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# The Entrepreneurial Facets as Precursor to Vietnam's Economic Renovation in 1986

Vuong Quan Hoang<sup>1</sup>, Dam Van Nhue<sup>2</sup>, Daniel van Houtte<sup>3</sup> and Tran Tri Dung<sup>4</sup>

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*This research, aims to develop a conceptual framework to assess the entrepreneurial properties of the Vietnamese reform, known as Doi Moi, even before the kickoff of Doi Moi policy itself. The authors argue that unlike many other scholars' assertion, economic crisis and harsh realities were neither necessary nor sufficient conditions for the reform to take place, but the entrepreneurial elements and undertaking were, at least for the case of Vietnam's reform. Entrepreneurial process, on the one hand, sought structural changes and kicked off innovation, and on the other hand, its induced outcome further invited changes and associated opportunities. The paper also concludes that an assessment of possibility for the next stage of Doi Moi should take into account the entrepreneurial factors of the economy and predict the emergence of new entrepreneurial facets in the next phase of economic development.*

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## Introduction

This paper examines the facets of entrepreneurial process in the sociocultural and economic context of Vietnam before the kickoff of an extensive renovation of Vietnam's economy—usually referred to as *Doi Moi*—in 1986. In this analysis, we focus on several important aspects of the process that leads to the starting point of the full-blown version of *Doi Moi* that have been obscured due to the bias of the research community, which have mostly discussed the post-*Doi Moi* economic phenomena and normative predictive consequences. By taking several steps back into the past, the analysis would like to stitch together pieces of understandings from (1) socioeconomic problems of Vietnam before 1986; (2) views and arguments from international and national scholars on the issues; (3) theoretical and practical understandings on entrepreneurial process with an emphasis on Vietnam's situation; and (4) Post-*Doi Moi* economic realities that could help reinforce our argument on the role of entrepreneurship in Vietnam's economic transition, not just for the past 25 years of reform in Vietnam, but also the renewal of such process in the near future, or as some put it, *Doi Moi II*.

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<sup>1</sup> Founding Partner, Economist, Dan Houtte, Vuong & Partners Ltd. (DHVP Research & Consultancy) and Centre Emile Bernheim, Universite Libre de Bruxelles; ULB CP145/01 21 F D Roosevelt, Brussels B-1050. E-mail: qvuong@ulb.ac.be

<sup>2</sup> Faculty Member, National Economics University (NEU), NEU Campus, Giai Phong Road, Hanoi, Vietnam. E-mail: dhvp.economics@gmail.com

<sup>3</sup> Program Manager, Solvay-NEU Masters' in Management Collaborative Program, NEU Campus, Hanoi, Vietnam. E-mail: daniel.vanhoutte@gmail.com

<sup>4</sup> Co-Founder, Managing Partner, Dan Houtte, Vuong & Partners Ltd. DHVP (Economic Research and Business/Finance Consulting Firm) and The Vietnamese Initiative for Foods and Agricultural Policy (VIFAP), 49 Nguyen Hong Street, Hanoi, Vietnam; and is the corresponding author. E-mail: tran@vietnamica.net

The primary aim of this paper is to shed some light on how the transformation in the minds of people who made the history happen had really taken place at some point of history by itself. Our hypothesis is that although the contemporaneous economic reform of Vietnam was formally dated in the 6<sup>th</sup> Congress of the Communist Party of Vietnam in December 1986, the outcome of that hallmark sociopolitical event itself was an achievement of a long-standing theoretical and also ideological struggle between economic thoughts existing inside the elite circle. This struggle was partially solved in this congress due to the economic realities of the economy, while the economy itself continued to move due to the continuous works, spending, investing and hoping of millions of people in the country.

### **Vietnam's Socioeconomic Problems Before 1986**

The reform process itself could be divided into three substantive periods: (1) realizing the economic problems with the soviet-styled centrally planned model, 1976-79; (2) initial experiments of reality-based economic policy adjustment, with some institutional rigidity being relaxed, 1980-86; (3) the institutionalizing of an extensive economic renovation package nationwide, *Doi Moi*, 1987 to date. The main features of these stages have been documented in many scholarly works by economic historians such as Vu (1994) or Dang (2005a). We now take a brief look at them.

Before *Doi Moi*, the model of command economy had been gradually institutionalized in North Vietnam since the mid-1950s, bearing a number of salient traits as described below.

All major economic activities were predetermined in plans set out by the State. These could only take place in line with a system of production plans, financing plans, price plans and goods distribution plans. Plans were supposed to be prepared and coordinated in a 'socialist scientific' manner; thus absolute conformity to state's predefined plans was a standard, and not a matter of discussion or debate. Fulfilling plans ordered by the state was not only a major economic target for enterprises and cooperatives, but also a political mandate the bosses of these economic entities wished to accomplish for their promotion in the future.

The national economy was considered safe and sound if it consisted of mainly the state-run enterprises and collectivized economic entities, such as agricultural, credit and small-scale manufacturing cooperatives. In this scheme and view, larger-scale private enterprises were not welcomed, and should be 'transformed' into an integral part of the collective or state-owned sectors.

The market mechanism did exist but its operation was limited to a fairly minor and uninvested economic sector of small-scale private enterprises and households. The sector at most consisted of small operations in agricultural production, handicraft and basic consumer goods manufacturing and retail business. The state enforced the limit to which the private economic sector could expand also by controlling the trade and distribution of capital goods, including materials for large-scale manufacturing activities, machinery maintenance, fuels, construction materials, and spare parts, without which private manufacturers were unable to plan longer-term business operations.

Foreign trade and foreign economic cooperations were solely determined and monopolized by state-owned enterprises, in many cases under austerity of the state. International economic relationships were a monopolistic function assumed by the state.

Financial subsidies, in various forms such as 'soft' loans,<sup>1</sup> low costs of production materials, the writeoff of losses, expropriation of the state budget, foreign debt repayments, etc., were found common in almost all economic enterprises owned by the state.

Foreign aids also started to decline in the last two years of the 1970s; this trend adversely affected the state's budget. Budget deficits, economic inefficiency and the hardship that Vietnamese people faced in this period all together unveiled serious economic problems that the *modus operandi* of a centrally planned model intrinsically contained. The situation demanded immediate solutions to (1) get the national economy out of the state of stagnation; and (2) prepare the foundations for modernizing the economy toward the aim of industrialization and improved living standards.

Clearly the 1976-80 national economic development plans failed to deliver the outcome that the newly reunified Vietnam had expected. By 1980—the final year of this Five-Year Plan—food production reached only less than 70% of the set target, while other major industrial output also failed to attain the medium-term goals, namely, coal 52%, power 72%, textile 39% and paper 37%.

The big gap between ambitious targets set by the state in the 4<sup>th</sup> National Congress of the Communist Party and the poor performance implies that the five-year targets had been over-optimistic and so ambitious. The economy had not been sufficiently prepared in terms of both economic conditions and managerial capabilities to deliver the expected outcome and quality of economic performance. Secondly, failure to live up to the state's expectation unveiled the truth that the adoption of Soviet-styled command economy model was unable to eliminate weaknesses of an undeveloped state of the Vietnamese economy, which had been seriously damaged during almost 30 years of warfares. In fact, the poor performance over this five-year plan suggested fundamental problems with medium-range economic plans, namely, motivation of the workers, failure of the rigid price and subsidy system, and production plans from the central to the local levels, and inefficiency of the economic principles adopted by the centrally planned mode of management at national level.

These serious problems drew urgent attentions of the state and the CPV leaders and led to some immediate addressing during the 6<sup>th</sup> Plenary Session of the 4<sup>th</sup> Tenure of the Communist Party of Vietnam, Central Committee (CPVCC) in September 1979.<sup>2</sup> The most important changes adopted by this Plenary Session were: (a) Experimental adjustments such as granting some freedom in business management of state-run enterprises, and loosening the central management and interventions in the daily operations of enterprises; (b) Temporary

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<sup>1</sup> 'Soft' loans were credits that were decided by economic planners in charge and usually bearing very low—or even virtually zero—interest.

<sup>2</sup> CPV and CPVCC are acronyms for the Communist Party of Vietnam and the Communist Party of Vietnam's Central Committee, respectively. The CPVCC is regarded as the highest political body that assumes full power in defining the strategy and determining the path of development of Vietnam.

halt on overemphasizing the superior role of large-scale heavy industrial operations, which had consumed a large proportion of natural resources, finances and human capital; and (c) Applying the quota-threshold contractual arrangement with farmers.

These new relaxations of previously adopted principles of the centrally planned economic management were later reaffirmed by the 1981-86 plan, at the 5<sup>th</sup> CPVCC Tenure in 1981, under the leadership of the CPVCC General Secretary Le Duan. More freedom to the circulation and exchange of commodities was permitted, especially in terms of correcting the flawed price system, having two major changes of price levels in October 1981 and October 1985. Given the improved freedom in doing business, enterprises now could purchase and exchange production materials and productive capital goods, such as machinery and equipment.

Monopoly in the area of foreign trade was also relaxed with more import and export enterprises now being established and made functional at both central and local levels.

These changes were indeed installing *de facto* market-oriented economic principles within the system of state-run enterprises, which Dam and Le (1982) identified as ‘fence-breaking phenomenon’. Market needs proved to be a *sine qua non* to any production plans, in both industrial and agricultural operations, which aimed at improving the overall level of economic efficiency, with first and foremost objective of improving the living conditions of workers and farmers. A system of markets for consumer goods, capital goods and agricultural commodities gradually emerged from inside of the rigid planned system. The existence of markets was then reinforced with the re-activation and active participation of many households and small-scale privately held enterprises, who not only increased the capacity of supplying consumer goods, basic services and agro-products to the economy in expansionary mode of demands, but also creating more pressure for the state-run system to directly compete in pecuniary terms, i.e., commercial viability and economic efficiency.

The chances served as means for reaching the ends of reducing serious problem of state budget deficits, which accrued over many years, and overcoming the negative impacts of the period 1979-80 by securing higher productive capability and growth rate.

However, these changes were far from becoming a genuine scheme of extensive economic renovation package like what the Vietnamese economy has implemented since the 6<sup>th</sup> National Congress of the CPV in December, 1986. Many major weaknesses and rigidity continued to remain in this five-year plan, 1981-86, namely a rigid price system, subsidizing schemes favoring the state-run enterprises, limited degree of market development, serious problems of recurring macroeconomic imbalances (with presence of underemployment, high inflation, permanent inadequacy of long-term credit and foreign exchange, heavy reliance on foreign aids, and so on).

The reform era of Vietnam’s national economy formally started with the 6<sup>th</sup> Congress of the CPVCC in 1986, which endorsed an utter shift to a market-oriented *modus operandi* of the socioeconomic system and political leadership’s determination to gradually replace the

centrally planned model with market principles. The key contents laid out by this new direction include:

- Development of a multi-sectoral economy, which formalized the existence of the private-sector economy, private enterprises, and the markets.
- Determination of the nation's economic structure by emphasizing the long-term goals to (a) further develop an agricultural economy; (b) generate sufficient supplies of consumer goods; and (c) eliminate destabilizing factors to the overall economic balance at the national level, such as inflation, deficit, ineffective investment, and malnutrition.
- Open-door policy toward foreign investments, international economic cooperation and foreign trade liberalization.

Readers could consult Vu (1994, pp. 14-23) for a more detailed account of information on early steps of Vietnam's economic reform in 1986. In Vu (1994), economic and political isolation of Vietnam in the pre-*Doi Moi* period, especially 1981-85, was explained as a main factor that led the author to the conclusion that Vietnam's *Doi Moi* had a different approach and determination than the Gorbachev's *perestroika* (перестройка) and Deng Xiaoping's reform and opening (改革開放)—or formally, “Socialist market economy with Chinese characteristics”—this monograph, the author explained the isolation of Vietnam, economically and politically led to the determination to implement the socialist-oriented market economy. However, we will later prove that the genuine factor behind Vietnam's economic renovation was the gradually installed entrepreneurial foundations within the populace, which had never been suffocated and always remained in even the high years of centrally planned principles in Vietnam. Entrepreneurs and entrepreneurial spirits existed in the society and later appeared in the CPVCC reformists and quickly emerged to become a real economic force of the economy. The dire straits of the Vietnamese economy before and after *Doi Moi*'s starting point was the context that helped ferment the reform concept and shape the CPV leadership's determination of Vietnam's extensive reform package, but was not the sole driver of it.

### **Food Security Problems**

In recent history, North Vietnam (People's Democratic Republic of Vietnam, the predecessor of today's Socialist Republic of Vietnam) faced a serious shortage of staple goods, especially basic foods and foodstuff for the population both during the war period and after reunification in 1975.

In the second five-year economic plan, 1976-80, agricultural production grew modestly at an average of 1.9% per year, with the average annual yield being approximately 13.4 million MT for this period. The economy saw a jump in annual agricultural production at 4.9% annual increase in the third economic plan, from 1981 to 1985, when the nation's annual production stood at 17 million tons of rice (and rice equivalent).

