

Research Article

Vietnam's Economic Transformation after 1986: From Central Planning to Market-oriented Economy

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Abstract: *This paper examines Vietnam's economic transformation and development since the 1986 Doi Moi reforms. It highlights the transition from a centrally planned economy to a market-oriented one, focusing on the impacts of key policy changes. The study employs various methodologies, including historical and comparative analysis, statistical evaluation, and policy analysis, to provide a comprehensive overview. Key findings demonstrate significant GDP growth, poverty reduction, and increased agricultural productivity. The paper emphasizes the importance of economic liberalization, agricultural reforms, and foreign direct investment (FDI) in driving growth. A comparative analysis of China and the Soviet Union showcases Vietnam's unique strategies and outcomes in economic reform. The study underscores the critical role of state-owned enterprise reforms, private sector development, and integration into the global economy. It also discusses the challenges faced in maintaining sustainable development and continuing reform momentum.*

Keywords: *Vietnam, Economic Transformation, 1986, Central Planning, Market Economy.*

I. INTRODUCTION

A) Brief overview of Vietnam's pre-1986

From 1976 to 1985, with the country unified, Vietnam embarked on the path of socialism, prioritizing the task of economic transformation, construction, and development as the foremost mission for the Party and the people. The population enthusiastically implemented the second Five-Year Plan (1976-1980) and the third Five-Year Plan (1981-1985). During this period, the impatience to quickly advance to socialism led to incorrect economic structure and investment allocation. Coupled with the increasingly evident flaws of the bureaucratic, centrally planned economy and subsidy system, this caused the socioeconomic situation to stagnate and fall into crisis, severely impacting people's lives.

The resources from socialist countries for aid and assistance dwindled almost to nothing. Domestically, the development strategy was based on a bureaucratic, centrally planned mechanism. The economy relied solely on the state-owned and collective sectors, with no room for private economic development, and the market was not recognized. This stifled the economic growth potential, especially in agriculture and small-scale industry. It can be said that the whole country was working but not producing enough to eat!

At the end of 1985 and the beginning of 1986, the Vietnamese economy faced significant difficulties due to shortcomings in the comprehensive price-wage-currency adjustment (September 1985). The country plunged deeper into a socioeconomic crisis, with production stagnating and all economic indicators of the Five-Year Plan (1981-1985) falling short. Many sectors experienced negative growth, and hyperinflation soared to 700%, making life extremely difficult for officials, civil servants, and the general population. Over 7 million people were undernourished, and national reserves, particularly foreign currency, were extremely low. The most severe periods of socioeconomic crisis were in the years 1983, 1984, and 1985. Inflation reached an alarming rate of 800%, rationed goods were insufficient, and people lacked food. Four major consumer goods heavily dependent on Soviet aid—petroleum, food and flour, cotton for the textile industry, and fertilizers—saw a gradual reduction in aid. The country's economy was nearly exhausted.

The Party and the people realized that there was no other choice but to innovate, starting with changing the way of thinking and doing things to build socialism more effectively. It was impossible to carry out local reforms without changing the economic management mechanism. From here, we have a path to innovate the domestic management and payroll mechanism, breaking with centralized planning, bureaucracy, and subsidies to switch to a socialist-oriented market economy. At the same time, open international integration. Through this, the state also realizes that it is impossible to manage the economy without relying on the reactions of economic sectors such as state-owned enterprises, cooperatives, and people.

B) Global and regional context



Many scholars believe that the Soviet Union's economy weakened and stagnated in the mid-1970s. The production of consumer goods and services was neglected by allocating excessive resources to the development of heavy industry and the military sector. Additionally, pervasive issues within the bureaucratic system exacerbated the country's problems. Towards the end of the decade, the Soviet Union's invasion of Afghanistan further destabilized the socio-political and economic situation. The international context also presented numerous challenges for Vietnam. In the Soviet Union and Eastern European countries, there was a movement towards reforming economic management, with many criticizing the Soviet model as inappropriate for addressing contemporary needs.

As the leading nation in the socialist bloc, the Soviet Union's gradual economic decline posed significant challenges for Vietnam. The diminishing Soviet aid, crucial for Vietnam's reconstruction and development, began to decrease noticeably by the late 1970s. By the early 1980s, as the Soviet Union's own economic situation deteriorated, Vietnam was forced to reconsider its dependence on Soviet support.

The reduction in aid impacted various sectors of the Vietnamese economy. Essential imports such as petroleum, foodstuffs, machinery, and fertilizers, which were heavily subsidized by the Soviet Union, saw sharp declines. This resulted in shortages that affected both industrial production and agricultural output, exacerbating Vietnam's economic difficulties.

Vietnam also faced the need to adapt to changing geopolitical dynamics. As the Soviet Union and Eastern European countries initiated economic reforms and moved away from rigid centralized planning, it became clear that the Soviet economic model was increasingly viewed as outdated and ineffective. This international context underscored the urgency for Vietnam to develop a more self-sufficient and resilient economic strategy.

Consequently, Vietnam began to explore avenues for economic renovation and diversification. This included encouraging private sector development, seeking foreign investment, and integrating into the global economy. The necessity to innovate and reduce dependency on external aid laid the groundwork for the economic reforms Vietnam would undertake, culminating in the Doi Moi (Renovation) policy introduced in 1986. These reforms marked a significant shift towards a more market-oriented economy, ultimately leading to substantial economic growth and improved living standards in the following decades.

II. MAIN CONTENT

A) *Key Reforms and Policies Implemented*

a. **Economic Liberalization**

Before implementing the innovation policy in 1986, Vietnam applied a centrally planned economic model characterized by state ownership and central management from national to local levels. This model had profound effects on Vietnam's economic development in the period before the reform was implemented. The "subsidized bureaucratic central planning mechanism" ensured that the economy operated under state control over both production factors and income distribution.

