

Economies in Transition

A guide to China, Cuba, Mongolia,
North Korea and Vietnam at the turn
of the twenty-first century

Ian Jeffries



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Economies in Transition

‘Of the few authors sufficiently knowledgeable to write on all the thirty-plus countries moving from central planning to the market, Ian Jeffries is outstanding. This trilogy, ranging from front-rank EU candidates to barely-changed Cuba and North Korea, promises to be a ‘must buy’ for any university library.’

Professor Michael Kaser (Universities of Birmingham and Oxford)

This remarkable book continues the work begun by Ian Jeffries in *Socialist Economies and the Transition to the Market: A Guide* (1993) and *A Guide to the Economies in Transition* (1996). Focusing on China, Cuba, Mongolia, North Korea and Vietnam, Jeffries provides an extensive guide to countries in a state of economic flux.

Analysing major political as well as economic events in these five countries, the author also looks at issues such as the impact of the Asian financial crisis. The work covers the period from the mid-1990s to the turn of the century, and presents a clear, detailed and accessible breakdown of the developments in each country.

Providing a unique level of coverage, this book will be an invaluable source of reference for anyone interested in transitional and developing countries.

This book is the first of a projected three volumes. The forthcoming titles are *The Countries of Eastern Europe at the Turn of the Twenty-First Century: A Guide to Economies in Transition*, and *The Countries of the Former Soviet Union at the Turn of the Twenty-First Century: A Guide to Economies in Transition*.

Ian Jeffries is Member of the Centre of Russian and East European Studies at the University of Wales.

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Ian Jeffries



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Introduction and overview

A Guide to the Socialist Economies was published in 1990, covering fourteen communist countries (accounting, in mid-1998, for 1.6 billion out of a world population of 5.1 billion). The final amendments to the book had been made in early October 1989. Shortly afterwards, communism collapsed in Eastern Europe, followed in late 1991 by the disintegration of the Soviet Union (the largest country in the world by area, covering a sixth of the world's land area excluding Antarctica, and then a 'superpower' able to challenge the USA in terms of military capacity). Yugoslavia also disintegrated and in a generally very bloody fashion. Academics like myself who had invested a lifetime in studying the communist countries saw their intellectual capital mostly vanish overnight. The effort of trying to comprehend profound changes, in many ways unique events and the multiplication of countries (as well as the disappearance of the GDR into a reunified Germany!) has been staggering.

My first stab at covering what became known as the transitional economies came in 1993 with the publication of *Socialist Economies and the Transition to the Market: A Guide*, which includes analyses of the basic features of command economies and the general issues involved in the transition to a market economy, plus chapters on the original fourteen communist countries before 1989 and their individual experiences after 1989 (including the disintegration of the Soviet Union and Yugoslavia). While most countries opted for the market economy and political democracy, Cuba (initially) and North Korea retained the essential features of the traditional communist economic and political system. China, in contrast, adopted gradual and partial economic reform. Vietnam took note of the Chinese model, although there were speedier elements. Both China and Vietnam, however, remained firmly in the grip of the Communist Party.

A Guide to the Economies in Transition was published in 1996. Basically a companion volume to (as opposed to an update of) *Socialist Economies and the Transition to the Market: A Guide*, it covers the period up to the mid-1990s. I am not an economic theorist but the volume includes an overview of the main issues in the transition from command planning to the market (including 'big bang'/'shock therapy' versus gradualism, China as an economic model and privatization). Although I am mostly interested in how economic and political systems actually change, I discuss the basic economic performance of individual

2 Introduction and overview

countries. Since I am not an econometrician I simply provide readers with an idea both of broad economic magnitudes and of the difficulties of obtaining meaningful data during the transition. The other chapters are devoted to the major political and economic events in thirty-five countries (including the reunification of East and West Germany): the now fifteen independent countries of the former Soviet Union, the countries of Eastern Europe (broadly defined) and the non-European countries (China, Cuba, Mongolia, North Korea and Vietnam).

I am increasingly convinced of the artificiality of separating economics and politics. For example, the privatization programmes chosen may be profoundly affected by political factors such as the strength of the central government and whether or not to seek foreign debt forgiveness. I am not a political scientist and I am unable to interrelate the two disciplines to a desirable degree. Instead, I do attempt to do two things: (1) provide a basic guide to understanding how all the 'bits' fit together, and (2) present a richly endowed 'quarry' of up-to-date economic and political information (often presented chronologically where appropriate) to allow the reader to dig out any desired facts and figures.

This is not (and is not meant to be) original research but a broad-brush painting of the overall economic and political picture. I make use of a range of secondary sources in English (necessary given the large number of languages involved). Apart from journals and books, the sources include the following:

- 1 reports such as the European Bank for Reconstruction and Development's (EBRD's) *Transition Report*, the United Nations' *World Economic and Social Survey*, the United Nations Economic Commission for Europe's *Economic Survey of Europe*, the United Nations Economic and Social Commission for Asia and the Pacific's *Economic and Social Survey of Asia and the Pacific*, the World Bank's *Transition*, the IMF's *World Economic Survey* and the OECD's *Economic Outlook*;
- 2 quality newspapers such as the *International Herald Tribune (IHT)*, the *Financial Times (FT)*, *The Times*, the *Guardian*, the *Independent*, the *Daily Telegraph* and the *Baltic Times*;
- 3 weeklies such as *The Economist* and the *Far Eastern Economic Review (FEER)*;
- 4 quarterlies/monthlies/fortnightlies such as *Business Central Europe*, *Eastern Europe (EEN, formerly Eastern Europe Newsletter)*, *The World Today*, *Asian Survey*, *Current Digest of the Post-Soviet Press (CDSP, before 5 February 1992 known as Current Digest of the Soviet Press)*, *Transition*, *Finance and Development*, *Armenia Economic Trends (ARET)*, *Azerbaijan Economic Trends (AET)*, *Belarus Economic Trends (BET)*, *Georgia Economic Trends (GET)*, *Kazakhstan Economic Trends (KET)*, *Moldovan Economic Trends (MET)*, *Russian Economic Trends (RET)*, *Ukrainian Economic Trends (UET)* and *Uzbekistan Economic Trends (UZET)*.

A review in the *Times Higher Education Supplement* (29 October 1993) kindly referred to my 'meticulous referencing', even though detailed referencing has the potential to be tiresome to readers. But since this is not original research and I

am deeply indebted to many sources, I feel it necessary to make every effort to acknowledge the material used. It is not always feasible to name the correspondents or contributors, but I try, as far as possible, to ensure that credit goes where it is due. Partly for this reason and partly for accuracy I make extensive use of quotations, although where these include commonly quoted sayings or speeches I leave out specific sources.

My task in these three companion volumes is to cover mainly the period from the mid-1990s up to the turn of the century. I once naively thought that things would 'settle down' and that the follow-up volume (in the singular!) would be smaller than the 1996 one. Far from 'settling down', the amount of economic and political material to be processed has expanded almost exponentially! Routledge has kindly supported me in the gargantuan task of writing three separate volumes, based on the Parts used in *A Guide to the Economies in Transition*:

1 *Economies in Transition: A Guide to China, Cuba, Mongolia, North Korea and Vietnam at the Turn of the Twenty-First Century*

The rationale for a separate volume has been significantly enhanced by China, North Korea and Cuba on occasion being at the centre of world attention. China's rapid economic progress has aroused considerable interest worldwide in China as an economic model of gradualism. China is increasingly participating in globalization (witness events such as its prospective entry into the WTO). Its economic progress has enormous implications in terms of international affairs. Hong Kong and Macao have been reclaimed but relations with Taiwan remain edgy. China's human rights record is often the cause of friction, especially with the USA. The June 2000 summit between the leaders of North and South Korea turned out to be a dramatic event after decades of bitter division. The Elian Gonzalez case and the actions of his Miami relatives have had important implications for US policy towards Cuba. Mongolia continues to provide a fascinating case study of continued commitment to market-orientated economic reform despite political squabbling and changes of government. Vietnam's attitude to economic reform has fluctuated. The Asian financial crisis, for instance, dampened enthusiasm. But in July 2000 the trade agreement with the USA was signed after a year's delay and greater encouragement has been given to the private sector and foreign direct investment.

2 *The Countries of Eastern Europe at the Turn of the Twenty-First Century: A Guide to the Economies in Transition*

General issues relating to topics such as 'big bang'/'shock therapy' and privatization are best dealt with in this volume, e.g. Poland in 1990 was the first country to adopt 'big bang'/'shock therapy'.

The major issues relating to German reunification have already been dealt with in the 1993 and 1996 volumes. The only thing I thought worth including in

4 *Introduction and overview*

this volume is privatization in the eastern part of Germany as a revealing case study in privatization.

3 *The Countries of the Former Soviet Union at the Turn of the Twenty-First Century: A Guide to Economies in Transition*

The above order of volumes has been dictated by factors such as the relative difficulty of keeping up to date, e.g. the Putin era in Russia needs extra time to absorb.

China: a summary

China is the largest country in the world in terms of population (1.259 billion at the end of 1999). The world population figure reached 6 billion in October 1999. India is the second largest country in the world by population, reaching 1 billion in August 1999. (China is the third largest country in the world in terms of land area after Russia and Canada.) Over 90 per cent of the population is Han. China has to support about 22 per cent of the world's population on something like 7 per cent of the world's arable area. (Thus it is no coincidence that agricultural reform was first in line after 1978.) Average life expectancy at birth rose from thirty-five years in 1949 to seventy years in 1989. Since the mid-1950s the state has tried to control population growth, often in draconian fashion. The present policy, formally introduced in 1980, is 'one child' per family, with exceptions which have grown over time.

China is an ancient and continuous civilization. ('The longest continuous civilization in the world': *The Times*, Supplement, 8 October 1999, p. 4.) The Shang dynasty was founded in about 1550 BC. But the first centralized Chinese state occurred during the Qin dynasty (221–206 BC). The Han dynasty lasted from 206 BC to 220 AD. Disunity followed until China was reunified under the Sui (581–618) and the Tang (618–907). The population of China reached 100 million by the end of the Song dynasty. The Song dynasty was in power from 960 to 1279. The Mongols under Genghis Khan invaded China in the thirteenth century and they established their capital at Beijing (meaning 'northern capital' and formerly called Peking in English). The Mongol Yuan dynasty ruled for nearly a century until the Mongols were expelled by the Ming in 1368. The Ming dynasty lasted until the Qing (Manchu) conquest of China in 1644. That dynasty ended in 1911 and a republic was proclaimed.

The existence of the shadowy Xia dynasty – and with it Beijing's claims that China's civilization dates back 4,000 or even 5,000 years – has always been the subject of intense debate both in China and abroad. All this is supposed to end later this year [2000] when a government-appointed commission of 170 scholars is due to announce that after four years of research they have blown away the doubts about China's misty past ... Critics say Beijing's attempts to promote nationalism have driven the project and that as a result

the credibility of the findings has been compromised ... Analysts worry that the study could provide new fuel to a growing fire of ethnocentric nationalism in China that could result in a more belligerent foreign policy stance on issues such as Taiwan and China's leadership role in Asia ... Compared with the world's three other ancient civilizations – in present-day Egypt, India and Iraq – the origins of Chinese civilizations have always been controversial. That is because of the long transition period between the various primitive cultures that existed along the Yellow and Yangtze Rivers from roughly 8,000 to 3,000 BC and the beginnings of the country's written record during the Zhou dynasty in 841 BC ... The existence of the Shang dynasty (roughly 1,500 to 1,000 BC) ... as a 'civilization', with an organized state and a class system, is no longer in doubt [the Shang dynasty lasted from the sixteenth to the twelfth century BC and the Zhou dynasty lasted from the twelfth to the third century BC] ... The Xia, by contrast, has remained the stuff of legend ... Archaeologists working on the project say that the final report ... will conclude that the Xia dynasty – and thus Chinese civilization – began around the year 2150 BC and continued for about 650 years until the Shang dynasty. The report is also likely to conclude that the reign of Emperor Yu, or the Great Yu – a mythical figure – marked the dynasty's founding. It will also trace the origins of the Xia back another 500 years by linking the Xia artefacts to those uncovered ... in north-western Henan. Some scholars believe the site was used by a mythological figure called the Yellow Emperor, the legendary ancestor of all Chinese people.

(Bruce Gilley, *FEER*, 20 July 2000, pp. 74–7)

As already mentioned, the Ming dynasty ended in 1911 and a republic was proclaimed. (China was defeated by Britain in the Opium War of 1841–2 and that was followed by *de facto* Western domination of China. This humiliating experience has influenced China's foreign policy to the present day.) Warlords held sway until 1927 when the Kuomintang under General Chiang Kai-shek established a new government at Nanking with Sun Yat-sen at its head. Chiang Kai-shek then turned on his former allies, the Communist Party, who in 1936 were driven northwards from their rural bases in southern China (the so-called 'Long March'). Japan invaded Manchuria in 1931 and opened full-scale hostilities in 1937. Chiang and the Chinese communists under Mao Tse-tung then teamed up again against the Japanese invaders. But civil war again broke out after Japan's defeat by the Allies in 1945. The People's Republic ('communist' regime) was established in October 1949 by Mao Tse-tung (Zedong), who died in September 1976. In 1949 China was a classically poor country, with 89 per cent of its population classified as rural.

China is a one-party state, with the Communist Party determined to retain control. It was prepared to shoot students in Tiananmen Square in June 1989. The stress is on 'unity and stability' and the regime is fearful of dissidents linking up with discontented workers and peasants and of mass movements such as

Falun Gong. There has been unrest among ethnic minorities in peripheral areas such as the Uighurs in Xinjiang (which borders Kazakhstan). The party is resolved to avoid what it sees as the anarchic conditions prevailing in transitional Russia (and indeed in the Soviet Union just before it disintegrated). Although the party has been somewhat weakened by the devolving of economic decision-making to enterprises and increasingly powerful regions, the political situation is stable enough to provide conditions conducive to gradual, partial economic reforms and to the attraction of foreign investment. The remarkable economic progress, however, is in stark contrast to its record on human rights.

China has faced periodic censure votes in the United Nations Human Rights Commission since 1990 (after Tiananmen), although all resolutions have failed to be carried to date. China stresses aspects such as the benefits of rapid economic development when discussing human rights. China does not acknowledge that it has any political prisoners, claiming that over 2,000 people have been jailed for counter-revolutionary offences. The already weak dissident movement has been more or less decimated. Leading dissidents such as Wei Jingshen have ended up in the USA. Attempts to register the China Democratic Party in June 1998 (timed to coincide with the visit of US president Bill Clinton) led to jail sentences of up to thirteen years for allegedly attempting to ‘overthrow state power’. There is an extensive labour camp network. (Former camp inmate Harry Wu estimates that there are 10 million inmates, while the Chinese government admits to less than 1.5 million: *Guardian*, 19 May 1994, p. 27.)

On 22 July 1999 the Falun Gong movement was formally banned and in October 1999 it was officially described as an ‘evil cult’. Prison sentences of up to eighteen years have been imposed on leading members. On 25 April 1999 more than 10,000 members staged a peaceful demonstration around the leadership compound in Beijing, complaining about critical comments in the press and demanding legal status. Falun Gong means ‘way of the law of the wheel’ and is a (slow-motion) exercise and meditation movement. It is influenced by Buddhist and Taoist principles expressed through breathing exercises. The Chinese authorities claim that they number around 2 million in China, but Falun Gong (whose leader is in the USA) says that there are some 70 million within China and some 100 million worldwide. (By way of comparison, there were some 58 million members of the Communist Party in early 1998 and around 60 million by mid-2000.) The regime’s alarm is increased by the number of Falun Gong members in the party and state apparatus. The regime sees the movement as a threat to the social stability deemed essential for economic reform and as a threat to the authority of the party at a time when ideology is declining and nationalism has not entirely filled the void. Some see an economic dimension in that many Falun Gong members are those who have not fared so well in the new economic conditions (e.g. older unemployed people) and are in favour of ‘clean’ living (e.g. are against corruption). (‘On Thursday [20 April 2000] the official Xinhua press agency made the stunning admission that the protests have been nearly continuous and sometimes very large. “Since 22 July 1999 Falun Gong members have been causing trouble on and around Tiananmen Square in

central Beijing nearly every day,” Xinhua quoted a high-level official as saying’: *IHT*, 21 April 2000, p. 1.)

Religious freedom has increased but is still restricted. For example, Catholics practise under the auspices of the Official Chinese Catholic Association but many more are estimated to practise underground (recognizing the authority of the Pope). China and the Vatican do not have diplomatic relations; for example, five new bishops were named in January 2000 despite the absence of papal approval.

(Beijing oversees a 3-million-strong ‘patriotic church’ that rejects the supremacy of the Vatican. But 3 million to 10 million mainland Chinese are said to belong to an underground Roman Catholic Church that does recognize papal authority: *IHT*, 15 January 1997, p. 6. An internal Communist Party document estimated that in February 1996 there were perhaps 70 million religious believers in China. In 1949 there were only a million Protestants, compared with an estimated 20 million today – although the publicly acknowledged figure is only 6.5 million. Government statistics indicate 4 million Catholics, but church organizations and Western academics say that 8 million to 10 million is a more reliable estimate: *IHT*, 28 January 1997, p. 2.)

Tibet remains a sore point for China (which invaded the country in 1950). The Dalai Lama fled to India in 1959. In November 1995 China kidnapped the Dalai Lama’s choice of the Panchen Lama and installed its own boy. In January 2000 the third-ranking Karmapa Lama (who had been recognized by both the Dalai Lama and the Chinese government in 1992) arrived in India after having left Tibet.

China is in a dilemma over the internet, seeing its benefits but aware of the threat to party control over information and communication. In January 2000, for example, a computer engineer was sentenced to two years in prison for supplying 30,000 e-mail addresses to an organization in the USA.

It must be said, however, that the present leaders are among the most liberal on offer. Ordinary people have generally benefited substantially in terms of rising living standards and typically enjoy much greater freedom as regards work, movement and information. On 5 October 1998 China signed the International Covenant on Civil and Political Rights, although it has yet to ratify it. Direct elections for village committees, which formally started in 1988, are not to be lightly dismissed despite being essentially under party control. The degree of democracy varies substantially, but they are seen centrally as a way of improving and controlling local government, combating corruption and venting local discontent. A law was passed in November 1998 with the aim of further democratizing local elections. The first township election took place on 31 December 1998. In 1999 experiments began with direct elections at the lowest level (‘neighbourhood committees’) in a number of cities.

Despite the lack of political liberalization, China has benefited from a major transformation of its bureaucratic system. This transformation ... consists of a mandatory retirement programme that replaced the revolutionary

veterans, a drive for administrative and fiscal decentralization, and the granting of permissions allowing bureaucrats to quit bureaucracy and join businesses. The implementation of these reforms was facilitated by a buyout programme for the incumbent government officials. As a result of the transformation Chinese bureaucrats now face incentives to support economic reform and to promote economic development.