Industrial output was growing only 0.6% per year in the period 1976-80, and 9.5% in the next period, 1981-85, according the official document by the CPVCC, presented at the 6<sup>th</sup> National Party Congress in 1986 (CPVCC, 2010a, p. 12).

Despite the impressive improvement during the third five-year economic plan, the CPVCC document (2010a) continued to view the economic hardship Vietnam had faced as serious. Although national domestic product grew over time, the growth rate was slow and at a very modest scale compared to the country's endowment of natural resources, human capital as well as the efforts made by the whole population. In the CPVCC's self-assessment, economic progresses made by the two five-year economic plans were unsatisfactory since they had not been able to improve the living standards of the people, let alone the target of accumulating physical and capital conditions for industrializing the economy and reinforcing military strengths.

Production efficiency was reported to stand at a very low level, implying low investment return in the whole economy. On average, state-run enterprises operated at roughly only 50% of their designed capacity. Work efficiency at state-run enterprises was low and on downward trend; quality of basic goods was of very low standard.

Economic inefficiency seen all over the economy induced a large-scale stagnation and financial hardship for the majority of Vietnamese people before *Doi Moi*.

Vietnam's natural resources were not utilized effectively and had been destroyed and used in a wasteful manner for a long time, especially farming land and forests, leading to a vast destruction of the ecological environment. The impacts of the centrally planned economic principles could be understood by examining the land reform 1953-56 in North Vietnam, and then collectivization of agricultural households and farms, which was happening many years before *Doi Moi*. While the land reform in Vietnam was strongly inspired by the Chinese land reform, the collectivization of agricultural farms in rural areas was viewed by the Communist leaders of both the USSR and China then as a critical phase of transition to socialism in the rural areas. 'Land to the tiller' policy was the main direction for the land reform to go in the rural areas of both Vietnam and the neighboring China. The historical account of land reform statistics showed that the process was reportedly finished in a relatively short period of time in both countries.

According to Moise (1976), land reforms occurred in waves, starting with the experimental one from December 1953 to March 1954, before the defeat of French troops in Dien Bien Phu. The next five waves were: (1) May 1954 to September 1954; (2) October 1954 to January 1955; (3) February 1955 to June 1955; (4) July 1955 to December 1955; and (5) December 1955 to July 1956. The speed of land reform increased toward the end of the land reform program. The fifth wave alone covered 1,720 villages in North Vietnam, counting a population of 6.142 million people, within only 7 months. Over the 2.5 years of land reform, 3,314 villages redistributed land, mostly by shifting farm lands from the landlords, rich farmers to very poor and landless families. The land reform affected the livelihood of roughly 10.51 million people living in the rural areas of North Vietnam.

With respect to the collectivizing scheme, by 1960, official statistics showed that around 86% of North Vietnam's rural households became agricultural cooperative members; of them the majority belonged to the Type-1 Cooperative, whose members retained rights to their

lands, *prima facie*. It took another nine years for North Vietnam to increase the ratio of cooperative membership among rural households to 92%.

Upon the completion of collectivization, the state held a tight grip over the agro-product market. The state required that collectives buy inputs and consumer goods from the state-authorized distribution channels, often times located in rural communes, and sell crops at state-governed prices. However, the free, and even 'black', markets were not completely banned and did exist over the phases of collectivization in Vietnam's rural areas. At times, flexibility was adopted by some provincial party cell leaders, such as the case of party secretary of Vinh Phuc Province—Kim Ngoc—in the period 1966-68, when the concept of contractual quota system was introduced with success and improved efficiency, so that farmers responded in a positive way to these deviation from the institutional rigidity imposed by the rural cooperatives. This way of less strict and not extreme collectivization was significantly different from the Chinese ideology of transforming the rural area, where the Great Leap Forward of 1958-60 carried collectivization to extremes by expanding the size of rural cooperative to one hundred villages and mobilizing all sources of labor—including female and child labor—to speed up the 'transformation' for Mao Zedong's utopian socialism of universal prosperity and endless happiness. The flexibility and gradualism in collectivization of Vietnam somewhat helped avoid a tragic shortage of food staples, which did occur in China under Mao's policies and led to famine that costed China nearly 40 million lives by the end of the Great Leap Forward.

In North Vietnam, economic conditions for most rural people also improved by the early 1960s. The production of food staples per capita (oftentimes, as an equivalent measure of rice) stood at 318 kg in 1961 (compared to 223 kg in 1939); and this level was no less than per capita production of China's agriculture.

Yields in the North continued to improve until 1974, reaching 2.4 MT/ha, representing a 41% increase compared to the start of land reform, 1955. The increase of yield level was due to more triple cropping, introduction of new varieties of rice, fertilizers and pesticides, together with improved irrigation networks.

However, the progress in rural yields could not stop deterioration of living standards from worsening since the early 1960s. The collective management modality proved to barely cope with the rising demand of food staples for population growth and military use. In 1955, the starting year of 'land to the tiller', yield had already reached 243 kg per capita. However, production fell to 242 kg by 1974. Actual food consumption per capita also dropped significantly between 1965 and the late 1970s, and it started increasing again only during the 1980s, as some new policies were introduced. In 1989, Vietnam surprisingly started exporting rice. And as the world's second-largest rice exporter, in 2010, the nation's rice yield, on average, reached about 7 MT/ha.

In rural areas, when yield and per capita consumption of foods decreased, farmers started shifting more collective production back to households—in the so-called '5% land'<sup>3</sup>—and

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<sup>3</sup> The notion of '5% land' referred to a percentage of farm land in which farmers often had higher freedom in determining what to grow and how to use their crop output.

looking at market as solutions for improving their living standards. In the Mekong delta, for instance, by 1976, around 13,000 cooperatives had been established. However, by 1980, only 3,700 remained, most of them performed poorly (Kerkvliet and Selden, 1998). Clearly, it was not because of the farmers' low productivity or lack of experience that had led to the serious problem of food security in Vietnam for a long period of time. In fact, as Timmer (2011) pointed out failures in making appropriate agricultural production policy, inexistence of efficient trading and distribution system and the absence of flexible price markets have led to poor performance in the agricultural sector, not just in Vietnam but also in other regions of the world.

### **Vietnamese People's Living Conditions Before 1986**

The economic problems touched on the lives of millions of farmers and rural households as sketched above. However, people living in urban areas also faced tragic hardship, especially after the war against the United States and the Saigon Regime (South Vietnam). The official document of the CPVCC 6<sup>th</sup> National Congress reported that everyday life of the people, particularly state employee, was faced with paramount difficulty. Unemployment and underemployment were common. Many basic needs of the working people were not satisfied. Supplies of consumer goods, medicines, housing were not adequate. Vietnam continued to be a very poor country at low level of economic development in the world (CPVCC, 2010a).

Low economic efficiency, misallocation of resources and inappropriate policies implemented at various administrative agencies and levels of government (central and local) also contributed to amplify the economic hardship faced by the people, of which the choking of the national distribution and trade system proved to be the one that was persistent and hard to solve.

The cumbersome circulation of goods, convoluted distribution system, high inflation adversely affected the life of the whole society as well as hindered the economic development of the country. Before 1986, foods and consumer goods stamps had been very common. The idea of food stamps was to keep a fixed per capita consumption at subsidized level of price, so that basic needs could be satisfied. Nonetheless, this system created further problems especially when the economy continued to lack large amounts of consumer goods and food staples.

Party Gen. Secretary Le Duan in a meeting of the Party Secretariat on May 29, 1967 insisted that "[We] have to eliminate free market on foods, and the State will take charge of supplying more foods to people who previously had to purchase foods on free markets... The State will have to use their labor, organize [them] to produce more products for the society... We should decisively eliminate the free market of foods... For the life of people that we eliminate the free market of foods..." (Dang, 2005a, pp. 127-134). In fact, the introduction of more administrative measures to stop the functioning of foods market caused local shortage of foods, price differences inducing smuggling and loss of state's revenues, and a chaotic situation where economic disorders were omnipresent.

The Late General Secretary Truong Chinh reported that most people in the cities had to find ways out of the poverty and chronic scarcity of consumer goods, foods, housing means, and medicines for everyday life of the people by selling all types of stamps to private traders. In his description, the state failed to control the economy, failed to stop embezzlement and corruption from happening, and failed to channel the production materials to where they were needed the most.

The shortage of basic consumer goods had its root in early economic policies that favored heavy industrial and fast-paced industrialization, starting in 1958. According to Duiker (1977) the government was caught in a vicious circle: "Agricultural productivity would not significantly increase until industrialization permitted a significant degree of mechanization and other technological improvements in the countryside. But industrialization itself could not take place so long as the agricultural sector was too backward to release labor, capital, and resources to the urban sector of the economy."

However, in terms of economic development policies, Vietnam was regarded as both communist and nationalist by many western scholars (Benjamin and Kautsky, 1968). The improvement in living conditions had been one of the most important but most elusive goals for Vietnam's government before *Doi Moi*, especially from the late 1970s through the mid-1980s. Clearly, the central government had constantly been under tremendous pressure to address social problems such as rural and urban unemployment, vocational education, shortage of housing means, public healthcare and the control of epidemics, social policies for disabled, etc.

A year before the kickoff of *Doi Moi*, Vo Van Kiet, then Chairman of the State Planning Committee (the predecessor of today's Ministry of Planning and Investment), reported that due to acute socioeconomic problems that had been arising from 1981 to 1985, the living standards in Vietnam were deteriorating. And the problem was further exacerbated with an added pressure of unemployment. Only in the 1981-85 period, about 7 million people reached work age, but only 15% of them found jobs. The majority of jobless young people were unskilled, varying from one locality to another, but ranging from 80 to 95%.

When inflation soared, making the local currency lose its purchasing power, the majority of Vietnamese people exercised austerity, with a clear indication of highly deficient diet in protein. An average male worker received foods providing only 1,940 kcal per day, only 3/4 of the minimum required. It was estimated that 80% of monthly wage was spent on foods in the mid-1980s.

After the *Gia-Luong-Tien* reform (the 'Price-Wage-Money' adjustment program) had been initiated in Vietnam in September 1985, Vo Van Kiet accepted the fact that this new wage and allowance system devised to improve the living conditions of state employees and the armed forces failed to live up to both state leaders and employees' expectations. A widespread discontent among the population toward the efficiency of economic policies employed by the government rang the alarming bell of social instability and challenging the continued adoption of those incomplete changes that did more harm than good to living

standards of the majority of people. Also, pressures caused by worsening key economic performance and high inflation as discussed below amounted to the level that would require a thorough and well thought out solution for the Vietnamese economy on the brink of collapse.

### **The Pressures of Macroeconomic Imbalances and Inflation**

Economic pressures caused by macroeconomic imbalances became increasingly apparent in the period 1976-1985; most of them were unprecedented. In Tran (2007), the CPVCC admitted that big economic imbalances existed in the economy, between supply and demand of foods, foodstuffs, consumer goods, fuel, transportation, large budget deficits, and trade deficits, and most of the problems were not addressed adequately. Many problems even worsened over time.

In a draft of the Political Report for the 6<sup>th</sup> Congress, dated July 10, 1986 (about five months before the Congress), Gen. Secretary Truong Chinh identified a serious problem that: “We missed the precious opportunity... when the Soviet Union granted us generous aids of tens of billions of rubles, but given our bureaucratic, centrally planned mechanism... we had gradually used up this money by withdrawing hundreds of rubles each year for society’s spending, subsidies and scattered construction sites...”

An inevitable consequence is productive forces were not developed and inequality in terms of income distribution prevailed in the national economic system. Money (the Vietnamese *Dong*, or VND) printing was common, especially when the two-tiered banking system was not established, and the central bank also acted as a commercial bank to a certain extent. Money in circulation by the end of 1984 was 830% that of the beginning of 1983 (Tran, 2007, p. 628).

High inflation put more pressure on macroeconomic performance. In September 1985, the government had to issue new money, replacing the old paper notes, and devalued the currency by ten times. Inflation was however kept flying higher, especially from December 1985, so was budget deficit. On the other hand, living quality of state employees and members of the armed forces declined at a fast pace. In 1986, inflation accelerated with the highest annualized monthly inflation peaking at 775%, and an annual average reaching over 440%. In fact, IMF studies showed that per capita income of Vietnamese people averaged 4.2% of an American in 1980, but quickly dropped to 1.4% in 1985, while the current-price GDP increased from 5.7 billion of (new) VND to approximately VND 100.5 bill, showing how serious the inflation phenomenon really was for this particular five-year period.<sup>4</sup>

Given problematic economic structure and intrinsic imbalances (especially in resource allocations and prioritized economic policies favoring the state-own economic sector—the so-called national economic pillars), high inflation has proved to be a recurring problem, not only before *Doi Moi*, but also many decades after this economic renovation (Vuong, 2010).

