Economic Reforms in North Korea and Viet Nam

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Socialist-oriented developing countries, among which North Korea and Viet Nam, are in a state of economic crisis. Economic reforms attempt to cope with the crisis. The North Korean reform aims at perfecting the existing directive planning, following the same path as East Germany. Viet Nam is implementing a reform more open to market mechanism, like in Hungary or in China.

This paper elaborates further on these two models of economic reform concerning planning, state enterprise management, price formation, institutional arrangements, private sector, foreign trade and foreign direct investment. In both models state control over the economy is reduced though unevenly.

I. Introduction

More than twenty countries in the world can be regarded as socialist-oriented developing countries. It appears that almost all of them are in a state of economic crisis today (Andreff 1987a, 1988a). Among these economies, seven are located in Asia: Afghanistan, Burma, Cambodia, Laos, Mongolia, North Korea and Viet Nam. About 150 million inhabitants live in the socialist area of Asia, China not included. North Korea and Viet Nam together account for 80 million people. It seems hence relevant to focus on the two countries when it is intended to analyze the process of economic reforms in Asian socialist-oriented developing countries (Andreff 1988b). In both cases economic reforms attempt to provide a way out of the crisis, more openly in Viet Nam than in North Korea.

It must briefly be remembered what a socialist-oriented economy is. Its main features are seven. The agrarian regime is based on

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land collectivization, cooperative or even state farms. A centralized and directive planning system conducts the economic development. The major part of industry and the whole banking network are nationalized. The highest priority is given to industry in medium-term plans, and within industry a faster planned rate of growth is scheduled for heavy capital goods and intermediate products. Foreign trade is under the state monopoly. Legal obstacles, which may go as far as prohibition, hinder any new foreign direct investment in the country. The political regime, claiming its socialist or Marxist-Leninist ideology, rests on a single party system the outcome of which is a centralized political power attempting to control each individual. To some respect this "model" is at work in North Korean and Vietnamese economies.

Now the problem is that this very-model is in a process of reforming itself, or of restructuring according to the Russian word "perestroïka", in more developed socialist economies of Eastern Europe. Two kinds of reform are implemented in European socialist countries. The first one aims at perfecting the existing system of directive planning, while the second type of reform is geared towards a change in the whole economic mechanism (according to the Hungarian concept of the reform). Let us call this first a German way or model to reforming a socialist economy, as far as it is nowadays implemented in the German Democratic Republic (GDR), and to a lesser extent in Czechoslovakia and Bulgaria; the Romanian profile of the same reform is so low that we can think of no reform at all. The second path to the reform may be called Hungarian though it is followed by Poland and China as well, at least to some respect. The Soviet "perestroïka" is somewhere in between the two kinds of reform, probably closer and closer to the Hungarian than to the German pattern since 1987.

II. Two Models of Economic Reform in Socialist Countries

The so-called *German model* of economic reform does not intend to alleviate the basic means of planning the tools of which must remain as directive as before the reform. A pinch of decentralization however is given to the process of planning: the power to work out the plan and to carry it into effect is now handed down by huge industrial unions or combines (in German: "Kombinaten"), each merging a lot of industrial enterprises, of commercial networks, of research laboratories and usually a foreign trade department. This is not to say that the former power of sectoral ministries over industry has vanished, but industrial combines have acquired a countervailing power to monitor their plan and have reached an increased bargaining power when facing ministries or the central planning office.

At the enterprise level, the German-style reform is not actually decentralizing. The combine's tutelage has substituted for that of the ministry. Nearer from the enterprise's staff, the head office of the combine opens less room to enterprise economic autonomy than formerly the ministry did. The economic reform is anything but a U-turn towards a market economy. A major part of business links between enterprises are internalized within the same combine instead of being externalized through the market. In the GDR, self-financing is accordingly meaningful for the combine and meaningless for the enterprise.

Contrarily to what is said below concerning Hungary or the Soviet Union, we can not observe any tendency towards self-management or even industrial democracy within the enterprise in East Germany. Although a sector of small firms in private ownership has always existed in the GDR, there is no obvious signs that it is legally allowed to expand as in Hungarian, Polish and Chinese economies. In the sector of state ownership, the reform does not prospect any kind of bankruptcy procedure for enterprises which continuously fail to pay in time. Put into the conceptual framework elaborated by J.Kornaï (1980), "state paternalism" over firms still remains and the "budget constraint", to which each enterprise is theoretically submitted, is kept really soft in the German economic reform. No possible bankruptcy, no other way for capital mobility (opposed to the Hungarian policy, the GDR government does not allow the issuing of bonds or shares), then nothing as a capital market could emerge from this type of reform. No more than a labour market.