(Li 1998: 393)

Deng Xiaoping was born on 22 August 1904 and died on 19 February 1997. He was the leading figure in the drive for economic reform, adopting a pragmatic approach (see quotations below). Deng won the struggle within the Communist Party about how to maintain party control. ('In 1976 after Mao's death and the capture of the gang of four, Hua Guofeng, Mao's chosen successor, became top leader. But with little Beijing experience, Hua was no match for Deng, who step by step gained support to become top leader in 1978. At the Third Plenum in December 1978 Deng was anointed and launched his "reform and opening" ... He said he "crossed the river by groping for stones": *FEER*, 25 November 1999, p. 43.) After relinquishing the titles of political office, Deng Xiaoping's only remaining formal title was 'Most Honorary President of the China Bridge Association'! But he remained the most powerful figure in reality.

Deng's argument (which still basically holds) is that concessions to the market and non-state ownership are essential for maintaining party control, while his opponents believe that the party's power is threatened by radical economic reforms (e.g. it leads to demands for political reform). Deng was aware of the extraordinary economic progress of the neighbouring 'Asian tigers' (and especially aware of the contrast between China and Taiwan). Deng strongly believed in political stability and considered this a prerequisite of economic progress. He was influenced and personally affected by the anarchy of the Cultural Revolution. He lost positions of power in 1966 and 1976, making political 'comebacks' in 1973 and 1977. He did not become 'paramount leader' until his mid-seventies. He thought that calls for greater democracy and the student demonstrations of 1989 were a threat to stability and was ruthless in stamping them out. 'The goal [of the student protestors of Tiananmen] was to establish a bourgeois republic entirely dependent on the West. Of course we accept people's demands to combat corruption ... However, such slogans were just a front. The real aim was to overthrow the Communist Party and topple the socialist system' (June 1989). 'We put down a counter-revolutionary rebellion' (June 1989).

The following quotations illustrate, among other things, Deng's pragmatism.

It does not matter whether a cat is black or white as long as it catches mice.
(1961, in relation to agricultural reform)

What do the people want from the Communist Party? First, to be liberated, and second to be made rich.

(Third Plenum of the Eleventh Central Committee, December 1978)

If today we still do not set about the task of improving the socialist system, people will ask why it cannot solve problems which its capitalist counterpart can.

(August 1980)

We should let some people get rich first, both in the countryside and in the urban areas. To get rich by hard work is glorious.

(January 1983)

Socialism must eliminate poverty. Poverty is not socialism.

(June 1984)

Fish grow in muddy waters.

(1985)

Our experience in the twenty years from 1958 to 1978 teaches us that poverty is not socialism. You cannot eat socialism.

(1985)

If you want to bring the initiative of the peasants into play, you should give them the power to make money.

(October 1985)

A planned economy does not necessarily imply socialism ... a market economy does not necessarily imply capitalism.

(1992)

There has been a power struggle among Deng's successors. The leading personalities today are the following: (1) Jiang Zemin, party leader and president (March 1993); he is described as the 'core' of the collective leadership (note the word 'collective') and he has steadily consolidated his position (e.g. he was prominent during the October 1999 fiftieth anniversary celebrations); (2) Li Peng, prime minister until March 1998 when he was elected chairman of the National People's Congress; the least enthusiastic of the three as regards economic reform; (3) Zhu Rongyi, senior vice-premier and the economics supremo until March 1998 when he was elected prime minister (and still economics supremo); the foremost economic reformer, he was once governor of the central bank (stepping down on 30 June 1995). Among the economic problems that China has had to face in recent years are inflation (though minor compared with that faced by many countries in Eastern Europe and the former Soviet Union in the early years of transition) and, after October 1997, deflation (a problem, for example,

because large volumes of stocks have depressed economic activity). Persistent problems include heavy losses by many state enterprises, a weak banking system, farmers' discontent, increasing economic disparities between coastal and inland provinces as well as between town and country, and crime and corruption.

China regained control of Hong Kong from Britain on 1 July 1997 and of Macao from Portugal on 20 December 1999. Hong Kong is much more important than Macao in economic terms, being vital to the Chinese in terms of foreign trade and foreign capital. But the people of Macao were much more enthusiastic at being under Chinese control than were those of Hong Kong, the former hoping to get respite from criminal gangs. Their futures depend crucially on the reform path being maintained in China itself. The Hong Kong takeover was relatively smooth and China was praised by the West during the Asian financial crisis for not devaluing the Chinese yuan or the Hong Kong dollar. Hong Kong is subject to a 'one country, two systems' regime, with a supposedly high degree of autonomy (except for defence and foreign affairs) for fifty years as a Special Administrative Region of China. But a number of incidents have eaten away at this autonomy. One issue, for example, concerned whether mainland children born before either parent became a resident of Hong Kong had an automatic right to residency. On 3 December 1999 Hong Kong's Court of Final Appeal accepted that the Standing Committee of China's National People's Congress had the final say (which was to be against such a right). Such erosion of autonomy has made Taiwan even more wary of reunification. Future democratization in China itself and overall success in Hong Kong and Macao are crucial to any prospects of reunification with Taiwan.

Taiwan was a Japanese colony between 1895 and 1945. Chiang Kai-shek's forces fled there in 1949 after losing the civil war. Beijing took over Taiwan's seat in the United Nations in 1971. President Richard Nixon visited China in 1972 and recognized China. The USA is against Taiwan ever seeking independence but helps Taiwan defend itself and expects any reunification to be achieved peacefully and voluntarily. Taiwan has been a troublesome factor in relations between the USA and China. For example, in May 1995 China vehemently protested about the USA's decision to allow the president of Taiwan a visa, albeit for a private visit. In March 1996 China conducted missile tests near the coast of Taiwan and held nearby naval and air exercises. President Clinton sent extra US warships into the area. President Lee Teng-hui of Taiwan, democratically elected on 23 March 1996, caused China to react strongly when, on 10 July 1999, he said: 'Since we have conducted our constitutional reforms in 1991, we have redefined cross-strait relations as nation-to-nation, or at least special state-to-state relations.' (After 1949 China and Taiwan had matching 'one China' policies, both claiming to be the legitimate government of a united China that included Taiwan. In 1991 Taiwan officially abandoned efforts to 'suppress the communist rebellion' and adopted guidelines for eventual reunification, until when the two sides were to be referred to as 'equal political entities': *FT*, 16 July 1999, p. 2.)

The State Council (cabinet) issued the following statement on 21 February 2000:

If the Taiwanese authorities refuse indefinitely to peacefully resolve the cross-strait reunification issue through negotiations, the Chinese government can only be forced to take all possible drastic measures, including the use of force ... [But a resort to force] would only be the last choice made under compelled circumstances ... [and only in the event of] a grave turn of events ... Both sides of the Taiwan Strait ... may find ways to solve their political differences and realize peaceful reunification through consultation on an equal footing.

One section contained three threats, dubbed the 'Three Ifs': China would attack Taiwan if the island declared independence, if it was occupied by a foreign power or, in a new warning, if Taiwan refused indefinitely to negotiate reunification ... But the added threat in that section of the 11,000-word document was leavened by an olive branch in another: China appeared to agree to one of Taiwan's main conditions for political talks with Beijing – that Taiwan be treated as an equal and not as a 'local government'.

(John Pomfret, *IHT*, 9 March 2000, p. 6)

'Zigzagging has added to the confusion over what the Chinese government really meant when it issued a policy paper on 21 February' (*ibid.*: 6).

The contenders in the 18 March 2000 election in Taiwan were Vice-President Lien Chan (of the governing Nationalist Party), James Soong (a former Nationalist official running as an independent), and Chen Shui-bian of the Democratic Progressive Party, the main opposition party. 'Alone among the candidates Mr Chen has long championed a Taiwanese declaration of independence, but he now says a declaration is unnecessary because Taiwan is effectively sovereign' (*IHT*, 18 March 2000, p. 1).

Chen Shui-bian of the Democratic Progressive Party won the presidential election in Taiwan. The Kuomintang had been in power since 1945. The Nationalist Party, installed by Chiang Kai-shek in 1949, had governed continuously since 1949. The new president made conciliatory gestures towards China, which responded with sentiments to the effect that actions are what will matter. Nevertheless, the war of words about the relationship between China and Taiwan has continued unabated.

In international affairs China's relations with the USA loom largest. China has improved its relations with Russia since the collapse of the Soviet Union, both supporting the idea of a 'multi-polar' world (as opposed to a 'uni-polar' world dominated by the USA). China and Russia have settled their border disputes. China has also improved its relations with India, although it was disturbed by India and Pakistan conducting nuclear tests in May 1998. China itself announced a moratorium on further tests after it conducted its forty-fifth

test on 29 July 1996. (The USA has conducted 1,030 nuclear tests and the former Soviet Union 715: *IHT*, 12 December 1996, p. 7. There have been a total of 2,045 known nuclear tests since 1945: *IHT*, 12 September 1996, p. 17.) Many countries in Asia are concerned about China's military buildup and about China's policy on, for example, the Spratly Islands.

Major incidents in Sino-American affairs include the bombing of the Chinese embassy in Belgrade on 7 May 1999 during Nato's attacks on Serbia over the issue of Kosovo (a Serbian province). (In a wider context both China and Russia are deeply concerned about the idea of other countries interfering in the internal affairs of others, given the sensitivity of Tibet and Chechnya respectively.) Although financial compensation has been agreed and the CIA (which chose the target) has dismissed one senior official and disciplined others, China still does not accept the US claim that the bombing was accidental. There is considerable controversy about whether China has stolen US technology on a large scale.

The economic reforms themselves have been variously described by China, e.g. 'planned socialist commodity economy' has given way to 'socialist market economy' (1992: formally enshrined in the new constitution in March 1993) as the reforms have proceeded and ideological concessions have become more and more accepted.

China is the best example of a generally successful policy of gradual and partial economic reform. Success has been achieved on a broad front, in terms of such criteria as output growth, living standards, poverty reduction and inflation. (See Table 1.1, p. 232.) The discrediting of such extreme and extreme-left policies as the Great Leap Forward (1958–60) and the Cultural Revolution (1966–76) has helped keep the reforms on track. There is no chance of any substantial reversal of the reforms which have been gradually introduced since 1978. China's prospective entry to the World Trade Organization (the successor to Gatt) will help ensure the irreversibility of the economic reform process.

Nevertheless, temporary retrenchment has occurred, such as the reintroduction of price controls to combat inflation (price ceilings) and (after October 1997) deflation (price floors). There are a number of sources showing signs of deflation abating in early 2000. (An earlier date has been suggested. 'Price deflation has been moderating since mid-1999': OECD, *Economic Outlook*, June 2000, p. 114.) Although GDP growth rates look impressive by world standards, they have been declining since reaching a peak of 14.2 per cent in 1992. The downward trend has caused considerable concern to authorities anxious to maintain social stability. Unemployment and labour unrest have both risen. Large-scale infrastructure investment programmes (as well as policies such as extended holidays) have been employed by the state to help counter the ill effects of the Asian financial crises (which started in July 1997) and of private consumption depressed by rising unemployment and reduced social service provision. There was also very severe flooding in parts of China in the summer of 1998 (partly man-made, owing, for example, to deforestation; cultivation of flood plains exac-

erbated the ill effects of the floods). Flooding in 1999 was less severe but still costly in human and economic terms.

The Household Responsibility System has been improved by lengthening leases (land is not privately owned), in some cases seemingly indefinite in reality if not law. Private farms are very small. There have been various experiments by the state to lease out larger plots of land, to encourage the amalgamation of family plots, and even forcibly reassign land from less to more efficient farmers (which shows the limitations of leased land in terms of property rights). But the widening gap between urban and rural incomes to the detriment of the latter has caused a mass movement to the towns of the order of perhaps 100,000 economic migrants.

The state-dominated banking system is a major headache for China. As part of the 'soft budget constraint', large amounts of bad loans have been built up. Reforms to try to make state banks more commercially minded have been hindered by the need to boost spending to combat deflation. (Not only does the government still pressurize banks to make loans, but it itself has undertaken bond-financed infrastructure investments to try to offset depressed consumption spending by consumers worried about unemployment and all the consequences in terms of social security provision that removal from a state enterprise means. The start of the controversial Three Gorges Dam, on 14 December 1994, preceded this concern about deflation.) Other reforms include schemes to recapitalize certain banks via so-called asset management companies and the central government beginning to refuse to act as an automatic guarantor of debts incurred by regional financial institutions. This began when, in October 1998, the central bank ordered the closure of the Guangdong International Trust and Investment Corporation after it was unable to repay loans (including foreign ones).

Banking reform has been hindered by the persistence of so many loss-making state enterprises, facing increasing competition from non-state enterprises (able to enter an increasing number of markets). The regime is afraid of the social consequences of unemployment rising faster than it already has. (Labour unrest has increased and sometimes takes a violent turn.) Progress in setting up alternative ways of financing and organizing social services such as housing and health (and thus lifting the burden off the backs of state enterprises) has been very slow. Shareholding (the dilution of state ownership in joint stock companies) and privatization is the latest stage of the state enterprise reform. A large number of small enterprises (and a fair number of medium-sized ones) have been sold off or leased. The privatization of large enterprises has not progressed along Eastern European lines, however. (According to the International Finance Corporation, of nearly a thousand companies listed on the Shenzhen and Shanghai markets for domestically traded A shares, only eleven are private – compared with three at the end of 1998: *FEER*, 29 June 2000, p. 61.)

'Public ownership' remains officially the 'mainstay' of the economy, but the term has been interpreted more liberally (e.g. to include mixed-ownership enterprises). China has stuck to its policy of building up conglomerates to compete

with the international giants despite the adverse publicity of such organizations as the South Korean chaebols during the Asian financial crisis. Other reforms include separating government administration from enterprise management. The non-state sectors are becoming more and more important in the economy. The Ninth National People's Congress (held 5–15 March 1999) agreed to alter Article 11 of the constitution. It was amended to state that 'non-public sectors' constitute 'an important component of China's socialist market economy' rather than merely 'a complement to the socialist public economy'.

[On 4 January 2000] The state development planning commission announced that private enterprises should be put on an 'equal footing with state-owned enterprises' for the first time since the communists took power in 1949 ... 'Except for the areas that are related to national security and those that must be monopolized by the state, all the rest of the areas should allow private capital to enter,' the planning commission statement said.

(John Pomfret, *IHT*, 5 January 2000, pp. 1, 4)

'His [Zeng Peiyan's] remarks raise the prospect that for the first time since the 1949 communist revolution a virtually level playing field will be created' (James Kyngé, *FT*, 5 January 2000, p. 10). By the end of 1998 the People's Liberation Army had carried out the order to divest itself of most of its substantial commercial operations. But the process has still not been completed.

The 'township–village enterprises' (TVEs) still constitute an extremely important and dynamic force in Chinese growth, despite the organization coming under increasing strain as a result of a more individually orientated society, a more mobile population and greater competition from private and the more dynamic of the state enterprises. One response has been the transformation of TVEs into 'shareholding co-operatives', which are becoming increasingly common.

China has continued to open up its economy to foreign capital, trade and technology. It still attracts the second largest amount of direct foreign investment after the USA (helped by increasing the number of eligible sectors) despite the ill winds of the Asian financial crisis and such persistent problems with ensuring property rights.

China did not succeed in gaining founder membership of Gatt's successor, the World Trade Organization (WTO), when it was established on 1 January 1995. China's entry into the WTO has been delayed by such factors as quotas, an extensive licensing system and large subsidies to state industrial enterprises. It has been argued that WTO entry has implications for the overall economic reform process in China. 'The WTO rules are the lever that China's reformist prime minister, Zhu Rongji, wants to use to overcome his domestic opponents and force more openness on China' (Thomas Friedman, *IHT*, 1 September 1999, p. 6). 'President Jiang apparently needs the weight of international commitments to help overcome domestic opposition to his ambitious plan to drive his economy away from state controls and towards markets' (Michael

Weinstein, *IHT*, 10 September 1999, p. 6). ‘Prime Minister Zhu Rongji ... wants to use commitments to the WTO to make it hard for domestic opponents to overturn reforms. Violations of China’s commitments to the WTO invite retaliation by China’s trade partners’ (*New York Times*, editorial in *IHT*, 4 November 1999, p. 8).

Controls on the Chinese economy (such as on capital flows) helped shield China to some extent from the effects of the Asian financial crisis (which started in July 1997). This had a dampening effect on China’s desire to join the WTO. But Prime Minister Zhu Rongji had talks about WTO entry with President Clinton in the USA in April 1999. (President Clinton rejected the Chinese concessions then because he thought they would not be sufficient to convince the US Congress. He subsequently regretted this and the public disclosure of the details of the talks caused great embarrassment for Zhu Rongji, who was subjected to considerable criticism at home in China. Many argue that the concessions made by China in the November 1999 agreement with the USA are, on balance, less than those the USA could have achieved in April 1999!)

China has to negotiate first with individual countries or trading blocs, such as the EU. On 15 November 1999 the USA and China announced that an agreement had finally been reached – the negotiations had lasted, off and on, for thirteen years! The failure of the USA and China to agree on their bilateral deal had been the main obstacle to China’s membership of the WTO. The deal did not need the approval of the US Congress before China could proceed into the WTO, but Congress would eventually have to grant China what in the USA is called ‘permanent normal trading relations’ (PNTR) instead of having to take an annual vote (which started in 1974) if US companies were not to be penalized by China. (PNTR is more commonly known as ‘most favoured nation’ or MFN status, the idea being that the most beneficial concessions apply to all countries. The US House of Representatives voted in favour of PNTR on 24 May 2000 by a surprisingly comfortable margin of 237 to 197, surprising in the sense that a long, passionate and acrimonious debate had seemed to herald a very close-run result. The US Senate voted in favour of PNTR on 19 September 2000. The majority in favour, 83 to 15, was again surprisingly large.) China had already reached agreement with twelve other countries, including Japan and Australia but also had to reach agreements with the EU, Canada and twenty-two other countries, including Brazil, India and Switzerland. China and India concluded a deal on 22 February 2000. China and the EU announced an agreement on 19 May 2000, the last major one to be reached.

The yuan (renminbi or ‘people’s currency’) has gradually been made more and more convertible. The first local foreign exchange markets (‘swap centres’) were set up in 1985 (a valuable boost to direct foreign investment since profits earned by ‘foreign-invested enterprises’ could be repatriated without having to export). On 1 January 1994 the official and swap rates were unified, with the yuan subjected to a managed float. On 1 December 1996 China formally accepted Article 8 of the IMF’s articles of association on current account convertibility (restrictions remaining on capital account transactions). At the

National People's Congress held in March 1998 it was announced that the date of full convertibility of the yuan was to be put back because of the Asian financial crisis that started in July 1997 in Thailand. The deputy governor of the central bank said that it could take ten years instead of the unofficial target date of 2000 (*IHT*, 6 March 1998, p. 6).