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<sup>4</sup> See <http://www.imf.org/external/country/VNM/index.htm> for a detailed account of historical data.

## Precursor to a Widespread Economic Crisis

For a long period of time, the economy of Vietnam grew at a pace much lower than its potential and consumed too much resource. High measures of ICOR were not uncommon in Vietnam's recent economic course, with ICOR being computed at 9.0 in 1976, 7.7 in 1978, but 11.1 in 1982, showing that the economy used too much resource for a unit of growth generated (Pham and Vuong, 2009, p. 93).

The first sign as a precursor to economic crisis was that the society's trust on the leadership of the Communist Party declined significantly. The efficiency of the state apparatus in economic management also vanished. Normal people could not build basic safety net when Party Gen. Secretary Truong Chinh gave an indicative statistic that monthly salary of workers was only enough for 1/3 of a month. This gives us an implication that the average working person relied on extra jobs for financing her/his basic need, and these extra jobs provided her/him with over 66% of income. This economic independence was the first signal that the current economic model could not generate sufficient output to satisfy the hardworking people.

The late prime minister Vo Van Kiet in his letter to Pham Van Dong and Truong Chinh, dated September 4, 1985, said: "Money in the hand of working people was relatively small, the majority of households had little money. This fact gave us a thought-provoking conclusion on quality of life of the laborers... Another discovery was that most of money was in the hand of (State) enterprises, corporations and local governments. This showed both distrust toward banking operations, and lack of disciplines in management within the State sector, which should be alarming, and 'secretive' economic operations of state economic units were quite sizable..."

In fact, in a scholarly work such as Cima (1989), it was well documented that shrinking income and living standards had been well perceived by not only Vietnamese people but also international community. Annual per capita income of Vietnamese people ranged from US\$180 to 300, while unemployment rate stood at a high level, 20 to 30%, let alone the very popular phenomenon of underemployment within state-run enterprises and the rural economy. With the 'least developed country' label, Vietnam was among very few economies that experienced a substantial period of economic recession although moving on to a postwar reconstruction. The period contained all symbols and causes of a thorough economic crisis: low productivity, stagnant distribution system, misallocation and underutilization of resources, macro imbalances, and ill-informed economic decisions at the top level of decisionmakers.

Cima (1989) also documented another signal of crisis, not limited to economic problem, which was the social unrest within the rural areas especially regarding land redistribution policy when many state cooperatives were cut back in size and disputes over original ownership of lands became increasingly widespread in the mid-1980s.

Although Vietnam was a small economy in the 1980s, with GDP in 1984 standing at an equivalent of US\$18 bn (official exchange rate of VND 12 to US\$1.0)—before *Doi Moi* taking

place—it was the world’s third largest communist country, only below the USSR and China, and the most densely populated country. Vietnam’s population in 1985 was more than 60 million, and the average density of nearly 180 persons per sq. km, substantially higher than the second densely populated East Germany (the Democratic Republic of Germany) with 154 per sq. km. However, the growth rate of population in Vietnam was much higher at that time, 2.5% per year, causing a lot of problems on food security and social stability when the agricultural policies and economic mechanism could not function as expected to generate sufficient supplies of food staples for the population.

We will continue to examine the Vietnamese agricultural economy to see that agriculture is the single most important economic pillar of the nation, and how entrepreneur-typed economic initiative had emerged from within the agricultural sector regardless of investment and state policies provided by the political circle. In short, the agricultural people had to implement their own plan in finding ways out of poverty and declining living standards, right before *Doi Moi*. These constituted an important part of the *Doi Moi* itself, the part that was not adequately stressed when viewing the process of changes that would later on lead to an extensive package of renovation throughout the economy.

We noted that in 1985, major agricultural produces of Vietnam were only grains, with total production of 18.2 million MT of rice, 434,000 tons of sugar, 6,000 tons of coffee and 52,000 tons of rubber. With such low yield and total production output—compared to today’s statistic—still agriculture represented approximately 51% of national income for the year.

While agricultural production could be just sufficient for domestic use, the economy risked falling into a total crisis due to increasing trade deficits. In the year of *Doi Moi*, 1986, total export receipt was roughly US\$740 mn, most of them agricultural products (rubber, rice, tea, coffee, wood and aqua products) while imports totaled US\$2.5 bn. Total external debt was estimated at US\$7.7 bn, most of which came from the other communist countries. The crisis period right before *Doi Moi* saw an increase in foreign debt level from US\$3 bn to 6 bn, with a major part of indebtedness used to finance the trade deficit, with the trade deficit with the USSR alone growing quickly from US\$224 mn in 1976 to US\$1.5 bn in 1986 (Mortimer, 1976).

## **The Entrepreneurial Foundations**

In the previous section, we described the economic context of Vietnam on the verge of a total economic collapse. Serious economic problems, which had arisen even before this 1976-86 period, could not be addressed by various adjustments in economic policies implemented by the state and the communist party. The fact that *Doi Moi* only followed a bunch of inefficient introductions of new policy adjustments while harsh realities of economic life remained in Vietnam, led many researchers to an almost agreed-on belief that chaotic economic settings, shrinking living conditions and the political effort to get the country out of the worsening crisis were to be the shadowing reasons for *Doi Moi* policy to be devised and implemented since 1987. Another point of view from the more politically inclined scholars is that *Doi Moi* just repeated the Soviet Union’s *perestroika* and the Chinese reform and open-door policy.

This section of the paper will discuss how these views could plunge into a *post hoc ergo propter hoc* fallacy.

We are also using the entrepreneurial framework of analysis to prove that entrepreneurial foundations—gradually established over the course of economic development in the contemporary Vietnam—have played a pivotal role in shaping the path to *Doi Moi* in Vietnam out of the economic settings, goals, failures and hardships.

### **On the *Post Hoc Ergo Propter Hoc* Fallacy**

Chronologically speaking, many important changes of the economic structure in both Chinese and Vietnamese economies happened almost at the same time. In fact, many top-ranked communist leaders in Vietnam, such as President Ho Chi Minh and the second-high figure in the land reform time Party Gen. Secretary Truong Chinh, had been inspired by the actual implementation of socialist ideology in China. Oftentimes, following the socialist concepts of building the national economy, China and Vietnam shared the path running from land reform (the 1955-58 period), through building socialist cooperatives (1958-61), and collectivization and joint public-private industrial enterprises (1961-75). Both countries ended up with the idea of introducing market principles into the setting of a state-controlled socialist economy (China in 1978 and Vietnam 1981), and have gradually abandoned the centrally planned modality. In brief, both communist countries have had similarity in pursuing own goals of economic development.

However, we could identify here several key differences that distinguish the cause and effect of these economic policies implemented in China and Vietnam. We take the entrepreneurial approach of looking at the original ideas and actual implementations of these policies to shed some light on these differences.

China and Vietnam had different motivations in making major social and economic changes throughout the contemporary history. Both starting with the 'land to the tiller' land reform in the 1955-57 period, one could consider the land reform in China a prelude to the much more heaven-storming Great Leap Forward (1958-61). The land reform in Vietnam was already a major hallmark of fulfilling the mission that the Vietnamese communist party claimed to undertake for the Vietnamese people, with a majority of them being farmers. It is noteworthy that during the period of land reforms, collectivization and socialist industrialization, China was in peace and Vietnam still faced the wars against French colonialists (until 1954) and Saigon regime and the US armed force (escalating since 1965). The reform in rural areas of Vietnam did bring about yield increase, as we have discussed, but that was not the case for China, where the death toll of the Great Leap Forward was estimated at over 37.5 million due to declining yield and cultivating areas. While the need for land reform in Vietnam was to satisfy the majority of farmers and fulfill the promise of giving a more equal social status for farmers, it was the fast-track implementation of socialism without going through the capitalistic development stage that had been the underpinning idea in China. Also the competition between China and the Soviet Union was behind the hasty implementation of higher cooperatives movement in China; in North Vietnam the looming war with saigon

regime (Republic of Vietnam) and the US armed forces was part of the major concern of developing the rural economy with higher economic efficiency. In brief, even without similar policies and implementation in the neighboring China, one could predict that the land reform and collectivization would still happen in North Vietnam, given the sociopolitical context and economic pursuits.

In fact, the common perception with full account of historical evidences now show that China under Mao Zedong's leadership had for long pursued the political ambition of becoming the leader of the communist world. China was even providing military, food and financial aids to Vietnam in the early days of the independent Vietnam, especially after 1954. As a donor, China may have also wished to see its own version of socialism being implemented in Vietnam. However, the Vietnamese version of great leap forward never really happened. We could also see that given the colossal difference in the advancedness of the economic development between the Soviet Union and Vietnam, there was no ground to conclude that the policy implementation in Vietnam followed the track of the USSR.

An innovation during the transition of the agricultural policy in both China and Vietnam was the introduction of the quota-threshold contractual system of purchasing agricultural produces from farmers, usually known as *khoan*. This system represented a significant departure from the ideology on state's tight grip on the food security in Vietnam since it recognized the right of farming households to retain their agricultural products after fulfilling the responsibility of contributing a part of their production to the state budget, either in forms of taxes or other obligation, mostly in kind. It had been a long-standing fight to separate between the pecuniary right of North Vietnam's farmers and the powerful control of the state over the supply of foods (most staple foods) to different sectors of the economy, with priorities stipulated by the state, before this mechanism was gradually institutionalized by the CPVCC Secretariat's Directive 100, dated January 13, 1981, known as *Khoan 100* and again by the CPV Politburo's Resolution 10, in April 1988, or *Khoan 10*. This more market-oriented contractual system in Vietnam had been initiated by a medium-ranked official, Kim Ngoc (Nguôc), a Party Secretary of Vinh Phuc Province, since the 1966-67 period with early success in attaining both higher yields and total production in different localities of the Vinh Phuc Province. The original idea of this innovation was to improve living conditions of farmers in his province without failing to deliver the required contribution to state budget. Kim Ngoc's concept of *khoan* indeed restored the right to decide agricultural activities to households, giving them more freedom and economic independence. Farmers then would have to constantly search for new methods, new organization of their farming activities and new decisions on how to make the best use of the land and/or water for their own pecuniary rights.

In contrast, the system of quota contract in agricultural production in China was first initiated by all the highest political figures in China, including Liu Shaoqi, Deng Xiaoping and Zhou Enlai. The early implementation of this system in China was set to bring up the food production in China, which had been devastated by the Great Leap Forward and the great famine following that. The system ended immediately when the disruptive split between

Liu-Deng and Mao led to an internal political fight within the Chinese Communist Party and the purge of many high-ranked officials.

Looking at this particular change in the agricultural sector, we could see that although Kim Ngoc's early fruits could not spread nationwide and were stopped after 1968, the system continued to spread to many other provinces in Vietnam under different forms and names, bringing markets closer to an increasingly larger portion of farmers in Vietnam. That was not the case in China until Deng Xiaoping took power in 1978. The approach of reforming agricultural management mechanism in Vietnam could be considered bottom-up while it was top-down in China. In fact, the idea of implementing Kim Ngoc's innovation of the *khoan* system came from a challenge of a farmer-friend of him, and Kim Ngoc's taking on of that was very much entrepreneurial, since he risked losing his political career.

Lastly, during the course of economic changes, Vietnamese leaders and people sought to identify an appropriate model to depart from the 'least developed nation' label and overcome many socioeconomic difficulties. In its constant search for a *modus operandi* aiming at improving the national economy's situation, Vietnam at time came across Chinese and Soviet concepts, while already sharing the socialist economic doctrine. However, the approach taken by Vietnamese people and the government has been much more entrepreneurial than that of China and the USSR, due largely to less emphasis on heavy industries and to the primary concern of developing the agricultural sector that was critical to maintain social stability under the leadership of the CPV.

## **A Conceptual Framework**

In our analysis, two most important properties that constitute the conceptual framework for assessing the entrepreneurial dimensions of the undertaking of *Doi Moi* in Vietnam are innovativeness and individualism in decision making. The three major factors that the assessment will focus on are: (1) the entrepreneur(s); (2) the undertaking process; and (3) the strategization and institutionalization of trial policies.

### ***The Entrepreneur(s)***

With regard to innovatives, it is well expressed by management scholars that entrepreneurs particularly focus on using innovation as their tool to take on opportunities. Oftentimes, opportunities appear in the form of specific changes of economic setting, demographics, application of new models or technology, and the like (Drucker, 1985, p. 19).

In early days of economics, Jean-Baptiste Say pointed out that the entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield. The vacuum in the meaning of 'the entrepreneur' in Say's comment—which Drucker viewed as “a total confusion over the definitions of entrepreneur and entrepreneurship” (Drucker, 1985, p. 22)—gives us some freedom in defining the type of entrepreneur we wish to consider; in our case, working people and policy makers of Vietnam before *Doi Moi*.