Prices continue to be centrally planned in the GDR, sometimes without any regard to costs of production. Several consumer prices are fixed quite lower than costs because of the ruling ideology about what the welfare for all the people is. In the early eighties, subsidies to stabilize retail prices have reached almost 50% of the East German state budget.

An open door policy to more trade with the West is a genuine character of the reform following here a trend which started by the late sixties. Anyway, this does not mean that narrowing the gap between the domestic price system and the world price system is to be put on the agenda. Of course, numerous East German combines are now allowed to trade by themselves with foreign partners, i.e. without being obliged to contract under the sponsorship and the control of state foreign trade organizations. Until now the GDR remains closed to Western foreign direct investment and it is the last country in Eastern Europe which hinders such a kind of foreign capital inflow. This restrictive policy does not exclude some financial arrangements with foreign banks and industrial cooperation with Western firms, especially with those of the Federal Republic of Germany; but they are working otherwise, not as foreign direct investment.

The so-called *Hungarian model* of economic reform has its starting point in 1968. Twenty years were enough to make trials and errors, to go ahead into the reform and to come back (as between 1972 and 1977 when the reform moved backward) and, through this whole process, to implement and improve a fine tuning of the new economic mechanism in Hungary. Later but faster, China since 1979 and Poland since 1982 has joined almost the same path. Why could we agree with the brand name of this reform called a radical one?

The first point to be stressed is that directive planning based on planned and compulsory targets in physical quantities, sent from the central planning agency to ministries and enterprises, is now abandoned for a more "indicative" and macroeconomic plan focussing on monetary and financial variables and on economic policy regulators (taxes, subsidies, income and price policies, credit, etc.).

A second purpose of the Hungarian economic reform is the making of a more market-oriented economy. Number of prices have come outside the central pricing process, namely about 85% of all industrial prices in 1968; this percentage has changed in various stages of the reform but it has remained always significant. No more than 10% of the national product is now considered as high priority and accordingly most of supplies to producers of these priority products continue to be centrally determined as formerly. For other commodities the new rule of the game is the adjustment of prices and quantities between buyers and sellers, i.e. the rule of a market economy.

It is obvious that the market is still regulated by the state: prices are not allowed to skyrocket, credit is not without control, taxes may be increased or decreased and so on. In Hungary, the market economy is far from meaning a "laissez faire" state policy. It could be correct to analyze the Hungarian economy today as a mixed economy with an actual market sector on the one hand, and a state regulation on the other hand. The dream of a plan and market economy is there almost achieved or, if we follow the ideas of an Hungarian opponent (Bauer 1984), it is the nightmare of a "neither plan nor market" economy. Whatever it may be, it is clear that shortages have been reduced in Hungary and with them the so-called "sellers market" situation so specific of centrally planned economies (Kornaï 1980).

The administrative tutelage of industrial ministries over enterprises does not last any longer. The three last sectoral ministries have been merged in 1981, in Hungary, into a single Ministry of Industry with no direct monitoring power over each enterprise management. This merger appears as one of the more significant step towards the softening of control by central authorities and industrial ministries over the current economic life. A proof that this administrative reform has had an impact on the behaviour of economic agents is given by the following evdence: today in Hungary enterprises still continue to bargain with central authorities as before the reform, but mainly with the Ministry of Finance concerning fiscal and financial regulators, and no more with the Ministry of Industry about what is to be produced and where it is to be supplied as they formerly did.

Self-accounting and self-financing are logical consequences for enterprises now making business in the framework of a market economy, even if it is a regulated one. Such is of course the new pattern in the Hungarian enterprise management. Even in the less radical (for now) Soviet economic reform, the law passed on June 1987 in the USSR gives a new status to the enterprise which must be self-accounted, self-financed and self-managed. Since January 1988, in 20,000 out of the 46,000 Soviet industrial enterprises the new law has come into force. In these enterprises the top manager, and a large part of the staff as well, are to be elected by the workers collective and indeed workers have balloted two years ago. Self-management has been also implemented in Hungarian enterprises since 1985, both as a tool for an increased industrial democracy and as a countervailing power from within the enterprise to the might of top managers heading huge monopolistic or oligopolistic state trusts (Hungarian industry is the most concentrated in the Comecon and maybe in the world).