Dai Xianglong, the central bank governor, said in a recent closed-door meeting that Beijing should strive to create the conditions for full convertibility during the next five years ... Zhu Rongji, the prime minister, said in March [2000] that China could not outline a timetable for capital account convertibility until its ability to supervise foreign exchange transactions was much improved.

(*FT*, 10 July 2000, p. 11)

China earned considerable respect in the international community for maintaining the exchange rate of the renminbi (and the Hong Kong dollar) and thus not triggering a further round of competitive devaluations in Asia after the financial crisis started in July 1997. Adverse effects included a decline in exports, but China escaped relatively lightly. Long-imposed controls of the capital account were reinforced by increasingly stringent foreign exchange regulations and indirect ways of boosting exports (e.g. tax rebates for exporters). There was a crackdown on smuggling.

'After declining in 1998 and the first half of 1999, China's exports have been rising strongly since the second half of 1999, helped by strong global, and particularly regional, demand growth' (OECD, *Economic Outlook*, June 2000, p. 144).

Cuba: a summary

A common criticism of the USA's policy as regards Cuba is the contrast with US policy towards China (which has a much worse record on human rights). But Fidel Castro (74 on 13 August 2000), still very much in control, makes full propaganda use of the US trade embargo (imposed in 1961) to help maintain his dominance. The counter-productive US trade embargo on Cuba is driven, as always, by internal politics and the power of the Cuban émigré lobby in particular (especially in the key state of Florida and in Miami above all). But the Miami lobby overplayed its hand in the Elian Gonzalez case and, ironically, soon helped erode the US embargo somewhat. On 27 June 2000 leaders of the Republican Party in the US House of Representatives struck a deal to ease economic sanctions on Cuba, namely to allow limited cash-only sales of food and medicine to Cuba. On 21 July 2000 the House of Representatives barred the Treasury Department from spending federal funds to restrict Americans from travelling to Cuba or engaging in the sale of food and medicine.

'About 2 million Cubans have left the Caribbean island and gone into exile, most to the USA, since the 1959 Revolution' (*FT*, 23 September 2000, p. 7). Some 1.2 million Cubans live abroad (*IHT*, 8 November 1995, p. 3). Miami and

its region (in Florida) contains the largest concentration of Cuban exiles in the USA: 700,000 out of a total of about 1.5 million (Wroe 1996: 14). There are some 1.5 million Cuban Americans, about 1 million of whom live in southern Florida (*IHT*, 25 November 1997, p. 2). 'Money sent by Cuban exiles to relations in Cuba is now estimated to bring the island over \$1 billion a year in cash alone, more than Cuba earns from sugar exports' (*The Economist*, 2 January 1999, p. 45). 'Remittances ... according to a UN study, total more than \$800 million a year, making them Cuba's largest single source of hard currency' (*The Economist*, 21 August 1999, p. 47). More than \$500 million a year is sent to Cubans from relatives abroad (*IHT*, 2 January 1999, p. 1).

Cuba blamed Cuban exiles in the USA for being behind a series of bomb explosions in Havana in the summer of 1997.

The embargo has been periodically tightened and loosened, while various agreements have been reached between Cuba and the USA about dealing with asylum seekers:

- 1 In the summer of 1994 Castro was having trouble in Cuba with people seeking asylum in the USA. On 20 August 1994 the USA announced further measures against Cuba, including an end to cash transfers, curtailed charter flights, restrictions on visits by relatives, increased radio and television broadcasts and a quest for resolutions in the UN condemning human rights violations. Gift parcels would be limited to food, medicine and other humanitarian items.
- 2 On 2 May 1995 the USA announced that those Cubans attempting to reach the USA illegally in the future will be returned to Cuba if intercepted at sea as so-called 'rafters' (unless the USA is satisfied that their lives are in jeopardy; those reaching shore will be given the opportunity to apply for asylum, but will be treated like all other illegal immigrants). The Cuban government promised not to take reprisals against those returned.
- 3 On 6 October 1995 President Clinton announced an easing of restrictions on travel to Cuba. Cuban Americans are to be automatically allowed to visit relatives once a year (previously permission was needed for each visit, e.g. on compassionate grounds). The humanitarian relief and family remittances allowed under US law are to be expanded. Travel restrictions will be eased for Americans engaged in educational, religious and human rights work. US news organizations will be permitted to establish bureaus in Cuba and vice versa. US companies will be allowed to register product patents in Cuba. (US news organizations have been barred from operating in Cuba since 1969, when Cuba expelled a journalist from the Associated Press.)
- 4 On 24 February 1996 Cuba shot down two light civilian aircraft piloted by anti-Castro activists of the Brothers to the Rescue organization based in Miami. (The organization was set up in the early 1990s to overfly the straits of Florida looking for 'rafters'. Cuba claimed they were in its airspace and had disregarded warnings. On 13 July 1995 and 9 and 13 January 1996 the organization had dropped leaflets over Cuba. There were allegations that

the two aircraft had been heading for Cuba in order to fly out dissidents.) (The UN's International Civil Aviation Organization concluded that the two aircraft were shot down over international waters and without proper warnings: *FT*, 22 June 1996, p. 2.)

- 5 On 26 February 1996 President Clinton announced new sanctions on Cuba, including a suspension of charter flights between the USA and Cuba, further restrictions on the movement of Cuban diplomats in the USA, an expansion of radio broadcasts by Radio Marti (using new powerful transmitters to increase broadcasts) and using frozen Cuban assets to compensate the families of the four pilots who died.
- 6 On 12 March 1996 President Clinton signed the Cuban Liberty and Democratic Solidarity Act (known in its original version as the Helms–Burton Bill, after its sponsors Senator Jesse Helms and Representative Dan Burton). Economic sanctions were tightened, but the provisions that most upset other countries (including allies of the USA) were the following:
 - Title IV involves the denial of US visas to foreigners ‘trafficking’ (buying or leasing) since 12 March 1996 in property confiscated from US citizens. Those affected are any ‘corporate officer, principal, or shareholder with a controlling interest’ of an organization and any ‘spouse, minor or agent’ of those barred.
 - Title III says that Cuban Americans and others are to be able to sue for compensation (the minimum is \$50,000) in US courts companies ‘whose operations in Cuba involve the use of expropriated property’ (with the property of these companies within reach of US courts liable to confiscation). Thus foreign companies operating in Cuba can be sued in US courts for actions that are legal in their own countries! (President Clinton has signed a succession of waivers to prevent law suits being filed in the USA.)
- 7 On 20 March 1998 President Clinton announced an easing of sanctions in response to the Pope’s visit to Cuba in January 1998, including a resumption of direct humanitarian charter flights to Cuba, a streamlining of procedures that allow the Roman Catholic Church and other non-profit organizations to export and sell pharmaceuticals to Cuba (the aim being to ‘streamline and expedite’ the granting of licences for medicines since these are not embargoed) and for the first time since 1994 allowing Cuban Americans to send money directly, and legally, to relatives in Cuba through licensed agencies (up to \$300 every quarter to each household or up to \$1,200 a year).
- 8 On 5 January 1999 President Clinton took ‘steps designed to help the Cuban people without strengthening the Cuban government’:

- any American, and not just family members, would be allowed to send cash to Cuban citizens (except top Communist Party officials) and to certain non-governmental organizations;
- permission would be given for the sale of food and agricultural products to church groups, private farmers and others, but not the government;
- authorization would be given for charter flights to Cuban cities other than Havana and from US cities other than Miami;
- it would be made easier for academics, athletes, scientists and others to take part in exchanges.

- 9 ‘Cuba’s communist government yesterday [15 February 1999] announced a crackdown on political opponents who collaborate with the US government, underlining its hostility to the recent modification of the US embargo. A draft law, designed to protect “national independence and the Cuban economy” lays down tough new punishments, including prison terms of up to eight years merely for the possession of information judged to be subversive. The law, unveiled at an extraordinary session of Cuba’s National Assembly of Popular Power, the country’s legislative body, says alterations to the US embargo “do not signal any change in US policy towards our country because they are aimed at subverting the revolution and maintaining intact the iron blockade” ... The new law sharply restricts the supply, reproduction and circulation of sensitive information within Cuba. Anyone supplying information to the US that can be used to “reinforce the blockade against Cuba” faces a possible prison term of up to fifteen years. The penalty rises to a maximum of twenty years if it involves a group of people or if the information is acquired “surreptitiously”. State employees using information gleaned at work face prison sentences of up to thirty years ... The law proposes jail terms of up to eight years for collaborating with radio and TV stations and publications deemed to be assisting US policy. The assembly also unveiled a separate law designed to tackle the growing wave of serious crime, including armed robbery, drug trafficking and prostitution’ (*FT*, 16 February 1999, p. 3).
- 10 On 25 February 1999 Cuba cut off telephone links with five (out of seven) US companies owing to non-payment. The US companies had been withholding funds since December 1998 pending a federal court case against Cuba involving relatives of four Cuban Americans who were killed when two aircraft were shot down on 24 February 1996. In 1997 a federal judge in Miami awarded a \$187 million judgment to the relatives, who are seeking to tap the telephone funds (*IHT*, 26 February 1999, p. 2). On 18 March 1999 a judge in Miami ordered that more than \$6.2 million owed to Cuba by US telephone companies be used to pay compensation to the families of three Cuban Americans who were killed when their light planes were shot down in 1996.

- 11 On 3 August 1999 the Clinton administration announced plans to permit direct charter flights to Cuba from New York and Los Angeles in addition to flights from Miami (*IHT*, 5 August 1999, p. 3).
- 12 'Illinois' Republican governor George Ryan last weekend [23–4 October 1999] became the first US state governor to visit communist-ruled Cuba in forty years ... He brought with him \$1 million in food, medicines and educational supplies to give to Cuban hospitals and schools. But Mr Ryan's gubernatorial cortege also included a group of Illinois businessmen ... [There was] talk about the need to end the US economic embargo against Cuba and open up the island's market to US exporters ... Mr Ryan made his position bluntly clear: "I want to see the embargo lifted" ... Mr Ryan's five-day visit to Cuba [23–7 October 1999] ... is also another indication of how US Republican politicians are taking up the cry of state farmers and exporters to call for an end to unilateral US sanctions ... This last year has seen a flurry of "fact-finding" visits to Havana by representatives of US farm organizations and export groups. Many US companies find it useful to smooth the path with a humanitarian donation' (*FT*, 27 October 1999, p. 13).

During his visit George Ryan met Castro. Ryan opposes the US trade embargo, which was imposed in 1962 (*IHT*, 29 October 1999, p. 4).

- 13 On 25 November 1999 a 6-year-old Cuban boy (Elian Gonzalez) was rescued from the sea, his mother and stepfather having died in the attempt to escape. He was initially placed in the hands of paternal relatives in Miami. There followed an extraordinary legal, political and emotional battle, long to resolve and subject to international attention, before the boy was finally reunited with his father (who had flown to Washington). The legal process actually reached the US Supreme Court. On 28 June 2000 the court denied the request for a hearing from the Miami relatives and said that 'the application for stay ... referred to the court is denied'. Elian and his father were flown back to Cuba the same day. Elian's working-class, quiet and dignified father refused the offer of political asylum in the USA. The determining factor was the right of a father to determine his young son's future, but the politics of the Cuban émigrés versus Fidel Castro coloured the wider picture.
- 14 On 1 January 2000 a Vietnamese-born American flew a private light aeroplane from Miami to Havana. Before returning he dropped anti-Castro leaflets.

On 14 December 1997 Castro declared that Christmas Day was to be a national holiday (for the first time since 1969) but for 1997 only. (Castro said this was in honour of the forthcoming visit of the Pope. The Pope had earlier requested that Christmas Day be designated a permanent public holiday. Cuba was officially declared an atheist country in 1962. In 1992 the constitution was revised to stipulate that Cuba was no longer an atheist state but a secular one acknowledging religious choice. In June 1996 a public mass was allowed. Christmas Day was permanently reinstated as a public holiday from December 1998 onwards.)

Pope John Paul II visited Cuba on 21–5 January 1998. On his way to Cuba the Pope made two comments. While recognizing the advances in Cuban schooling and health, ‘I hope there will also be progress in the order of human freedom, in the dignity of the person. This is the area where there is progress to be made.’ The Pope recommended a lifting of the US economic embargo on Cuba (*IHT*, 22 January 1998, p. 3). During the visit the Pope cautioned against using the embargo as an excuse for all Cuba’s woes, but he still maintained that such sanctions are ‘always deplorable because they hurt the most needy’ (*IHT*, 24 January 1998, p. 1). (The Pope highlighted Cuba’s poor housing.) ‘Cuba ... should open up to the world and the world should draw close to Cuba’ (*Guardian*, 26 January 1998, p. 10). During his visit the Pope urged Cuban exiles to avoid ‘useless confrontations’ and rather to co-operate in seeking change by promoting reconciliation ‘peacefully and in a constructive way in the nation’s progress’ (*The Times*, 26 January 1998, p. 10). On departing the Pope referred to the US economic embargo as ‘unjust and ethically unacceptable’.

[The Cuban people] cannot be denied the contacts with other peoples necessary for economic, social and cultural development, especially when the imposed isolation strikes the population indiscriminately, making it ever more difficult for the weakest to enjoy the bare essentials of decent living, things such as education.

During his visit the Pope made reference to other issues, including human rights, political prisoners and a greater role for the church. Cuba’s response was disappointing on all counts. On 15–16 November 1999 the ninth summit meeting (and the first to be held in Cuba) of the Ibero-American conference (which started in 1991) took place in Havana. The grouping comprises twenty-one countries (Spain, Portugal and Latin American countries). The main topic was meant to be economic globalization, but important figures (including King Juan Carlos, who was the first Spanish monarch to visit since independence) were openly critical of Cuba’s human rights record.

Wayne Smith has cited the calculation by human rights activists that as many as 900 men and women were behind bars for crimes of a political nature, down from tens of thousands in the 1960s (Smith 1996: 108). A figure of around 500 political prisoners is commonly given (*The Times*, 13 February 1998, p. 16; *FT*, 13 February 1998, p. 4; *Guardian*, 13 February 1998, p. 14).

When the communist regimes collapsed in Eastern Europe in late 1989 and in the Soviet Union in late 1991, Cuba was left almost isolated. Foreign trade plummeted and aid was largely cut off. Cuba was left in dire economic straits. In a December 1989 speech, Castro talked of ‘socialism or death’, but the economic crisis led to considerable pragmatic, piecemeal economic reforms (as opposed to being part of a comprehensive blueprint). But Cuba has maintained a system of free education and health which is the envy of many developing countries.

The situation deteriorated in 1990, owing to such factors as the disruption of Comecon trading links after 1989 and reduced deliveries of Soviet oil and grain. (In the early months of 1990 preparations began to be made for a 'special period in a time of peace', e.g. experiments in using manual and animal power to save fuel, tight restrictions on electricity consumption, an increasing use of bicycles (many imported from China)). Rationing became pervasive and in late 1990 the so-called parallel market was abandoned (introduced in 1972 for certain commodities, it involved extra-ration purchases at higher prices). As the situation further deteriorated in 1991 Cubans were being prepared for life with disrupted trade links and without Soviet aid (which began to be withdrawn late 1990) and subsidized Soviet trade (after 1991 trade was to be conducted in hard currencies and at world market prices). In September 1991 Castro talked of a 'zero option' of extreme privations. (Note that Cuba borrowed heavily from the West in the latter half of the 1970s in order to encourage 'debt-led growth'. Initially Cuba had a good record in repaying its hard currency debt, but was forced to start rescheduling as early as 1983 when export growth did not match expectations. In 1986 Cuba suspended most principal and interest payments to the West.)

There is general agreement that Castro has pragmatically adopted piecemeal reforms rather than a comprehensive blueprint. In a July 1993 speech he said: 'We have serious problems and we have to solve them to survive. There are two different sets of things: the things we have to do to perfect socialism and the things we have to do for the revolution to survive.' From 29 November to 8 December 1995 Castro visited China. He praised China's reforms as a model for Cuba's 'socialism with Cuban characteristics' (*IHT*, 1 December 1995, p. 4). Castro is quoted as saying that 'Shenzhen has created a miracle unmatched in any other place in the world' (*IHT*, 7 December 1995, p. 4). The economic reforms of the 1990s seem more securely based than preceding ones (although there have been setbacks). The wider situation has completely changed, with the collapse of communism and the triumph of 'capitalism' worldwide. Cuba has to live with international capitalism and cannot afford to antagonize foreign investors.

What was once a centralized, Soviet-style system has been decentralized into a number of individual, state-owned companies. While still subject to quotas, these companies have varying degrees of autonomy, can sign contracts with each other and handle their own marketing. Some, particularly in the tourism sector, have signed management contracts with foreign companies.

(Karen DeYoung, *IHT*, 25 July 2000, p. 2)

In September 1993 state farm workers were allowed to form semi-autonomous co-operatives ('basic units of co-operative production' or BUCPs) within the farms. Land still belongs to the state but the BUCPs have permanent

and rent-free use. Some land can be set aside for own-consumption ('self-provisioning') purposes. The co-operatives are financially independent and elect their own management. The members of the BUCPs have been made collective owners of most of the plant and equipment that previously belonged to the state farms. Long-term credits are available for purchasing the assets. Earnings depend on results. But what they plant as their principal crop is determined by the state enterprise (i.e. the 'primary line of production' is subject to state planning).

On 1 October 1994, 121 free agricultural markets began to be opened, those eligible including individual peasants, (private) agricultural production co-operatives (APCs), non-sugar-cane BUCPs, state enterprises and all other individuals and collectives who might have self-provisioning plots (although the first three must receive a certificate stating that they have met their delivery quotas to the state (Deere 1997: 660–1). Since October 1994, then, all producers (licensed and subject to tax) of agricultural products (except sugar producers) have been able to sell output exceeding the compulsory state delivery quotas on the market at free market prices.

State farms have dominated Cuban farming in the Castro era. But by the end of 1994 co-operatives accounted for 51.8 per cent of agricultural land, comprising BUCPs (40.6 per cent) and the older agricultural production co-operatives (APCs) formed on private land (11.2 per cent). The figure for state farms was 29.8 per cent and for individual peasant producers 15.1 per cent (Deere 1997: 655–6).

The new co-operatives created in 1994 are inefficient and highly dependent on the state; the state directs their production and buys virtually all their output at below-market prices, creating severe disincentives. In 1997 these co-operatives' share of cultivated land was 57.6 per cent but their share of total sales to the public in free agricultural markets was 3.6 per cent. The private sector's share of land and market sales were 16.9 per cent and 72.7 per cent, while the state farms' shares were 25.5 per cent and 23.7 per cent, respectively.