Key characteristics of this centralized planning model include:

1. **State Management and Directives:** The State manages and orients the economy mostly by main orders based on a network of ordinance systems applied from top to bottom. The state has subjectively designed and built targets, then passed them down to businesses and even cooperatives to implement.
2. **Deep State Intervention:** State administrative agencies intervened extensively in the production and commercial activities of enterprises. Any material losses from incorrect decisions were borne by the state. The focus was on state-owned enterprises and the collective economy.
3. **Overlooked Commodity-Currency Relationship:** Economic exchanges were primarily in kind rather than monetary. Loan interest rates, salaries, and prices were nominal, not reflecting actual supply and demand. Salaries were averaged, not based on productivity or administrative rank and seniority.
4. **Cumbersome State Apparatus:** The state apparatus was large, with many intermediary levels. Institutions and policies overlapped and were inconsistent, with cumbersome administrative procedures. The bureaucratic management system was fragmented and inefficient, and officials often lacked quality and capacity. Meanwhile, the team of officials and civil servants still has many shortcomings in both quality and capacity.

With the above characteristics, it can be said that this model was in a period of extensive economic growth, or other words, based on increased investment, resource exploitation, and cheap labor. However, it eliminates market competition, stagnating the application of advanced scientific and technological techniques, thereby losing economic motivation and making the economy unstable, stagnated, and in crisis.

Some countries that have applied this model include the Soviet Union, one of the most typical countries in central planning. This economic system was established under the leadership of the Communist Party of the Soviet Union. In the early stages, this model helped the Soviet Union develop heavy industry quickly and achieve many scientific and technical

achievements. However, after the dissolution of the Soviet Union in 1991, post-Soviet countries, including Russia, transitioned to a market economy and no longer applied the central planning model. Another example is the People's Republic of China. After being established in 1949, China applied a central planning model following the Soviet model. This period was especially notable for plans such as the "Great Leap Forward" and the "Cultural Revolution"; however, many plans were not as effective as expected and led to economic and humanitarian disasters. In 1978, China began implementing economic reforms under the leadership of Deng Xiaoping, gradually transitioning to a socialist-oriented market economy.

Since 1986, Vietnam's economic system has transformed its model from central planning to a socialist-oriented market economy, combining elements of both a market-oriented system and socialist principles. This process is commonly known as the "1986 Doi Moi". It operates under the leadership of the Communist Party and aims to achieve strong economic growth along with social justice. The essence of renovation is democratizing the economy, or in other words, transitioning from a centrally planned economy with predominant state and collective ownership to a market economy with multiple economic components. Recognizing a multi-component economic structure also means allowing individuals to use capital for production and business within the legal framework, alongside public ownership of production means. This adjustment has contributed to unleashing all existing productive capacities, tapping into the country's latent potentials, and fostering workers' dynamism, initiative, and creativity by aligning their personal interests with economic activity—a significant driver for social development. Furthermore, this adjustment harnesses the dispersed but crucial potential within the population, including labor, technical skills, capital, and the ability to create jobs.

The Political Report presented by General Secretary Truong Chinh comprehensively outlined the foundational views on innovation. However, at the 6th Party Congress, the concept of a market economy was approached cautiously, with only a reference to developing a "socialist goods" economy. It was not until three years later, at the 6th Central Conference in March 1989, that General Secretary Nguyen Van Linh provided a more specific direction: "Market mechanisms must be applied consistently in planning and economic policies." He emphasized that the market mechanism should operate in an environment of free production and circulation of goods according to legal principles. Domestic prices cannot be isolated from international market prices, and the state should influence the supply-demand relationship through policies, economic measures, and reserve forces rather than administrative orders. All economic units were to transition to a business-oriented mechanism.

The first step in the reform chain was the dissolution of cargo checkpoints on routes to promote the circulation of goods. Chairman of the Council of Ministers Do Muoi then instructed the Director General of the General Department of Customs to abolish taxes and stop arresting those trading goods from abroad. This policy led to an influx of goods from the Soviet Union and Thailand into Vietnam, significantly boosting trade and wealth creation.

Subsequently, the state issued a series of Resolutions and promulgated laws to reform and open the economic apparatus. In 1990, the Company Law and the Private Enterprise Law were established, officially institutionalizing the policy of private economic development. This period also saw the beginning of the equitization of state-owned enterprises. Concurrently, the state allowed people to freely buy and sell goods, starting with a pilot program in Hai Phong, then expanded to Hanoi and eventually nationwide by 1989. This reform led to the abolition of the rationing system.

b. Agricultural Reforms

Resolution No. 10-NQ/TW of the Politburo (Session VI) had the following main components:

Firstly, permitting land allocation for stable farm households for up to 15 years;

Secondly, production inputs were allocated to farmers individually;

Thirdly, farmers were free to decide on cultivating their land;

Fourthly, cooperatives were placed in charge of the production or utilization of resources and products; they were no longer the ones who determined what to make, how to manufacture, and how to go for distribution. A significant shift in the collective sector's transfer of ownership from cooperatives of farmers to farmer households was brought about by Resolution 10;

Fifth, farmers could freely exchange domestic production outputs in the marketplace after making tax payments to the government and covering cooperative service costs;

Sixth, the market system underpinned the exchange of goods and services between farmer households, service cooperatives, and other economic organizations. Farmers now have responsibilities and advantages thanks to this process. Farmers evolved into autonomous decision-making entities in a market economy, free from governmental cooperative intervention or control over their decisions regarding both production and distribution. Furthermore, the government instituted a one-price system and stopped consuming excess food at a discounted price.