In the state ownership sector, the New Economic Mechanism sets the first layers of what may become a genuine capital market. In 1983, state industrial enterprises were allowed to issue bonds. These latter were bought by individual savings. The yields were an interest of 7 to 11% a year and the guaranty to be among the first satisfied in the queue of those waiting for public utilities (telephone, gas appliances, etc.) produced by issuing enterprises. The Hungarian Parliament voted, after a long debate in summer 1986, a law regulating possible failure of state-owned enterprises. Until now a few small firms were declared bankrupt, but none of the large state trusts showing a deficit. Last but not least, in October 1987 some state-owned enterprises started issuing shares. Of course they are minority shares and no one except workers of this issuing enterprise can buy them. Anyway, failures, bonds and shares are basic for a mobility of capital, even within the state ownership sector. Something like a capital market is dawning in the Hungarian economy. The same trend prevails today in China.

The second or underground economy is usually overdeveloped in the centrally planned system and indeed it is of significant importance in Eastern Europe, in the USSR and in China. It was decided in Hungary, especially since 1982, to open more rights to citizens who intend to start a private business such as an individual enterprise or as a cooperative. This change in the property rights system has created what may be called a "small economy" (Andreff 1986) which is nothing but a way to legalize the former underground activity. Today there exists no less than eleven kinds of legal private ventures in Hungary. Entrepreneurship is spreading through the whole private sector and could well be imitated by several state-owned firms in the near future.

The Hungarian economic reform is more comprehensive than any other in socialist countries as far as a true labour market is on the agenda of reformers. Already in 1979 state-owned enterprises or organizations were allowed to move their workers, even against their will, from one factory to another, from an industrial branch to another, from industry to services and to dispatch them according to the needs of social production. To move workers is not to lay them off, but anyway unemployment has been officially acknowledged since 1984, when the Hungarian Ministry of Labour published the figure of 4,000 workers unemployed. The mobility of labour followed up with unemployment on a small scale, this seems to be the starting point of a true labour market.

We must also mention measures taken in Hungary these last years in two other fields. One is a reform of the banking system. Hungarians have abandoned in 1987 the one-bank system in which the National Bank is simultaneously a central bank and the headquarter of all other banks, i.e. all commercial banks, all investment banks, all saving funds and the foreign trade bank. Now it is created a two-level banking system which looks like that of Western countries; this has been implemented by decentralizing all banks from the tutelage of the central bank the task of which is confined to the regulation of money and credit. In addition, in the fiscal sphere, the value added tax has been introduced in 1988.

The value of Hungarian foreign trade (imports plus exports) is almost 100% of the vlaue of Hungarian GNP. Needless to say that a reform of foreign trade in such an open economy is going further than the German-style open door policy. An increasing number of domestic firms are given the right to trade directly with foreign partners, especially on Western markets, without being under the control of foreign trade organizations. Domestic prices are more and more tied to world market prices.. The old foreign direct investment code passed on in 1972 has been updated with a liberal orientation in 1986. Foreign investors can now take a majority share in the capital of their affiliates or joint-ventures settled in Hungary. Hungary has asked and has been given the membership to the International Monetary Fund in 1982 and the Hungarian government has signed a specific trade agreement with the European Economic Community in 1988. Step by step the Forint (the Hungarian currency) is going to be convertible and a foreign exchange market has started operating in Budapest last year.

Almost all socialist economies are today in a process of restructuring, but it is quite obvious that the outcome would not be the same whether the reform was imitated from the Hungarian model or whether it was of a German style. This is to be assessed in North Korea and Viet Nam.

III. An Economic Crisis in Viet Nam and in North Korea?

Bad economic performances come under common sense in a "war economy", moreover a poor one. During the five year plan (1976-1980) the average rate of growth of the Vietnamese economy was slow: 2.5%. No industrial sector succeeded in achieving its planned targets. The accelerated rate of economic growth (average: 7.1%) in 1981–1985 did not alleviate industrial problems: production remained weak in textiles, in the pharmaceutical industry and for wood products, but still weaker for steel, engines and chemical products. In agriculture, output grew slower than population. Although there is no official unemployment, the Vietnamese newspaper *Nhân Dân* has published the figure of 2.6 million people "waiting for a job" in March 1987. Foreign data is over 6 million unemployed, that is to say more than 20% of the population is unable to work. All these figures do not take into account a non negligible hidden unemployment in agriculture.

These signs of economic crisis in an underdeveloped country are enlarged with typical misdoings of the centrally planned economy. Sectoral weaknesses in production generate bottlenecks in the planned supply to industry. In Viet Nam many factories and equipments can work at only 30 to 50% of their full capacity because of input shortages. Labour productivity is consequently very low and labour discipline is very lax (absenteeism and so on). All that incites workers to moonlighting and to take a second job in the illegal or underground economy. The second wage is even not enough to pay on the black market for food, clothing, drugs and dwelling. The black market is flourishing because it is fueled by shortages and the bad quality of goods, consequences or bottlenecks in the state sector.

