality and diversity of product have been sacrificed to the emphasis on increases in production.

In contrast to the Soviet and Communist Chinese predilection for large-scale integrated industrial plants, emphasis on small-scale, less highly mechanized plant facilities has characterized industrial planning in North Vietnam since 1955. The small plants program has been directed toward the fuller employment of the labor force, the greater use of traditional production processes, a reduction in the transportation costs of raw materials, and a more rapid completion of industrial construction.

The emphasis on small-scale industry has promoted the expansion of local and regional industry, particularly in the mountainous interior areas. In 1957, except for specific mining and forestry activities, almost all of North Vietnam's productive capacity, both agricultural and industrial, was located in the Red River Delta area. In 1959, regional state industry, comprising more than 500 establishments, represented about 12 percent of the total value of state industrial production. ^{4/} A substantial part of investment in industry under the Three Year Plan has been allocated to newly developing industrial areas -- Viet Tri, Thai Nguyen, and Vinh.

IV. Five Year Plan (1961-65)

Only the general outline of North Vietnam's new Five Year Plan (1961-65) has been announced, and no specific commodity targets have been released. It is clear, however, that whereas earlier formulations have stressed the development of agriculture and light industry, the Five Year Plan will shift to the more conventional Communist policy of making heavy industry the focal point for economic development. ^{5/}

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The broad objective of the North Vietnamese Five Year Plan -- rapid increases in industrial production with emphasis on heavy industry -- is identical with that of the Soviet First Five Year Plan (1928-32) and the Chinese First Five Year Plan (1953-57). In submitting materials on the DRV Five Year Plan to the Lao Dong Party Congress in September 1960, Politburo member Le Duan has outlined the new priorities of DRV economic planning:

Socialist industrialization is the central task of the whole period (1961-65). It consists in building a balanced and modern socialist economic structure, coordinating industry with agriculture, and conferring a reasonable priority upon the rational development of heavy industry while striving to develop agriculture and light industry.

Industry -- above all, heavy industry -- plays the leading role in the socialist economy. Only with a modern industry can agriculture and the other economic sectors realize their full development. Inversely, agriculture is the basis of industrial development; the development of agriculture will create the fundamental conditions for a vigorous and speedy promotion of industrial development. 6/

Development of heavy industry is to emphasize (1) the generation of electric power, especially hydroelectric power; (2) the refining of tin, aluminum, antimony, lead, chrome, ferrosilicons, and manganese; and (3) production of medium-size machine tools, electric motors, construction materials, tractors and other farm equipment, and chemical fertilizers. The machine building industry has been singled out as the one key branch in the development of industry.

The priority assigned to heavy industry in the new Five Year Plan is not designed, however, to make North Vietnam economically self-sufficient. Le Thanh Nghi, Minister of Industry, has recently stated:

Heavy industry must be rationally developed, because our country, covering a small area, has not enough necessary raw materials to supply all branches of heavy industry and because our population is small. Furthermore, our country is a member of the socialist camp headed by the Soviet Union, provided with a modern heavy industry, and there is economic cooperation and mutual assistance among the socialist countries. Therefore, we can focus our efforts on the development of the branches which enjoy the most favorable natural and economic conditions in our country. 7/

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The Third National Congress of the Lao Dong (Communist) Party adopted the following resolution on 10 September 1960:

We must build a system of heavy industry the structure and scale of which must be in conformity with our conditions and requirements and with the division of labor and cooperation between our country and the fraternal socialist countries. 8/

The long-range aim of industrial policy in North Vietnam is the development of a limited range of industries and economic integration with the rest of the Sino-Soviet Bloc.

The new policy in industry of combining "the construction of large enterprises with medium-size and small enterprises, the use of modern techniques with rudimentary techniques, the building of new enterprises with the full use of existing ones, and the development of central with local industry" 9/ is practically a restatement of industrial policy in Communist China since the "leap forward" program of 1958. The new emphasis on larger, capital-intensive construction projects will allow North Vietnam to use more efficiently the technical aid furnished by the USSR and China and may simplify the procurement of machinery and equipment for import. At the same time, the continued emphasis on small-scale industrial production at the local level will take advantage of the potential for labor-intensive production and will expand local sources of raw materials for industry and construction.