As to individualist decision making, Kirzner (1973) emphasizes “the entrepreneurial element in individual decision making” by quoting Ludwig von Mises as saying that “In any

real and living economy every actor is always an entrepreneur.” Specifically, the typical entrepreneur is characterized as “a decision maker whose entire role arises out of his alertness to hitherto unnoticed opportunities” (Kirzner, 1973, p. 40). So what our entrepreneur needs to do is know where the unexploited opportunities exist, and to discover those unexploited opportunities, she/he needs appropriate alertness.

Since calculation, optimizing and economizing will not help in identifying opportunities for innovation and entrepreneurial undertaking, the underpinning factors that could enable us to assess the alertness and readiness of the Drucker and Kirzner’s entrepreneur are the thinking process, possession of useful ideas, and right attitude/determination/motivation in searching for changes and building systematic innovation. We will later discuss how these are relevant in analyzing the process leading to Vietnam’s economic renovation in the late 1980s.

### ***Entrepreneurial Undertaking Process***

The idea of using an entrepreneurial framework for our analysis is to take advantage of not only characteristics that the typical entrepreneur possesses but also what action he/she needs to take. The most typical acts performed by the entrepreneur are: (1) the act of creating something new; (2) the changing and transmutation of values. In the light of our study of the Vietnamese entrepreneurial traits prior to *Doi Moi*, entrepreneurship is particularly useful since both theoretical implications and empirical evidences suggest that the entrepreneur always searches for change as a source of new opportunity.

The entrepreneur then must act upon the arrival of an opportunity to generate values, very often economic values, out of the opportunity as a return for his alertness. In Kirzner’s explanation (1973, p. 17), a producer “may simply be an entrepreneur who perceives the opportunity to buy resources at a total cost lower than the revenue he can obtain from the sale of output.” This simplicity of the major function of the typical Kirznerian entrepreneur make it possible for us to adopt the entrepreneurial view in assessing the changing and innovation process similar to *Doi Moi* in Vietnam, or *perestroika* in the former Soviet Union under Gorbachev. Interestingly, according to Drucker (1985, p. 28), entrepreneurial act may be not the risky course of undertaking economic activities, or even in many cases be regarded as ‘the least risky’ one.

Since innovation can be learned and practiced by entrepreneurs to generate economic values, they constantly and purposefully search for sources of changes and associated symptoms so that principles of innovation could be applied successfully. Some particularly useful suggestion by Drucker is that the entrepreneur could organize systematic innovation by ‘monitoring’ different sources for innovative opportunity both from within (the unexpected, incongruity, process need and structural changes) and outside (demographic, changes in perception, mood and meaning, and new knowledge) the organization.

In our particular analysis, the undertaking process may consist of several keystone actions, namely: (a) Monitoring different sources of innovation; (b) Identifying opportunities; (c) Solving appropriate answers to various issues regarding implementation process *ex ante*; (d) Pooling and utilizing resources; and (e) Translating the implementation plan into realities.

### ***The Measuring, Improvement and Strategization***

In this framework we would also stress that policies adopted by the leaders, practices undertaken by the households, workers and managers and measurements performed by many people involved in the process of creating innovations and exploiting opportunities make entrepreneurship possible, although we always wish that pieces of a whole reform are stitched seamlessly together, so that the economy and the people could avoid unnecessary costs during the course of changes. However, given the nature of uncertainty and newness, the economic realities usually turn out so different from our wish; and this is why we need to measure the gap between the predefined goals and actual performance, to identify areas of improvement and to turn early concepts of making substantial changes into strategic calculation and planning, taking into account insights, lessons and implications of intermediate implementing steps.

The course of entrepreneurial undertaking requires the kind of systematic innovation. Such an economic renovation in a large scale (i.e., the whole economy) and prepared for a long period of time, at least two decades, needs not only isolated and sporadic locality-specific innovation. It clearly needs to successfully install in place policies that enable the people and societal apparatuses to organize a purposeful and consistent search for changes. The arduous effort made by the society, especially entrepreneurial leaders, managers and workers in performing the systematic analysis of the opportunities induced by structural changes may then offer genuine economic or social innovations, which could be exploited for shifting resources from the lower area of value creation to the higher one.

Thus, the process of making appropriate assessments of policies and practices through useful measurements is required. It helps identify problems, glitches and also failures, which could occur anytime during the tedious undertaking of so many activities in the society, and in many cases without prior anticipation, beyond even most thoughtful calculation, due to the inherent uncertainty of market processes.

The problems would then be analyzed so that entrepreneurs could either eliminate or fix them at the economically feasible cost to satisfy the market principle of economic viability. Naturally, in such transition as what the Vietnamese economy was undergoing in the 1976-86 period, people, managers and leaders arrived at numerous solutions; many of the solutions have proved to be so useful in solving real-world and serious problems such as the *khoan* system successfully addressing the severe shortage of food staples and making Vietnam the second-biggest exporter of rice and coffee. But there were also solutions that were both counterproductive and short-lived, such as the *Gia-Luong-Tien* program implemented in a hasty and incomplete manner leading to situational chaos and declining living conditions of many people in the final year before the inauguration of the *Doi Moi* chapter.

Only after these solutions, together with their strengths, weaknesses, insights and implications, were learned, analyzed and put into a conceptual framework, the society could reach a consensus to build a strategy framework for their future joint project of reform, having appreciated both benefits and costs such a course of economic undertaking may possibly bring about.

## **The Entrepreneurial Facets of Vietnam's Economic Renovation**

We now move on to discuss the 'entrepreneurial facets' which had driven the course of economic changes from the era of isolated and local initiatives or locality-specific experiments to the times of more systematic and nationwide packages, which later constituted the key contents of the Vietnamese economic renovation since 1986. Our analysis in this section is going to use the aforementioned conceptual framework and to follow the structure presented above, with specific subsections of (1) the 'entrepreneurs' before *Doi Moi*; (2) the actual undertaking; and (3) the institutionalizing of reform concept.

There were a great many important figures who had been involved in the process of building the economy of Vietnam since the country's manifesto of independence in 1946. By depicting here some particular people, we do not mean to say that these are the 'only' ones, but we pick up persons whose course of activities and thinking represented the concept of 'the entrepreneurs' and whose impacts proved to have stayed long with the course of economic changes in Vietnam.

### **The Entrepreneurs Before *Doi Moi***

#### ***President Ho Chi Minh (1890-1969)***

Ho Chi Minh assumed power after the event of Vietnam's independence declaration on September 2, 1945, and retained his highest leadership status of the President of the Democratic Republic of Vietnam until his death on September 2, 1969. Only some 15 months after the manifesto of independence, a major war with French troops, who had planned their return to the Indochinese peninsula when Japanese armed forces surrendered to the World War II Allies, was threatening the newborn government of the new Vietnam led by President Ho Chi Minh. In mid-December 1946, his appeal to a nationwide resistance war to protect the country from the French re-invasion was broadcast with promptitude. It took this Ho Chi Minh-led newborn government almost 9 years to win over the French troops after the world-shaking victory of Dien Bien Phu military campaign and to regain the status of independence, at least in North Vietnam.

Under President Ho's leadership, the economic undertaking and productive force rehabilitation became a major focus of the interim government. Since the resistance war was undertaken from the northern stronghold, covering several mountainous provinces in North Vietnam—usually referred to as Viet Bac, where the economic development had been in very primitive stage—the rehabilitation plan was at the time indeed to start building a new economy with the contributions from people of various classes. He had perfect knowledge of the challenges and complications that the process of preparing economic foundations for a new government would likely bring about. His economic policies were reflecting our notion of entrepreneurial spirits.

In the resistance war time, from 1946 to 1954, President Hô did not differentiate the productive forces of the region based on ownerships. In fact, the policy of economic freedom was retained, and this had helped mobilize resources from not only within the resource-limited

area of Viet Bac but also from various provinces under the control of French combat troops. Indeed, private merchants, farmers, small industrialists and bourgeoisie all together existed and operated with increasing efficiency. They contributed significantly in building a new economy from scratch and in critical hardship, capable of producing an important supply for basic consumer goods (clothes, mosquito nets, soaps, medicines, papers) and food staples (rice, corn, vegetable), capable of preparing a distribution channel that helped facilitate circulation of goods, etc.

His style of leadership was famous for being simple and easy-to-follow, and President Hô relied much on creativity as well as encouraged innovations during the course of building economic development. His vision of the future and power of the Vietnamese agricultural economy was later turned into concrete policies, which typically addressed acute problems of food supplies, and to which—the history showed that—economic policies implemented decades after his times still had to revert back. In March 1953 (before the end of the resistance war against the French), he instructed the government to pass “Policies for Encouraging Agricultural Production”, which summarized his own thinking on economic development at the time, and reflected what we expect from an entrepreneurial spirit (Dang, 2005a, p. 251):

- Guarantee that the tiller is entitled to his/her products and associated benefits;
- Encourage the reclaiming of waste soils;
- For those who take good care of own lands and make the lands fertile, reduce their tax obligations;
- Protect the right of farmers to hire labor for their farming jobs;
- Farmers have freedom of borrowing and lending money;
- Farmers have freedom of renting out buffaloes, horse and cows (for agricultural productions);
- Encourage handicraft production, and other type of semi-industrial works;
- Protect prosperous business people and, rich farmers, and award high-efficiency workers; and
- Prohibit any acts that may harm production, and protect the rightful benefits farmers gain through their course of production.

His methods of building the economic foundations for the future of Vietnam at the time reflected almost all contents that we today consider typical elements for an entrepreneurial spirit, from understanding the structural changes in society to employing opportunities that had existed or was about to arrive, to deploying limited resources and overcoming the shortage of tools and methodology to solve current and future problems. It is not surprising that the economy of the young Vietnam was emerging gradually and then overcoming those most critical periods, under a great deal of pressures, including the tough 9-year war against the French colonialists.

A striking point in Ho Chi Minh's economic policies for rehabilitating the war-devastated economy is to maintain a multi-sectoral economic structure, which we already saw coming back at the 6<sup>th</sup> National Congress of the CPVCC in 1986, marking the *Doi Moi's* transition period. His policies after Dien Bien Phu's victory and the Geneva Peace Accord were considered open-minded and relatively 'radical' compared to those of his political successors, with major facets as follows:

- Multi-sectoral economy (based on types of ownership), including bourgeoisie, private merchants, private industrialists and farms, etc., was recognized;
- Foreign capitalists' investments in North Vietnam was fully respected and encouraged;
- Foreign trades could be conducted by various people from different economic sector; and
- Vietnam's economy should not 'mechanically' apply economic models of other countries, and should consider the economic realities and conditions of its own to decide which way to organize its economy.

His government stressed the need for restoring the production level of the economy back to that of pre-war period, then improving it step by step. He did not advocate the more radical approach for building modern and large-scale industries in North Vietnam after the 1946-54 war, and did not stress the underpinning roles of state-owned industries at the time. Another important aspect of that was his full respect and recognition of private ownerships of productive assets for not only Vietnamese private owners but also French capitalists and industrialists (Dang, 2005a, pp. 29-30).

His entrepreneurial approach did help restore not only the productivity of the economy, but also the confidence of the majority of people in the new economy, as well as install basic building blocks for a future full-fledged economic structure that Vietnam had not ever possessed.

### ***Le Duan (1907-1986)***

Le Duan became the second most important leader of Vietnam in 1958, after the land reform and the land reform correction scheme. Le Duan took over as the CPVCC General Secretary in the 3<sup>rd</sup> National Congress held in 1960, and remained in this position until his death in 1986. His thinking of building the Vietnamese economy proved that beyond the main role as the architect and highest commander of the war against the American armed forces and the Saigon regime, he had been one of the few theorists who developed their own philosophy and strategy for economic development. Of course, not many of his beliefs and plans had been implemented successfully, and not every of his policies was proved by history to be efficient or effective, but his contributions to the economic thought of the contemporary Vietnam, most of them prepared during the American war period, were in fact significant. We found that Le Duan and Truong Chinh were two most active party ideologists, who were genuinely developing own ideas and concepts of economic developments, which were most influential in different periods in the country's recent history.

According to Hoang Tung, then a member of the CPVCC Secretariat—who used to assume the highest position in the CPVCC Department of Ideology and Propaganda—Le Duan, although known as being close to the Soviet Union’s stance of building the socialist economic system, had a critical view on the philosophies for economic developments in both the Soviet Union and China, the two most important communist countries in the world at his time. He maintained his position that both ways (the ways pursued by the USSR and China) were not quite right. The one adopted by the Soviet Union was leading to persistent economic stagnation or slackness, while the philosophy by Mao Zedong proved to be fictitious, leading to the people’s spurious enthusiasm in making contributions (Le, 2007, p. 239).