At first sight, the look of the North Korean economy today is less dark. It has reached a level of development not so far from some new industrializing countries. The industry has a diversified structure though its technological level is lagging behind world standards. According to CIA estimates, in 1984 North Korea still had a higher output than South Korea in machine-tools and chemical fertilizers, but the gap was narrowing. Even some South Korean economists (Park 1987) admit that North Korea has built its military industry just with a little help from the Soviet Union and China. All in all, we are however far from a perfect economic mechanism in the "paradise on the earth" so many times mentioned by Kim Il-Sung in its famous speaches.

Soviet observers usually report a lack of modern technology and of transport equipment in the North Korean economy, and a very high energy consumption for each output unit, while electronic industry and organic chemistry are still underdeveloped. Consumer goods and agriculture remain non priority. People are almost starving aside priority heavy industrial products. There is a rationing of rice supply at a subsidized price whilst a part of the rice harvest is exported to the USSR as a payment for wheat. Cereals are also imported from OECD countries.

Usual misdoings of a centrally planned economy are to be stressed in North Korea. The reserve of available manpower has been exhausted by an extensive growth pattern in which the increase in output comes from an increase in resources put at work into production, especially manpower. Bottlenecks, short supplies, shortages for consumers, over consumption of energy, lack of foreign currencies and of consumer goods, low productivity, weak incitement to work and soft labour discipline, non legal trade among state-owned enterprises, very few innovation, non competitive export of bad quality products far from world standards, all that is well known in socialist countries and can be observed in North Korea. The acknowledgement of these misdoings is precisely the cornerstone in the reform movement launched on the other side of the border either by Mr. Deng Xiao Ping or by Mr. Gorbachev.

Misdoings of the directive planning system has become a general tendency in socialist economies. For instance in North Korea, during the plan (1957-1961), Kim Il-Sung decided the year 1960 to be a year of adjustment to fulfil a lagging behind set of targets. It was almost officially recognized that the 1961-1967 plan had failed as far as this very plan was extended until 1970 in order to be fulfilled. At the end of the 1971-1976 plan the need appeared again to make of 1977 a year of adjustment to the expected targets. As to the modernization plan (1978-1984), its fulfilment has not been comprehensive in serveral sectors: energy, raw materials, steel, non ferrous metals. In 1985 and 1986, it has been necessary to mobilize 150,000 soldiers into production, because of the manpower shortage, with the purpose to reach plan targets foreseen to be fulfilled in 1984.

A second tendency in socialist economies today is a falling rate of economic growth; this has been especially observed in Eastern European countries (Andreff 1987b; Andreff and Lavigne 1987) and this has given rise to a debate about what an economic crisis in the socialism could be (Andreff 1983). North Korean national material product—which could be compared to the Western aggregate defined as national income—shows in the long run a tendency to grow slower. Even according to North Korean statistics, the growth rate of national material product slightly decreases with an average of 8.8% a year in 1978-1984, against 9.6% expected in the plan. If we follow

TABLE 1
NORTH KOREAN GROWTH RATE

1977	1978	1979	1980	1981	1982	1983	1984
5.3%	5.6%	6.9%	3.8%	2.0%	4.8%	4.4%	3.9%

Source: American CIA estimates of the North Korean growth rate

CIA estimates a more realistic figure is around 4.5% a year (Table 1).

A slowdown in the economic growth has occurred since 1980. We could guess that the slowdown did not stop if we consider that State budget receipts grew only by 4.3% in 1985 and 4.0% in 1986 (North Korea has stopped publishing detailed data on national and industrial production these last years).

Both Viet Nam and North Korea trade with foreign partners, mainly with other socialist countries, but also with developed market economies. From this trade emerges what is called an *"external constraint"* (Andreff 1985; Andreff and Graziani 1985) on all socialist economies and we have not to be surprised if the same phenomenon occurs in socialist-oriented developing countries, including Viet Nam and North Korea. Such a constraint comes out from several economic factors underlying socialist foreign trade.

The foreign trade plan is not a priority compared with the domestic production plan. Then imports are planned according to the needs of the domestic plan but, in the same time, exports are regarded as a residual activity undertaken only to pay for imports. The quality of exported goods is hence depending on what the residue is, i.e. on what the part of global output needless for domestic production consists in, and generally speaking this quality is rather low by world standards. A foreign trade deficit is hence probable and becomes unavoidable when the state plan pushes the economy towards an accelerated extensive growth exhausting domestic resources and generating shortages. Moreover foreign trade in a country with a non convertible currency leads immediately the foreign trade deficit to be turned into a foreign debt in convertible currencies or to the need of an international aid.