(Mesa-Lago and Perez-Lopez 1999: 23)

Controls on the private sector have been relaxed but not abolished. (In the West illegal activities are specified, while in Cuba the legal ones are!) The black market is rampant and legislation often simply legitimizes this activity. In September 1993, 117 occupations in the trades, crafts and services sectors were opened up to legal *individual* private enterprises (self-employed people, i.e. non-relatives, cannot be employed), e.g. taxi drivers, mechanics, plumbers, craftsmen, farm produce salesmen and computer programmers. An ambiguity in the September 1993 legislation allowed formally illegal 'home restaurants' to flourish. There was a clampdown but in 1995 they were legalized (subject to certain conditions relating to licensing fees, hygiene and a ban on hiring people outside the family). Other activities were added to the permitted list in October

1993, mid-1995 and mid-1996. For example, in mid-1995 teachers, doctors and engineers were allowed to earn private income in (specified) activities other than their professions. In October 1994 it was announced that consumer goods produced by individual craftsmen or by state enterprises in excess of state targets could be sold direct to the public at market prices through authorized outlets. Other factors hindering legal private activity include taxes and bureaucracy.

(Note that the army has extensive economic interests.)

Cuban citizens who obtained foreign currencies (e.g. as tips or remittances from abroad) were required to exchange them at the official (inflated) exchange rate of the peso. Cuba has relaxed the regulations as regards hard currencies, with the aim of increasing the flow of dollar remittances from Cuban exiles in the USA (an important source of foreign currency). In June 1993 ten categories of Cuban citizens were allowed to exchange foreign currencies at a preferential rate and to open bank accounts denominated in foreign currencies. A decree of August 1993 legalized the possession and use of foreign currencies by Cuban citizens, including the right to open bank accounts denominated in foreign currencies. A chain of special shops have been set up to accept hard currency. (The so-called 'dollar' or 'diplomatic' shops are still theoretically barred to Cuban citizens, but some used them prior to the reform and their use was more open afterwards.) In December 1994 a convertible peso was introduced (valued at par with the US dollar) alongside the old peso, with the aim of gradually replacing the peso and all foreign currencies. 'Yet both Cubans and visitors still tend to treat the convertible peso as funny money' (Wroe, *The Economist*, Survey, 6 April 1996, p. 10).

Officials estimate that around 55 per cent of all Cuban households now have access to dollars (*The Economist*, 23 October 1999, p. 94).

The proportion of the 11 million population with access to hard currency, albeit only in small quantities for many, rose in 1999 to 62 per cent ... Every Cuban ... knows that the US dollar has superior buying power to the Cuban peso – at least twenty times more by the government-approved internal exchange rate.

(*FT*, 4 January 2000. p. 5)

Tourist earnings and more than \$500 million a year sent to Cubans from relatives abroad help keep the economy afloat, but they have also created class distinctions that fly in the face of communist dogma ... Cuban officials say they have undertaken economic liberalization only reluctantly. They say they have little choice given the collapse of the Soviet bloc in the early 1990s and the continued US embargo. They express worry about social tensions caused by the growing gap between Cubans who have access to dollars and those who do not.

(Serge Kovalski, *IHT*, 2 January 1999, p. 1)

The attraction of direct foreign investment (DFI) is now an important aspect

of economic policy in Cuba. Conditions for DFI have been improved (e.g. 100 per cent foreign-owned companies are allowed in certain sectors) and new sectors opened up (e.g. mining of the important nickel). Canada, Spain and Mexico have spearheaded the foreign investment drive. Obstacles include US legislation relating to the US trade embargo on Cuba.

Cuba says that DFI commitments amount to just over \$2 billion, but Western estimates put the amount actually disbursed much lower, perhaps only a quarter (*FT*, 7 March 1996, p. 4).

The economy experienced negative GDP growth in the period 1990 to 1993. Positive GDP growth resumed in 1994, with sectors such as agriculture and tourism leading the recovery. (See Table 2.1, p. 279.) Growth was strongly positive in the period 1996–9. ‘Real GDP [however] is still only 65 per cent of its 1989 level’ (*The Economist*, 20 November 1999, p. 86). Open inflation is under control.

Mongolia: a summary

The pain of economic transition has been exacerbated by natural disasters such as prairie fires in the first half of 1996, drought in the summer of 1999 and the exceptionally harsh winter of 1999–2000. Overgrazing is an increasing problem.

Mongolia has had to cope with debilitating political problems: changes of government, corruption, quarrels between the previous Democratic Coalition government and the opposition over such issues as bank privatization, divisions within the previous Democratic Coalition government (leading to frequent cabinet reshuffles among other things), constitutional disputes and the murder of a popular minister. Despite such problems, Mongolia has maintained a remarkable degree of political stability and commitment to economic reform (which accelerated after 1996).

‘Mongolia’s democracy has emerged as among the most vigorous in the post-communist world’ (Tom Ginsburg, *Asian Survey*, 1998, vol. XXXVIII, no. 1, p. 68).

Throughout the transition the MPRP [Mongolian People’s Revolutionary Party] has not launched a serious challenge to an economic reform agenda largely dictated by international donors and the political opposition ... It has also served as a kind of umbrella for a wide spectrum of political views.

(Ginsburg 1995: 471)

The lack of strong political backlash against economic transition is partially due to two economic stabilizers which smoothed the adjustment process: the traditional pastoral lifestyle and the flourishing informal sector ... [There is a] broad consensus on underlying fundamentals, including the desirability of a market-based economy and incorporating attitudes towards the pastoral sector and the informals.

(Pomfret 2000a: 149)

The traditional pastoral lifestyle was resilient to economic changes ... The informal sector eased the transition from central planning by maintaining a flow of desired goods and services and alleviating urban unemployment ... The democratic process has produced a consistent development strategy, with an acceleration in 1996 in response to the will of the electorate ... The second half of 1998 illustrated the economic consistency amidst superficial political tension ... The general pattern is of lively debate and party differentiation on some issues, but broad consensus on underlying fundamentals. The Mongolian People's Revolutionary Party, the successor to the sole pre-1990 party, has played a generally positive role.

(*ibid.*: 151–7)

In the general election of June 1992 the National Democratic Party (NDP) and the Social Democratic Party (SDP) received a total of only six seats in the 76-seat Great Hural, despite having won some 40 per cent of the vote. The Mongolian People's Revolutionary Party (MPRP) won 93 per cent of the parliamentary seats with only 56 per cent of the popular vote. The system of voting was altered by the time of the June 1996 general election. In that election the opposition Social Democratic Union Party (comprising mainly the NDP and the SDP) not only unexpectedly won but did so with a massive majority (fifty seats to the MPRP's twenty-five). The young and largely inexperienced coalition swept to power on a programme of radical economic reform.

The presidential election held on 6 June 1993 was won by the incumbent Punsalmaagiyn Ochirbat, although as the candidate of the opposition National Democratic Party and the Social Democratic Party. In the presidential election of 18 May 1997 Natsagiin Bagabandi (chairman of the MPRP) won on a platform of slower economic reform, greater social protection and reduced crime. But the new president adopted a pragmatic attitude to economic reform and did not hinder its progress.

In the general election of 2 July 2000 the Mongolian People's Revolutionary Party under its new, young (42-year-old) leader Nambaryn Enkhbayar (partly educated in the United Kingdom) swept back to power, winning seventy-two of the seventy-six seats in the Great Hural. After the 1996 defeat the MPRP moved more towards the centre ground of politics. Nambaryn Enkhbayar:

We have tried to adapt to a middle way. We are staying on the left side, but moving from the extreme to the centre ... Privatization has been done in the wrong way in the past. We cannot just throw people out of work without thinking of the social consequences: we have to look at retraining and finding new jobs.

(*The Times*, 4 July 2000, p. 14)

Nambaryn Enkhbayar ... said the MPRP would push ahead with plans to privatize ... But it would do so in a way that was less corrupt than the coalition, he said. The preferred methods of privatizing such mainstays of the

economy would be to sell them to large, well-managed companies in the West [including Japan], he said.

(*FT*, 1 July 2000, p. 6)

The MPRP benefited from negative perceptions of the ruling Democratic Coalition: inexperience, internal divisions, frequent government reshuffles, corruption, and growing poverty and unemployment despite economic growth. The MPRP's election platform stressed its political experience. It also stressed the basic continuity of economic reform but with a greater stress on social policies to ease the pain of transition for many in society, e.g. measures to reduce poverty and unemployment.

Nambaryn Enkhbayar was elected prime minister on 26 July 2000.

The privatization programme was announced in 1991 (effective 1 July). A voucher programme was introduced. By the beginning of February 1992 around 80 per cent of all small enterprises were in private hands. Large enterprises were also to be privatized by voucher auction after having their plans approved by the privatization commission. Ten per cent of their shares would be granted to employees. Investment funds would not be able to control more than 20 per cent of the shares of a given enterprise. Foreigners would be able to buy shares only when secondary trading began (Denizer and Gelb 1992: 9–13).

Approximately 85 per cent of the assets of small shops and enterprises were sold to insiders (i.e. their employees) (Boone 1994: 350). The auctions for large enterprises began in early 1992 (*ibid.*: 350). All small retail shops and enterprises have been sold for vouchers. Around 83 per cent of livestock is now privately owned (*ibid.*: 351).

Kaser (*Economics of Transition*, 1994, vol. 2, no. 2, pp. 266–7) cites Murrell's estimates that by the end of 1993 nearly 80 per cent of state enterprises had been sold off and that 67 per cent of all privatized enterprises ended up wholly owned by 'insiders' (managers, employees, pensioners and their families – children born by 31 May 1991 qualified).

Korsun and Murrell ascribe the rapidity of the privatization process to the fact that: 'The overwhelming proportion of privatization has simply resulted in the transfer of ownership to those already inside the organizations being privatized' (Korsun and Murrell 1995: 486). Employees were given preferential rights to obtain shares in both small and large enterprises (*ibid.*: 477–8). From mid-1991 to mid-1992 both agricultural privatization and small privatization in the trade and service sectors were virtually completed. The beginning of large privatization was delayed until early 1992, but by mid-1993 it was nearly three-quarters complete (*ibid.*: 478). Throughout 1994 the pace of large privatization slowed. But

this was not only a reflection of the government's preferences; the major task was over, since virtually all of the industrial, service and trade sectors

were now private. The large enterprises remaining under state control were in the utility, mining and transportation sectors.

(*ibid.*: 484)

Employees and their families have invested their vouchers predominantly in their own enterprises (*ibid.*: 484).

Share auctions for the large-enterprise privatization began in February 1992 at the stock exchange. Workers were given a preferential right to use their vouchers to buy shares of enterprises at the listed book value. This was a very modest benefit, giving workers the ability to purchase directly between 5 and 10 per cent of enterprise shares (Boone *et al.* 1997: 117).

Large privatization was highly centralized ... every enterprise would be sold for vouchers on the stock exchange ... Every citizen received a set of seven vouchers dedicated for large privatization, which were non-tradable ... Buyers channelled their orders through a nationwide network of brokerage houses. These brokerages were the only entities allowed to run investment funds during the privatization process ... Parliament only gave a weak preference to employees. The concession was in allowing insiders to use their vouchers to purchase shares at the initial asking price of 100 voucher-tugriks ... Since the average voucher price turned out to be seventy-six ... the large majority of workers rejected the concession, waited for their own enterprise to be auctioned and then proceeded to buy shares in their own enterprise ... Secondary trading of shares began in August 1995.

(Anderson *et al.* 1999: 218–19)

Mean share ownership for all enterprises in the mid-1996 survey sample was as follows: state, 20.4 per cent; outsiders, 44.9 per cent; insiders and their families, 34.8 per cent (managers own 11 per cent of overall shares) (*ibid.*: 220).

The large-enterprise privatization programme, which was formulated in early 1991 and ended in mid-1995, resulted in the privatization of 483 enterprises. The enterprises passing through this programme were ... in manufacturing, distribution and service sectors ... Airlines, railroad, telecommunications and utilities were not in the large-enterprises privatization programme ... We surveyed in mid-1996 over half of the enterprises that had passed through Mongolia's mass privatization programme for large enterprises ... Of the 249 surveyed enterprises, 109 had partial state ownership ... In the sample of enterprises studied in this paper state ownership averages 20.4 per cent, while insiders and their families own 35 per cent and outsiders 45 per cent. Of the 249 enterprises in our sample, 109 had lingering state ownership. Although the size of state ownership varies from 0 per cent to 80 per cent, the most common values are either 0 per cent or 51 per cent. Two-thirds of the enterprise with partial state ownership, comprising 29 per cent of the whole sample, have a state share of 51 per

cent ... Investment funds are not of any significance. Vouchers were non-tradable ... The secondary trading of shares began officially in August 1995.

(Anderson *et al.* 2000: 224–5)

By 1995 ... all trade and services had been transferred to private ownership. As a policy matter, the government retained control of the mines and a majority ownership of telecommunications, large-scale transport and public utilities ... In July 1997 the new Democratic Alliance coalition government under Prime Minister Mendsaikhany Enkhsaikhan defined the philosophy of privatization in Mongolia. The government launched an even wider-ranging privatization programme intended to privatize 60 per cent of the remaining state assets by 2000. The programme was designed to attract foreign investment (though Mongolian buyers were also welcome) and technology into key sectors of the economy ... It was also expected to generate revenue for the state budget. Among the state assets to be offered are the coal mines, the Erdenet Copper Plant, the Gobi Cashmere Company and MIAT Mongolian Airlines. Privatization of housing started that same year, but delays deprived many small entrepreneurs of access to the bank loans needed to take advantage of the opportunity.

(Goyal 1999: 636)

Land privatization remains the most controversial element of the programme, despite the fact that most land is pasture and barred from privatization by the constitution. Therefore the most ambitious reformers envisage privatizing only land in urban areas (0.3 per cent of the land mass) in the first phase and arable land (an additional 2–3 per cent of the land mass) in the second phase. After many attempts a land law was passed in late 1994, but it explicitly defers consideration of the mechanism for effective ownership transfer to later legislation (Korsun and Murrell 1995: 485). The private share of livestock increased from 32 per cent in 1990 to 80 per cent by 1993 (*ibid.*: 481).

Around a third of livestock was privately owned in 1990. Privatization of the herds was implemented in two stages in 1991 and 1992 (Pomfret 2000a: 151–7).

In 1990 all restrictions on the private ownership of cattle were removed. While before 1990 only 25 per cent of cattle were privately owned, by the end of 1994 the share had increased to 95 per cent (Spoor 1996: 621). Private ownership of land is still not legal (all land belongs to the state), but in practice long-term leasing of land is already legalized (*ibid.*: 622).

‘There is no privately owned land in Mongolia’ (*The Economist*, 8 July 2000, p. 89).

Over 90 per cent of livestock is under private ownership and the assets of most co-operatives have been distributed to members. But some animal shelters, veterinary services and organized fodder services have not been maintained.

Some 51 per cent of the shares of state farms remain in state hands (Boone *et al.* 1997: 123).

By 1995 about 95 per cent of livestock had been transferred to private ownership (Goyal 1999: 636).

By mid-1999 some 60 per cent of GDP was generated by the private sector (*FEER, Asia 2000 Yearbook*, p. 167). The private sector as a whole now accounts for 65 per cent of GDP (*Independent, Survey*, 8 April 2000, p. 2). According to a government economic adviser, private enterprise generates more than 70 per cent of GDP (*FT*, 1 July 2000, p. 6). Seventy per cent of the economy has been transferred to the private sector (*IHT*, 12 July 2000, p. 5).

In May 1993 the exchange rate was unified and the tugrik was allowed to float (Pomfret 1993: 6–7). ‘The parliament’s April [1997] decision to scrap most tariffs on imports and exports provided Mongolia with one of the most liberal trade regimes in the world’ (Tom Ginsburg, *Asian Survey*, 1998, vol. XXXVIII, no. 1, p. 66). According to a government adviser, import tariffs, at an average rate of 5 per cent, are among the lowest in the world (*FT*, 1 July 2000, p. 6).

By the late 1980s Soviet aid was equivalent to 25 to 30 per cent of GDP (Lee 1993: 624). In the period 1985–90 grants and loans averaged 30 per cent of GDP a year (Denizer and Gelb 1992: 3, 13). But Soviet financial assistance to cover the budget deficit halved in 1988–90, a loss equivalent to 15 per cent of Mongolia’s GDP (*ibid.*: 6). At the beginning of 1991 Soviet financial assistance totally dried up (*ibid.*: 13). The Soviet Union cut financial assistance to Mongolia by an amount equal to 46 per cent of Mongolian GDP, from 53 per cent of GDP in 1989 to 7 per cent of GDP in 1991 (Boone 1994: 330).

The strategic value of being sandwiched between China and Siberia has helped bring in development aid and foundations in droves. In 1998 domestic revenue to the government was only slightly higher than foreign aid from development agencies and grants from China, Japan, Europe and the United States.

(Gordon Laird and Justin Guariglia, *FEER*, 6 July 2000, pp. 82–3)

Mongolia continues to receive substantial Western aid in the range of 8 to 10 per cent of GNP annually (Boone *et al.* 1997: 126). The Mongolia Assistance Group Conference meets annually in Tokyo.

As regards direct foreign investment, a new mining law was passed in January 1995, permitting full foreign ownership of mining ventures including those involving precious metals. No longer are gold producers forced to sell to the Mongolian central bank at prices below the prevailing international price (*FT*, 16 June 1995, p. 31). Despite the relaxation of regulations, foreign investment has been low because of excessive bureaucracy and a lack of infrastructure (Alan Sanders, *FEER*, 8 February 1996, p. 47). ‘Foreign investment at \$10 million is still marginal’ (Asian Development Bank, *Asian Development Outlook 1996 and 1997*, 1996, p. 62). In 1997 foreign interest in the minerals sector intensified and Parliament passed a liberal minerals law (Tom Ginsburg, *Asian Survey*, 1998, vol.

XXXVIII, no. 1, p. 66). On 22 January 1999 Parliament repealed a law allowing gambling halls, only a year after it had been approved (in January 1998) and just three weeks before the scheduled opening of a new casino being built in Ulan Bator (a Mongolian–Macao joint venture, 70 per cent owned by the Macao company).

The parliamentarians ... realized that gambling may draw not only tourists but also organized crime ... [But] Western observers caution that potential foreign investors may be put off by the policy reversal ... This is not the first time the government has overturned rules affecting foreign investors.

(Jill Lawless, *FEER*, 4 February 1999, p. 51)

By June 1999, \$240.5 million had been invested in 1,087 companies (*FEER, Asia 2000 Yearbook*, p. 167). Foreign investment was \$145 million in 1999 compared with \$42 million in 1998 (*Independent*, Survey, 8 April 2000, pp. 2, 4).

Mongolia had a rough time after the collapse of communism, especially with the demise of the Soviet Union. But GDP growth turned positive in 1994 (2.3 per cent) after four successive years of negative growth. Growth was steadily positive in the period 1995 to 1998. Economic performance was adversely affected by natural disasters such as prairie fires in the first half of 1996, drought in the summer of 1999 and the exceptionally harsh winter of 1999–2000. Inflation peaked in 1992 (321 per cent) and was brought down to single figures in 1998. (See Table 3.1, p. 315.) Unemployment and poverty, however, are serious problems.