Vietnam first has two types of property ownership: collective and state ownership. In the state-owned economic sector, state-owned farms and businesses received capital, labor, and land from the government; all products were required to be returned to the government. Since there was no free market at this time, the government decided decisions about what to produce, how to generate, and for whom to make. Workers in these state-owned entities received their wages and food supplies directly from the government. For example, officials were entitled to purchase 13 kg of rice per month at a subsidized

price, significantly lower than the market price. This system of ownership and average benefit distribution destroyed the motivation to work. Workers lacked incentive to work hard because their effort did not affect their wages or food allocation. This lack of motivation extended to managers and producers, stifling creativity and productivity.

Cooperatives constituted the second type of ownership, in which the state owned the land for farming, but cooperatives retained ownership of the labor and capital. Cooperative membership was encouraged for farmers, and those who did not were often seen as backward or opposed to the government. The cooperative model did not follow the principle of voluntary participation and mutual benefit. Production in cooperatives was organized in teams, with a captain arranging daily work and a secretary recording points for each member. Under this system, farmers were more concerned with accumulating points rather than focusing on productivity, as outputs were not directly tied to individual effort. After deducting taxes and other expenses, the remaining product was divided based on the number of working days, resulting in minimal returns for farmers—sometimes as little as 0.2 kg of rice per working day. Despite cooperatives controlling 95% of the land, they only generated 35%-45% of household income, while the remaining 5% of the land, controlled by individual households, produced 55%-65% of income.

During 1961-1965, although the cultivated area in northern Vietnam increased by 20,000 hectares due to land reclamation, rice productivity fell to 17-18 quintals per hectare. The average per capita food supply dropped from 24 kg/month in 1961 to 14 kg/month in 1965. For instance, Vinh Phuc province saw a decrease of 37,000 tons in total rice output, including a reduction of 32,000 tons of rice compared to 1965. The state's obligation also decreased by 22,000 tons compared to 1965.

The failure of the "contracting work" policy led to the emergence of a new agricultural model called "contracting households" in Vinh Phuc. Provincial Secretary Kim Ngoc allowed households to invest 5% of the land (known as "percentage field"), with families keeping all the produce from this land, motivating them to work hard and achieve high productivity. In 1965, Vinh Phuc had 131 cooperatives (9.4% of the total cooperatives), achieving 5 tons of rice per hectare on double-crop fields. By 1967, this number increased to 348 cooperatives (21.4%), doubling the output compared to 1965. Despite reaching only 99.5% of the state's rice quota in 1967, other agricultural products exceeded targets, demonstrating the effectiveness of the contracting household model.

However, this approach was later deemed "contrary to the Party's agricultural collectivization policy," violating socialist management principles and reviving individual economic practices. Consequently, contracting households was not supported (as per Central Party Secretariat Directive No. 224-TT/TW dated December 12, 1968). Despite being banned, some regions continued "khoan chui" (underground contracting), starting in Vinh Phuc, followed by Hai Phong (1972), Ha Son Binh (1978), Thanh Hoa, and Thai Binh. In the south, "underground contracting" began in Hung Loc, Thong Nhat district, Dong Nai province (1979), then spread to Ho Chi Minh City, Hau Giang, Tien Giang, and Hau Giang.

In response to the success of "underground contracting", the Central Party Secretariat issued Directive No. 100-CT/TW on January 13, 1981, officially recognizing product-based contracting (Contract 100). This directive allowed the implementation of the contracting system throughout the country's agricultural sector. Contract 100 aimed to redistribute economic functions between collectives and households, linking labor to land and providing tangible benefits to farmers, thus stimulating production. However, its impact diminished over time due to the persistence of bureaucratic centralization.

Recognizing the need for further reform, the Politburo issued Resolution No. 10 NQ-TW on April 5, 1988, marking the advent of "Contract 10." This policy acknowledged "the household as the autonomous economic unit," granting long-term land contracts (15-20 years for short-term crops, 1-2 cycles for long-term crops), ensuring farmers' profits were no less than 40%. Households had full control over cultivation decisions and were free to market their produce after fulfilling tax obligations. This reform re-established the economic role of farming households. The 6th Party Central Committee (March 1989) and the 7th National Party Congress further affirmed that farming households were autonomous economic units in commodity production.

Economic sectors:

As analyzed above, before 1986, only two economic sectors were recognized in Vietnam: the state and cooperatives. With the shift towards a market economy, the Vietnamese government gradually introduced legal frameworks to acknowledge the existence of other economic sectors. The Law on Private Enterprises and the Law on Companies, introduced in 1990, recognized private ownership of the means of production and the right to establish a company or a private enterprise as new economic entities. These laws clearly demonstrated the state's multi-sector economic policy, attracting more investment capital amid global economic fluctuations and shifting socioeconomic and financial goals.

The 1992 Constitution, passed by the National Assembly, acknowledged a multi-sector commodity economy. This legal foundation established equality among economic sectors, allowing the private economy to compete fairly with the state economy. It also guaranteed the protection of individual and organizational assets, specifying special cases for nationalization (Article 23).

Numerous legal documents were subsequently issued to support the development of various market types. Since 1992, several goods and services market regulations were introduced, including the Civil Code in 1995 and the Commercial Law

in 1997. The legal framework for the labor market began to take shape with the Labor Code in 1994. The State Bank Law and the Law on Credit Institutions were enacted for the financial market in 1997.

From 1996 to 2000, various legal documents were issued, such as the Commercial Law in 1997, the Enterprise Law in 1999, and the amended Law on Foreign Investment in Vietnam in 2000.

Between 2000 and 2005, several important laws were enacted to meet the requirements of legal adjustment, international economic integration, and creating a legal foundation for various markets in Vietnam. These included the State Enterprise Law (2003), the Competition Law (2004), the Civil Code (2005), the Commercial Law (2005), the Investment Law (2005), the Intellectual Property Law (2005), and the Securities Law (2006). The 2012 Labor Code recognized numerous rights and obligations for employers and employees.