He kicked the economic apparatuses into higher gear even during war time, when many other military objectives were thought of as having higher priority. In fact, he put forward his strategies and later successfully gained an almost unanimous agreement of the CPV Politburo to adopt his approach of building the North economy, then the reunified Vietnam, from 1976 until his death in 1986. According to Ha Dang—a high-ranked CPV cadre—Le Duan’s ‘doctrine’ contains 10 most important lessons (Dang, 2005a, pp. 127-134; and Le, 2007, p. 517), of which some most relevant to our study are summarized below:

- The economy has to maintain a balance between industrial and agricultural goals of development;
- A central and long-term objectives of Vietnam’s socialist revolutions will be to develop its science and technology, then successfully industrialize the economy;
- The state will take control of the distribution system and trade activities;
- The economy will expand and reinforce international economic relationships, especially imports and exports; and
- Living conditions for the people need to be improved, and the economy should produce sufficiently not only for consumption, but also for savings, so that the needs of national defense and security will also be satisfied.

Le Duan himself did not stress the infamous class struggle—a central point in most doctrines of the communist revolution theory—but repeatedly emphasized the low level of economic development of Vietnam, the backwardness of the economy, the possibility of attaining higher productivity in Vietnam by reorganizing and redirecting resources to where they could be used most efficiently. In his perception “... what matters in the solution is not that this class of the society will eliminate others, but that a large-scale production modus operandi, with higher efficiency and productivity, will replace the small-scale, scattered and backward organization.”

He also realized the need of urgently restructuring the national economy, which led to his plan of restructuring the economic regions and merging many provinces during the 1960s and the 1970s.

He was outspoken of his hate for the market economy, and strongly advocated the policy that stopped the free market from operating. In his speech during a CPV Secretariat’s meeting

on April 3, 1967, Le Duan said: “[We] should take full control of the resources, erase the free market of rice, because we will anyway satisfy the need of food for people without discrimination. [We] Must make sure that none is hungry, and hold a tight grip of the food matter...”

Over the 1955-75 period and 10 years after Vietnam’s reunification, Le Duan could not successfully implement his ideas and philosophy for many reasons. However, he really was the one that posed serious and earnest economic questions to the CPV and state policy-makers, economist and the elite intellectual circle. Some of his failure and counter-productive measures while implementing some plans in industrializing and ‘rehabilitating’ the private sector in South Vietnam really exposed specific problems that the government had not had experience and knowledge to deal with, such as budget constraint, determination of relevant scale of production, macroeconomic imbalances, the elusive nature of the market-price and supply-demand relationships. And they continue to be real problems that the Vietnamese economy still has to deal with constantly today; the history taught us that Le Duan had been a visionary who appreciated many economic problems before anyone else in his times.

#### ***Kim Ngoc or Kim Van Nguôc (1917-1979)***

We should perhaps reaffirm the undeniable role of Kim Ngoc as one of the fathers of the Vietnamese economic renovation in 1986, although he had died long before *Doi Moi* started. The following sentences from one of the world’s most important living legends and one of the founders of Vietnam—General Vo Nguyen Giap (Nguyen, 2007)—should help our readers realize Kim Ngoc’s solemn position in Vietnam’s economic history:

Our farmers are now having better life due to, first and foremost, the effort of the [Vietnam’s Communist] Party and Uncle Ho. But during the course of building the country, we have to thank Kim Ngoc, a creative Party member—who was willing to take personal responsibility to the ultimate level in front of the people... The country must memorize Kim Ngoc’s efforts. [He was] an enthusiastic person, who accepted risk and brought ‘the new’ [policy]. Now that the country sees the development impact that is due to rice, and Kim Ngoc had been a pioneer...

Kim Ngoc identified problems with the movement of collectivization in North Vietnam right from its first stage, 1958-60 (Van, 2009a). He perceived correctly that the property right would play a critical role in the success of the movement, and said, “Members of the cooperative did not regard the lands as theirs so they are not enthusiastic with the rice field. [We] Must let them own their lands.” This idea was, in his time, seen as a serious offense to the CPVCC’s ideology, when the collectivization movement was not only the major task of the nation, but also a signal of patriotism.

Kim Ngoc soon realized a series of problems with the mushrooming of collectives in his province, especially the waste of resources, reactionary style of work, declining yield, etc. Kim Ngoc studied the problems of agricultural production, especially the fact that income of cooperative member was not enough to provide him/her with weak congee. He identified the roots of the problem of productivity in agricultural operation as bureaucratic structure,

inappropriate organization of the work teams, lack of self-motivation and disregard of necessary production standards. All these problems stemmed from the sole issue of ownership. Given his in-depth insights into agricultural production, farmers' mentality and weaknesses of the incompetent and incapable cooperative management mechanism, he predicted that without a substantial policy change, agricultural production could never result in the kind of efficiency that both farmers and political leaders would wish, and that the then prevailing economic principles would merely serve to be a pure theory of voodoo economics.

In 1966, Kim Ngoc started his pilot scheme under the name of *khoan*. In order for him to implement the change, Kim Ngoc had issued Decision 68 for the Vinh Phuc Province. This decision changed the whole work modality for agricultural production; it served like a bunker-buster that smashed up the ideology of the conservative dogma on socialist collectivism (Van, 2009b). This heroic act could be done only by Kim Ngoc, who was willing to risk his career path to perform changes badly needed to improve agro-production.

**Figure 1: Kim Ngoc (Left), Party Secretary of Vinh Phuc Province 1966-67**



The implementation of *khoan* policy took place during the period of escalated bombing by the US Air Force and severe drought in North Vietnam. However, the right policy generated promising outcome with rice yield for 1967 ranging from 5 to 7 MT/ha. Improved supply of rice also led to a substantial improvement in raising pigs (as popular food for Vietnamese). Collectively, the herd of pigs in Vinh Phuc in 1967 totaled 307,000, a 20% increase from 1966, and 38% higher than 1965. It cost almost nothing.

The idea of Kim Ngoc stemmed from his careful observation that: (1) the cooperatives wasted a large portion of the labor force due to inappropriate mechanism of economic management; and (2) the separation between the agricultural laborers and ownership of productive means induced sluggishness in conducting agricultural activities by farmers. By emphasizing the role of farmers and associated households, Kim Ngoc in fact advocated our concept of private entrepreneurship in the course of economic conduct of the collectives and communes within his province.

Kim Ngoc's implementation was also organized in a very thoughtful and well-structured manner. His experiments were designed to be implemented in small production scales, and their results were used for careful analysis to reach useful insights and implications for later applications in larger-scale operations.

The fact that his Decision 68 allowed several methods of granting freedom to members of cooperatives was an evidence of Kim Ngoc's well thought out policy about *khoan*.

However, the type of *khoan* which granted the highest degree of freedom to farmers was highly praised by farmers, thus gaining consensus between political leaders and farmers/households. His discovery was surprisingly simple: the highest motivation for the worker is his right to get pecuniary compensation for his effort. However, his invention of *khoan* was criticized by many communist comrades since they regarded the changes Kim Ngoc brought to the agro-production system as ‘an attack to the castle of the socialism’ (Van, 2009c).

When the pressures of criticism increased, Kim Ngoc realized that there would be a quite high possibility that his *khoan* policy may be prohibited, and food shortage may come back. And he was determined to find ways to keep *khoan* alive at any price and by any method. He did that by helping people from other provinces learn the concept of reorganizing agricultural activities and understand the results Vinh Phuc gained during his pilot *khoan* schemes of 1966-67.

Given his effort to rekindle the interest in his innovation of *khoan* policy, this market-oriented system never stopped operating inside the centrally planned economy of Vietnam, after Kim Ngoc’s experiments in the 1966-67 period. Although Kim Ngoc’s policy was stopped by the CPVCC and he was instructed in 1968 to write a self-criticism due to his innovation, other provinces continued to apply the concept in various forms and in different points in time, until Doi Moi formally recognized the value of this policy and turned it into the official policy for Vietnam’s method of managing the agricultural economy. The concept of *khoan* was later also extended to other sectors of the economy, such as industrial production.

### ***Truong Chinh (1907-1988)***

Truong Chinh<sup>5</sup> was born as Dang Xuan Khu in Nam Dinh Province, Vietnam. He was one of the most prominent communist political leaders during both resistance wars against the French (1941-1954) and the American (1964-1975), and known as one of the few very influential Marxist-Leninist theoreticians within the CPVCC. From 1941 to 1957, he was the CPV’s second-ranked communist leader—after President Ho Chi Minh—holding the position of First Secretary. In the late 1950s, First Secretary Truong Chinh undertook the aforementioned waves of land reforms in North Vietnam, very much reflecting the Chinese reforms under Mao’s leadership. He was later heavily criticized for the errors that had turned the land reforms into a campaign that purged many people including loyal party cadres and had unreasonably intensified the ‘class struggle’ when the solidarity and mobilization of resources for building the economy should have been the top priority. However, after Gen. Secretary Le Duan had taken the second rank in Vietnam in 1958, Truong Chinh remained a powerful leader on Vietnam’s Politburo. He also held other top positions of Vietnam, such as Chairman of the National Assembly’s Standing Committee (1960-81), and Chairman of the Council of State (1981-87). Again, after the death of Le Duan, he became the top leader of the CPV, hence Vietnam, for a brief period from July 1986 to the closing of the 6<sup>th</sup> National Congress of the CPVCC in December 1986, when he resigned from the top leadership and handed over the power to the successive CPV reformist leader, Gen. Secretary Nguyen Van Linh.

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<sup>5</sup> The Chinese-Vietnamese meaning of ‘the Long March’.

Truong Chinh was one of the first people that endorsed the institutionalization of Vietnam's extensive economic reform package in 1986, which also led to a sweeping change of the CPV leadership, paving the path for a full-blown version of *Doi Moi*. He was praised by other CPV theoreticians as "the one who laid down the first brick for the House of Reform of Vietnam." Known as the most influential theoretician of the contemporary Vietnam, he himself put forward the concept of 'thinking renovation' with a crystal clear emphasis on a relation of economic thinking for the new age (Tran, 2007).

In unleashed early days, he identified that the real energy of such reform came from the unleashed power of the people with sole purpose of any act being for the benefits of the people. Such a reform, in his theory, would have to motivate the people spiritually, to let them think freely, and to equip them with realistic democracy. He anticipated that 'new values' would likely come up in such course of changes, together with a diversity of viewpoints; many of them may clash with old values and old viewpoints, and would replace those even deeply rooted in the society.

He said, "Only by reforming the way of thinking—especially the economic thinking, of doing, of work modality, reforming the Party personnel organization, could we escape from the current acute economic problems." Gen. Secretary Truong Chinh saw the changes happening in the world's geopolitics and the trend of economic activities, and realized that the adjustment and changes of the old dogma in the name the Marxist-Leninist theory would bring about positive outcome, if they were designed in conformity to the actual level of economic development of Vietnam and for the Vietnamese. He soon identified two major areas that required immediate changes in a big way: (1) The model for economic development; and (2) The economic management mechanism (Tran, 2007, p. 559); and before his full-fledged implementation of *Doi Moi*, Truong Chinh had already proposed a scheme to replace the "old economic management mechanism" in meetings of the 6<sup>th</sup> and 8<sup>th</sup> Plenary Sessions of the 5<sup>th</sup> CPVCC Tenure in 1984.

The two major problems Truong Chinh was particularly interested in were: (a) granting more freedom and exercising more job delegation to economic units of state ownership, or in short, decentralization; and (b) paying adequate attention to and making sufficient effort in solving problems of prices, wages, and money and finance in the economy. To him, these issues had not been dealt with successfully in the past, so the economy now paid the price for ignoring serious problems.

Truong Chinh's theoretical arguments for the change to a multi-sectoral and commodity exchange economy were persuasive and also logically led to the recognition and application of modern business concepts in managing old-fashioned and long-standing state-run enterprises, which later shook up the system nationwide (Tran, 2007, pp. 632-633). He was highly praised by his communist comrades and Vietnamese for his no-nonsense approach in dealing with Vietnam's economic problems during the pre-*Doi Moi* crisis.

#### ***Nguyen Van Linh (1915-1998)***

The CPVCC General Secretary 6<sup>th</sup> Tenure, 1986-91, and the late Gen. Secretary of the CPVCC, Nguyen Van Linh was a Vietnamese revolutionary and politician, who succeeded Truong

Chinh as top leader at the 6<sup>th</sup> National Congress in December 1986. He was the most influential political figure of Vietnam implementing the sweeping reform package, marking the era of *Doi Moi*. He officially laid the cornerstone for turning the Vietnamese economy to a market economy.

Nguyen Van Linh was detained by the French from 1941 to 1945 for his participation in the communist campaign against the French rule in Vietnam. He was then rising in the CPV hierarchy and becoming a member of the CPVCC in 1960.

