

IMPOSING COMMUNISM ON THE ECONOMY OF SOUTH VIETNAM:  
A CONJECTURAL VIEW

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The unenviable task assigned to me in this symposium is to speculate about the unthinkable: the economic future of South Vietnam under a communist-dominated regime. How would such a regime, if it came to power, deal with the staggering problems of the war-distorted South Vietnamese economy? How would it go about restoring that economy to some form of peace-time stability and self-support? How would it rearrange the distribution of economic power? How, indeed, would it bring the "Socialist Revolution" to South Vietnam?

To pose such questions is to realize what a large, complex and uncertain set of issues is involved, and to despair of doing anything more, within the confines of a short paper, than to set the stage and attempt to identify some of the more intractable problems and dilemmas that would arise.

What do we mean by "a communist-dominated regime?" I shall assume, without much fear of contradiction, that a communist regime coming to power in South Vietnam would be oriented toward and controlled by the North, and would be politically an offshoot of the Lao-Dong Party of North Vietnam. However indigenously Southern its membership, and whatever their Southern parochial interests, the essentials of power -- leadership, control, ideology -- would flow from the North. Thus the objectives of such a regime would not be narrowly focused on national reconstruction in the South, but would aim at the larger goal of fulfilling the historic revolutionary mission of the Indochinese Communist Party: the "national liberation" and ultimate unification of all of Vietnam. The distinction

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\* Any views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of The Rand Corporation or the official opinion or policy of any of its governmental or private research sponsors.

is significant, not just for what it tells us about the regime's likely goals and policies, but also for where we must look for a model, or at least for indicators, of the organizational and political strategies that the regime might adopt. The earlier experience -- mistakes as well as "successes" -- of revolutionary transformation in the North and the institutions it spawned can be expected, in considerable measure, to set the pattern for the South, particularly if we assume that the same original Northern leadership continues in power and presides over the transformation of the South.

This is not to say that Hanoi has no learning capacity and that whatever happened in the North will be dogmatically and slavishly reproduced in the South. The special circumstances of the South will in any event force some adaptation. But students of organizational behavior teach us that the best predictor of what an organization will do tomorrow is what it did yesterday and what it is doing today. The "command economy"-oriented bureaucracies of North Vietnam can no more rid themselves of their institutional "shared images" and rigidities than the "conventional war"-oriented U.S. Army can transform itself into a guerrilla force. The people, the structure, the institutional routines and SOPs of organizations change only very slowly and over long periods of time.

Thus it may be useful to begin this exploration by examining briefly the repertoires and experiences of the Lao Dong parent organization in the North for a clue as to how its offshoot might apply these repertoires and experiences in the South.

#### REPERTOIRES AND PERFORMANCE OF THE NORTH

How did the Party approach revolutionary transformation in the North?

First, as in China, development strategy in North Vietnam was subordinated from the outset to the overriding political aim of acquiring total power over the economy, which meant that the economic control levers had to be captured and shaped into instruments for resource mobilization and allocation. But the process was a gradual one. As long

as the "anti-imperialist" phase (the struggle against foreign domination) continued, the regime adopted a conciliatory policy towards its class enemies, showing respect for private ownership, paying high esteem to intellectuals, and making common cause with bourgeois capitalists and the mercantile ("comprador") class, so as to speed the rehabilitation of the war-torn economy. But in the early 1950's, once the struggle against the French was on the way to being won and the Party's political power began to be consolidated in major areas of the country, the policy shifted into the "anti-feudalist" phase (the struggle against the landlord) and, at least in agriculture, the real transformation took shape.\* Thus, by the time of Geneva-1954, when the traditionally food-deficit North was cut off from its rice surplus producing hinterland in the South, the Socialist Revolution was already well under way. It had been launched a year earlier under the lable of "land reform" as the first campaign of the anti-feudal struggle to eliminate the landlord and, ultimately, all resisting elements of the rural social structure. Unlike the much later industrialization drive, which Hanoi patterned after the Soviet model, the rural revolution followed the Chinese example almost to the letter. The program was carried out in successive waves, extending over a three year period and covering a number of separate campaigns: first, the imposition of the Chinese system of taxes, aimed at impoverishing the well-to-do and "leveling" Vietnamese rural society; then a preliminary wave of terror aimed at liquidating "dangerous reactionaries" and strengthening the authority of the party; following this, a so-called Land Rent Reduction Campaign, which eliminated a relatively small segment (the wealthiest) of the landowning class; and finally, the Land Reform proper, a vast purge on a national scale, from which the rank and file of the party itself was not excluded. In the end, a halt was called to the excesses through a "Rectification of Errors" campaign that sought to bring some degree of order back to the countryside.