Although the "Juche" ideology was based on economic self-reliance and independency (but not on autarky), Pyongyang decided a first open door policy as soon as 1967 when equipments imported from the USSR and China were to be renewed. From 1968 to 1979, the value of North Korean foreign trade was multiplied by five. The will of opening the economy was confirmed by Kim Il-Sung in 1984 in a speach to the People Assembly. In 1982, the ratio between the value of foreign trade (imports + exports) and the estimated value of the GNP was 21% in North Korea; the same year it was 46% in South Korea.

The will of starting an open door policy was embodied in the Vietnamese export push policy and in a law on foreign direct investment in 1977. This policy remained practically inefficient for political reasons linked with Vietnamese military forces staying in Cambodia. For example, only two foreign corporations (Rhône Poulenc and Roussel) have invested in Viet Nam, and in 1985 the value of foreign trade has reached no more than 45 dollars per head.

Vietnamese exports are geared towards the Comecon: 70% of total export in 1981 and still 60% in 1985 in spite of the export push policy aiming at an increased flow to convertible currency markets. Imports are still more concentrated on the Comecon: 78% in 1981 and 75% in 1985. The share of capitalist developed countries in North Korean foreign trade reached a peak in 1975 (34%) and fell to 24% in 1979; the trade with developing countries increased its share in the total from 2% to 25%. Anyway the major part of foreign trade remained with socialist countries. Because of some disappointment in the trade with capitalist developed economies (see below), North Korean imports from the Soviet Union increased by 69% in 1985 and by 100% in 1986 according to Radio Moscow.

Viet Nam is widely dependent on both Comecon and capitalist imports of technology, equipment, machinery, energy and raw materials. Soviet economic aid to Viet Nam is estimated at about 1.1 billion dollars a year between 1981 and 1985, the aid from other Comecon countries at about 500 million dollars yearly. The USSR covers 90% of Vietnamese needs of oil, 90% of steel consumption, 90% of cotton and nitrogenous fertilizers. The Soviet Union has financed 60% of overall investment implemented in Viet Nam between 1976 and 1980. The economic dependency of Viet Nam on the USSR is so strong today that Vietnamese leaders can not escape Soviet pressure and advice to reform domestic management and planning. Without a reform, Soviets argue, the Soviet aid will continue to be wasted by Vietnamese bureaucrats.

North Korea today still needs to buy Western and mainly Japanese equipments, especially excavators, drills, cranes, industrial refrigerators, electrical furnaces, pumps, telephone appliances. On the other hand, most of North Korean exports consist in minerals and raw materials the price of which has fallen since the mid seventies. The economy also depends on socialist aid: in 1978, 10,000 Chinese

TABLE 2
GROSS FOREIGN DEBT IN NORTH KOREA AND VIET NAM

(billion dollars)

	Gross Foreign Debt (*GFD*) 1984	1985	*GFD/GNP* 1985(estimated)
North Korea	0.9	1.1	5%
Viet Nam	4.8	5.5	—
〃	6.0(+)	8.1(+)	53%

Sources: OECD debt statistics and for(+): IMF

citizens worked on building projects in North Korea; Soviet aid, though decreasing, remained significant with a cumulative value of 1,522 million dollars between 1949 and 1978. The decrease of Socialist aid has compelled North Korean leaders to turn themselves for the first time to an international organization (the United Nations Development Program) in 1979 and to obtain from it in 1980 a technical assistance amounting to 8.85 million dollars.

In Viet Nam and North Korea the open door policy was the starting point of an increasing trade deficit. It rose in Viet Nam from 936 million dollars in 1981 (including 161 million dollars for the trade in convertible currencies) to 1,058 million dollars in 1984 (192 million in convertible currencies) and 974 million dollars in 1985 (123 million in convertible currencies). North Korea started accumulating foreign trade deficits in 1965. The deficit reached a peak of 628 million dollars in 1974 and fell to 37 million dollars in 1977. After two years of net export (1978 and 1979), the eighties confirmed the comeback to trade deficit: 30 million dollars in 1980, 42 million in 1981, 31 million in 1984; and then the deficit skyrocketed to 460 million dollars in 1985 and 531 million dollars in 1986. For these two last years trade deficit with the Soviet Union was 300 and 437 million dollars respectively; with Japan it was 89 and 29 million dollars, while North Korea was net exporter to China.