After the reunification of Vietnam in 1975, Linh rose again becoming one of the most powerful politicians of the CPVCC as a member of the Politburo, and at the same time the CPV Secretary of Ho Chi Minh City (formerly known as Saigon). During the campaign of rehabilitating the private sector industrialists and merchants operating in Ho Chi Minh City initiated by the then top leader Le Duan, Nguyen Van Linh preferred a slow transformation of the formerly capitalist South Vietnam over a rush to eliminate the national capitalists and private merchants—a radical socialist policy advocated by many northern comrades. His approach of gradualism in changing the southern economic structure forced him into an ideological conflict with some important colleagues in the CPVCC and the Politburo. When the conflicts intensified in the late 1970s, Nguyen Van Linh could not move higher in the hierarchy of the CPVCC and was even removed from the politburo in 1982 due mainly to his reservation of the argument that the Vietnam's future course of economic transition would not have to annihilate economic freedom or sweep away private capitalists. Clearly, he swam against the tide of collectivizing private enterprises and industrial private-sector rehabilitation campaign initialized in 1978 by the top leader Le Duan. His independent mind and position on maintaining a healthy private sector had in reality cost him his politburo rank before returning to him in 1985.

Again, when the Vietnamese economy faced a tough crisis period in the 1981-85 period, the CPVCC had to seek for options to get the economy out of harsh economic realities; his more liberal, market-based option was paid increasing attention. Then, Nguyen Van Linh was reinstated in the politburo in 1985, and this fact was a precursor to an important socioeconomic and political change that would later help the Vietnamese economy move into a higher gear when *Doi Moi* policy arrived. We must also notice that Gen. Secretary Nguyen Van Linh's great contribution to Vietnam's reform was not confined to his innovations in economic policies that have for almost three decades now recognized the private ownership of productive assets, legalized property rights, advocated the multi-sectoral market economy, and stopped inefficient agricultural production mode from absorbing much of national resources. His activeness in various diplomatic and military activities also proved to be efficient in both improving the standing of Vietnam in the international community and channeling the scarce resources, physical and financial, to most productive sectors. He proactively improved the relation with the US and sought to normalize the relation with China, after the brief but brutal Sino-Vietnamese War in 1979. He also ordered the withdrawal of Vietnamese combat troops from Cambodia in 1989, after they had finished the assignment

of removing the Pol Pot's Khmer Rouge, paving the way to improve diplomatic ties with many countries in the world.

Our previous analysis confirms that the recognition of the need to adopt some kind of economic reform had already begun before the Late Gen. Secretary Nguyen Van Linh's assuming office, in the late 1970s, with the outcome of the September 1979 6<sup>th</sup> Plenary Session of the 4<sup>th</sup> CPVCC Tenure introducing several hallmarks of socioeconomic innovations, such as the agricultural quota and contract system, periodical readjustments of purchasing prices for agricultural products, an increase of industrial operations' autonomy within the state-owned industries, and relaxation of rules for import and export activities as well as allowing State-owned banks to extend credits to local entrepreneurs. However, only until Nguyen Van Linh's the 6<sup>th</sup> National Congress in December 1986, these productive steps of reform were politically reaffirmed, manifested a new level of commitment, and institutionalized in the form of an extensive economic reform (Cima, 1989).

Gen. Secretary Nguyen Van Linh was also famous for his outspoken style in solving serious problems, including using his writing skills to attack what he considered the political malady—which had undermined the strength of his political party, the CPV—namely, telling lies, talking without action, bureaucracy, corruption, etc. He was the author of a series of articles on the *Nhan Dan Daily*,<sup>6</sup> mouthpiece of the CPV, named after *Nhung Viec Can Lam Ngay* (Things That Must Be Done Immediately), signed as NVL, in which the problems of corruption and incompetence within the political elite circle were all

attacked and criticized publicly. When the first article appeared, the acronym NVL led the society to believe that Nguyen Van Linh publicly showed his attitude and stance over internal matters of the CPV, but he later denied that saying 'that' author's name was *Noi Va Lam*, meaning 'Talk and Action.'

His earnest fights against diseases, long existing within the political cadres, made him even internally criticized by a number of high-ranked colleagues since his writings touched on sensitive matters. Some even labeled his act as an equivalent to Mao Zedong's Cultural Revolution, but the reality proved that his sole purpose of fighting against these diseases had been to improve the image of the CPV as the leading political party and to reinforce the country's efforts to make necessary changes in its course of economic development.

**Figure 2: General Secretary of the CPVCC Nguyen Van Linh (Second from the Left) Visiting an Industrial Manufacturing Operation**



<sup>6</sup> The CPV-controlled *Nhan Dan* daily newspaper was regarded as equivalent to Chinese *People's Daily* and the Soviet Union's *Pravda*.

We could summarize some key concepts that Gen. Secretary Nguyen Van Linh had installed along with his implementation of the reform program:

1. Restructuring of the economic structure nationwide. Restructuring the investment and allocation of financial resources to increase efficiency and effectiveness. Reallocating physical and financial resources for three major economic programs of agricultural production, consumer goods production and emphasis on export products.
2. Reforming the national economic management mechanism to unleash the productive forces inside the people. Replacing the centrally planned and bureaucratic methods of mechanism with socialist business accounting methods. Gradually removing the subsidy system for state-run enterprises.
3. Removing obstacles that hinder people's economic conduct. Encouraging the multi-sectoral economy to development, including the private-sector and household economy.

### **The Actual Undertaking**

The reform undertaking in Vietnam's *Doi Moi* reflects an entrepreneurial process. The reformists had been taking risks of losing, even ending, not only their political careers but also normal life of their families. Facing possibly serious consequences when risking changing the defunct economic system and unworkable principles, Vietnamese reformists were highly cautious about every single step they took during the implementation. They made small and low-profile changes then gauged expected and positive outcomes while continuously reassessing the appropriateness and effectiveness of their decisions. They would more confidently make next moves if and only if their previous moves proved to be worthwhile and safe. In the light of this, the reality of higher-yield paddy fields and happier farmers served to be a stepping stone. Chinese named this approach as 'crossing the river by feeling the stones' (摸着石头过河), which reflected exactly the philosophy in Vietnamese language of *Do Da Qua Song*. The use of the same philosophy as said above revealed that given their similar hierarchical sociopolitical structures, the Vietnamese and Chinese reformists employed the same manner of execution.

In fact, Kim Ngoc decisively issued the Provincial Decision 68, which introduced a pilot contractual system to farmers and rural households. However, he carefully presented the new concept and kept it low profile. Kim Ngoc requested the provincial head of agriculture to prepare the Decision, and then had feedback on the draft collected from farmers. Given positive responses, the quota-threshold contractual system in agriculture production was officially approved by Vinh Phuc CPV Committee. This initiative served as a first 'bunker-buster' that slashed at the ideology of then prevailing socialist collectivization, in fact mocking at the previous failures of economic attempts by agricultural collectives. But he named it quite acceptably as "Decision on Some Current Problems in Agricultural Labor Management at Cooperatives." In addition, the Decision provided households with different choices: (a) To contract households to specialize in different production stages in long-term,

(b) To contract households for long periods of time or whole crop; (c) To contract households for minimum volume of contribution in kind; and (d) To contract households for the minimum amount of pecuniary contribution (Duc, 2006). The farmers did choose the last one which was easy to calculate their compulsory contribution to the state as well as their benefits after the harvest (Van, 2009b). Upon his gaining farmers' support and consensus of provincial CPV committee, Kim Ngoc applied the contractual system to just Thon Thuong Cooperatives, Tuan Chinh Commune, Vinh Tuong District. After this first success, the system was introduced to the whole Vinh Phuc province.

The blooming agricultural performance in Vinh Phuc, unfortunately, was stopped by the CPV Secretariat in 1968, when they saw freedom of making economic decisions in the hand of households as thwarting the agricultural collectivizing master plan. But several other northern provinces had already started learning this contract-to-household model. Applications of *khoan* were still prevailing in Vinh Phu, Hai Phong, Ha Bac, and many other localities, but now clandestinely.

Having slowly seen positive results and appreciated this model's performance in agriculture, the CPV politburo finally approved a trial version of household contract system in 1981 by issuing Instruction 100 (*khoan 100*), a politico-economic milestone.

The issuance of Instruction 100, in fact, created an ideological tension and rift between the reform-minded and conservatives. Vo Chi Cong—who was then Deputy Chairman of the Ministerial Council, in charge of agriculture—had to make a hard decision. On the one hand, he acknowledged the contagion of clandestine *khoan* and formed a task force for studying the contract-to-household experiment in one commune of Vinh Phu province. On the other hand, he met in person with other politburo members to discuss his plan of experiment and to try to gain a consensus among the top leaders. Vo convinced Hoang Tung, a member of CPV politburo, editor-in-chief of *Nhan Dan Daily* (the mouthpiece of CPV) to promote the use of *khoan*. He told Hoang Tung that “We should work together. I am in charge of agriculture. You are in charge of ideology. Let's expand the quota-threshold system in agriculture. Land should be given to farmers whose farm produces would be allocated into (1) land rent; (2) compulsory sales to state; and (3) their own gains which they sell to state at negotiable prices.”<sup>7</sup> Clearly, such propaganda was so powerful, since an article on *Nhan Dan Daily* sent a strong signal about the ruling party's political determination. Nguyen Van Linh also used that tactic to promote his *Doi Moi* program.

Despite the successful experiment on paddy fields, the poliburo could not reach a consensus on the widespread application of *khoan*. With a small number of supporters, this political body issued an ‘Instruction’, instead of a stronger decision, in implementing contract-to-household in agricultural production. Moreover, this instruction avoided mentioning farming household by using the phrase of “to contract with labors and groups of labors”. The Instruction also affirmed that farmers have no pecuniary right on the lands given to them. The farmers' most preferred contractual method was not allowed in 1981. It took

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<sup>7</sup> Bao Quang Nam, *Dong chi Vo Chi Cong voi 'Khoan 100'*, January 13, 2011. Accessed on April 9, 2011.

another seven years to be officially approved in the breakthrough Decision 10 (the so-called *Khoan 10*) in 1988.

When farmers were free to choose what to do in their lands, the 1988 agricultural reform yielded abundant crops immediately. Until 1988, Vietnam was still facing serious shortage of foods and had to import more than 450,000 tons of rice. Just a year later, in 1989, Vietnam exported 1,370 tons of rice. It was really incredible to many. Since then, Vietnam has always been a major rice exporter in the world. The tacit grounds of this swift turnaround could well be the entrepreneurial undertaking of so many farmers and a handful of the CPV senior leaders, but not the involvement of the government. In the middle of nineteenth century, the United States experienced the same story when slavery was abolished and millions of immigrants were free to work for themselves as independent farmers or businessmen or to work for others on a mutually beneficial basis. They received virtually no assistance, and even more importantly, encountered little interference from the US government (Friedman, 1980, pp. 3-4).

The 1987 law of land and *Khoan 10* allowed farmers to make their own decisions on production and distribution based on pecuniary terms. In Mekong delta region, the nation's largest 'rice bowl', farmers were able to sell their surplus at free market prices, which was the most essential condition for high-yield production (Vo, 2008). In the last four months of 1989, the area exported more than 1 million MT rice. Given the same farmers, the same paddy seeds, the same technology, no government investment, the *Khoan 10* turned a rice importer into an exporter, with total export volume of 1989 reaching 1.37 million MT. It is likely that after 22 years, for the first time ever, Vietnam would become the world's largest rice exporter, with 7.1 million tons of rice exported, earning a total revenue of nearly US\$3.4 bn (see Table 1).

The reform process began with important changes in agricultural governance, and then spread to trade and industrial operation. It is noteworthy that since 1988, farmers have been allowed to conduct voluntary exchanges when Vietnamese entrepreneurial-minded reformists appreciated the role of price in market processes. This was a bold move toward the market-oriented economy. Prices had been almost totally neglected in the centrally-planned economy of Vietnam. Now they started performing three closely related functions of (1) Transmitting information; (2) Incentives for adoption of more efficient and higher productive methods; and (3) Fair distribution of income. To this end, food stamp-distribution system was earnestly abolished in 1989. When the Agriculture Minister Nguyen Cong Tan decided this abolition, he was even confronted by his deputy ministers. Nguyen was questioned what if the next harvests turned out to be a failure and the nation faced famine. "No problem, we will buy Thai rice. After one week, we have enough rice"—answered the minister (Van, 2008).

As for national economic performance, another phenomenon was noticed in trading and distribution system. Trades were monopolized by State-owned Enterprises (SoE). When the agricultural production was surplus due to clandestine *khoan* and then when the experiment of Instruction 100 resulted, a paradox existed: in urban areas, shortage of food staples was getting severe simply because farmers' surplus could not be traded outside their provinces.