North Korea: a summary

First North and South Vietnam (in 1975) and then West and East Germany (in 1990) were reunited. But North and South Korea are still divided and the land and sea frontiers survive as relics of the Cold War era despite the historic meeting in Pyongyang of Kim Jong Il and Kim Dae Jung, the leaders of the two countries, on 13–15 June 2000.

Although it is notoriously difficult to quantify economic and social magnitudes in North Korea, the following give some idea of comparative dimensions:

- 1 In 1998 South Korea's population was 46.4 million compared with North Korea's 21.9 million (*The Economist*, 1 July 2000, p. 83). Respectively, in 1997 male life expectancy was 69 years and 61 years, while female life expectancy was 76 years and 65 years (*The Economist*, Survey, 10 July 1999, p. 14). According to the International Institute for Strategic Studies (IISS), North Korea spent more than a quarter of GDP on defence in 1996, compared with the USA's 3.6 per cent (*The Economist*, 18 October 1997, p. 164). The military budget is around \$5.4 billion a year, according to the IISS – anything from a fifth to a third of GDP. The armed forces run a parallel economy, with their own mines, farms and factories (*The Economist*, Survey,

10 July 1999, p. 112). Edward Olsen estimates that North Korea spends 30 per cent of its budget on defence, while the IIST estimates that in 1998 North Korea spent an estimated \$2.4 billion on its armed forces compared with a South Korean military expenditure of \$10.2 billion (Smith 2000: 599–600).

- 2 'There are some 1.2 million people in the South with immediate family members in the North. If second and third generations are added, the total reaches nearly 7.7 million' (*FEER*, 24 August 2000, p. 21). More than 7 million South Koreans have relatives in North Korea (*FEER*, 26 February 1998, p. 13). 'More than 7.6 million people in the South have relatives on the other side of the border' (*The Economist*, 1 July 2000, p. 83). 'South Koreans have relatives living in the North, but they have been unable to contact them because of a ban on postal and telephone links between the two Koreas since the civil war' (*FT*, 1 July 2000, p. 6). 'Approximately 10 million family members [have been] unable to contact each other since the peninsula was divided' (*FEER*, 28 September 2000, p. 14).
- 3 In 1995 *per capita* income in North Korea stood at \$957, compared with \$10,076 in South Korea (*FEER*, 27 June 1996, p. 71).

The South Korean central bank estimates that in 1997 North Korea's *per capita* income was \$741, about one-thirteenth of South Korea's (*FEER*, 2 July 1998, p. 63). In 1997 GDP per head was \$9,500 in South Korea and \$741 in North Korea (*The Economist*, Survey, 10 July 1999, p. 14).

'In rare official data given to the United Nations Development Programme last year [1998] Pyongyang claimed that *per capita* income had halved in three years to just \$481 in 1996' (Aidan Foster-Carter, *The World Today*, 1999, vol. 55, no. 3, p. 11).

In 1998 GDP *per capita* was \$8,600 in South Korea and only \$57 in North Korea (*FT*, 16 June 2000, p. 13). In 1998 GDP per head was \$6,823 compared with \$573 in North Korea (*The Economist*, 1 July 2000, p. 83).

In 1999, according to South Korea's central bank, North Korea's *per capita* GDP was \$714, only a twelfth that of South Korea (*FT*, 21 June 2000, p. 10).

According to Seoul's Korea Development Institute, *per capita* income in North Korea is below \$400 (*FEER*, 22 June 2000, p. 20).

- 4 In 1997 North–South trade amounted to \$308.3 million, much of it in textiles going to North Korea where workshops turned them into clothing for sale in South Korea (*IHT*, 20 June 1998, p. 11). In 1999 inter-Korean trade amounted to \$333.5 million, 'its highest total since it began in 1989' (*The Economist*, 15 April 2000, p. 22). '[In 1999] goods and services worth \$122 million moved from North to South, while \$212 million headed in the opposite direction' (*IHT*, 15 April 2000, p. 9). Inter-Korean trade amounted to \$333 million in 1999, most of it humanitarian aid such as fertilizers and food (*FEER*, 22 June 2000, p. 20).

The volume of trade between China and North Korea was only \$566

million in 1995, compared with \$899 million in 1993 (*FT*, 19 February 1997, p. 6). Trade between South Korea and China amounted to \$11.66 billion in 1994 and an estimated \$15 billion in 1995 (*IHT*, 14 November 1995, p. 4). In 1995 the actual volume of trade was \$17 billion (*IHT*, 15 November 1996, p. 19). Two-way trade between China and South Korea amounted to \$19.9 billion in 1995 (*FT*, 19 February 1997, p. 6). In 1999 South Korean exports to China reached \$143.7 billion, far above China's \$119.7 billion in exports to South Korea (*IHT*, 8 July 2000, p. 5).

- 5 Foreign direct investment in North Korea is very limited. The Rajin–Sonbong Special Economic Zone has proved to be a disappointment. South Korean companies have continued to invest in North Korea despite it being typically unprofitable to do so. Family connections and patriotism (eventual reunification) explain their willingness to take a very long-run view of commercial prospects. But hopes for an improvement in the scale of investment were raised after the June 2000 North–South summit.

Kim Il Sung died on 8 July 1994. On 8 October 1997 Kim Jong Il became general secretary of the Korean Workers' Party.

On 18 December 1997 Kim Dae Jung was elected president of South Korea. His policy of improved relations with North Korea is called the 'sunshine policy'. South Korea is well aware of the enormous cost of German reunification under more favourable conditions than those facing the two Koreas. President Kim Dae Jung does not wish to see the collapse of North Korea and thus favours gradual improvements in political and economic relations. South Korea, he believes, should help North Korea via aid, trade and investment.

On 6 September 1998 it was announced that the North Korean constitution had been revised to make the late Kim Il Sung 'eternal president'. Kim Jong Il would be head of state, based on his position as chairman of the National Defence Commission (this post being proclaimed as the 'highest post of the state').

On 29–31 May 2000 Kim Jong Il paid what was meant to be a secret visit to China. At that time his only other known visit abroad had also been to China. He spent twelve days there in 1983 in his capacity as head of the National Defence Commission. But at the June 2000 summit, however, Kim Jong Il stated:

Many people, including those from Europe, say I am leading a hermit's life. I am not such a great figure to be called a recluse. The fact is that I have made many secret trips to countries like China and Indonesia. I have been here and there without people knowing.

North Korea's reputation as a dangerous and unpredictable country is based on incidents such as the following:

- 1 On 18 September 1996 a North Korean submarine was found stranded on South Korea's east coast and a manhunt ensued. On 22 June 1998 a North

- Korean midget submarine was caught in the trawling nets of a fishing boat in South Korean waters. On 12 July 1998 a submersible North Korean boat was found in South Korean waters. On 18 December 1998 South Korean forces destroyed a North Korean semi-submersible.
- 2 On 5 June 1997 there was an exchange of fire between a South Korean patrol boat and a North Korean gunboat escorting fishing boats in what South Korea claims as its waters. On 15 June 1999, in a similar incident, South Korean naval ships actually sank a North Korean gunboat on the South Korean side of the Northern Limit Line, a maritime demarcation line which North Korea has never recognized.
 - 3 On 31 August 1998 North Korea test-fired its longest range ballistic missile (seemingly attempting to launch its first satellite), with the second stage passing over northern Japan. '[The official US position is that] in August 1998 ... the North Koreans flight-tested a medium-range ballistic missile configured to put a small satellite into orbit' (*IHT*, 9 June 2000, p. 12).

There is considerable unease about policies that in effect 'buy off' North Korea when it causes international alarm. The danger here, critics of Western mollifying policies argue, is that 'bad behaviour' is actually encouraged.

But there have been more positive developments, accelerating after the June 2000 summit.

On 17 July 1997 North Korea announced that it would allow visits to Japan of Japanese women married to North Koreans.

The first of a series of four-nation talks between North Korea, South Korea, the USA and China took place in March 1998.

North Korea agreed Sunday [12 September 1999] to a de facto freeze in its missile-testing programme ... In exchange the United States agreed to encourage the process of developing normal relations and of eventually removing the array of decades-old sanctions that have banned all commercial and other exchanges except for humanitarian food aid.

(*IHT*, 13 September 1999, p. 1)

'North Korea agreed to refrain from additional tests of the missile as long as negotiations with the United States continued' (*IHT*, 16 September 1999, p. 5).

Whether North Korea has actually produced any nuclear weapons is the subject of considerable disagreement. But on 12 August 1994 the USA and North Korea reached preliminary nuclear agreement. In return for a freeze in North Korea's nuclear programme, the USA was to move towards diplomatic relations, reduce barriers to trade and investment, and help arrange for the construction of light-water reactors (which produce less plutonium than the graphite-moderated type). Alternative energy supplies were to be provided until the new reactors came on stream. The USA and North Korea formally signed an agreement on the latter's nuclear programme on 21 October 1994. In March 1995 a US-led consortium, the Korean Peninsula Energy Development

Organization (Kedo), was set up to deal with the problem. South Korea bears by far the largest share of the cost. Japan is the second largest contributor and the USA is third. (The eventual bill for the two reactors will be around \$5.2 billion. South Korea and Japan have formally agreed to pay 70 per cent and 20 per cent respectively, while 10 per cent has yet to be assigned: Aidan Foster-Carter, *IHT*, 15 May 1998, p. 8.) Despite problems the agreement is still on track.

On 16 March 1999 North Korea agreed to allow repeated US inspections (starting in May 1999) of the suspected nuclear weapons underground site at Kumchangri (about 40 kilometres north-west of Yongbyon). The USA subsequently provided aid but denied that this was connected with the agreement. (North Korea had demanded \$300 million as the price for access to the site.) On 27 May 1999, US officials reported on their investigation on 20–24 May of the North Korean site. The team found an unfinished site, the underground portion of which was an extensive, empty tunnel complex (*IHT*, 28 May 1999, p. 7).

A special Clinton administration panel led by a former defence secretary, William Perry, has recommended [it was reported on 15 September 1999] that the United States step up diplomatic and trade relations with North Korea at a ‘markedly faster rate’ in hope of ending the communist government’s programme to develop nuclear weapons ... The classified final report ... [was] presented to Mr Clinton a few days ago ... The panel ... recommended that the United States attempt to improve relations with North Korea at ‘a markedly faster rate, but as North Korea takes steps to address our security concerns’ ... Mr Perry’s eighteen-page report recommended that the White House appoint an ambassador-level senior official to oversee all aspects of policy toward North Korea.

(*IHT*, 16 September 1999, p. 5)

The United States lifted much of a more than four-decade-old trade embargo against North Korea on Friday [17 September 1999] after what American officials called a pledge ... not to test-fire a long-range missile ... Trade in consumer goods and raw materials will now be legal. American airlines will have their government’s blessing to land in North Korea, US companies to invest there and American citizens to remit money. Trade in goods with military use will remain prohibited.

(*IHT*, 18 September 1999, p. 1)

The US yesterday [17 September] lifted many of the sanctions imposed on North Korea ... The US administration said it would allow trade and travel links with North Korea in recognition of its pledge to refrain from testing long-range missiles ... Trade in most consumer goods, commercial transport of cargo and passengers, and funds transfers between individuals in the US and North Korea would be allowed in most cases ... Strict controls will remain over goods that could also be used in weapons manufacture, and international-based sanctions – restrictions based on multilateral arrange-

ments – will remain in place ... US sanctions under the Trading with the Enemy Act have barred trade with the country for nearly half a century.
(*FT*, 18 September 1999, p. 4)

‘Pyongyang signalled it was placing its missile development programme on hold “to preserve a positive atmosphere” during continuing talks with the United States. A joint statement ... said the two sides will continue talks over missile testing and other matters’ (*FEER*, 23 September 1999, p. 14). A US presidential spokesman: ‘The United States is taking this action in order to pursue improved relations with North Korea. It is our understanding that North Korea will continue to refrain from testing long-range missiles of any kind as both sides move towards normal relations.’

Former US defence secretary William Perry’s report was formally published on 13 October 1999.

William Perry ... has recommended ... that the United States and its Asian allies try to coexist with ... North Korea rather than seek to undermine them or to promote internal reform ... Mr Perry said that the United States should gradually eliminate sanctions and reduce the pressures that North Korea sees as threatening, in exchange for assurances that North Korea does not have a nuclear weapons programme and will not test, deploy, produce or export long-range missiles ... Mr Perry, who spent ten months reviewing North Korea policy at the request of President Bill Clinton, concluded that an attempt to hasten the demise of the North Korean government would take too long and had no guarantee of success. Such a policy would raise the risk of a destructive war on the Korean peninsula and would give ... [North Korea] time to proceed with its weapons programme ... His recommended strategy includes these points: (1) the United States should seek complete and verifiable assurances that North Korea does not have a nuclear weapons programme and the complete and verifiable cessation of testing, production, deployment and export of long-range missiles; (2) step by step the United States would ease pressures on North Korea ... (3) the United States would normalize relations with North Korea and relax trade sanctions.

(*IHT*, 14 October 1999, p. 4)

On 2 November 1999 Japan announced that it was lifting the ban imposed on direct charter flights to North Korea. They were started in 1992 and suspended on 1 September 1998 (*IHT*, 3 November 1999, p. 2).

The Japanese government said Tuesday [14 December] that it would lift restrictions on food aid ... and begin formal negotiations to establish diplomatic relations ... [But Japan said] that the government would not immediately restore food aid to North Korea but instead would ‘make a comprehensive decision after closely addressing the progress of the prelimi-

nary talks and North Korea's responses ... With today's announcement we have basically returned to where we were in August 1998 before the missile was fired' ... Many Japanese are still upset that North Korea fired a missile over their territory and that the communist country has not accounted for the whereabouts of ten Japanese citizens that intelligence officials maintain were abducted by North Koreans in the 1970s and 1980s.

(*IHT*, 15 December 1999, p. 5)

Japan and North Korea opened preparatory talks Tuesday [21 December] on establishing diplomatic ties after Red Cross officials from both sides reached a breakthrough agreement on food aid and other humanitarian issues. Senior foreign ministry officials sat down here [Beijing] to arrange the date, place, level of delegation chiefs and agenda for formal negotiations. The talks began a day later than scheduled after Red Cross officials had signed a document promising to deal with critical humanitarian issues ... Japan normalized relations with South Korea in 1965 and began normalization talks with North Korea in early 1991. The talks collapsed in November 1992 after Japan accused Pyongyang of kidnapping a Japanese woman so she could teach Japanese to a woman agent, who was later held responsible for the 1987 bombing of a South Korean airliner.

(*IHT*, 22 December 1999, p. 5)

'Under yesterday's agreement Japanese Red Cross officials said they would urge Japan to resume food aid ... while the Koreans would urge Pyongyang to investigate the disappearance of ten Japanese people' (*FT*, 22 December 1999, p. 8).

On 4 January 2000 Italy established diplomatic links with North Korea, becoming the first G7 country and the sixth EU country to do so (after Austria, Denmark, Finland, Portugal and Sweden). France and Germany have informal contacts with North Korea (*IHT*, 5 January 1999, p. 4).

The first visit by a defence minister from China began in South Korea on 19 January 2000 (*IHT*, 20 January 2000, p. 4).

Russian foreign minister Igor Ivanov visited North Korea on 9 February 2000 and signed a friendship treaty. The treaty replaced a Soviet mutual aid accord and omits previous provisions that made the two countries political and military allies (*IHT*, 10 February 2000, p. 5). The treaty pledged 'to strengthen friendship and increase co-operation', but says that this should not 'infringe on their new relationships with other countries' and omits all reference to military support in a future conflict. The Soviet Union established full diplomatic relations with South Korea in 1990 (*Telegraph*, 10 February 2000, p. 19).

Japan moved Tuesday [7 March] to encourage diplomatic and military moderation by the North Korean government, resuming food aid ... and saying it would hold the first talks in seven years aimed at establishing diplo-

matic ties ... Japan last provided humanitarian food aid to North Korea, worth \$27 million, in October 1997.

(*IHT*, 8 March 2000, p. 5)

North Korean security forces will help search for missing Japanese allegedly abducted by North Korean agents in the late 1970s, a Japanese foreign ministry official said Monday [13 March]. North Korean Red Cross officials made the pledge during talks on Monday, said the official.

(*IHT*, 14 March 2000, p. 4)

A Japanese delegation visited Pyongyang on 4–7 April 2000 to resume discussions on normalizing relations. It was agreed to meet again.

In a joint statement it was announced on 10 April 2000 that Kim Jong Il and South Korean president Kim Dae Jung would meet in Pyongyang on 12–14 June 2000 (later moved to 13–15 June). This would be the first ever meeting of leaders of North and South Korea.

North Korea and Australia restored diplomatic ties on 8 May 2000. They were first established in 1974 but the following year North Korea mysteriously broke them off.

The 13–15 June 2000 summit proved to be dramatic, although more in terms of a perceived breakthrough in relations after years of bitter division rather than specific results. The two leaders greeted and treated each other warmly and vast numbers of North Koreans cheered the two leaders. Contrary to general expectations, Kim Jong Il turned out to have a sense of humour and to be affable, outgoing, self-confident but respectful, relaxed and talkative. Kim Jong Il might even be described as charismatic. There was no formal agenda for the talks but on 14 June the two leaders signed a joint agreement. This included the following: ‘Resolve the issues of reunification independently and through the joint efforts of the Korean people’; ‘Economic co-operation and the development of the national economy ... in a balanced manner’ (South Korea would provide extra aid and encourage South Korean companies to invest more in North Korea); family reunions to be arranged, starting on 15 August (Liberation Day, celebrating liberation from Japanese occupation in 1945; the last reunion of family members was in 1985); and the promotion of artistic, cultural and sporting exchanges. The two leaders also agreed to establish a military hot line. Kim Jong Il agreed to visit South Korea ‘at the earliest appropriate time’. Kim Jong Il also showed flexibility on the issue of US troops on the Korean peninsula.

President Kim Dae Jung on his return to South Korea (16 June) stated:

The danger of war on the Korean Peninsula has disappeared ... The North will no longer attempt unification by force and ... we will not do anything to harm the North ... The dialogue [on security issues] was very fruitful ... We did talk about nuclear weapons and missiles ... I told him [Kim Jong Il] that

the missile and nuclear problems do not help regional and world peace as well as inter-Korean co-operation.

President Kim Dae Jung:

We were able to reach agreement on a ... 'loose form of confederation' on the Korean Peninsula in the future – a concept that requires maintaining two governments for the two sides as they are now and creating a conference of ministers and an assembly with which the two sides can jointly solve problems step by step. We also talked about nuclear and missile issues and the issue of United States forces stationed in the South ... We have reached a turning point so that we can put an end to the history of territorial division for fifty-five years ... We have been a homogeneous nation for thousands of years. We lived as a unified nation for 1,300 years ... I have returned with the conviction that, sooner or later, we will become reconciled with each other, co-operate and finally become unified ... Let us coexist and proceed on the path toward unification ... None of this means that everything went smoothly in our talks ... There should not be the slightest wavering in the resolve on the part of the Republic of Korea to maintain national security and sovereignty. But we must ultimately go on the path toward unification by solving one thing at a time ... The North will no longer attempt unification by force and, at the same time, we will not do any harm to the North. In short, the most important outcome of the summit is that there is no longer going to be any war.