As a consequence of trade deficit both North Korea and Viet Nam are indebted and this is the more visible aspect of the "external constraint".

North Korea has met a first foreign debt crisis in 1976-1977 when central authorities have negotiated a moratory with Austria and Sweden. A rescheduling agreement has been signed with Japan in October 1979. Again in spring 1984 a general rescheduling of North Korea debt has been obtained from all creditors in convertible currencies. New payment agreements have been signed between North Korea and the USSR in February 1986 and between North

Korea and China in September 1986. It was said that the third seven year plan had been postponed to 1987 waiting for these agreements. All that has not prevented the country from a second debt crisis. In August 1987 North Korea has been declared faulty by Western creditor banks which have asked to the High Court in London the right to seize North Korean assets held in the United Kingdom. Indeed the last North Korean debt repayment was made in March 1984; since then central authorities did not agree upon a new rescheduling and they asked foreign banks for new loans, of course without success.

Vietnamese foreign debt is even worse. Since 1982, creditors in convertible currencies consider Viet Nam as bankrupt and have lost any hope to be repayed their 2 billion dollars credit. In 1983 Viet Nam has reached a rescheduling agreement with Japan, Algeria and Libya; until now the country has continued to negotiate on rescheduling with all its other creditors. Meanwhile the dong's rate of exchange was depreciated three times under the International Monetary Fund advice (September 1985, November 1986, December 1987); all in all the official value of the dong fell from 15 dongs to 368 dongs for one dollar.

This external constraint has exacerbated other factors of economic crisis in the two countries under study and has made leaders aware of the need for an urgent reform.

IV. Two Different Economic Reforms in Socialist Asia: Market Economy or Decentralizing the Plan?

A first economic reform has been implemented in 1979 in Viet Nam; it is sometimes compared with the Russian NEP (New Economic Policy) of the twenties to which Gorbachev himself has referred since 1987. In fact the Vietnamese economic policy has become a bit more liberal; it has drawn up more material (i.e. money) incentives for those who fulfil the plan, it has extended private plots in agriculture and then the free peasant market, it has given the right to industrial enterprises of keeping foreign currencies earned through export and it has lessened priority to heavy industry. Several non profitable industrial projects were abandoned whilst a new priority was put on small industries producing consumer goods. Since 1983 State bonds has been issued to finance industry, as in Hungary and China; a 2% rate of interest is paid on these bonds the issuing of which has permitted to collect 3 billion dongs.

The mentioned reforms did not improve the economic mechanism and they did not hinder bad performances. Then the Central Committee of the Vietnamese Communist Party (VCP) was obliged in June 1985 to take a set of so-called "historical" decisions. Now in the state-owned sector, the state must alleviate its control over economic management. The major part of the state subsidization of consumer goods is removed. State stores are not closed, but they must sell at the same price as the free market price. The state sector must strive to compete with the market economy. Rationing is stopped except for a few commodities such as rice and fuel.

Again we could not observe any serious improvement in the Vietnamese economy after these "historical" measures. Of course prices have come closer to costs of production. The queues in front of the state stores have shortened. On the other hand, the September 1985 depreciation of the dong has resulted in a skyrocketing inflation at a 350% rate in December 1985. "New poors" have then to be helped and subsidies have been reestablished as well as the rationing of basic commodities. In the state enterprises, the lack of professional managers has hindered a new managerial behaviour, especially a more restrictive money-wage policy. The consequences were on one side the bad organization of production and on the other a high demand on the consumer market making shortages more obvious.

This failure of the 1985 reform resulted in a confidence crisis of the population against the VCP and in a struggle within the party opposing reformers to the fans of more centralized and planned economy. The former seemed to be supported by the Soviet Union and succeeded in having one of them elected the First Secretary of the VCP in December 1986: he was Nguyen Van Linh. The latter pushed Pham Hung to the position of Prime Minister in June 1987, but they could not prevent the comeback of General Giap, a reformer, to public affairs. From this stormy life of the VCP was born what some have called a "second revolution" in November 1986.

First of all, a decree passed on in November 1986 has allowed people to settle new private-owned enterprises in agriculture, in handicraft, in service activities and in small industry. No more than ten wage-earners can be hired in each private firm. State enterprises are now self-financed. They are allowed to sell on a free market all that they produce in excess to planned compulsory targets. They can keep all currencies earned from foreign trade.

Profitability is the one management target in a sample of state-owned vanguard enterprises. Self-management is to be introduced step by step. There is like an Hungarian flavour in this Vietnamese reform.