Trade and Investment Policies

The Foreign Investment Law in Vietnam was enacted on December 29, 1987, about a year after the 6th Party Congress. This was the first legislative document reflecting Vietnam's economic renovation and integration policy. Upon its inception, the Foreign Investment Law was considered the most liberal in the region at the time. Compared to neighboring countries, only Vietnam allowed 100% foreign-invested enterprises to operate. This attractiveness stemmed from the fact that the Foreign Investment Law in Vietnam was built upon lessons learned from the foreign investment laws of 18 other countries. At that time, neighboring countries like Thailand and Indonesia were gradually opening up, limiting foreign investment to 49%, whereas Vietnam immediately opened its doors, allowing 100% foreign-owned enterprises, with a minimum foreign investment capital contribution of 30% and no maximum limit.

The 1987 Foreign Investment Law, with its open, liberal, and far-sighted approach, paved the way for attracting Foreign Direct Investment (FDI) into Vietnam. It proved effective, laying the foundation for economic development in subsequent stages. Evidence of its success is seen in the issuance of 213 investment licenses within just over two years, from 1988 to May 1990, with a total registered capital of nearly \$1.8 billion.

When Vietnam reviewed its key national policies for the 1986-1990 period, the issuance of the Foreign Investment Law was ranked as one of the nine most important milestones, alongside other historical reforms such as agricultural contracting, granting business autonomy to state-owned enterprises, and abolishing the bureaucratic subsidy mechanism. This marked a significant shift in economic thinking in modern Vietnamese history as it created a legal foundation for foreign cooperation, a completely new concept at the time. During this period, the Party and State leaders recognized that the state and collective economies were ineffective. Attracting foreign capital to boost the domestic economy was deemed necessary.

B) Economic Performance and Growth

a. GDP Growth and Economic Expansion

Regarding economic growth, during the past 38 years, Vietnam's economy has achieved a growth rate much higher than the pre-renovation period. After the initial period of innovation (1986-1990), with an average annual GDP growth rate of only 4.4%, the Vietnamese economy has experienced very impressive growth, up to 10% a year.

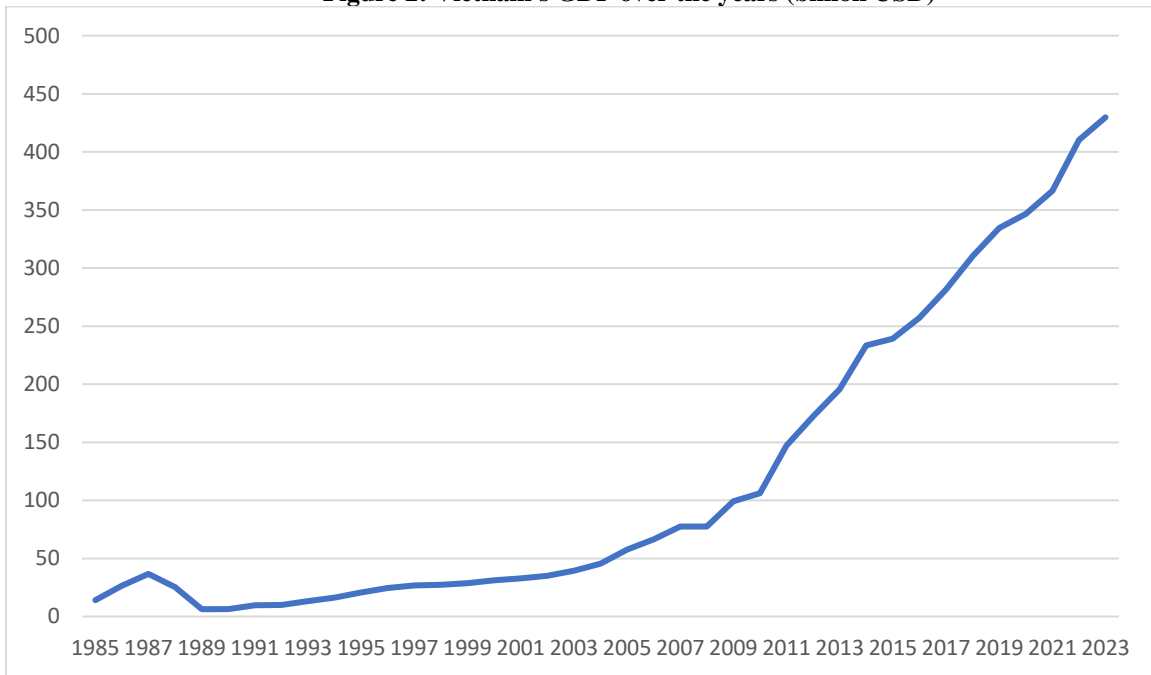
Figure 1: GDP growth of Vietnam (1985-2023)



Source: World Bank

In the period 1991-1995, average GDP increased by 8.2%/year, double the previous 5 years; During the next 5 years, from 1996 to 2000, despite the impact of the regional financial crisis (1997 to 1999), GDP still maintained an average increase of 7.6%/year; In the period 2001-2005, GDP increased by an average of 7.34%; Despite the global economic slump from 2006 to 2010, Vietnam's GDP grew at an average annual rate of 6.32%. Due to the aftereffects of the worldwide economic downturn in 2008 and the nation's fiscal crisis in 2010, Vietnam's GDP growth rate slowed down in the 2011–2015 period, but it still achieved 5.9% /year, which is the highest in the globe and the entire region. The year 2020 was a tumultuous year for both the global and Vietnamese economies. The Covid-19 pandemic led to negative growth in many countries. In Vietnam, besides dealing with the pandemic, it also faced numerous natural disasters that caused severe damage to people and property. Amid these challenges, Vietnam successfully weathered the storm with a GDP growth of 2.91% compared to the previous year, ranking among the highest growth rates in the world.