Second only to the task of building up production in heavy industry under the Five Year Plan is the task of tightening state control over agriculture, handicrafts, and retail trade. Socialization of agriculture is viewed as the "main link" in the whole chain of socialist transformation. It is to be a continuation and consolidation of the pattern of collectivization established during the Three Year Plan; the present agricultural producer cooperatives are to be turned into high-level cooperatives and then merged into larger cooperatives that will embrace all economic activities of each village. 10/ This 1965 goal for agricultural socialization closely resembles the organization of agriculture achieved in Communist China at the end of its First Five Year Plan (1953-57) -- high-level cooperatives organized on a village level, comprising some 200 peasant families.

Recent statements by Party leaders on the development of agriculture in 1961-65 indicate that mechanization of farm work cannot be widely introduced in the next 5 years. 11/ The leadership has quite reasonably questioned the economic benefits of a costly program for modernizing agriculture in a labor-surplus economy where a huge peasant labor force

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is already engaged in intensive methods of cultivation. Following the Chinese Communist example, the North Vietnamese are likely to forego modernization of agriculture until industry can supply the needed machinery at reasonable cost and until the expansion of industry requires the release of peasants to the industrial labor force. Agricultural policy in North Vietnam in 1961-65 will continue to stress an increase in the number of crops per year and increases in crop yields per hectare through relatively simple and inexpensive measures such as small-scale irrigation and flood control projects, better selection of seeds, improved planting techniques, and increased applications of fertilizer.

V. Relative Influence of the USSR and Communist China

It is clear that considerable influence from the USSR and Communist China is exerted on the framing of at least the most important domestic programs and practically all the foreign policies of North Vietnam. At the same time, the DRV's background of independent achievement, its present military strength and political cohesiveness, and its strategic role in the furtherance of Bloc interests enhance DRV status within the Sino-Soviet Bloc and give it a voice in shaping not only its own policies but also those Bloc policies that vitally affect its future. In particular, the DRV appears to have maintained a remarkable degree of independence in the formulation of domestic economic policy, in view of the fact that North Vietnam has continued dependent on Bloc economic assistance for the investment capital crucial to the success of its Three Year Plan (1958-60). The DRV has been relatively free to choose those features of economic planning in the USSR and Communist China that have been most applicable to economic development in North Vietnam.

The prime determinant in the formulation of over-all economic objectives has been North Vietnam's membership in the world Communist movement. Pre-DRV political and economic factors have been increasingly subordinated to those factors arising from Communist ideology. The DRV has adjusted Communist principles of economic development, however, to the realities of existing conditions in North Vietnam. Because of the basic similarity in economic conditions in Communist China and North Vietnam, China has provided the inspiration and guidance for most of North Vietnam's domestic economic policies. The new emphasis of the DRV Five Year Plan (1961-65) on the development of heavy industry and the construction of large-scale, capital-intensive industrial projects is expected to promote a more rapid assimilation of Soviet technology and equipment. It is expected, therefore, that Soviet influence on economic planning in North Vietnam will increase markedly during the next 5 years.

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The infusions of economic aid from the USSR and Communist China have not provided conclusive evidence of the relative influence of these two powers on economic policy in North Vietnam. As of December 1960 the USSR had extended 365 million current US dollars of aid funds compared with 300 million dollars from China; Soviet aid to North Vietnam has been primarily in the form of long-term loans, whereas Chinese aid has consisted primarily of grants (see Table 6*). Whereas the USSR has sent more machinery and equipment in the heavy industrial field, the Chinese have furnished larger quantities of basic materials and manpower. Although the Soviet aid program to North Vietnam has provided smaller amounts of grant funds, fewer technicians,** and a smaller number of complete plant installations than has Chinese economic assistance to North Vietnam, North Vietnamese leaders seem to have been more favorably impressed with the Soviet aid program. The USSR has proved more willing and able to supply the industrial machinery and equipment needed for North Vietnam's industrialization, and Soviet technical advisers, although fewer in number, have generally possessed higher qualifications. [REDACTED]

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North Vietnamese officials -- dissatisfied with the operation of some of China's aid projects -- are increasingly relying on Soviet economic advisers in the formulation of the new DRV Five Year Plan.

The respective roles of Peking and Moscow in guiding and formulating DRV policies appear to have been complementary rather than competitive. The USSR and Communist China have given aid and advice in the areas most appropriate to their capabilities. It appears to be in the interest of North Vietnam, in the long run, to maintain an over-all balance in its relations with both powers so that it can be freer to pursue an independent economic policy. Pressures on North Vietnam to choose sides in the current Sino-Soviet controversy may make it increasingly difficult, however, for North Vietnam to maintain such a balance.

* Table 6 follows on p. 22.