An austerity policy is besides scheduled in April 1987 with the hope to put a brake on inflation and to decrease the state budget deficit. The prospect is also one of narrowing employment in state administration and enterprises by one third of their manpower. Priority investment projects are diminished and many subsidies are cut. Private transport is reestablished. Tax reduction is granted for private trading. The second job, regarded as "black labour" until now, is becoming legal. In September 1987, Pham Hung declared that state firms must definitely give up bureaucratic centralism for socialist accounting, namely they must be responsible for their gains as for their losses. Reformers support a comprehensive autonomy for all enterprises. In Viet Nam the debate does not go as far as asking whether a law on bankruptcy or a capital market may increase economic efficiency. Anyway the question can come to reform minded people or leaders in a similar manner to what has occurred in the Hungarian model.

The National Assembly, elected in April 1987, has passed on a new Vietnamese code for foreign direct investment in December 1987. The code is quite liberal. Joint ventures can be settled in any industry except in the military complex and in public utilities. In exporting branches, the foreign share in the venture is not limited. The code protects foreign investors against any kind of nationalization and against any kind of hindrance to profit repatriation. In case of conflict between Vietnamese and foreign interests a third country will arbitrate. Within a few months this liberal code has attracted several Japanese trading companies, a Singaporian corporation which builds an oil-extracting platform for a Soviet-Vietnamese joint venture, and the assembly line of a South Korean TV producer at Ho-Chi-Minh-Ville. The frontier between the state and the market is moving in Viet Nam. Where it could stop depends heavily on the respective strength of reformers and conservatives within the VCP and, to some extent, on the harshness of the Vietnamese economic crisis.

In North Korea a "Decision on Reform of the Economic Structure" is taken in 1984(Kang 1987). Most of Japanese, Chinese and South Korean scholars think that this decision has been influenced by the trend of economic reforms in other socialist countries, mainly in China. This is not to say that the North Korean reform is following the Chinese model of reform. Quite the contrary, the reform launched in Pyongyang is limited and, as we shall see, it is more likely to have some common features with the so-called German pattern of reform than with the Hungarian or Chinese one.

First, the North Korean economic reform results in a new priority given to light industry, to the production of a higher quantity of a large range of high quality consumer goods and to a "service industry revolution". We can also observe a transfer of management and planning power over industry to provincial authorities (Lee 1987); this may be called decentralization, to some respect, but that has nothing to do with a movement towards a market economy. Because of this increase in the power of provincial bodies, the role and the number of industrial ministries has been reduced from 34 to 24 in November 1985. In December 1986, the cabinet presented by the Prime Minister Lee Keun-Mo strengthened the power of economic technocrats following a tendency open in January 1984 by the Prime Minister Kang Sung-San, moreover economic technocrats were appointed to key party positions.

The decision No. 20 of the State Council on April 22, 1986, which became further a law in North Korea, is another attempt to increase enterprises autonomy and to provide material incentives to workers. All productive enterprises are now supposed to use a so-called independent accounting system which looks exactly like the Soviet concept of "khozrastchët" (autonomous self-accounting). In such a system, each enterprise must balance its revenue and expenditure, "must be able to meet expenditure with its own revenue and contribute a fixed profit to the state", according to the "Regulation on Independent Accounting System of National Enterprises" quoted by Lee (1987). The decision No. 20 of the State Council also increases the share of profit that the enterprise can retain from 20% to 50% of the excess profit. All this has a decentralizing flavour towards more enterprise autonomy, though a restricted one.

The decision No. 20 has introduced a variety of piece work wage rates as material incentives. The size of many worker teams has been decreased to four or five people each and, with the new piece rate wage system, some workers now earn income three or four times the basic wage; on the other hand people are constrained to work harder by eliminating guarantee of the basic wage to workers not performing the required work.

Since 1985 some enterprises have been allocated their planned production in value instead of in quantities as formerly. Each enterprise is supposed to make an economic calculation in order to balance revenue and expenditure, to reach a profit and to fulfil planned targets some of which are in value terms in an increasing number of enterprises. Then the control over the plan through the won (duplicating the Soviet control through the ruble) will replace the old-fashioned control on physical quantities. Now North Korean banks, under the tutelage of the central bank, are allowed to provide loans to enterprises, but they charge a differential interest rate on planned funds and on loans in excess of the plan. All these measures seem narrow compared with the Hungarian or even the Chinese way of economic reform.