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\* In industry, the process was much slower, since it required both an institutional transformation and a technical and organizational basis for planning.

The bloody process is well described in Hoang Van Chi's detailed study of the Land Reform experience.\* What stands out from this experience is that its primary purpose was not to confiscate and redistribute land (although large redistributions did of course occur), but to eliminate the sources of opposition to Party rule, to "kill the spirit of ownership" and thus eradicate peasant resistance to the collective pattern of life.

Such a collective pattern of life has, of course, by now been established. Progressing through successive stages of "labor exchange teams," "low level" cooperatives and finally fully socialist "high level" collectives, "cooperativization" by now encompasses some 95 percent of all peasant households contained in 23,000 cooperatives, of which 80 percent are "high level" (i.e., collectives in which all the means of production, including land, are owned in common).\*\* But resistance to the collective pattern of life, far from being eradicated, seems more firmly entrenched than ever. In North Vietnam -- as in all "collectivised" communist countries -- resistance takes the form of constant tension between the persistently lagging collective economy, to which the peasant contributes reluctantly, and the far more profitable, highly productive "subsidiary" family economy (the five percent of land which a member is allowed to keep for private use), to which the peasant devotes his real energies. Torn between the conflicting objectives of promoting high productivity and suppressing the "spontaneous tendency toward capitalism," the Party is forever hung up and at odds with itself as to how narrowly it should restrict the scope for personal profit. While easing up slightly from time to time on this critical matter of material incentives, it is clear that, for the dominant Party leadership, ideological rectitude must be upheld, and that, in the words of Truong Chinh, "the idea that any method of production that increases output is acceptable is not the view of the working class and the Party."\*\*\* While in the early years of the

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\* Hoang Van Chi, From Colonialism to Communism: A Case History of North Vietnam, New York, Praeger, 1964.

\*\* Alexander Woodside, "Reform in Northern Vietnam," Asian Survey, August 1970, p. 708.

\*\*\* Nhan Dan, January 29, 1969.

program (1957-1959), following the destructive Land Reform, the Party did succeed briefly in achieving something like self-sufficiency in food production, the achievement was based essentially on a massive mobilization of labor, assisted neither by significant inputs of modern farming equipment, \* nor by a resolution of the more trying technical, management, and incentive problems that have dogged collectivization. Since 1960, agriculture has languished, with North Vietnam becoming increasingly dependent on food imports from the Soviet Union and China. The Party appears to prefer to continue to suffer this chronically depressed performance rather than compromising drastically on its doctrinal convictions.

With respect to industry, the Party proceeded more gingerly, recognizing that it would require time to make the urban economy directly responsive to government policies and to establish the statistical and organizational base for central planning. It limited itself, during the years of rehabilitation (1955-1957), to seizing the "commanding heights" of the urban economy and transforming the bulk of private industry and commerce into joint-stock companies run for the state by their former owners. Petty traders and artisans were, for the most part, organized into state-controlled cooperatives, and an industrial planning system was gradually created, more or less in the Soviet image. By 1958, the outlines of an ambitious, highly orthodox, heavy industry-oriented development strategy became apparent, which depended heavily on Soviet technical and capital assistance. It conceived of agriculture chiefly as a supplier of raw materials for industry and as a potential exporter of tropical products, to raise savings for further heavy industry investments.