Table 1: Vietnam's Rice Export, 1989-2011					
Year	Rice Export		Year	Rice Export	
	Volume	Value		Volume	Value
	(1,000 MT)	(US\$ mn)		(1,000 MT)	(US\$ mn)
1989	1,370	310.29	2000	3,390	615.82
1990	1,460	274.52	2001	3,530	544.11
1991	1,010	230.50	2002	3,250	608.12
1992	1,920	405.53	2003	3,920	693.53
1993	1,660	335.06	2004	4,060	859.18
1994	1,960	420.86	2005	5,200	1,279.27
1995	2,050	538.84	2006	4,697	1,300.00
1996	3,060	868.42	2007	4,500	1,700.00
1997	3,680	891.34	2008	4,697	2,663.00
1998	3,790	1,005.48	2009	6,503	2,464.00
1999	4,560	1,008.96	2010	6,754	2,912.00
			2011*	7,100	3,373
<b>Note:</b> * Estimation of Vietnam's Ministry of Agriculture and Rural Development.					
<i>Source: DHVP Research &amp; Consultancy (www.vietnamica.net)</i>					

In Ho Chi Minh City (HCMC; formerly known as Saigon—the Indochina Pearl) people had to eat sweet potatoes, sorghums and even cassava in replacement of rice despite the fact that the Indochina Pearl was close to the granary of Mekong river delta. The local leaders knew that if they could buy rice in Mekong delta then they would be able to supply HCMC inhabitants with sufficient food. But only central government had the right to distribute rice among provinces. HCMC CPV Secretary Vo Van Kiet (later on became Vietnam's Prime Minister over the 1988-91 and 1992-97 periods) organized an informal meeting with his subordinates to create a truly entrepreneurial solution. He took the HCMC Food Company Director's proposal that she (Ms. Ba Thi) would go to Mekong Delta and buy food as an individual. Ms. Thi would use a Spending Order issued by HCMC Finance Department to withdraw cash from the central bank's HCMC branch. She then had to negotiate with provincial people about rice purchase and arrange transportation back to HCMC. HCMC Food Company would sell rice to people in the city, return money to the central bank, and to hand in profits for HCMC budget. These leaders perceived an ample market opportunity and a way to solve the food shortage, but a number of regulations would be violated. For example, for an individual, neither inter-provincial trade activities nor cash withdrawal from the central bank branch was allowed.

Although this operation may well save HCMC from famine and could bring profits to local government, these people took the high risk of committing felony, which might even lead to jail terms. To protect his staff, Vo Van Kiet established a rice-purchasing task force consisting

of representatives from Finance Department (as accountant), State Bank (as cashkeeper), and Director of Food Company (as trader). Those people had to work together and formed a check-and-balance discipline. The task force called themselves as 'rice smuggling task force'. Before sending the force to the 'battlefield', Vo Van Kiet promised, very likely swore, that if they were put in jail [by the central government] he would visit and bring them food everyday (Dang, 2005b).

The undertaking of HCMC government again exemplified the role of entrepreneurial leadership. Driven by their determination of rightful fight for the life of inhabitants, they were willing to go against any institutional rigidity.

The late General Secretary Nguyen Van Linh was considered the person of *Doi Moi* in 1986. The process of reform itself, however, commenced in 1981, when he left the politburo and returned to HCMC CPV Secretary. Since 1979, there were a number of successfully reforming business and production entities in HCMC, namely, Thanh Cong Textile, Southern Vietnam Soap Powder, September 2, Pharmacy, and Saigon Beer. Workers were paid good salaries based on their performance because these companies made profits from their own business plans, not the ones requested by state. Although the central government wanted to scale down these businesses, Nguyen Van Linh promoted their business models. He argued that since the businesses were growing and incomes of workers were rising, the models should be good. Nguyen asked HCMC CPV to let those companies expand their networks to other provinces, handshaking with central state-run enterprises and even with foreign business partners.

These policies resulted in a large jump of industrial output in 1984, 78% higher compared to 1976; HCMC small-scale industries contributed half of nation's production. However, HCMC economic development approach was not in conformity with directions from the central CPV (Xuan, 2010).

During the 1981-83 period, when the economy was in the doldrums and economic path encountered a stalemate, the Da Lat Conference took place. In Summer 1983, Truong Chinh (Chairman of State Council), Pham Van Dong (Chairman of Ministerial Council), and Vo Chi Cong (Standing Secretary of CPV Central Committee Secretariat) were on vacation in Da Lat. Nguyen Van Linh made a thoughtful calculation on his chance to report in-depth insights he had obtained during his administering the economy of HCMC, and to line up for political support from these old guards of the communist ideology. Truong, Pham, and Vo agreed to meet the HCMC delegation in Da Lat. A team of local leaders and directors of successful businesses left the city on July 7, 1983. During July 13 to 16, three top members of the Politburo listened carefully to business reports. In the next two days, the Politburo worked with HCMC leaders. After his team had returned to HCMC on July 18, Nguyen Van Linh spent a full day meeting in person with three top CPV members. Albeit impressed by Linh's proposed course of economic changes, the CPV leaders needed economic realities as proof for any promising plan of change. A week later, Truong Chinh requested HCMC to arrange his field trip to factories. During the trip, he eyewitnessed the working and living conditions, economic efficiency and opinions of workers. After the event, Truong Chinh told Mai Chi

Tho, then Chairman of HCMC People's Committee, that all that he had reported back in Hanoi was totally wrong (Tran and Manh, 2006). Such conclusion, in fact, triggered a process of innovative thinking which later helped institutionalize *Doi Moi* at the 6<sup>th</sup> National Congress of the CPV in 1986.

Before moving on to the institutionalization of reform concept in the next subsection, the case of Thanh Cong textile is presented as a typical success of reforming business.

After the national reunification in 1975, two owners of Tai Thanh—Huynh Ngoc Thai and Doan Thi My—donated one of the largest textile companies in HCMC to the state. The company was renamed Thanh Cong (means 'victory') textile. With more than 100 looms, 20,000 spindles, and 300 skilled workers, the factory produced 2.4 million sq. m of quality fabrics (Xuan and Quang, 2005a). Thanh Cong Textile performance deteriorated under the centrally-planned mechanism due to lack of necessary economic incentives. Thanh Cong was ordered to produce an unchanged quantity of fabrics of 3 million sq. m per year. This assignment was significantly below their capacity, since they needed to operate 2/3 of their capacity and employ half of their working capital to produce this quantity.

Even if the firm identified an unmet need in the market, and was able to increase its productive capacity, they were not allowed to do so due to the rigidity of the planning mechanism. In addition, Thanh Cong had to sell all their products to the state at pre-fixed prices causing the company big losses. In 1978, production cost of one sq. m of calico cloth was VND 1.5, but the state procured this fabric at VND 1.2 per sq. m. Meanwhile, market prices were ten to twelve times higher than the pre-fixed prices (Xuan and Quang, 2005b). In 1979, Thanh Cong factory operated at 20% of its capacity. Their skilled workers were sent to neighboring provinces of HCMS to work as farmers in order to earn their living from cultivation and animal husbandry, while the whole country faced shortage of fabrics and garments.

Realizing the huge need for clothes in the domestic market, Thanh Cong Textile decided to increase their capacity, and thus needed foreign exchange to import materials. They failed to obtain the foreign exchange funds, thus turned to other firms with forex earnings, such as seaports, tourism agencies, and aqua-product exporters to establish a new kind of cooperation, where these firms sold clothes to domestic customers for profits and used their foreign exchange revenues to pay Thanh Cong Textile. A retail distribution was set up, but the textile producer still needed some seed capital. There was only one solution, that is, to find a bank to borrow US dollars. Thanh Cong prepared a borrowing plan of US\$180,000 of which US\$120,000 would be used to fund the import of 40 tons of yarns. Its borrowing plan had to be approved by the Minister of Industry before submitting the plan to banker. But a self-financing and self-organized distribution system would be a breach of the planned economy's principles. The entrepreneur had to think wisely.

The Deputy Minister of Industry, Vu Dai, was considered reform-minded. The borrowing plan could be approved if it was presented to him directly and outside the ministry. Thanh Cong Textile's Director managed to see him and get him interested in the new idea. The two

‘entrepreneurs’ agreed that the Deputy Minister would sign on the plan, and then the Director would go to Hanoi for getting the plan stamped. Two persons took, not divided, the risk of violating socialist principles.

Before going to Hanoi, Thanh Cong had quietly sold their inventories to tourism agencies and seafoods exporters in August 1980. The market responded positively, and some customers even advanced payment. Based on the market signals and government support, Director Nguyen Xuan Ha prepared another Thanh Cong’s business plan, following which the firm would borrow US\$1.7 mn. Moreover, the firm sought to be exempted from the rigid output decision from the central government. It asked for the right to open banking account for international payment at Vietnam Bank for Foreign Trade (VCB)—then the sole bank for international settlement—to conduct import and export activities, etc. The proposal was so innovative that Deputy Minister Vu Dai could not decide by himself, but he arranged a ministry seminar for Thanh Cong to present and defend their proposal.

The Director was heading for Hanoi. However, on the way to airport, he received an offer of selling 200 tons of yarn at US\$500,000. Such price was 17% lower than normal. The opportunity could not be missed. The trip to Hanoi was cancelled. The Director came to HCMC VCB and persuaded the bank’s director to lend Thanh Cong US\$500,000. The two directors would have been in jail, had Thanh Cong Textile defaulted on their liabilities while still waiting for approval from the central government. The two entrepreneurial persons took their risks.

Thanh Cong Director went to Hanoi after the yarn was in the company’s warehouse. As arranged, all conservative persons of the ministry were on ‘business mission’. After a four-hour Q&A session, the Deputy Minister concluded that “Thanh Cong had proposed an innovative business model which would face a number of challenges and difficulties. Therefore, all departments of the ministry should support them.” Thanh Cong finally succeeded in getting its proposal approved.

Thanh Cong earned a lot of profits since the price of yarn was increasing. Their business was overwhelmingly successful, reaping a cash reserve enough for one-year production costs. Workers’ income inflated 5 to 6 times. Business success turned their working environment stimulating. By the end of 1980, the company gained a profit of nearly US\$1 mn. In 1981, their foreign exchange reserve reached US\$1.3 mn. Thanh Cong success story was closely watched and supported by Vo Van Kiet, who was HCMC CPV Secretary in the 1976-81 period.

### **The Institutionalizing of Reform Concept**

It is noticed from Kirzner’s (1973) that in an entrepreneurial process, voluntary exchange activities are prevalent. In other words, a typical entrepreneurial process is very much related to commerce and industry. In Vietnam, the development of entrepreneurial spirit was, however, rooted in agriculture and rural area transformation. A Vietnamese farmer is able to play three roles: producer (when working on the fields), trader (when exchanging produces in markets), and capitalist (when lending money, labor, and other resources to neighbors) (Heberer *et al.*, 1999). Nonetheless, agriculture was selected as the starting point of reform progress because

the reformist-politicians of high-rank needed rather immediate outcome to convince the other leaders of the nation.

Supporters of the quota-threshold contract system in agricultural production in fact risked being considered 'revisionist'. And with that label, one's political career would be ended, no matter what rank one was holding. That was very likely the case of Kim Ngoc, who implemented the contract system in 1966-67, which was then stopped in 1968. Even though later the CPVCC Secretariat managed to issue Instruction 100 (*Khoan 100*) on January 13, 1981 which applied to the nationwide agricultural system, the politburo consensus was reportedly not reached. The small group of reformists would have to show outright improvements of economic performance and living standards on a large scale. To this end, a new agricultural development policy is a perfect candidate.

Farmers constituted the largest portion of Vietnamese population, then roughly 80%. It was not difficult to realize rural poverty when production worsened. Nguyen Cong Tan, Minister of Agriculture in 1987-97, confirmed farmers's high vulnerability in the 1987 famine (Van, 2008b). In difficult times, state employees still had some kind of safety net provided by the food and consumer goods stamp system. Farmers had no insurance. A newspaper article in 1987 reported a case in Thanh Hoa province, in which 21 died of starvation when hospitalized. The case was brought to a meeting of the National Assembly, where deputies called for Tan's resignation. Although the leader of Thanh Hoa then denied the news, Tan still decided to resign from the ministerial position (although his resignation was later not approved by the government because his resignation would not change the fact that Vietnam faced a serious food security problem). The politburo did take the responsibility. The last gold bars of national reserves were sold to import 440,000 tons of rice.

Traditionally, Vietnamese leaders had been confident of their capability to deal with farmers and rural area issues. Not only the importance of farmers but also political leaders's knowledge and experience gave agricultural reform policy top priority as soon as the personal issue was settled following the results of the 6<sup>th</sup> National Congress. During a televised interview, General Secretary Nguyen Van Linh was outspoken of the fact that the implementation of Instruction 100 on farmers' '5% lands' helped save Vietnamese farmers from a likely starvation, and then he called for a nationwide application of the contract system in agricultural production. This was a decisive and brave statement. We should note that not all members of the politburo agreed on Instruction 100. And such a new agricultural governance would likely affect millions of farming households, and hence probably the security of the whole country too.