** An estimated 600 to 650 Soviet advisers and technicians -- compared with 3,000 to 5,000 Chinese advisers, technicians, and laborers -- were reportedly working in North Vietnam during 1957. It is believed that these proportions have been maintained through 1960, in spite of a drop of perhaps one-half in absolute numbers. In general, Soviet advisers have been most active in industry, particularly heavy industry, and the Chinese in agriculture, transportation and communications, and military affairs.

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Table 6

North Vietnam: Sino-Soviet Bloc Aid
1953-60

Million Current US Dollars ^{a/}

| | <u>Grants</u> | <u>Credits</u> | <u>Total</u> | <u>Percent</u> |
|-----------------|---------------|----------------|--------------|----------------|
| Communist China | 225 | 75 | 300 | 41.7 |
| USSR | 100 | 265 | 365 | 50.8 |
| East Germany | 15 | | 15 | 2.1 |
| Czechoslovakia | 9 | } 16 | } 37 | } 5.1 |
| Poland | 8 | | | |
| Rumania | 4 | | | |
| Hungary | 2 | | 2 | 0.3 |
| Albania | Negl. | | Negl. | Negl. |
| Bulgaria | Negl. | | Negl. | Negl. |
| Mongolia | Negl. | | Negl. | Negl. |
| Total | <u>363</u> | <u>356</u> | <u>719</u> | <u>100.0</u> |

a. Extensions of economic aid to North Vietnam have been announced in rubles or yuan. Ruble values have been converted to US dollars at the official rate of exchange of 4 rubles to US \$1 prevailing at the time of the aid agreements; yuan values have been converted at the rate of 1 yuan to 1 ruble.

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APPENDIX A

METHODOLOGY

This report on economic policy in North Vietnam was prepared mainly from DRV government reports on annual economic plans. Official statements on economic planning and policy have been reported in radio-broadcasts, newspapers, and periodicals.

Statistical data on economic development in 1953-60 have been presented in Tables 1 through 6 as background information. Most of the statistical data used are official claims, which have been checked for internal consistency. The dearth of Western observers in North Vietnam who could compare official statements with on-the-spot observations makes it difficult to evaluate official claims. On the basis of a comparison with the Chinese Communist economy at a similar stage of development, however, these statistics may be tentatively accepted as reasonable and accurate. No unified series of statistical data are available from North Vietnamese sources on gross domestic investment, farm home consumption, national income, or gross national product (GNP). The methodology for estimating these categories is presented below.

Gross domestic investment (Table 3*) was derived by summing (1) official statistics for state investment in fixed assets; (2) estimates of stockpiling of construction materials and equipment, investment in operating inventories, and general geological prospecting; and (3) estimates of nonstate investment in agriculture. It was assumed, in estimating the second category, that 80 percent of budgeted expenditures for economic construction over and above that portion invested in fixed assets represents increases in inventories and other miscellaneous investment. Estimates for the third category -- nonstate investment in agriculture -- represent a constant 2.2 percent of gross value of agricultural production.

Consumption estimates in Table 2** and Table 5*** were derived by summing (1) official statistics for retail sales, excluding estimated sales of consumer goods to government and business organizations and estimated sales of production materials to farmers, (2) estimates of farm home consumption, and (3) estimates of consumer services. Estimates of farm home consumption were computed on the basis of data on

* P. 11, above.
 ** P. 10, above.
 *** P. 15, above.

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aggregate consumption; the gross value of agricultural production; and the allocation of farm output between farm home consumption, marketed farm output, and production materials. Consumer services were estimated to represent about 15 percent of total consumption.

Estimates of GNP in Table 2* were derived by adding (1) estimates of consumption, (2) estimates of gross domestic investment, (3) official statistics on expenditures on government, (4) official statistics on the net export of goods and services. Estimates of total available resources in Table 5** represent estimates of GNP augmented by the net inflow of goods and services.

Official North Vietnamese statistics on national income, budget expenditures, state investment, and retail sales are released in current prices. Estimates of the percentage distribution of GNP in Table 2* have been computed, therefore, in current prices. The resulting index of GNP for the period 1955-59, however, greatly overstates the real increase in GNP for 1956, when prices were considerably higher than in the other 4 years. Inasmuch as prices in 1956 were higher than those in 1955 and 1957, GNP for 1957 in current prices showed a slight decline compared with 1956. GNP for 1957 in constant prices, however, was greater than the corresponding data for 1956. Accordingly, rough estimates of GNP in constant prices were drawn up on the basis of North Vietnamese data on gross value of production in constant prices, and an index of GNP in constant prices was then computed from these estimates and incorporated as the final line in Table 2.*

* P. 10, above.

** P. 15, above.

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