(*IHT*, 20 June 2000, p. 9)

Kim Dae Jung (17 July 2000):

Full unification is very difficult to foresee at this point. It could take as long as twenty to thirty years. My point is that it is not important when it occurs but rather how we work together towards that goal by eliminating the danger of war, living together peacefully and extending economic co-operation.

(*FT*, 17 July 2000, p. 18)

Kim Dae Jung (18 July 2000): 'Peaceful co-existence and exchanges may go on for twenty or thirty years. We must not make haste. But in the process we will be working towards ultimate unification' (*IHT*, 20 July 2000, p. 4).

North and South Korea halted propaganda attacks against each other, e.g. switching off the giant loudspeakers along the heavily fortified border that vilified each other and urged soldiers to defect.

On 19 June 2000 the US eased economic sanctions against North Korea. 'The move [was] foreshadowed in September [1999] ... US officials say the step Monday [19 June] was unrelated to the historic meeting last week in Pyongyang' (*IHT*, 20 June 2000, p. 9).

Also on 19 June 2000, US secretary of state Madeleine Albright declared that the term 'rogue state' would no longer to be used to describe countries such as North Korea. Instead the term 'states of concern' would be used (*IHT*, 21 June 2000, p. 4).

On 30 June 2000 it was announced that Red Cross negotiators from North and South Korea had agreed on an exchange in which a hundred family members from South Korea would go to Pyongyang and a hundred family members from North Korea would travel to Seoul on 15–18 August 2000. (The meetings took place as planned.) Some fifty political prisoners (spies and infiltrators) held in South Korea would be sent to North Korea in early September 2000. ('Meetings ... have been organized unofficially for years, mostly in northern China ... Most of these reunions are arranged by brokers [for a fee] ... According to Seoul's unification ministry, 458 families were reunited in the 1990s ... Only fifty families have been officially united in the forty-seven years since the end of the Korean War': *FEER*, 19 August 2000, p. 18.)

In late June 2000 Chung Ju Yung (the founder of Hyundai, South Korea's largest chaebol or conglomerate) and one of his sons visited North Korea. The visit resulted in plans to increase investment in the North, including the establishment of a North Korean 'Silicon Valley' in the Mount Kumgang region a few miles north of the Demilitarized Zone dividing the two Koreas. Hyundai has been developing the Mount Kumgang region as a tourist destination. (On 10 August 2000 the Hyundai Group announced that it had signed an agreement with North Korea to build an industrial park in Kaesong. The agreement also provided for South Korean tourists to visit Kaesong: *IHT*, 11 August 2000, p. 11. 'North Korea ... signed an agreement with [Hyundai] ... to develop a permanent meeting place for separated families at Kaesong, North Korea': *IHT*, 16 August 2000, p. 5.)

On 19–20 July 2000 President Vladimir Putin of Russia visited North Korea. Russia has rejected the US proposal to set up a national missile defence (NMD) system, a missile shield to defend the whole of US territory against a small number of strategic (intercontinental) nuclear missiles from 'states of concern' such as North Korea, Iran and Iraq. Putin believes that there are other ways of tackling the problem, including diplomacy and security guarantees for North Korea. (On 1 September 2000 Bill Clinton announced that a decision regarding deployment of the NMD would be left to his successor as US president. Factors included technical failures during tests.) The Putin visit resulted in a specific proposal relating to North Korea's intercontinental ballistic missile programme. Putin (19 July):

[Kim Jong Il] voiced an idea under which North Korea is even prepared to use exclusively the rocket equipment of other countries for peaceful space research if they offered it ... North Korea is even prepared to use exclusively the technology of other countries if it is offered rocket boosters for peaceful space research ... One should expect other countries, if they assert that the DPRK poses a threat for them, would support this project. One can

minimize the threat by supplying the DPRK with its rocket boosters ... The efforts of Russia alone are not enough.

It was not clear exactly what the idea involved. The USA indicated that it would be prepared to launch satellites for peaceful purposes on North Korea's behalf but would not transfer rockets or technology to North Korea for the purpose.

In a confidential exchange of letters North Korea is reported to have reaffirmed to Russia that it will drop its intercontinental ballistic missile programme if other countries will launch two or three satellites a year for Pyongyang at their expense ... The letters described Thursday [4 August], with their demand that the launches be paid for by countries with concerns over the missiles, strongly suggest that Pyongyang envisages that the launches indeed would be outside North Korea ... Well-informed sources here [in Moscow] said the letter to Mr Putin reiterated that North Korea would abandon its intercontinental ballistic missile programme in exchange for the help with satellite launches, which Pyongyang say are for peaceful purposes. Going a step further than what was earlier disclosed, the North Koreans also asked that the 'concerned countries' – those that have criticised its missile programme – pay for the two or three launches a year Pyongyang was requesting, the sources said.

(IHT, 5 August 2000, p. 2)

On 12 August 2000 Kim Jong Il met forty-six South Korean media executives in Pyongyang. He seemed to cast some doubt upon the seriousness of the missile offer (*IHT, 15 August 2000, pp. 1, 4*).

On 25 July 2000 it was announced that Kim Jong Il would visit Vladivostok (Russia) in early September 2000.

On 27 July 2000 North Korea attended the annual meeting of the Association of South East Nations' Regional Forum in Bangkok. The regional forum deals with regional security matters. The regional forum consists of ten South East Asian countries and thirteen other countries, including the USA, China and Japan. There were prior developments in Bangkok.

'The foreign ministers of North and South Korea met for the first time Wednesday [26 July] ... Japan and North Korea agreed to meet from 21 to 25 August in Tokyo to resume stalled negotiations on normalizing diplomatic relations' (*IHT, 27 July 2000, p. 5*).

[North Korean foreign minister Paek Nam Sun] held the first-ever foreign-minister talks with Japan [on 26 July] ... The ministers agreed that the tenth round of bilateral talks on normalizing diplomatic relations would take place in Tokyo from 21 to 25 August ... A first-ever foreign-minister-level

meeting between North Korea and the USA is planned, probably on Friday [28 July].

(*FT*, 27 July 2000, p. 14)

On 26 July 2000 Canada said it was to establish formal ties with North Korea and hoped to achieve full diplomatic relations by the end of 2000 (*IHT*, 27 July 2000, p. 1).

On 28 July 2000 US secretary of state Madeleine Albright met North Korean foreign minister Paek Nam Sun: 'the highest diplomatic contact between the two nations since the Korean War' (*IHT*, 29 July 2000, p. 5); 'the first ministerial level talks between the USA and North Korea' (*FT*, 29 July 2000, p. 9).

The North Korean foreign minister visited Cambodia on 30 July 2000. The Cambodian foreign minister: 'We have agreed there will be an exchange of economic and trade delegations in the future' (*IHT*, 31 July 2000, p. 9).

Negotiators from North and South Korea met for talks in Seoul. On 31 July 2000 they announced an agreement, including the following:

- 1 To reopen liaison offices at Panmunjom on 15 August, the date observed by both North and South Korea as a national holiday celebrating the end of Japanese rule in 1945. (The offices were first opened in 1992 in accordance with the 'basic agreement' between the two countries in that year. They were closed in 1996.)
- 2 To 'rehabilitate' the rail link that was destroyed in the Korean War. The railway passes through Panmunjom. (A road link was announced later. Work began on the South Korean side on 18 September.)
- 3 To open South Korea to visits by Koreans living in Japan who hold North Korean passports.
- 4 To continue 'ministerial talks in accordance with the spirit of the South–North declaration' signed by the leaders at the June summit. Negotiators were next to meet in Pyongyang, from 29 to 31 August 2000.

On 10 August 2000 North Korea and Japan announced that they had agreed to allow sixteen Japanese wives of North Koreans to visit North Korea from 12 to 18 September. There had been two visits by Japanese spouses of North Koreans since 1997, but a third was cancelled in 1998 (*IHT*, 11 August 2000, p. 5).

On 2 September 2000 sixty-three North Koreans held as spies and guerrillas in South Korean prisons were allowed to go to North Korea. (The problem of South Koreans held in North Korea remained unsolved.)

On 12 September 2000 it was announced that North Korea would attend the forthcoming annual meetings of the IMF and the World Bank as an observer.

On 13 September 2000 it was reported that Kim Jong Il would visit South Korea in the spring of 2001. It was also announced that the defence ministers of North Korea and South Korea would meet in Hong Kong on 26 September.

On 15 September 2000 North Korea and South Korea marched under a special unification flag and wore identical white uniforms during the opening

ceremony of the Sydney Olympic Games. But the two Koreas competed as separate teams, with their own uniforms, flags and anthems.

North Korea said Thursday [21 September] that it had proposed opening diplomatic relations with members of the EU ... [that] Foreign Minister Paek Nam Sun had recently sent a letter officially proposing ties to the foreign ministers of Belgium, Britain, France, Germany, Greece, Ireland, the Netherlands, Spain and the European Commission.

(*IHT*, 22 September 2000, p. 8)

The defence ministers of North Korea and South Korea met for the first time on 25–6 September 2000.

North Korea and South Korea reached agreement Tuesday [26 September] on the limited reopening of the Demilitarized Zone that separates the two countries to allow repair work on a rail link that has been severed for more than fifty years ... Co-operation from the North Korean military is crucial because the no-man's land across which the two armies face off contains as many as a million mines ... The agreement, which was announced at the first talks between defence ministers from the two Koreas since the civil war they fought from 1950 to 1953, is the highest level confirmation of the reconciliation between the two countries since a historic summit meeting in the North Korean capital in June ... The defence ministers agreed to 'working level' military talks starting in October and a second round of ministerial meetings in the North Korean capital, Pyongyang, in November ... The two sides have also agreed to discuss the creation of a hot line linking the two military commands in their future meetings.

(*IHT*, 27 September 2000, p. 5)

'While the military delegations were meeting Monday [25 September], two other delegations met in Seoul to discuss investment possibilities in North Korea' (*IHT*, 26 September 2000, p. 8). 'The rapprochement was further confirmed by a simultaneous meeting of finance ministers from the two countries in Seoul. That meeting reached agreement on legal protections for South Korean companies that invest in the ... North' (*IHT*, 27 September 2000, p. 5).

On 10 October 2000 President Bill Clinton met in the White House with Jo Myong Rok. 'Jo Myong Rok, the first vice-chairman of North Korea's National Defence Commission ... is considered to be second in command to ... Kim Jong Il' (*IHT*, 4 October 2000, p. 6).

The forty-five-minute session [was] the first between an American president and a senior North Korean official ... The North ... is keen to be dropped from the US list of terrorist nations, which includes Libya, Iraq and Cuba. There were hints Friday [6 October], after the two sides issued a joint communiqué in which North Korea said it was opposed to all forms of

terrorism, that it might soon be granted. Washington has demanded such a renunciation of terrorism as a condition for removing North Korea from the state department list of terrorist sponsors. Its removal would open the way for aid beyond strictly humanitarian assistance ... and open the door to Pyongyang's involvement in international financial institutions.

(*IHT*, 11 October 2000, p. 7)

President Bill Clinton may visit North Korea before leaving office, a joint US–North Korean communiqué said Thursday [12 October]. The communiqué, issued at the end of two days of talks with a special envoy from North Korea, came after Secretary of State Madeleine Albright announced plans to visit Pyongyang in the near future ... Mrs Albright said her visit to North Korea would probably take place before the end of the month [October] ... The visit to Washington by Jo Myong Rok, first deputy chairman of North Korea's National Defence Commission, included talks with Mr Clinton, Mrs Albright and Defence Secretary William Cohen.

(*IHT*, 13 October 2000, p. 10)

On 13 October 2000 Kim Dae Jung was awarded the Nobel peace prize.

What actually happened to the North Korean economy in the 1990s is not known with any certainty. But until very late in the decade the picture was generally seen as disastrous. (See Table 4.1, p. 386.)

North Korea's economy last year [1999] expanded for the first time since 1989, posting a 6.2 per cent growth rate, according to a report by South Korea's central bank ... [a report] considered to be one of the few authoritative studies of the North Korean economy ... The central bank said that \$360 million in foreign aid to feed the North's starving population helped boost economic growth, with the aid figure accounting for 70 per cent of the North's hard currency revenues in 1999.

(*FT*, 21 June 2000, p. 10)

There were increasing reports of food shortages and cuts in food rations. Famine was a feature of the second half of the 1990s, although the situation began to improve in 1998. The extent of the famine:

- 1 A North Korean official (9 April 1999): 'There is much talk about death rates and that 3 million have starved to death. But I can say that before the natural disasters [in 1995] the mortality rate was 6.8 per 1,000 people. According to last year's assessment [1998] it increased to 9.3 per 1,000.' 'With the population of North Korea estimated at 22 million, that represents an additional 55,000 deaths per year' (*FT*, 10 May 1999, p. 3). 'For the first time North Korea released to aid officials figures showing that 220,000 people died of famine between 1995 and 1998' (*FT*, 12 May 1999, p. 4). The North Korean unit that deals with relief agencies said that famine

claimed 220,000 lives between 1995 and 1998. That figure falls short of the 2 million to 3 million deaths ascribed to the famine by some South Korean relief agencies. An American aid agency estimates that 1.5 million have died from famine-related causes (*FEER*, 27 May 1999, p. 24). South Korea's national statistics bureau estimates that 270,000 Northerners died of famine between 1995 and 1998 (*FEER*, 9 September 1999, p. 86).

- 2 'Outside estimates of the death toll range from 1 million to 3.5 million, out of North Korea's pre-famine population of about 24 million' (Shim Jae Hoon, *FEER*, 29 April 1999, p. 11).
- 3 On 18 August 1998 a three-member team from the US House of Representatives' International Relations Committee returned from a week-long visit to North Korea. The team estimated that 300,000 to 800,000 died in each of the last three years from starvation or hunger-related illnesses stemming from the food shortage, peaking in 1997. The team cited US government statistics, refugee reports and the United Nations in their report, which concluded that at least 1 million people had died. In April 1998 the Council on Foreign Relations (a New York-based think-tank) contended that 1 million people died in 1996 and 1997 (*IHT*, 20 August 1998, p. 4; *Independent*, 20 August 1998, p. 10; *The Economist*, 22 August 1998, p. 50).

A United Nations survey found that 62 per cent of children were stunted by malnutrition and that 16 per cent were severely malnourished (*IHT*, 23 November 1998, p. 10). 'The first valid international nutrition survey conducted in the fall [of 1998] revealed that 62 per cent of children under seven had suffered from stunted growth, a symptom of prolonged malnutrition' (Brown 1999: 128). 'The results of a nationwide nutritional survey conducted last year [1998] by international aid donors found that 62 per cent of children under age seven ... have stunted growth and that large numbers face mental development problems' (Michael Laris, *IHT*, 1 February 1999, p. 6).

By late last year [1999], although there were signs that wholesale famine had been averted, there was little evidence that the scale of malnutrition differed significantly from that found in a 1998 international survey. At that time a staggering 35 per cent of boys aged twelve to twenty-four months and 25 per cent of girls of the same age were 'wasted'. This technical term accurately evokes the suffering of acute malnutrition where lack of food – combined with disease and illness – threatens life unless there is urgent medical intervention. Survivors may be permanently physically and mentally damaged.

(Hazel Smith, *The World Today*, 2000, vol. 56, no. 2, pp. 5–6)

The situation began to improve in 1998. 'North Korea ... in 1998 appears to have had a relatively good harvest ... [But] North Korea would remain well below the World Food Programme estimated minimum grain requirement of

about 4.8 million tonnes. The regime will remain dependent on humanitarian aid' (Brown 1999: 127–8). 'Food production last year [1999] exceeded the 4 million tonne mark for the first time, thanks to 160,000 tonnes of fertiliser shipped from the South' (Shim Jae Hoon, *FEER*, 10 February 2000, p. 24).

According to visitors and official observers ... the North Korean economy is growing for the first time in nine years, mass starvation of the past five years is largely over and the political stagnation that followed the death in 1994 of ... Kim Il Sung has ended with his son gaining a grip on power ... Its recovery has come with crucial help from the outside ... [According to South Korea's central bank] the North's economy grew last year [1999] by a sustainable 6.2 per cent, the first growth since 1990. The recovery is [however] relative and fledgling ... North Korea remains vulnerable to catastrophe. A drought this summer [2000] is the latest blow to farmers in a succession of natural disasters ... The World Food programme reported last month [August 2000] that the situation is less precarious, but North Korea will produce only an estimated 72 per cent of food needs. Because the soil is exhausted from over-farming, prospects for ending that dependence are slim.

(Doug Struck, *IHT*, 6 September 2000, pp. 1, 5)

President Kim Dae Jung (24 September 2000): 'North Korea suffered damage caused by the worst droughts in a hundred years as well as typhoons this year. The food situation could worsen further next year [2001] and become a major problem.'

'North Korea said it would need 1.4 million tonnes of grain from international donors to help feed its population of 22 million' (*IHT*, 26 September 2000, p. 8). 'South Korea said it would provide the North with 600,000 tonnes of food aid, in the form of loans, over the next year. The aid ... is worth about \$97 million' (*IHT*, 27 September 2000, p. 5).

North Korea is facing a fresh famine after drought and a recent typhoon cut grain harvests by an estimated 1.4 million tonnes ... [North Korea] was hit last month [August] by what the United Nations said might have been the country's worst storm in thirty years. 'The amount of the lost grain caused by natural disasters including drought and typhoons in our country this year is estimated at more than 1.4 million tonnes in all,' the official Korean Central News Agency said yesterday [25 September]. 'Therefore it is certain that the shortage of food will continue next year [2001].'

(*Telegraph*, 26 September 2000, p. 18)

There is a debate about the extent to which food aid has been diverted to the North Korean military. A report by Médecins Sans Frontières (Doctors Without Borders), based on interviews with refugees from North Korea and Chinese travellers, concluded that cannibalism has occurred in North Korea. In addition, all

but a bare minimum of medical and food aid had been diverted to the army and government officials (*The Times*, 13 April 1998, p. 13; *Guardian*, 13 April 1998, p. 12; *Independent*, 13 April 1998, p. 9). (The charity announced on 29 September 1998 that it was pulling out of North Korea because the government had refused access to a large number of children. The charity was concerned, for example, that the government was feeding children who come from families loyal to the regime while neglecting those children who do not. Other charities have pulled out, e.g. Médecins du Monde (Doctors of the World) in August 1998 and Oxfam in December 1999. In April 2000 the French-based relief organization Action Against Hunger decided to pull out because it found evidence that the North Korean government was siphoning off US-supplied food intended for starving children and because the government refused to permit the organization access to the hungriest children.)

The causes of the famine range from ‘natural’ disasters (in inverted commas because deforestation, for example, is a factor in flooding) to government policy. There was severe flooding in 1995 and fresh flooding the following year. There were reports in the first week of August 1997 of a two-month drought. On 21 August 1997 a tidal wave on the west coast caused considerable damage.