The heavy industry emphasis continued for several years, and lip service is still being paid to it. But the war has forced a widespread dispersal -- an abandonment of the building of large modern plants in key industrial areas and a switch to the development of small scale units all over the country. For all practical purposes, this surely has meant that industrial development has come to a halt.

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\* For example, even today there are only an estimated 3,600 water pumps in all of the 23,000 cooperatives, compared with some 400,000 pumps sold in South Vietnam over the past four years!

What does all this tell us about the Party's likely approach to economic transformation in the South? Would it be one of flexibility and pragmatic adaptation or one of revolutionary zeal and ideological rigidity? The declarations of intent contained in the NLF Political Program outlined in September 1967 seem to reflect an aura of flexibility and adaptation. But their intent is propagandistic, and they deal with general principles, not policies. Moreover, they focus on the period of transition, not on that of consolidation. How the Lao Dong would deal with the South's actual problems is not revealed to us there. The Party's record in the North, however, offers little reassurance. Both its past performance and its consistently reiterated objectives strongly suggest that it would follow a highly doctrinaire course. The sancta of the Party, as most recently restated by Le Duan, the Party's First Secretary,<sup>\*</sup> still call for the achievement of the "three revolutions" -- (1) in production relations, (2) in technology, and (3) in ideology and culture. The first seeks the elimination of "capitalist dictatorship," the end of individual, private production and the creation of a system of Socialist ownership. This paves the way for the second, the technical revolution: the mechanization of agriculture and the creation of a modern industrial base. And the third, the ideological revolution is to transform the peasant into a "Socialist man." There is little in these objectives that would augere well for a communist development policy for the South.

"Development," however, would not be the only, nor even the principal, Northern objective toward the South. A number of other objectives might loom larger in determining a Northern-dominated regime's policies. A partial list might include the following:

- o consolidating the regime's power position, and thus laying the groundwork for launching the "three revolutions;"
- o extracting capital assets (war reparations?) from the South;
- o reducing the glaring disparities in wealth and living standards between South and North;

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<sup>\*</sup>In an article marking the Party's 40th anniversary, published in Nhan Dan, February 14, 1970.



- o denying the South industry more advanced than that possessed by the North;
- o assuring that the South will at least not require subsidization by the North and at best be restored to its former rice-surplus hinterland role vis a vis the North.

While these are by no means exhaustive, merely listing them suggests that the regime's objectives function contains contradictory elements, some driving it toward promotional, others toward restrictive economic policies in the South. How the regime would trade off among them is not at all obvious, but its policies would almost certainly not be guided simply by "development" objectives.

In conjecturing about some of these policies, it may be well to distinguish between two aspects: (1) the problems of the takeover, that is, how the regime might cope with the transition and consolidation, and (2) the problems of the longer run, that is, how the regime might cope with the more fundamental distortions of the economy. I shall consider each in turn.

#### NORTHERN POLICIES TOWARD THE SOUTH: COPING WITH THE TRANSITION

How the regime would cope with the problems of the transition would depend upon the manner and circumstances of the takeover and the consequent condition of the economy that the regime would inherit. Of the wide range of possibilities that can be envisaged, two illustrative cases may be sufficient for present purposes, since they represent more or less the extremes of the spectrum of possibilities:

(1) Takeover by Military Conquest -- a quick and conclusive seizure of power through a rapid military-political disintegration of the GVN as a result of heavy, destructive fighting. A Provisional Revolutionary Government installs itself in Saigon under conditions of widespread panic and paralysis. Such circumstances would obviously pose staggering problems for the country and the new regime. The triple dangers of counter-revolution, foreign invasion, and economic collapse would pull the regime in contradictory directions. Even if escape hatches for human and capital flight were quickly sealed, a fearful and hostile population would have to be reassured and enticed to

cooperate, while great numbers of "imperialists and their diehard cruel agents" were being expropriated and "traitors and tyrants" and other hard core supporters of the fallen government tracked down and eliminated.\* Experienced administrators and technicians in the public and private sectors would have to be persuaded to remain at their posts, while their real authority was being transferred to technically untutored revolutionary cadres. Defeated or defected elements of the armed forces would have to be controlled, disarmed and partially demobilized, while the National Liberation Army was being regrouped, restructured and enlarged. At least a minimal functioning of normal market and distribution processes would have to be revived while control over the "commanding heights" of the economy (the banking system, utilities, rice mills, and the major public and private enterprises) were being seized. The precious remaining stocks of imports (fuels, fertilizers, equipment, spare parts) would have to be protected and strictly conserved, as South Vietnam found its external aid cut off, its U.S.-held foreign exchange balances frozen, and much of its foreign trade embargoed.