Figure 2: Vietnam's GDP over the years (billion USD)



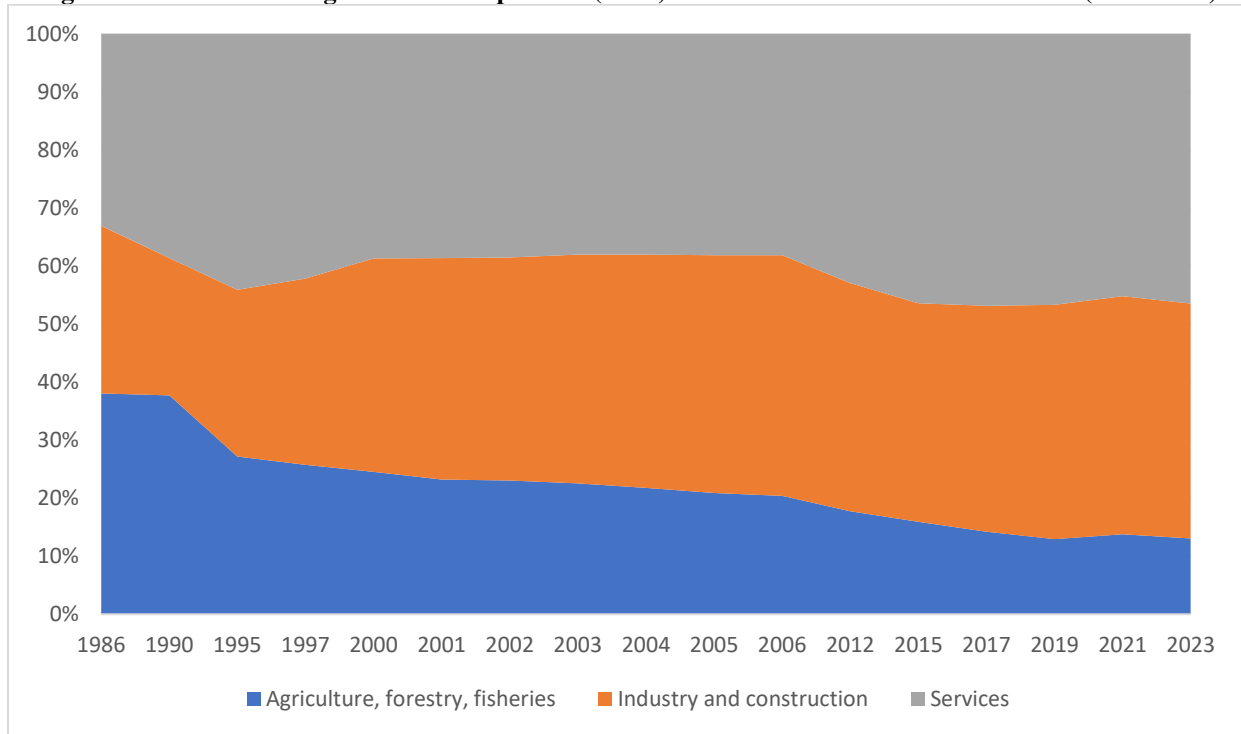
Source: Authors compiled with WB

The scale of Vietnam's economy in 2020 increased 1.4 times compared to the beginning of the term (2016), becoming the fourth-largest economy in ASEAN. The quality of growth improved; labor productivity increased by an average of 5.8% per year, much higher than the 2011-2015 period. Despite reduced revenue and increased expenditure needs, macroeconomic stability was maintained; major economic balances, especially the balance of state budget revenues and expenditures, were basically ensured; the consumer price index was controlled at under 4% per year; total import-export turnover reached a record level of over 540 billion USD; the trade balance had a high surplus, with a trade surplus of about 20 billion USD, and foreign exchange reserves increased significantly.

The General Statistics Office's statistics indicate that in 2023, the GDP is expected to reach 10,221.8 trillion VND, or 430 billion USD, at present prices. As a result, Vietnam's economy is ranked 34th in the world by CEBR in 2023. Forecasts indicate that if recovery and growth trends continue, the Vietnamese economy is predicted to overtake other economies in the ASEAN area by 2038, having an estimated GDP scale of 1,559 billion USD, such as Singapore (896 billion USD), Thailand (1,313 billion USD). The Philippines (1,536 billion USD) will join the group of the top 25 global economies. According to World Bank data, by 2022, Indonesia will have the largest GDP (PPP) in Southeast Asia, an estimated 4,036 billion USD, followed by Thailand at 1,482 billion USD and Vietnam in third place with an estimated 1,321 billion USD. This is based on purchasing power parity, or PPP, calculations.

b. Diversification of the Economy

Figure 3: Distribution of gross domestic product (GDP) across economic sectors in Vietnam (1986-2023)



Source: Authors compiled from GSO Vietnam and Statista.

The GDP structure among economic sectors is one of the most important indicators reflecting the trends and success levels of the industrialization process. In Vietnam, this structure has shifted according to the rules of sectoral structural transformation during the industrialization and modernization process. Specifically, the proportion of the Agriculture, Forestry, and Fisheries sector in GDP has tended to decrease, from 38.06% in 1986 to 24.53% in 2000 and down to 11.96% in 2023 (an average annual decrease of 0.73%). The proportion of the Industry and Construction sector has shown the strongest upward trend, from 28.88% in 1986 to 36.73% in 2000, reaching 37.12% in 2023. The services sector's proportion has also increased, from 33.06% in 1986 to 38.74% in 2000, reaching 42.54% in 2023.