With the following enactments the North Korean reform seems closer to the East German one. In July 1985 North Korea has announced the administrative merger of many enterprises into intergrated trusts, each with a greater autonomy. This new administrative structure of industry looks like the German combines. As for these latter, there are two types of North Korean integrated enterprises. One is a vertical integration of a core enterprise with customers and suppliers having productive and technical links with it. The other is a horizontal integration of enterprises producing the same products.

The number of integrated combines is over 120 in North Korea, some controlled by the central power, some under the tutelage of provincial authorities. The integrated enterprises are nevertheless allowed to sign supply contracts one with another without any kind of central monitoring; they are also given the right to sell and export without central control all the production achieved in excess of the planned targets. Just like in the GDR, a special strain is put on Research and Development, the R & D national expenditures must reach 4% of the national income and integrated enterprises are to be responsible for their own quasi-autonomous research funds. Product quality control is introduced at the enterprise level as in East Germany, and not at a macroeconomic level as in the Soviet Union.

A tax on fixed assets has been enacted as in Soviet and Eastern European economic reforms of the sixties; this means that now the North Korean enterprise must pay a price for state capital. The reform decided in Pyongyang is hence near the German model with a few features looking like in the Soviet economic reform (but nothing like Gorbachev's attempt to political change called "glasnost" in

Russian).

The North Korean open door policy has been confirmed these last years. A decree passed on in April 1986 has extended the enterprise share, as against the central share, of foreign currencies earned on export. Two months earlier the Party stressed to develop electronic industry, the production of lasers, computers, automatic machine tools, robots and so on, with the consequence of making an increased cooperation with firms from the capitalist world unavoidable. As we have seen above, trade deficits in foreign currencies and foreign debt would probably endanger such a strategy. It is not surprising that, by the end of 1986, articles in *Rodong Sinmun* emphasized the mutual advantage of North Korean trade with Socialist and developing countries.

A law has been adopted in Pyongyang on September 8, 1984, with the purpose to attract foreign direct investment in North Korea. Even before the announcement of the law there were a few joint venture in operation. The first aim of the joint law was to create a flow of new modern technology into North Korea. The second purpose was to benefit from an inflow of foreign currencies. All that looked like in other socialist countries, though several comments stated that Chinese experiences in this field had been actually influential on North Korean leaders.

In fact, the North Korean law on foreign direct investment is quite less liberal than it is the case in China, Hungary and Viet Nam. Of course, there is no restriction on the share of foreign capital in the joint venture, but this latter must be managed by a board of trustees under strong North Korean influence. No special economic zone as in China or free trade area as in Yugoslavia and Hungary is on the agenda. Workers must be hired and fired by labour administration organization whilst the wage rate can be decided at the joint venture level.

Several joint ventures have been implemented since 1984, among which the Yang Gak Do hotel with the French building company Campenon Bernard, the Kim Man Yu hospital with a Japanese hospital providing technology and equipment, the Rakwon department store as well as a leather factory and a plant producing tools again with Japanese companies, a rubber factory with a share of an Hong Kong investor, an Italian-North Korean petrochemical plant, a West German-North Korean steel plant (for more details on joint ventures, see Lee [1987]). In 1986, it was created between the Joint Venture Preparatory Committee (a branch of the North Korean government) and a Joint Venture Research Group in Japan a new corporation: the International Joint Venture Co., with a 1.2 million dollars capital. Its head office is fixed in Pyongyang and its main branches are in Tokyo, Vienna, Wonsan and Macao.

Since 1985 North Korea has opened its door to foreign tourists coming from hard currency areas such as Hong Kong and the United Kingdom, Japanese tourists have been allowed to come in later on, in 1987.

V. Conclusion

From the brief comparison between Vietnamese and North Korean economic reforms, and keeping in mind how Hungarian and German models of reform have been defined, we can conclude that:

- both Viet Nam and North Korea are today embarked in a reform to cope with the economic crisis, the external constraint and the misdoings of the centrally planned system;
- both reforms take into account experiences of other reformed socialist economies;
- in both cases the economic reform reduces the level of state control over the entire economy and opens it to foreign trade and investment, though with a wider extent in Viet Nam than in North Korea;
- the process of reforming the economy is however different between the two countries: in North Korea there is no sign of evolution towards a market economy instead of which planning is decentralized in an East German way with an increased autonomy given to integrated enterprises (combines); in Viet Nam the share of the economy in which market forces play is increasing as in the Hungarian, or even to some respect the Chinese path of economic reform.

Let us then conclude that paradoxically Viet Nam, which is in military conflict with China, has chosen a kind of economic reform nearer to the Chinese one than North Korea has done in spite of its peaceful relations with China.

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