The Revolutionary regime, whose first priority must certainly be to consolidate its power, can hardly be expected to engineer or cope with all of these dislocations and derangements at the same time, without wreaking further havoc upon an already shaken economy. The disruption would no doubt be profound and prolonged, particularly inasmuch as the regime would suffer from the effects of the long attrition of its trained cadre and from the lack of any prior experience in dealing with a thoroughly market-oriented, abnormally urbanized economy like that of South Vietnam. In short, the economic base upon which the regime would ultimately have to rest its program of Revolutionary transformation would be a precarious one indeed.

(2) *Takeover by Political Conquest* -- a slow and progressive accession to power through a political process in which power is initially shared

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\* The principles of confiscation and "punishment" are an explicit part of the NFLSV Political Program as enunciated on September 1, 1967.

in a coalition government. Such an outcome would be far more attractive for the communists, as they could bide their time, act with great public restraint, while preparing and implanting their cadres in key places. They could forego terror and rely instead on more subtle carrot-and-stick tactics, progressively paralysing the GVN and culminating, at some critical moment, in an almost bloodless coup, and in the emergence of the much heralded, but strictly interim "democratic government of national union."

The advantages of such a political path to power are obvious: instead of inheriting an economy in shambles, they would be taking over relatively unimpaired assets and a more or less going concern. Rather than having to seize control in confusion and violence, they would be able to prepare carefully for a more orderly transition. The country might even continue to receive U.S. economic aid at least for some time during the period of the coalition, thus making it somewhat easier to prepare for the ultimate wrench to austerity and self-support. Most important, the interim Government of National Union, which would encompass a broad spectrum of "patriotic and democratic" groups and personalities who have "contributed to the cause of national liberation," would provide a useful democratic facade for gaining support from intellectuals, religious groups and bourgeois elements for the regime. It would help create the rudiments of national unity necessary for completing the anti-imperialist phase of the takeover ("liquidation of the imperialists and their puppets") and for consolidating the state machinery in preparation for the anti-feudal phase ("liquidation of the capitalist and landowning classes") which would inevitably follow, sooner or later.

Perhaps the differences between these two kinds of takeover have been too sharply drawn. The communists might rely somewhat more on persuasion and less on violence than was postulated in our rather grim "military takeover" case and, conversely, much greater disruption and destruction might accompany our seemingly more benign "political takeover" case. But the two outcomes at least suggest a range of economic starting points for a communist "postwar." The differences between them would affect the duration of the transition-consolidation phase and

would determine the regime's interim political tactics but would probably not alter their longer-run strategy for "Socialist Reconstruction." That strategy will surely be dictated by the more basic objectives of the North, as constrained by the underlying distortions of the economic structure of the South.

NORTHERN POLICIES TOWARD THE SOUTH: COPING WITH THE DISTORTIONS

Whatever the degree of economic disruption that may be inflicted in the course of a takeover, the economy of the South is now and will increasingly be characterized by certain unique features that set it apart from other Asian agrarian economies, and that are not likely to disappear in the near future. These features would pose problems for a communist regime that would be quite unprecedented in its experience.\*

*First*, the economy has become, to an extraordinary degree, dependent on imports that are almost entirely U.S. dollar-financed. Such imports now amount to over \$700 million which, valued at a realistic exchange rate, is probably equal to more than one-third the GNP of South Vietnam. These imports consist not merely of consumer durables that mop up purchasing power, but also of essential technical inputs into the economy -- fuels, fertilizers, equipment -- that add a degree of specialized capital dependence to the economy's general dependence on balance of payments support. Given the growing military burden that the economy will have to bear under the Vietnamization program, it is likely that this dependence on imports and on concessional economic aid will deepen rather than diminish in the near future. How would the new regime cope with the sudden cutoff of this aid and the divorcement of the economy from world financial and commodity markets?