From 1981 to 1985, Vietnam imported over 1 million tons of food. However, just four years after robustly implementing the renovation policies proposed by the Sixth National Party Congress in 1986, Vietnam exported 1.5 million tons of rice in 1990 (Nguyen Bich, 2016). Since then, the food situation has positively transformed, meeting domestic needs, maintaining reserves, and enabling exports, significantly stabilizing the people's livelihoods and improving the trade balance.

Thanks to the renovation policies, agricultural production and exports in Vietnam have increased rapidly. The impressive growth in the export value of Vietnam's agricultural products from 1990 to 2022 highlights the country's significant progress in enhancing its agricultural sector's global competitiveness and capacity. In 1990, the export value was only 1,149 million USD. By 1995, it had more than doubled to 2,520 million USD; in 2000, it reached 4,308 million USD. This period saw the initial impact of the Doi Moi economic reforms, which encouraged efficiency and productivity in agriculture. The upward trend continued, with the export value surging to 12,365 million USD by 2008, indicating robust expansion and successful global market integration. By 2021, the export value had reached 48.7 billion USD, and in 2022, it climbed to 53.22 billion USD, representing nearly an eleven-fold increase from 2008. This growth reflects consistent government policies, global trade integration, diversification of agricultural products, technological advancements, and increased private sector involvement.

Since 1991, Vietnam has started to form several major agricultural export products. These products are still maintained, notably rice, coffee, tea, rubber, and cashew nuts. These products are not only valuable exports for our nation, but they also account for a sizeable portion of the world market. Agricultural production and exports have contributed to Vietnam's economic growth and social stability. In 2023, agriculture continued to assert its vital role as a backbone of Vietnam's economy, ensuring food security, balancing the major aspects of the economy, and contributing to macroeconomic stability. The agricultural sector's role as the "pillar" of the economy was evident amid global and national challenges, with the sector's growth estimated at 3.83%, the highest in recent years. Notably, the sector's export turnover exceeded USD 53 billion, with

a trade surplus of over USD 11 billion, a record high accounting for over 42.5% of the country's total trade surplus. Several export items achieved record growth, such as increasing fruits and vegetables by over 70% and increasing rice by over 36%. Vietnam's fruit and vegetable export turnover is projected to reach a record USD 5.5-5.8 billion this year, an 80-90% increase from 2022. Additionally, rice and fruit exports are expected to continue growing in 2024. These figures underscore the wisdom of the Party and State's policies during the 1986 renovation, transforming Vietnam from a food-deficient country into one of the world's leading food exporters.

c. Integration into the Global Economy

The 6th Party Congress in 1986 initiated a comprehensive and profound innovation policy across all economic sectors. Vietnam's innovation process occurred within an international context marked by profound changes and the formation of a new world order, where countries with different political regimes were both in conflict and cooperation. The Party recognized that this context provided an opportunity to develop an independent, self-reliant, open foreign policy.

The 7th Party Congress (1991) articulated the policy of "independence, autonomy, multilateralization, and diversification of foreign relations" with the motto "Vietnam wants to be friends with all countries in the international community, striving for peace, independence, and development." This marked the beginning of Vietnam's integration process in a new era. Vietnam increased its multilateral and bilateral foreign economic cooperation in a wide range of fields with different partners after implementing this policy (such as trade, production investment, financial-credit relations, and scientific-technical cooperation), creating a favorable domestic business environment and effectively utilizing external resources to advance socio-economic development and international integration.

Vietnam has achieved significant results by adhering to the Party's consistent guidelines and policies on international economic integration. Vietnam joined ASEAN in July 1995, signed the Vietnam-US Bilateral Trade Agreement (BTA) in 2000, joined the WTO in January 2007, and participated in eight regional and bilateral Free Trade Agreements (FTAs). More specifically, bilateral trade accords were inked by Vietnam and the ASEAN nations in 2004 with China, in 2006 with Korea, in 2008 with Japan, in 2009 with Australia and New Zealand, and in 2009 with India. Furthermore, in 2008 and 2011, Vietnam inked bilateral free trade agreements with Chile and Japan.

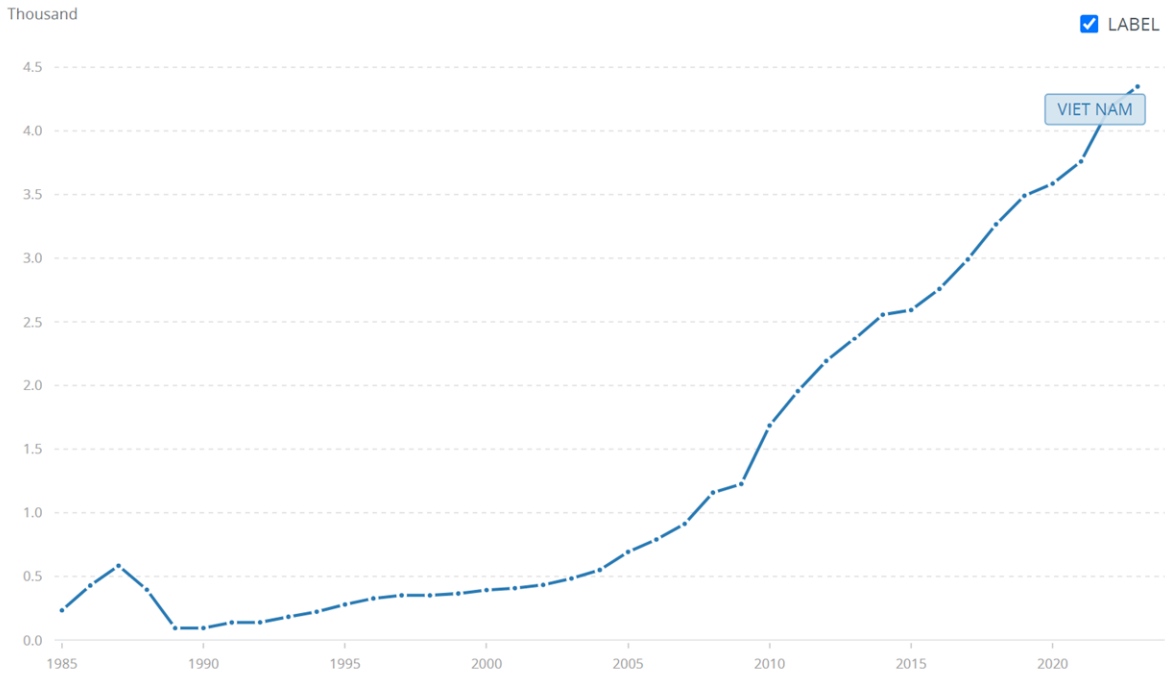
Vietnam currently has formal relations with 189/193 nations and territories, including commercial ties with 224 partners, collaborative arrangements with more than 300 nations and territories, and six thorough strategic alliances, eighteen strategic partners, and twelve broad partners.