The World Food Programme estimates that only 15 per cent of the current shortfall of 2 million tonnes of food results from the floods. The remainder results from the long-term economic problems. North Korea faces perennial hunger until there is systemic change in its economy.

(Brian Atwood and Leonard Rogers, *IHT*, 12 March 1997, p. 10)

The policies adopted in North Korea to combat the economic crisis have been two-fold:

- 1 ‘Traditional mobilization techniques remained important ... In July [1998] Kim Jong Il issued a telegraphic order commending the army for its assistance in rice transplanting and calling on the people and army to weed diligently’ (Brown 1999: 127–8).

The government is responding with the ‘second Chollima movement’ – a campaign named after a legendary Korean horse that could cover enormous distances in one stride ... The first helped rebuild the nation after the devastating Korean War of 1950–3. The population is being mobilized now to rebuild damaged infrastructure like flood barriers, bridges and roads and to resuscitate production in mines and factories.

(Hazel Smith, *The World Today*, 2000, vol. 56, no. 2, pp. 5–6)

‘Current projects have an air of desperation: mobilizing soldiers to blow up hills to make flatter fields, and youths and even children to build – mainly by hand – a motorway from Pyongyang to its port of Nampo’ (Foster-Carter 2000: 19).

- 2 'In response to the food shortage, Kim Jong Il is making announced and unannounced changes in agricultural policy similar to those adopted by China and Vietnam in the early stages of their movement toward market reforms.' Until recently co-operative farmers were organized in work teams comprising as many as twenty-five members, with the benefits of increased output enjoyed by all. 'Under the new system work teams will consist of eight members, which will put pressure on the laggards to produce. Each team will be permitted to keep up to 30 per cent of what it harvests, with the amount retained dependent on the extent to which it meets or exceeds production targets.' What makes this apparently modest reform more significant is that it has been accompanied by 'an unannounced decision by some local authorities to permit private markets where work teams can sell or barter their surplus and individual farmers can sell or barter food grown on their household plots'.

In selected experimental areas ... the government has also introduced contract farming. Individuals or families may enter into fifteen-year agreements to lease land under which they must sell a fixed amount of food to the state but can dispose of the rest in private markets.

(Harrison 1997: 66–7)

North Korea's most radical and promising economic reform is being implemented with little fanfare. The government is reversing its long-standing policy of replacing collective with state farms in which farmers earn wages like factory workers in favour of a system by which small teams cultivate a plot of land and keep any surplus after meeting their state quota. The prototype of this 'small work team method' was first introduced in the mid-1960s, with teams of ten to twenty-five individuals. The method seemed to have languished only to reappear in the wake of the 1995 famine. In its 1990s reincarnation work teams reportedly consist of eight to ten workers, often comprising a family unit. To encourage farmers, who face almost insurmountable difficulties owing to a lack of fertilizers, pesticides, good seeds and mechanized farm equipment, state production quotas have been lowered. Farm units may sell their surpluses, along with locally manufactured goods and household possessions, in the people's markets that have sprung up throughout the country. These markets are tacitly accepted by the authorities.

(Oh and Hassig 1999: 292–3)

Chinese agricultural sources report that for the past three years there have been quiet experiments with a 'family contract system'. Modelled on China's reforms, the system provides farming households with incentives to produce and sell their surplus by transferring rights of cultivation from state

farms and collectives directly to the families (David Satterwhite, *Asian Survey*, 1997, vol. XXXVII, no. 1, p. 16).

In June 1997 Kim Jong Il 'approved the setting up of open-air free markets in major cities along the border with China'. 'But since the free markets are restricted to the northern border region, demand elsewhere can only be met by the sprouting underground markets. They provide everything from food and clothing to medicine and home appliances' (Shim Jae Hoon, *FEER*, 10 July 1997, p. 75).

'The government allows those with small garden plots to sell vegetables at the informal markets to help relieve growing food shortages' (John Burton, *FT*, 16 May 1995, p. 18). Several open-air markets have been established along the Chinese border, where North Koreans are engaged in unsupervised barter trade now that China is becoming an important source for food (John Burton, *FT*, 3 November 1997, p. 7).

On 29–31 May 2000 Kim Jong Il paid a visit to China. 'The North's leader praised China's "great achievements" in its reforms and opening to the outside world' (*FT*, 9 June 2000, p. 23). 'He [Kim Jong Il] noted the "great achievements" of "opening up the country" and said North Korea supported "the reform policy pursued by the Chinese side" ... "Opening up to the outside world is correct"' (*IHT*, 13 June 2000, p. 8).

Pyongyang ... has stopped criticising Beijing as a 'revisionist renegade' for forging ahead with economic reform and expanding commercial ties with South Korea ... Kim Jong Il ... congratulated it on the success of its reforms and praised what he called the 'successful experiment in socialism with Chinese characteristics'.

(*FEER*, 22 June 2000, p. 16)

The June 2000 North–South summit meeting raised expectations of a relaxation of economic policy along Chinese lines in North Korea.

Vietnam: a summary

Vietnam remains a one-party state with the Communist Party determined to maintain control but at the same time trying to tackle serious problems such as corruption. A draft report published in April 1996 urged the party 'determinedly not to accept political pluralism and multipartyism', while members should 'endeavour to raise their revolutionary morality'.

Vietnam's attitude to economic reform has fluctuated. The Asian financial crisis, for instance, dampened enthusiasm. But in July 2000 the important trade and investment agreement with the USA was signed after a year's delay, a stock market was opened in July 2000, and greater encouragement has been given to the private sector and foreign direct investment.

An update on the 'boat people' is in order. On 6 March 1996 the UNHCR

confirmed its programme for more than 16,500 asylum-seekers in South East Asia would end on 30 June 1996. (China said that it did not want any of the 20,000 left in Hong Kong by the time it took over on 1 July 1997.) The UNHCR said that there was to be no resettlement and no screening, but US officials announced their intention to expand an existing programme for the resettlement of returnees 'who may be of special humanitarian interest' to the USA. More than 77,000 non-refugees have already returned voluntarily to Vietnam. Another 74,000 recognized refugees who fled Vietnam and Laos have been settled in third countries, while over 500,000 people have left Vietnam legally under orderly departure programmes (*FT*, 7 March 1996, p. 6). On 15 May 1996 the USA and Vietnam agreed on a scheme whereby those who were in the South East Asian camps by 1 October 1995 and who returned to Vietnam would be eligible for a final appeal for asylum in the USA. More than a million refugees have been resettled and about 33,000 remain in the camps (about 18,000 in Hong Kong) (*IHT*, 16 May 1996, p. 4).

Twenty-five years after it began, the Hong Kong government is writing the last chapter in the saga of the more than 200,000 Vietnamese who have passed through the territory. On 30 May [2000] it will close the last refugee camp ... It has offered 1,400 remaining Vietnamese – some classed as refugees, others as 'stateless persons' – the chance to stay in Hong Kong permanently by giving them an ID card ... Multitudes passed through the territory in the late 1980s and early 1990s: 167,000 were resettled elsewhere, mostly in the United States, and another 56,000 were returned to Vietnam. (*FEER*, 11 May 2000, p. 63)

The 2 million Vietnamese living abroad send their relatives in Vietnam \$600 million to \$700 million each year (*Vietnam Report*, 1995, issue 3, p. 3). Of the 2 million Vietnamese who live abroad, about half are in the USA. According to official figures, overseas Vietnamese send their relatives in Vietnam \$600 to \$700 million a year (*IHT*, 5 August 1996, p. 4). 'More than 2 million Vietnamese now live overseas. Remittances last year [1999] were estimated at \$3 billion' (*IHT*, 28 April 2000, p. 4). Some 1.2 million people of Vietnamese descent live in the USA (*FEER, Asia 2000 Yearbook*, p. 213).

The Eighth National Congress of the Communist Party was held from 28 June to 1 July 1996. After considerable speculation in the West about their future, the three leading personalities retained their positions: Party General Secretary Do Muoi (79 and a northerner); President Le Duc Anh (75 and from the central region); Prime Minister Vo Van Kiet (73 and a southerner). On 23 June 1997 it was announced that Party General Secretary Do Muoi, President Le Duc Anh and Prime Minister Vo Van Kiet would not run for re-election to the National Assembly on 20 July 1997. There would have to be a new prime minister and a new president since these must be members of the National Assembly. On 24 September 1997 the National Assembly elected Tran Duc Luong (aged 60) as president. The following day Phan Van Khai (aged 64) was

elected as prime minister. On 29 December 1997, 66-year-old General Le Kha Phieu (chief of the army's political department, i.e. the army's political commissar) replaced 80-year-old Do Muoi as general secretary of the Communist Party. The party's central committee also approved the departure from the Politburo of Do Muoi, former premier Vo Van Kiet and former president Le Duc Anh (*FEER*, 8 January 1998, p. 13).

The US defence secretary, William Cohen, began a historic three-day trip to Vietnam on Monday [13 March 2000] ... Mr Cohen is the first US defence secretary to visit Vietnam since the end of the war in the 1970s. Some 58,000 US soldiers and about 3 million Vietnamese troops and civilians were killed.

(*IHT*, 14 March 2000, p. 4)

Events such as the Asian financial crisis led to a more negative attitude towards economic reform.

In recent years the reforming impulse has stalled. That trend was strengthened by the recent designation of General Le Kha Phieu as Communist Party chief, Vietnam's highest political post. He is a military conservative more interested in preserving political control than in liberating economic energies ... The others are Prime Minister Phan Van Khai, an economist closely associated with past reforms, and President Tran Duc Luong, a mining engineer.

(*New York Times*, editorial in *IHT*, 13 January 1998, p. 8)

(The army, much reduced in size from the era of the Vietnam War, is still actively involved in commercial enterprises, unlike its counterpart in China which lost most of its commercial enterprises by the end of 1998.)

The year [1999] was the second one in power for the new group of Vietnamese leaders who took over from the old triumvirate of Vietnamese leaders of Muoi, Anh and Kiet at the end of 1997. The new leadership came to power under the shadow of the Asian financial crisis, which exacerbated existing economic problems, and the peasant unrest in Thai Binh [province commencing in the summer of 1997: Nguyen Manh Hung 2000: 100], which undermined the authority of the party ... During the first part of the Sixth Plenum of the Eighth Party Congress in October 1998, the leadership decided to back away from economic reform despite dire warnings of an impending crisis and concentrate instead on maintaining socio-economic stability. They stayed this course in 1999. In 1999 the Central Committee met three times: part two of the Sixth Plenum from 25 January to 2 February, the Seventh Plenum from 9 to 16 August, and the Eighth Plenum from 4 to 11 November. [In] part two of the Sixth Plenum ... reform and personnel changes were anticipated, but in the event the

plenum focused instead on a number of fundamental and urgent issues in party-building work. The state intention of these activities was to ensure the creation of a politically, ideologically and organizationally strong party ... The survival of the party as a ruling party required that it rid itself of internal disunity and close ranks against external challenges ... As with the previous plenum, delegates to the Seventh did not engage in any serious discussion about economic reforms. Instead they focused on the need to enhance the leading role of the CPV ... The Eighth Plenum ... followed the same pattern ... By the time the conclave had ended on 11 November no major economic reform measures had been adopted.

(Nguyen Manh Hung 2000: 101–4)

In interviews locals and foreign residents depict a Vietnam that has become hobbled by feuding among party officials and is slowly sliding into a deep economic mire. A key party meeting in mid-April [2000] highlighted the policy paralysis and confusion: drafting of documents for the 2001 party congress – the last congress was in 1996 – was put off until June. The gathering merely reiterated the frayed maxim that development will follow a ‘market-based, but socialism-driven structure of economic development’. There were no new ideas for rescuing the economy from its deepening stagnation.

(Nayan Chanda, *FEER*, 4 May 2000, p. 20)

The Asian financial crisis did not leave Vietnam unscathed.

Vietnam remains far more economically isolated than some of its neighbours. At first glance that has appeared to carry some benefits as much of Asia has plunged into crisis. There was no stock market to plunge and there were no short-term foreign loans to recall. And the dong, which is not a convertible currency, was gradually devalued at a pace determined by the central bank ... These benefits, however, have been offset by a collapse of foreign investment, manufactured exports and tourism, all of which rely heavily on crisis-hit Asian partners.

(Thomas Crampton, *IHT*, 9 November 1998, p. 19)

[Some] 80 per cent of the population is involved in the rural economy which has been barely touched by the economic turmoil of the region ... Vietnam has largely avoided the worst by falling back on what it knows best: state control. Pressure on the balance of payments has been eased by a drastic reduction in imports ... At the same time inefficient and heavily indebted state-owned companies have been bailed out by the state-owned banks. But there is also evidence that this short-term response might have longer-term drawbacks. Since the start of the crisis the government has clamped down on imports of items such as steel and cement, while strengthening controls on letters of credit for imports and requiring exporters to

convert their hard currency earning immediately into dong ... Most of Vietnam's imports are intermediate goods used either for export processing or by domestic industry and agriculture ... The government's unwillingness over the past two years to take the political risks associated with reform has resulted in an erosion of Vietnam's regional competitiveness, particularly as an investment destination. As a result, future growth will be slower, threatening the country's impressive gains in poverty reduction.

(Ted Bardecke and Jonathan Birchall, *FT*, 3 August 1999, p. 6)

'As Vietnam's neighbours went about making themselves more efficient in response to this, Hanoi dithered. As a result foreign direct investment virtually ceased. Vietnam now has begun to respond to changed circumstances' (Andrew Durant, *FEER*, 23 September 1999, p. 30).

The main effect of the Asian crisis was to confirm the leadership's suspicion that opening to the West invites disaster. After all, Indonesia and South Korea were knocked sideways, whereas isolated Vietnam was not much affected. Its leaders decided that slow economic growth was a price worth paying for stability ... Reforms have been slow and modest.

(*The Economist*, 8 January 2000, pp. 74, 77)

From December 1997 onwards the international donors' annual conference (held in Tokyo) began to urge Vietnam to speed up economic reform. ('By 1992 Vietnam's policy environment had improved dramatically and large-scale financial assistance from donors began to flow in': Joseph Stiglitz, *IHT*, 13 November 1998, p. 10.)

A dong-dollar rate is set each day before trading begins. Fluctuations of up to 5 per cent either side of the rate are allowed (*FT*, 9 October 1997, p. 4). On 14 October 1997 the central bank widened the range in which the currency is allowed to deviate from a daily central rate to 10 per cent from the 5 per cent fixed in March 1997. Before that the dong rate had been fixed each day. The value of the dong immediately fell (*IHT*, 15 October 1997, p. 21). On 16 February 1998 the dong was devalued by 5.3 per cent (*IHT*, 17 February 1998, p. 15; *FT*, 17 February 1998, p. 8; *FEER*, 26 February 1998, p. 60). On 7 August 1998 the dong was devalued by 7 per cent and the trading band was narrowed from 10 per cent to 7 per cent. The official target rate for the dong was moved to 12,988 to the US dollar from 11,815 dong the previous day. As a result the floor of the new trading band became 13,907 dong. This was the third devaluation since October 1997 (*IHT*, 8 August 1998, p. 13). This was the third staged devaluation of the dong since the beginning of the Asian financial crisis in mid-1997 (*FT*, 8 August 1998, p. 3). On 25 February 1999 it was announced that the dong will be allowed to depreciate daily by up to 0.1 per cent against the US dollar. The new system will allow the dong to trade against the dollar on the interbank market in a band of plus or minus 0.1 per cent of the official daily target rate set by the central bank. The target rate for each day will be set by the prevailing

interbank rate from the previous day, in effect letting the dong depreciate 0.1 per cent daily. The central bank had previously followed a strategy of stepped devaluations. Three such reductions in the official rate since June 1997 have brought the value of the dong down by about 18 per cent against the dollar, with the last such devaluation in August 1998. But the dong has still appreciated by about 25 per cent over the same period against other South East Asian countries. Retail black market rates are currently near those official rates available in banks (*FT*, 26 February 1999, p. 4).

At the Eighth National Congress of the Communist Party, held from 28 June to 1 July 1996, the state sector's 'leading role' ('foundation of the economy') was stressed (*FEER*, 11 July 1996, p. 16). The 'private capitalist economy' was considered 'capable of contributing to national construction' (*The Economist*, 17 May 1997, p. 81).

There are difficulties in estimating the size of the state sector.

The state sector employs only 8 per cent of the work force. Restructuring has reduced the number of state enterprises from about 12,000 in mid-1992 to around 7,000. Most of those that disappeared were small, loss-making enterprises belonging to provincial governments. Just over half were integrated into larger, more efficient enterprises, while the rest were either leased to private businessmen or sold to pay off their debts (Murray Hiebert, *FEER*, 3 February 1994, p. 45).

Although state enterprises account for less than 10 per cent of employment, they dominate industry, banking, trade and transport. The roughly 6,000 state enterprises, only a third of which are thought to be profitable, represent a quarter of economic output and provide more than half of the government's budget revenues. Although most direct subsidies to state enterprises have been abolished, the state enterprises still enjoy considerable advantages in gaining access to land and commercial credit. Ahead of its congress in June 1996 the Communist Party pledged to raise the state sector's share of the economy to 60 per cent by 2020 (from the current 40 to 45 per cent). The plan was criticized by international donors. In its final report to the congress the party dropped the controversial 60 per cent target but stuck to its promise to maintain the state sector's 'leading role' in the economy (Adam Schwarz, *FEER*, 24 October 1996, p. 51). In order to improve international competitiveness, the government is also attempting to assemble several dozen conglomerates, known as general corporations, in areas such as steel, coal, power, rice, coffee and textiles (Adam Schwarz, *FEER*, 26 October 1995, p. 57). The government appears determined to carry on with the policy of creating new general corporations. So far nineteen have been set up in areas such as electricity, coffee, rice and textiles (Adam Schwarz, *FEER*, 24 October 1996, p. 51).

'More than one-third of the 6,000 state-owned enterprises are losing money, and another third are breaking even thanks to subsidized credit and preferential access to land and trade quotas' (*FEER, Asia 2000 Yearbook*, p. 215).

'The state sector's share [of economic activity] has risen since 1989, but many

enterprises counted as state firms are in fact joint ventures with private (mainly foreign) partners' (World Bank 1996: 13).

In recent years the share of state enterprises in overall economic output has been rising – to 28.5 per cent in 1994 from just 22.9 per cent in 1990, and their net contribution amounts to around 11 per cent of the state budget. Admittedly these figures are distorted by the inclusion of joint ventures including private foreign capital.

(*FT*, Survey, 27 September 1996, p. viii)

The state's share of GDP increased from 32.5 per cent in 1990 to 42 per cent in 1996, thanks largely to joint ventures with foreign firms (Faith Keenan, *FEER*, 12 March 1998, p. 52).