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\*The 1948-1949 communist takeover in China offers some similarities, particularly as regards the heavily foreign trade and foreign investment-oriented economy of China's coastal cities. But in combination with the other features described here, the Vietnam situation is still quite unparalleled.

The cutoff of imports would clearly impose the greatest hardships on the economy, and there is not very much the regime could do about it. The problem would be partially eased by the reduction in demand for imports that would result from the contraction of urban economic activity and the reverse migration to the countryside that would quickly take place. In part it could be "absorbed" by a dramatic reduction in living standards of higher income groups. But since we are speaking of an import gap equivalent to more than one-third the GNP, the economic disruption would still be enormous. Moreover, there is some minimum level of imports -- fertilizers, POL, capital equipment -- that an economy needs to operate at any given level. If that minimum is not made available, the result must be economic decline. Agriculture, which is so highly dependent on imported inputs for its productivity, would probably be the first to show the effects.

In principle, imports from communist countries could be substituted, but it is at least questionable how much aid could realistically be expected from that direction. Neither the Soviet Union nor China is likely to look with favor upon large concessional aid to South Vietnam -- even to a Communist South Vietnam -- when, in the eyes of both donors, there would almost certainly be more politically "deserving" and rewarding candidates pleading for assistance. Moreover, the kinds of technical imports needed most by the economy -- agricultural inputs, fuels, specialized equipment -- are particularly scarce and precious items in most communist states. The chronically fertilizer-short Soviet economy is already shipping sizeable quantities of nitrogenous fertilizer to North Vietnam,<sup>\*</sup> but the shipments are small compared to what would be required if the Soviet Union had to make up for the loss of the 500,000 tons of imported fertilizer now consumed by South Vietnam.

It is, of course, possible that some non-communist countries -- for example, Sweden or Japan -- would be willing to provide needed imports on relatively generous credit terms. The volume of such imports would probably be limited, however, by Vietnam's prospective lack of ability to repay.

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<sup>\*</sup>34,000 metric tons in 1969 (Vneshnaya Torgovlia SSSR za 1969 god, Moscow, 1970, p. 215.

In short, even though the new regime would probably make heroic efforts at import substitution, the necessary capital investment resources would not be available to make that work, and the economy would, therefore, almost inevitably suffer a sharp decline from this cause alone.

*Second*, the economy has developed an artificially high degree of urbanization, with the urban population already amounting, by some estimates, to as much as 40 percent of the total. The new urban dwellers were in part pushed out of the countryside by the war, in part attracted to the cities by new economic opportunity and in part mobilized by military and paramilitary recruiting. A variety of light industry and small-scale fabricating and processing enterprises have sprung up, and a wide range of entrepreneurial as well as middle-level labor skills have been developed by a dynamic private sector. But much of the booming urban activity, particularly in the construction and service industries, is directly related to the war effort and, in no small measure, associated with the U.S. military presence. Once this military activity is terminated or, at least, sharply scaled down,\* how would the new regime cope with the resulting massive contraction of urban economic activity, the idling of a large segment of the urban labor force, and the partial demobilization of a million-man military establishment?

As a practical matter, the regime would probably welcome such urban contraction and unemployment, because it would provide an economic "cost push" that would reinforce its own efforts to induce large numbers of urban dwellers to return to their former villages or to migrate to new rural settlements. A massive urban-to-rural resettlement effort would almost certainly be a key feature of a "communist post-war" readjustment. But since the partial emptying-out of the cities would probably be occurring in parallel with a partial military demobilization, the movement back to the land might occur at a rate much faster than the land may be able to absorb. Moreover, there might well be a shortage of the minimum starting inputs -- small implements, seeds, fertilizer -- necessary to make the land produce. Whether the large additional labor inputs could, under these circumstances, substitute for the loss of the imported technological inputs is highly debatable.