After nearly 40 years of opening up, Vietnam has become an official member of many international organizations and financial institutions. Vietnam has developed economic links with over two hundred nations and territories globally. Additionally, Vietnamese firms have investment projects in over seventy countries and territories, while more than one hundred countries and territories have invested in Vietnam. Participation in international financial organizations, especially the WTO, has significantly promoted economic growth. The average GDP growth rate from 1986 to 1990 was only 4.4% per year, but from 1991 to 2011, it averaged 7.34% per year. After joining the WTO, Vietnam maintained a high growth rate, with GDP growth reaching 8.46% in 2007 (the highest level in the preceding 11 years). Vietnam's import-export turnover has consistently grown, with its goods reaching markets in 220 countries and territories.

d. Poverty Reduction and Income Growth

In 1986, Vietnam faced severe economic challenges, with per capita income below 100 USD. The initial reforms focused on stabilizing the economy and encouraging private enterprise. By 1990, GDP per capita rose to about 130 USD. The 1990s saw more aggressive reforms, boosting the GDP per capita to around 402 USD by 2000. Vietnam's accession to the WTO in 2007 and continued liberalization spurred rapid growth. GDP per capita increased from 402 USD in 2000 to 1,224 USD in 2010, driven by manufacturing, services, and agriculture growth. Vietnam maintained steady growth despite the global financial crisis and the COVID-19 pandemic. By 2020, GDP per capita reached approximately 2,750 USD, thanks to economic restructuring and innovation. Vietnam's economy showed resilience during the COVID-19 pandemic, with GDP per capita exceeding 4,300 USD. Projections suggest it could reach over 6,500 USD by 2029, driven by technology, infrastructure, and global integration investments.

Figure 4: GDP per capita in Vietnam (1985-2023)

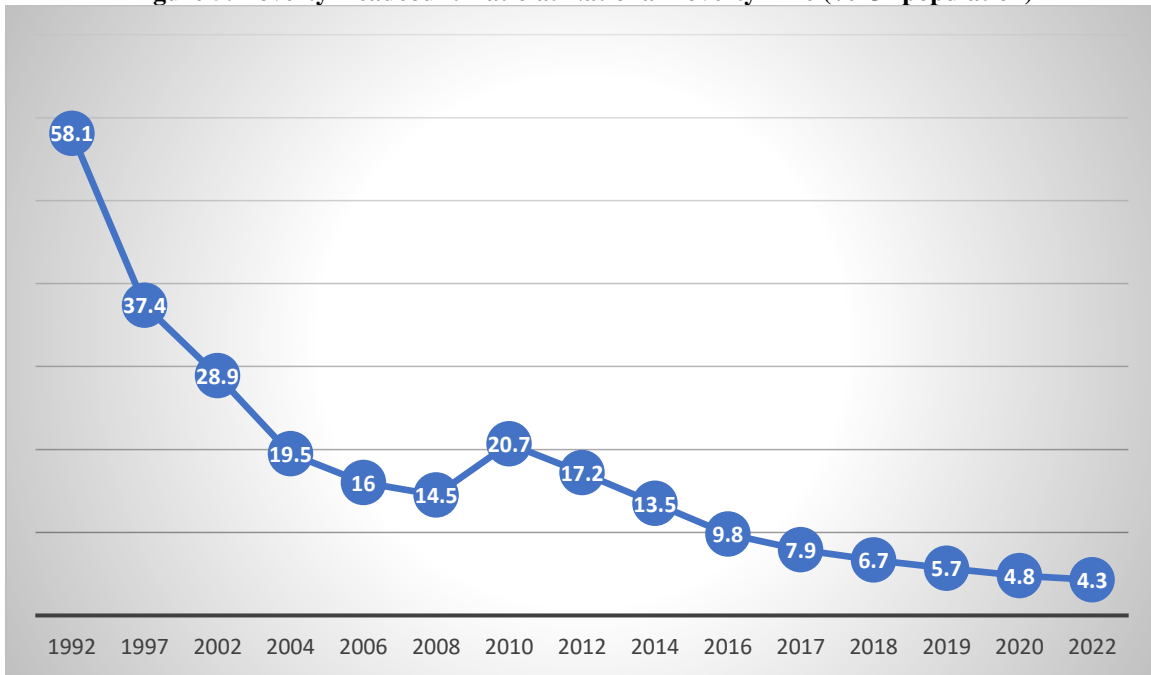


Source: World Bank

Vietnam's economic progress during the last three decades has notably reduced poverty. High economic growth has coincided with the constant implementation, at all levels, of a number of programs aimed at reducing poverty, supported by the national and local governments and international social groups. These efforts have significantly improved the poverty landscape across the country.