Agricultural reform institutionalization has been a top-down process, starting from the changing minds of senior political leaders. Nguyen Van Linh (CPV General Secretary in 1986-1991), Vo Chi Cong (Council of Ministers Chairman in 1987-1992), and other reformists were pursuing their entrepreneurial approach in making sweeping changes in the economic life of the nation while convincing, even fighting, their conservative comrades. In this process, the risk-taking characteristic of entrepreneurial politician is obvious. When Decision 10 (the so-called *Khoan 10*) was issued by the Politburo on April 5, 1988 (that is, more than 20

years after Kim Ngoc's first brave moves), the agricultural minister was charged with implementing the decision, but he was scared by the uncertainty. Chairman Vo Chi Cong—who used to chair the Agricultural Division of the CPV Central Office to implement Instruction 100—was so determined and reassured his comrades by saying “Let me preside over the implementation of the Decision.” (Van, 2008b)

The reform was being institutionalized gradually. It took two decades since Kim Ngoc's informal experiment of contractual framework on agricultural production (1966-67), to the limited application of Instruction 100 (in 1981), and to the nationwide implementation of Decision 10 (in 1988). This is because any reform of this scale should reflect a transformation process of economic thought of the Vietnamese leaders which, of course, should be lengthy enough. In addition, the entrepreneurial spirit accumulated over time was strengthened when farmers reaped their pecuniary rights.

Even if with political support from top leaders, Instruction 100 was not considered a fully legalized scheme, but a ‘trial’ contractual system in agriculture. ‘Trial’ here means (1) a grey area of regulations; and (2) small scale of implementation. Even though the trial implementation quickly resulted in 20% increase an output and improved living conditions for farmers, many still considered the contractual system illegitimate (Vo, 2001, pp. 292-298).

*Khoan 100* helped boost Vietnam's agricultural production for a while, and then its positive impact was diminishing because the centrally-planned mechanism and bureaucracy were prevailing in both cooperatives and socioeconomic systems. Many farmers and households gave their lands back, since they were not able to maintain their production capacities. There was a need for stronger reform policy unleashing the entrepreneurial creativity and energy of farmers in full.

The politburo's new position—this time with much stronger consensus—was postulated in Decision 10, issued in April 1988, which contained three key points. First, land use rights were given to farmers. Second, farmers were allowed to exchange voluntarily both input materials and produces. Third, cooperatives were transformed from administrative institutions managing agricultural production into service providers and suppliers of farming materials. In other words, the state granted farmers full power to decide what business to do on their lands. The meaning of ‘land to tillers’ was defined comprehensively when the tillers were given a full set of classical inputs of the production function, i.e., land, labor, and capital.

This Decision 10 was clearly not derived from the classical Marxist law on relations of production, of which the growth of productive forces would destroy the backward mode of production and create a new one. This resulted from the entrepreneurial political leaders' thinking and an epistemology of transformation, whose acts had also been inspired by real high-yield crops from the lands in the good hands of ordinary farmers. The *Doi Moi* continued to maintain that momentum, with which a number of laws paving ways for private economic development later on—such as the Law of Land (1988), the Law on Foreign Direct Investment (1988), and the Law on Private Enterprises (1990), and later its new version the Enterprise Law (1999)—were passed by the legislature.

The Land Law promulgated in 1988 surprisingly was *de facto* first formal regulation helping institutionalize the muddled objectives and fragmented pieces of changes in the agricultural sector and rural development, leading to a genuine revolution. In 20 years, the reform process had been executed solely by political instructions and directions. Top political leaders had worked directly with grassroots farmers. When entrepreneurial leaders considered competition as a driver of economic development, the *trias politica* principle was acknowledged. The CPV top leaders started stratifying political power into an executive (the Government), a legislature (the National Assembly), and a judiciary (the Supreme People's Court). Separation of power has been progressing in Vietnam under the CPV's leadership.

Reform institutionalization is an ongoing and spiral process. After Decision 10 (1988), the Land Law (1988 and 1993), and the Law on Cooperatives (1996 and 2003), the Vietnamese agriculture has now started gathering steam with a self-motivated course of development. Fruitful development of agricultural and aquacultural exports—now constituting an important portion of foreign exchange revenues for Vietnam—have somewhat helped the national economy offset the adverse effects caused by the 2007-09 global financial meltdown, and led Vietnamese leaders to implement Decision 26 on agriculture, farmers, and rural areas (termed as *Tam Nong*),<sup>8</sup> issued by CPV Central Executive Committee on August 5, 2008. The realization of this Decision mimics the 1968-88 process with some differences.

Decision 26 stipulated several major goals that should be implemented at all CPV levels in order to improve the living conditions of farmers, aiming at developing a productive, commercially viable and sound agricultural system in Vietnam. They are:

- Building the much-needed socioeconomic infrastructure for rural areas;
- Improving the living conditions for people in rural areas, especially in lagging regions;
- Restructuring production and service activities in rural areas;
- Increased investment in R&D, technology and capacity building; and
- Appropriate management and adequate resources for rural area development.

As a sociopolitical norm, senior political leaders would be involved in the implementation, as with the implementation of *Khoan 100* and *Khoan 10*. An experiment of the 'New Rural Areas Program' was conducted in 11 communes by a CPVCC committee headed by Truong Tan Sang—the second-most powerful figure within the CPVCC—to install agricultural development models in provinces of Dien Bien, Bac Giang, Nam Dinh, Hanoi, Quang Nam, Binh Phuoc, Ha Tinh, Lam Dong, Ho Chi Minh City, Tra Vinh, and Kien Giang.

We should now notice that the institutionalization of *Tam Nong* has been much faster than *Khoan*. The political system now did not wait for specific results from trial implementation to decide the fate of the program. Vietnam Prime Minister Nguyen Tan Dung issued Decision

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<sup>8</sup> *Tam Nong* in (Sino-) Vietnamese means *Nong Dan – Nong Nghiep – Nong Thon*—that is, Farmers, Agriculture, and Rural Areas.

800/QD-TTg—named as “National Program of Developing New Rural Areas in 2010-2020”—on June 4, 2010, three months before the first preliminary report on trial implementation on first 11 communes was compiled and submitted.<sup>9</sup>

## Final Remarks

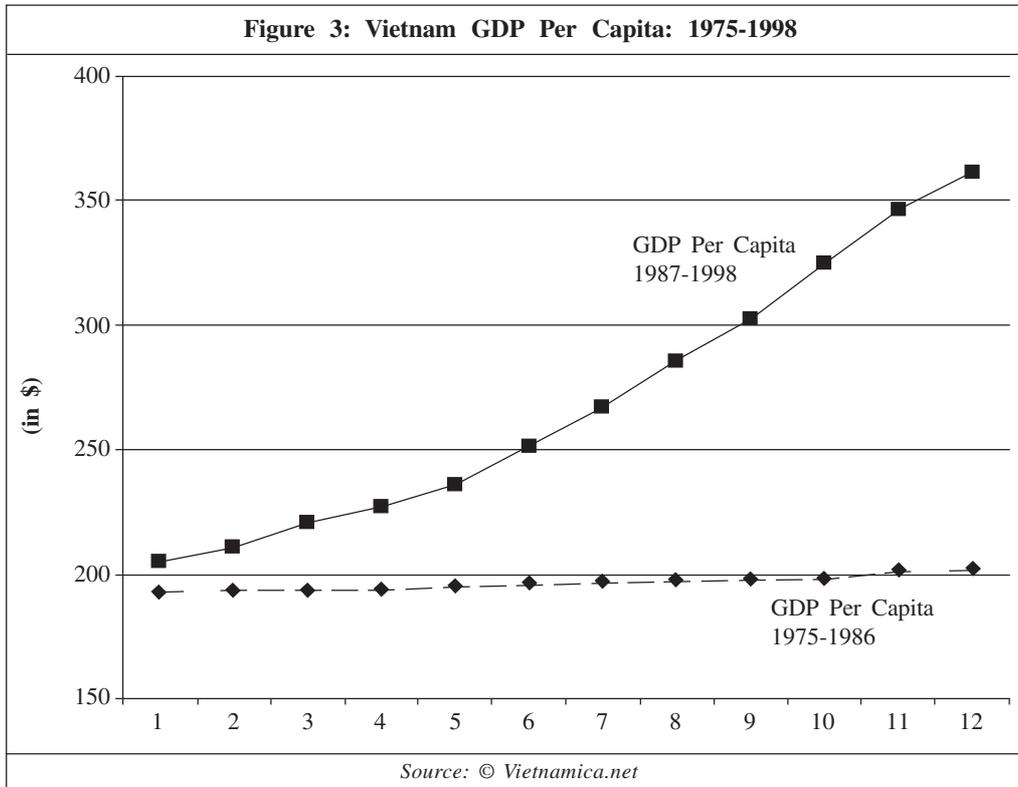
Since the policies of Nguyen Van Linh were adopted at the 6<sup>th</sup> Congress, the national economy of Vietnam has gradually transformed into a market economy, with many more building blocks being installed, making great changes in a positive way for a better economic life of people and economic standing of the nation within the global economy. Vietnam successfully avoided the status of a poor-performing cost-center, as Shearman (1987) puts it: “Vietnam costs the Soviet exchequer a daily figure estimated variously at between US\$1 and US\$3 mn. ... Cuba and Vietnam are large economic burdens to the Soviet Union, and in the specialist literature and in statements of public officials criticism of this burden is often implicit. It is also acknowledged by many in Moscow that Cuba and Vietnam do not provide an attractive model of economic development for other Third World states to emulate, particularly as such a model entails huge amounts of Soviet aid.”

Following the starting years of *Doi Moi*, inflation dropped quickly from 775% in 1986 to over 65% in 1990, while rice production went up significantly to 19.5 million MT in 1988 then 20.5 million MT in 1989, compared to 17.5 million MT in 1987. In 2010, the total rice production of Vietnam reached nearly 41 million MT, and Vietnam has even grown up to be the second largest rice exporter only after Thailand since 1995, with rice exports reaching over 6.75 million MT in 2010, earning foreign exchange revenues of over US\$3.2 bn. In 2010, total export revenues of the Vietnamese economy was US\$70 bn, while the previous export figures were a mediocre US\$700 mn in 1986, and US\$2,3 bn in 1990. Average annual GDP growth of Vietnam attained the high level of 7.5%, compared to 3.9% of the 1986-90 period.

At the onset of *Doi Moi* in 1986, Vietnam’s GDP per capita stood at a low level. But this production figure has been picking up dramatically. The figure below shows that for the 10-year period before the economic renovation, per capita GDP went almost flat, fluctuating around US\$200 per annum. The GDP dynamics after *Doi Moi* showed a swift turnaround, and per capita GDP by 2010 reached US\$1,200 and is now heading for a new hallmark of US\$2,100 in 2015. Figure 3 gives us a clear distinction between per capita GDP level of Vietnam a decade before the starting year of reform (1987) and a decade after that.

What the influential political figures had done before *Doi Moi* was by nature adopting entrepreneur the—like conceptual framework for making economic development happen, in which private benefits, property rights, self-determined course of economic acts with freedom and independence would decide the degree of success or failure of economic agents, in line with Schumpeter’s argument (1942 [2008], p. 73) that “... The commercial and industrial bourgeoisie rose by business success. Bourgeois society has been cast in pure economic mold: its foundations, beams and beacons are all made of economic material. The building faces

<sup>9</sup> In fact, when submitted in full to the PM, this implementation was completing just 30% of requirements (construction of bridge, roads, schools, and so on).



toward the economic side of life. Prizes and penalties are measured in pecuniary terms. Going up and down means making and losing money...”

We have successfully been using the above sketched entrepreneurial framework of analysis to identify ‘entrepreneurial facets’ of the process to Vietnam’s *Doi Moi*. By using this framework, we reach some important, and also novel conclusions, as follows:

First, economic crisis and harsh realities were neither necessary nor sufficient conditions for the reform to take place. We note that the dire straits in current North Korea was neither necessary nor sufficient for a reform to occur, no matter how long and how serious the hardship has been.

Second, only entrepreneurial elements in the society, combined with economic hardship, induced the process of looking for structural changes, emerging opportunities, then laid down cornerstones of policies and innovations. These have, as shown above, been typical elements and tools of entrepreneurship. In the light of this, entrepreneurship has never waited for a crisis to appear or economic emergency, but established its functions, role and existence through practical situations and disequilibrium conditions, employing its natural tools, undertaking its inherent course of functioning.

Transition and reform are two sides of a coin. The reform is in fact institutionalizing of various innovations, mostly in the form of ‘experiments’ or ‘pilot plans’, or whatever we might

want to call new and useful happenings for economic development, which lead to positive changes. Subsequently, these changes would, in turn, invite further innovations or open up chances for further innovations, until Schumpeter's 'perennial gale of creative destruction' becomes strongly established.

We also reach the finding that any assessment of the next stage of *Doi Moi* in Vietnam, referred to by several scholars as *Doi Moi II*, should take into account the entrepreneurial factors of the economy and predict the emergence of new entrepreneurial facets in the next phase of economic development. Entrepreneurial leadership is essential to the emergence and promotion of *Doi Moi II*. ©

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