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\* We must assume that the National Liberation Army would still face major tasks in consolidating its position in South Vietnam and the rest of Indochina.

*Third*, the economy has undergone an agricultural transformation that has brought a high degree of monetization and commercialization to the countryside. As a result of favorable terms of trade and the availability of cheap and plentiful agricultural inputs -- especially imported inputs such as high-yield seeds, fertilizer, pesticides, motor pumps and small machinery -- peasant productivity has risen dramatically. Higher cash incomes have stimulated the peasants' demand for consumer goods, introducing them to such bourgeois irresistibles as sewing machines, motor scooters and transistor radios, and increasingly enticing a commercial distribution system out into the countryside. In short, by dint of a vigorous response to market forces, the rural economy of South Vietnam has become effectively linked to the urban economy. This market linkage can be expected, within the present political framework, to continue to stimulate growth in agricultural output in spite of the war, the reduction in sown area, and the large loss of farm labor to the cities. But how would a communist regime make its peace with such a profit-oriented rural production system? What policies would it adopt to extract agricultural surpluses from the countryside and what might such policies do to peasant incentives?

Given the circumstances already described, a severe disruption of market forces would be inevitable in any event, even if no major new policies were adopted by the regime. Given its predispositions, however, the regime would be most likely to superimpose its own regulatory intervention upon the market -- seizing the rice mills, controlling the rice trade and setting prices -- in order to extract needed surpluses from agriculture. The process would turn the terms of trade sharply against the countryside, with depressing results for peasant incentives and productivity. The trend would be distinctly toward subsistence farming. Given the enforced austerity, the reduced marketed output, and the need to feed the cities, the regime would have little choice but to increase its "squeeze" on the peasant. In time, the regime would no doubt move toward "land reform" and collectivization -- which it views as a revolutionary imperative -- and, conceivably, enact a replay of the grim experience of the North.

*Finally*, the economy of the South has become festooned with vastly overbuilt physical infrastructures, created largely to serve the war effort -- a half-dozen superbly equipped seaports, fixed and mobile telecommunications networks, redundant truck, rail and air transportation systems, over-expanded power capacity, and a multiplicity of other productive plants spread across the country. As the military effort winds down, external commerce is reduced to a trickle, and urban economic activity generally contracts, much of this plant would be idled or rendered useless in situ. What, if anything, might the new regime do about these potentially productive resources?

Because of the deferred investment and extensive war damage in the North and the war-induced "overinvestment" in the South, the disparities between them in condition and availability of physical plant are dramatic indeed. Quite apart from any punitive intent on the part of the regime's Northern sponsors, it is difficult to see how they could resist the temptation of dismanteling and relocating to the North those redundant (and not so redundant) physical assets in the South that might be readily moveable and useable in the North -- taking along some of the specialized Southern labor force needed to reassemble and operate the equipment and plant at its destination. The Soviet Union adopted such a policy on a massive scale in Eastern Europe at the end of World War II, but North Vietnam would not view or characterize such transfers as seizure of war booty or reparations, but as more in the nature of a fraternal regroupment of manpower and means of production in the interest of furthering the Socialist Revolution throughout Vietnam.

In sum, the circumstances and economic problems of a communist takeover that I have described, and the likely communist approaches to these problems about which I have conjectured, add up to a most uninviting prospect for a South Vietnamese economy under communist rule. Whether a non-communist GVN would do a great deal better, is a question that lies beyond the scope of this paper. Clearly, the distortions and dependency of the economy of the South will pose staggering problems for any regime. The shock of transition from an externally fueled, overheated war economy to austerity and self-support could, however, be



greatly cushioned if it occurred gradually, were accompanied by substantial foreign investment, and were eased by continued, though diminishing external support. A communist regime could not and would not provide such cushions, and its longer-term prescriptions, such as "land reform" and collectivization, would seem, on all past evidence, disastrously unsuited to the productivity needs of the economy of South Vietnam.

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