The determination to rise out of poverty has not only been the resolve of Party committees and local authorities but has also become a mindset among impoverished households. The poverty rate per capita has dramatically decreased from 58.1% in 1992 to 28.9% ten years later. In 2016, the rate decreased to 9.8%, marking a significant milestone, with the poverty rate falling below 10% for the first time. This figure has continued to shrink, and by 2022, only 4.3% of Vietnam's population was considered to be living in poverty, representing one of the most significant achievements in Vietnam's socioeconomic development.

Figure 5: Poverty Headcount Ratio at National Poverty Line (% Of population)



Source: Authors complied from WB

C) Challenges

Despite numerous achievements in the course of the 38 years implementing the Reform, there are, inevitably, limitations and weaknesses in the process of developing a socialist-oriented market economy. While Vietnam has made significant strides in economic growth, poverty reduction, and improving living standards, several persistent challenges and shortcomings remain.

The adaptability and resilience of Vietnam's economy to external shocks or impacts remain weak. Economic self-reliance is heavily influenced by fluctuations in the production activities of the foreign direct investment (FDI) sector and several major markets. Currently, within the economic structure, the FDI sector contributes 20.13% to GDP, accounts for 72% of total export value, and approximately 50% of industrial output. When assessed based on added value, revenue, and employment, FDI enterprises dominate 12 out of 24 processing and manufacturing industries. They play a leading role in four of Vietnam's five largest export industries: textiles, footwear, electronics, and wood products, as well as in import-substituting industries such as rubber-plastic, basic metals, and mechanical products. Most FDI enterprises are from emerging countries, particularly China, and primarily operate by importing for production, resulting in minimal spillover effects to the domestic economy. The number of technology transfer contracts from FDI enterprises is very modest, with only about 1,000 contracts out of nearly 27,500 foreign investment projects. Of these, technology transfers involving industrial property account for just 13%. The localization rate remains low, averaging only 20-25%. Experience from other countries indicates that Vietnam cannot successfully industrialize and modernize solely by relying on FDI.

Additionally, the analysis of the inter-industry Input-Output (I-O) structure shows that Vietnam's economy is fundamentally capital-intensive and primarily focused on processing and assembly. The contribution to TFP (Total Factor Productivity) growth, although it increased from 34.3% during 2011-2015 to 45.9% during 2016-2020, sees science and technology playing a modest role at only 28.44%. In recent years, despite improvements in innovation index rankings, foundational factors remain low. Total spending on research and development (R&D) in Vietnam, including both public and private sectors, was only 0.53% of GDP in 2019. This is significantly lower than the global average of 1.7% and countries like Thailand (0.8%), Malaysia (1.4%), and China (2.1%). Creative capacity is also low, with patents granted to Vietnam by reputable global organizations being just one-third of Thailand's, one-eleventh of Malaysia's, and one-three-thousand-one-hundred-seventieth of China's. The patent rate per million people is 0.21, ranking 91st out of 141 countries. Over 20 years (2011-2020), patents granted to Vietnamese individuals accounted for only 4.62% of the total patents issued.

The self-sufficiency of the industrial sector remains low, with most technology, machinery, equipment, spare parts, and primary raw materials for industrial production being imported. Vietnam imports up to 9.3 million tons of hot-rolled steel coils per year and 85.4% of fiber (60% from China, 13.7% from South Korea, and 11.7% from Taiwan). The leather and footwear

industry imports 40-45% of its materials from abroad, and 75-80% of input materials for plastic production are imported. The technological level of industrial enterprises is generally low, with most using technology that lags behind the global average by 2-3 generations. In agriculture, Vietnam imports over 70% of machinery and equipment for farming. Seeds for certain crops and livestock are still dependent on imports, with 80% of vegetable seeds and 60% of corn seeds being imported.

III. CONCLUSION

Vietnam's economy has undergone a profound transformation since the mid-1980s. After the Vietnam War, the country struggled with a central planned economy characterized by inefficiencies, low productivity, and widespread poverty. Recognizing the need for change, the Vietnamese government launched the Đổi Mới (Renovation) reforms in 1986, marking a decisive shift towards a market-oriented economy. These reforms aimed to dismantle the rigid centrally planned economic structure, foster private sector development, and integrate Vietnam into the global economy. This strategic pivot was driven by the pressing need to boost economic growth, improve living standards, and reduce poverty. The implementation of Doi moi brought about sweeping changes across various sectors. The agricultural sector saw de-collectivization, giving farmers more autonomy and incentives to increase productivity. In industry, the restructuring of state-owned enterprises and the encouragement of private businesses spurred growth and innovation. Trade liberalization policies opened Vietnam to foreign investment, transforming the country into a significant player in the global market. The results of these reforms have been remarkable. Vietnam has experienced rapid economic growth, substantial poverty reduction, and significant improvements in infrastructure and social services.

IV. METHODOLOGY

Historical Analysis: The author examined historical records and data to understand the context and progression of economic policies and their impacts. In particular, this paper looked at Vietnam's history before and after the 1986 Doi Mo reforms, analyzing the socioeconomic conditions and the central planning model previously applied in the country.

Statistical analysis: the author used this methodology to present statistical data on Vietnam's GDP growth, GDP per capita, agricultural production values, and export revenues over the years.

Policy Analysis: The paper evaluates key reforms and policies implemented during the Doi Moi period, such as economic liberalization, agricultural reforms, and the transformation to a market-oriented economy.

Literature Review: The paper references various reports, statistical yearbooks, and academic studies to support its analysis and provide context.

Case Study Method: The analysis of Vietnam's specific economic sectors, such as agriculture and foreign direct investment (FDI), acts as case studies to illustrate broader economic trends and outcomes.

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