The non-state sector comprises private and co-operative (collective) enterprises (for details see Jeffries 1993: 222). In 1993 the non-state sector accounted for approximately 75 per cent of GDP (*Foreign Affairs*, Survey, 1994, vol. 73, no. 3, p. 6).

The 'equitization' programme has still not progressed very far, although the process is speeding up.

State enterprise equitization entails the transformation of state enterprises into equity companies (limited liability companies which are allowed to issue shares). This measure was introduced by a 10 May 1990 resolution of the Council of Ministers. A 'movement for the equitization of state-owned enterprises' began in the latter half of 1992 (Tai and Hare 1995: 4).

Since 1992 the government has run a pilot 'equitization programme' in which it has sought to issue shares for twenty-one small state enterprises. The government typically keeps about 30 per cent of the shares and sells the rest to employees and outside buyers. To date only three of the enterprises have been sold off. About ten have dropped out of the programme, mostly because employees see 'equitization' as the first step towards losing their jobs. Employees have bought most of the shares and their purchases have been financed by government loans and the enterprises' own welfare funds. But 'privatization of a quieter sort continues unchecked: state-owned firms are selling off assets to joint ventures controlled by foreigners' (Adam Schwarz, *FEER*, 2 March 1995, p. 58). In the pilot 'equitization' programme a minority of shares are sold off, usually to employees. To date only four enterprises have actually sold shares (Adam Schwarz, *FEER*, 26 October 1995, p. 53). In July 1996 REE Corporation (a small air-conditioning firm employing just under 600 workers, originally known as Refrigeration Electrical Engineering Company) sold \$5 million of convertible bonds to four institutional investors in North America and Europe. The bonds automatically convert to equity in two years. It was the first Vietnamese security marketed abroad and the first opportunity for foreigners to make a portfolio investment in a Vietnamese manufacturing concern. (In 1995 several country funds were allowed to buy stakes in a partly state-owned bank.) REE Corporation was the second state enterprise to be privatized. In 1993 it sold 50

per cent of its shares to management and workers and 20 per cent to outside Vietnamese investors. (Conditions stipulated that foreign shareholders would not be represented on the board and could not vote on its members. Total foreign shareholding would be limited to 25 per cent.) The original owner, the People's Committee of Ho Chi Minh City, retained 30 per cent of shares. REE remains one of only six state enterprises to pass through the privatization programme (Adam Schwarz, *FEER*, 29 August 1996, p. 61). Fewer than a dozen enterprises have been 'equitized' (Adam Schwarz, *IHT*, 23 September 1997, p. 8).

Fourteen small enterprises have been 'equitized' since 1992 (five by mid-1995), out of a total of 6,000 state enterprises. The state has kept a 30 to 40 per cent stake in 'equitized' enterprises and most of the rest has gone to managers and employees. Only 10 per cent of the stock of 'equitized' enterprises has been made available to the 'public', usually employees' relatives (Faith Keenan, *FEER*, 13 November 1997, pp. 64–5). Only eighteen enterprises have sold shares to their workers and outsiders (Faith Keenan, *FEER*, 12 March 1998, p. 52).

On 22 February 1998 it was announced that between 150 and 200 state enterprises would be 'equitized' in 1998. Only twenty-one have been 'equitized' since 1992 (*IHT*, 25 February 1998, p. 13). Shares in only eleven state enterprises were offered in the first half of 1998 (compared with a government target to privatize 150 state enterprises for the whole year). This brought the number of enterprises involved in the programme to twenty-nine in total (*IHT*, 13 July 1998, p. 15; *FEER*, 23 July 1998, p. 67).

'As the fourth quarter [of 1998] began only thirty-nine of the 6,000 state enterprises had been privatized – far below the 150 targeted by the government for the year [1998]' (*FEER, Asia 1999 Yearbook*, p. 215). 'Since the programme was launched in 1992 only 150 state firms have been selected for selling shares to the public' (*FEER, Asia 2000 Yearbook*, p. 215). 'Progress has been slow, with only 440 of the more than 5,000 state-owned companies dividing up their shares among the government, management and employees. The state still holds a monopoly in airlines, oil and other key industries' (*IHT*, 20 July 2000, p. 15). More than 400 former state enterprises have been 'equitized'. They have been 'transferred to the hands of the workers, managers and the general public' (*FT*, 21 July 2000, p. 12). 'In the first half of 2000 the government sold its majority stake in over 200 firms, more than it had in the previous four years combined' (*The Economist*, 29 July 2000, p. 86).

Generally the state retains 20 to 30 per cent of the shares, the management and employees get 30 to 40 per cent and the rest is offered to outside buyers in a scheduled sale ... Foreigners can purchase up to 30 per cent of the shares ... There are 5,800 state-owned firms ... No more than 440 companies have been equitized since 1993, seventy of those this year [2000]. It seems unlikely that this year's target of 560 additional firms will be met ... Vietnam's new stock exchange [is] slated for a July [2000 opening] ... Vietnam first announced the launch of a stock market eight years ago. Hopes that a market will finally get off the ground were stoked in late June

[2000], when the authorities in Ho Chi Minh City tested an electronic trading board obtained from Taiwan and modified software from the stock exchange of Thailand ... The State Securities Commission (SSS) prefers the term 'stock trading centre' for this embryonic, thrice-weekly market where just a handful of companies – between two and seven – will be listed, along with an unspecified volume of government bonds. And although companies will be permitted to raise fresh capital, for the moment no new shares will be issued – only existing shares of 'equitized' firms will be traded ... Some discrepancies remain. For example, foreign investors can purchase 30 per cent of an equitized firm, but only 20 per cent of a firm once it is listed on the exchange ... In the case of air-conditioner contractor REE Corp., one of the two firms approved for listing, foreigners already hold 25 per cent. But [SSS director Bui Nguyen] Hoan says foreign investors will not be compelled to sell the extra 5 per cent; they will simply be prevented from acquiring any additional shares.

(Margot Cohen, *FEER*, 6 July 2000, pp. 69–71)

Vietnam opens the Ho Chi Minh stock trading centre on Thursday [20 July] ... [with] two companies selling \$2 million in stock ... Eight years after the plan was announced just forty-seven companies are eligible to list, and only three of those said they were interested. The government will be the chief beneficiary, offering \$22 million of its own bonds for trading on the first day and \$140 million more in a year ... It will trade only three days a week ... Foreign-owned companies are not yet allowed to issue shares on the market. Foreign investors are allowed to own a total of 30 per cent of a company's stock, although ownership by a foreign individual is limited to 3 per cent, and 7 per cent for a foreign investment firm.

(Dao Thu Hien, *IHT*, 20 July 2000, p. 15)

Trading was scheduled to begin on 28 July (*The Economist*, 29 July 2000, pp. 85–6).

Vietnam has opened its first stock exchange [on 28 July] ... with just two stocks ... Refrigeration Electrical Engineering Co. and Cables and Telecommunications Material Co. ... Two more companies should be listed within the next two weeks ... and about fifty others now meet the criteria for listing ... In the absence of an authorized market company shares have been trading on the grey market for years.

(*IHT*, 31 July 2000, p. 15)

'So far just four companies ... have been given permission to list on the exchange' (*FT*, 21 July 2000, p. 12). The trading of shares in the two existing companies was augmented on 4 August 2000 by trading in the shares of two more companies, Transforwarding Warehousing (Transimex) and Haiphong Paper (Hapco) (*FT*, 5 August 2000, p. 6).

The National Assembly meeting started on 4 May 1999. Delegates were expected to approve a text ending discrimination against the private sector (*IHT*, 5 May 1999, p. 19). 'Earlier this year [1999] the People's Assembly passed a law according the private sector equal standing with state-owned companies' (*FEER*, 23 September 1999, p. 30).

The Enterprise Law ... which took effect on 1 January [2000], allows private firms to register without waiting for onerous government approvals ... [But] various ministries have been reluctant to eliminate licences – eighty-four types of licences have been dropped but at least 300 remain on the books.

(*FEER*, 8 June 2000, p. 76)

'A new enterprise law, which would allow more private businesses, has yet to be implemented' (*The Economist*, 10 June 2000, p. 90).

A new enterprise law, which took effect in January [2000], makes it easier for private companies to register and to engage in whatever businesses they want. According to the World Bank, more than 5,000 new companies were created in the first five months of this year [2000]; and, although comparisons are difficult in some sectors, more new manufacturing firms have been created than in 1995–8 combined.

(*The Economist*, 29 July 2000, p. 86)

Vietnam is now a highly open economy; in 1992 the share of trade in output was 55 per cent (Irvin 1995: 732).

The state monopoly of foreign trade was eliminated in 1988, allowing the establishment of foreign trade organizations and permitting some enterprises to engage directly in foreign trade. Following a law promulgated in December 1997 most quotas were eliminated and replaced by import duties (Riedel and Comer 1997: 194).

Whereas in the past, in order to be granted permission to export, firms had to meet certain minimum size requirements, currently any enterprise with prospects of export orders is given the certificate that is required to engage in trade. Importing is, of course, more closely regulated, with certificates, permits and licences being required on terms that vary from one product category to another. Aside from these administrative obstacles, the main barrier to imports in Vietnam is tariffs ... [There has developed] an increasingly complex tariff schedule.

(*ibid.*: 204)

On 7 January 1997 it was announced that the state's monopoly on the rice trade was to be relaxed by allowing private companies to sell the grain abroad for the first time (*FT*, 8 January 1997, p. 24). In 1997 the allocation of some

export quotas was devolved to rice-growing provinces. Vietnam is to allow private companies (about five of them) to export rice directly, on a trial basis, for the first time (*FT*, 5 February 1998, p. 41).

Vietnam is the third largest rice exporter after Thailand and the USA (*The Economist*, 20 March 1993, p. 26). 'Today it is the world's largest exporter of rice after Thailand' (*The Economist*, 10 June 2000, p. 90). 'Vietnam ... is the largest producer of black pepper and robusta coffee, which is used in instant blends. And it is the second largest exporter of rice, after Thailand, and a key source of seafood, cashews and bauxite' (*IHT*, 28 August 2000, p. 15).

In 1992 unprocessed farm products accounted for 40 per cent of exports and crude oil for 32 per cent (5.4 million tonnes) (Murray Hiebert, *FEER*, 28 January 1993, p. 43). The oil industry now accounts for two-thirds of exports (*FT*, Survey, 24 September 1993, p. xx). Oil is the largest earner of foreign currency (*FT*, Survey, 8 December 1994, p. 39).

On 25 July 1999 the USA and Vietnam reached an agreement in principle on trade and investment after more than three years of talks. Under the terms the USA would confer normal trading status (the US term for MFN status) on Vietnam. In 1998 the USA accounted for 5.9 per cent of Vietnam's exports. The USA is ninth among foreign investors, with sixty-eight projects worth \$1.37 billion, licensed since 1994 (*IHT*, 26 July 1999, p. 13).

'Estimates are that the MFN status will boost Vietnam's exports to the USA by more than \$1 billion a year' (Andrew Durant, *FEER*, 23 September 1999, p. 30).

The USA and Vietnam failed to sign the trade deal during the 12–13 September 1999 APEC summit (*FEER*, 23 September 1999, p. 51).

It took until 13 July 2000 for Vietnam to sign the trade and investment agreement with the USA. (The main text deals with the impact of the agreement on foreign direct investment in Vietnam.)

Some analysts see the agreement as an indication that Vietnam's top leaders are willing to push the economic changes started in the 1980s to a new level, perhaps because neighbouring China has accelerated the economic overhaul in preparation to join the World Trade Organization [WTO] ... The two countries have minuscule trade flows of less than \$1 billion.

(*IHT*, 14 July 2000, pp. 1, 8)

The consensus is that the agreement is the most significant business development in Vietnam since the country reopened to foreign investment almost fifteen years ago ... The World Bank estimates that Vietnamese exports to the USA would rise to \$768 million a year, compared with \$504 million in 1999.

(*IHT*, 29 July 2000, p. 13)

'Tariffs on Vietnamese goods would drop immediately, while Vietnamese

tariffs and quotas would fall only gradually, in some cases enduring as long as seven years' (*IHT*, 28 August 2000, p. 15).

Vietnam balked at concluding an agreement with the USA last year [1999], but has since become worried that it is losing ground to Asian competitors such as China, set to enter the WTO following bilateral trade agreements with the USA and the EU earlier this year.

(*FT*, 14 July 2000, p. 11)

'US tariffs on imported products from Vietnam will drop from an average of 40 per cent to an average of just 3 per cent' (*FT*, 27 July 2000, p. 12).

The pact provides a boost for Vietnam's credibility – signalling a willingness to push ahead with urgently needed reforms and clear the way toward membership of the WTO ... Analysts believe Vietnam's leaders were torn between their desires to maintain political, economic and social stability and at the same time not fall too far behind regional economic rivals ... A 1999 World Bank study predicts a fifteen-fold increase in clothing exports. Garment and textile firms ... could realize immediate benefits. Footwear may also be a big-ticket item. The World Bank expects Vietnam's total exports to the USA to rise to \$750 million a year; last year [1999] they amounted to \$504 million. (By comparison exports to Japan, Vietnam's biggest trading partner, came to \$1.8 billion.) No gains will be derived from main agricultural exports like coffee and shrimps, because tariffs are already zero.

(Margot Cohen and Murray Hiebert, *FEER*, 27 July 2000, pp. 22–3)

The volume of foreign direct investment is not large (and the south of the country attracts far more than the north) and that actually utilized is well below that contracted. Some \$19 billion has been committed, but only about a quarter of this sum has actually been absorbed (*FT*, 15 April 1996, p. 16). 'Only about a quarter of the total investment pledged, about \$20 billion, is at work in Vietnam' (*FT*, 27 June 1996, p. 4).

Although \$17 billion of foreign investment has been committed since 1987, only \$4.8 billion has been invested (*FEER*, 5 October 1995, p. 31). Of the \$17 billion in investment contracts only about \$5 billion has actually been invested (*FEER*, 26 October 1995, p. 7). Since 1988 Vietnam has recorded over \$17 billion in approved foreign investment for more than 1,400 projects. The official estimate is that almost \$6 billion will have been disbursed by the end of 1995 (*FEER*, 26 October 1995, p. 57). Disbursed foreign investment amounts to only about a third of all approved projects since 1988 (*FEER*, 24 October 1996, p. 49).

In 1996 approved FDI was \$8.5 billion while actual FDI was only \$2.3 billion (*FEER*, 16 January 1997, p. 51). Actual FDI in 1997 fell by nearly 50 per cent (*FEER*, 19 February 1998, p. 60). During the first six months of 1999 a

total of \$826 million in new foreign direct investment projects were licensed, down 42 per cent from a year earlier (*IHT*, 6 July 1999, p. 14).

Foreign direct investment, which used to pour into Vietnam at a rate of more than \$4 billion a year, slowed to \$1.4 billion in 1999 and is likely to fall further this year. Even those numbers overstate the actual dollars flowing into Vietnam as the government approves many more projects than are actually built. Analysts and others estimate that the country attracted no more than \$600 million in hard dollars last year [1999].

(Mark Landler, *IHT*, 22 April 2000, pp. 13, 15)

Since opening its economy fourteen years ago Vietnam has attracted total foreign investment pledges of \$24 billion, with less than half of that actually being spent. China attracted the same amount of commitments in the first half of this year [2000] alone.

(*IHT*, 20 July 2000, p. 15)

'Foreign investment in Vietnam plunged to just \$500 million last year [1999] from a peak of \$2.8 billion in the mid-1990s as investors became frustrated with the slow pace of economic reform in the country' (*FT*, 14 July 2000, p. 11).

The sudden plunge in FDI during and after 1997 was caused by factors such as the Asian financial crisis. But Vietnam's modest success in attracting FDI has long been explained by a whole host of problems, such as bureaucracy, corruption and the lack of effective dispute settlement mechanisms. Key decisions in joint ventures are subject to unanimous agreement, which means that local partners have a veto even when foreign partners own a majority of shares. Western oil companies have been pulling out after disappointing results.

Efforts have been made to increase the incentives for FDI. For example, amendments to the foreign investment law were passed by the National Assembly on 16 May 2000. 'Foreign-invested businesses can now use their land-use rights as collateral to borrow from foreign bank branches in Vietnam. Foreign businesses can also purchase foreign currency to make payments on current transactions' (*FEER*, 8 June 2000, p. 76). The signing, on 13 July 2000, of the trade and investment agreement with the USA will boost foreign direct investment.

Vietnam has agreed to provide wide-ranging guarantees to a multilateral consortium led by BP Amoco for a \$1.5 billion project to exploit natural gas off the country's south-eastern coast ... The project is the largest foreign investment of its kind in Vietnam, though it has been stalled by bureaucratic wrangling since the field was discovered in 1993.

(*FT*, 6 September 2000, p. 10)

The household is still the basic production unit in agriculture and improvements have been made. In 1994 the length of leases was extended to ninety-nine

years (Irvin 1995: 730). But there has been considerable unrest in the countryside, e.g. in northern provinces. ‘The authorities say that rural protests that began in May 1997, concentrated in Thai Binh province south of Hanoi, have subsided. But the problems that caused them remain, namely corruption, rising taxes and falling rice prices’ (*FEER*, 2 October 1997, p. 16).

Vietnam’s normally compliant legislature rarely contradicts the nation’s senior leadership. But when the powerful Communist Party central committee approved sweeping, liberal changes in the land law designed to open the economy to large-scale commercial farming, the National Assembly put its foot down. The legislature refused to approve changes to the 1993 law that would have increased farm sizes and extended rural leases ... The Politburo debate at a meeting in early October sharpened differences between ideologues and so-called reformers. Conservatives, led by former party chief Do Muoi and head of ideology Nguyen Duc Binh, were concerned that farmers would be exploited by large landowners if they lifted the three-hectare cap on farm size and extended all leases to fifty years from twenty. The reform position, meanwhile, saw the benefits of economies of scale. Phan Dien, a new Politburo member and head of the party’s economics commission, argued that farmers who worked land for others actually made more than when they had owned their own plots ... A divided Politburo sent the 170-member central committee a rare choice ... The committee did not agree until ... [17 October] that it favoured extending land leases and increasing farm size ... The 450 National Assembly [on 24 November] ... voted against extending leases, but it did allow for some larger farms – subject to conditions.

(Faith Keenan, *FEER*, 10 December 1998, p. 26)

Vietnam is still a very poor country. The World Bank estimates that *per capita* income in 1998 was \$300 (Nguyen Manh Hung 2000: 109). In 1999 *per capita* GDP was \$362 (*IHT*, 14 April 2000, p. 2). But GDP growth rates were impressive throughout the 1990s (although declining in the latter half of the decade) and the inflation trend was markedly downwards (inflation being in excess of 60 per cent in 1990 and 1991, but reaching single figures in 1996 and thereafter). (See Table 5.1, p. 443.) Poverty (though much reduced) and unemployment are serious problems.

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FEER Far Eastern Economic Review

FT Financial Times

IHT International Herald Tribune

Note the following change of title: *Soviet Studies* to *Europe-Asia Studies*.

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