Roskilde
University

Vietnam after the regional economic crisis

Reflections on development strategies

Masina, Pietro Paolo

Publication date:
2003

Vietnam
after the regional economic crisis:
Reflections on development strategies

Ph.D. Dissertation (April 2003)

By Pietro P. Masina

Supervisor: Prof. Bruno Amoroso

Dept. of Social Sciences
Roskilde University

Table of contents

Acknowledgment

A usual qualification applies: more people have helped me in this work than those I can name here. Some have helped me directly in the process of collecting and analysing data; others have helped me indirectly in getting closer to the concrete reality of life of Vietnam. I am in debt with scholars and colleagues (Vietnamese and foreigners), but also with the Vietnamese friends who have shared with me their time and their knowledge. I feel that I have as well a debt of gratitude with the many Vietnamese that over the years – during interviews, field studies, but also in the everyday life – have thought me to love their beautiful country.

Among the Vietnamese scholars and friends I would like to thank in particular: Bui Huy Khoat and Dinh Thi Ngoc Bich, Centre for European Studies; Nguyen Thanh Ha, Nguyen Thanh Tung, NISTPASS; Vo Dai Luoc and Le Bo Linh, Institute for World Economy; Bui Thanh Son, Ministry of Foreign Affairs; Vu Cao Dam, Nguyen An Lich and Dinh Thi Bich Thuy, Dept. of Sociology, Hanoi National University; Dang Dinh Long, Institute of Sociology; Nguyen Thu My, Institute of Southeast Asian Studies; Nguyen Thanh Hung, Ministry of Trade; Nguyen Dinh Hoa and Bui Duc Hai, Istitute of Social Sciences and Humnaities, Ho Chi Minh City.

I would like to acknowledge here as well my gratitude towards a number of non-Vietnamese scholars and friends who have helped me in various ways: Irene Nørlund, Rolf Hernø, Per Ronnås, Curt Nestor, Laurids S. Lauridsen, Kristen Nordhaug, Andrew Crabtree, Mike Parnwell, Jonathan Rigg, Jonathan London, Jakob Lindahl, Helle Buchhave, Morten Larsen, Hanne Mogensen, Sara Rezoagli, Keinichi Ohno, Carlo Batori, Søren and Mette Davidsen and Rajneesh Narula.
A special thought goes to the late professor Enrica Collotti Pischel, whose teaching has always been a unique source of inspiration for me as for several generations of Italian students of Asia.

This research would not have been possible without the moral and material support of the Department of Social Sciences, Roskilde University. I would like to thank in particular the head of department, Bent Greve, for his patience notwithstanding the long delay in finishing this work. The Nordic Institute of Asian Studies graciously hosted me for one year and allowed me to use its excellent library. The European Commission gave me an initial grant through the TMR scheme making possible to start this research.

Last but not least I would like to thank my supervisor Bruno Amoroso for encouragement and support throughout the process. The examiners Chris Dixon, Jaques Hersh and Jesper Jespersen made a number of useful comments and criticism of an earlier draft, allowing me to emend and improve several parts: I gratefully acknowledge the feedback I received from them.

A PhD dissertation represents, no matter the age of the author, the end of ‘student’ life and in many ways the closing of phase in personal life. Thus, it seems fair to me to express here my gratitude to my parents Clotilde and Ettore Masina for helping me in reaching this day. This work is dedicated to them.

Introduction

The research topic

This work is about Vietnam and its future. It is about the prospects for economic development of a large[1] and poor country of Southeast Asia. And it is about the new reality of a region for many years considered as blessed by 'miraculous' economic success and recently hit by a severe economic crisis.
The aim of this study is to review the more controversial issues in the debate about the development strategies for Vietnam and eventually attempt a critical assessment of *doi moi* (renovation) process. In the following pages we will claim that the function of agenda setting for the reform process is dominated by the international financial institutions along lines inspired by 'development orthodoxy'. The crack in the Washington Consensus after the East Asian crisis has compelled a revision of the neoliberal discourse, which is now repackaged in a new version that could be named a Post-Washington consensus. Some policy reviews and an overall amendment to the language may convey the impression that the international financial institutions have now abandoned the development orthodoxy insisted upon in the last 20 years. This study will put in evidence the major issues in policy revision, but will suggest that the basic tenets of the Post Washington consensus are still substantially coherent with those of the previous consensus.

While the revised development orthodoxy occupies centre stage in the public policy debate, there are other two lines of enquiring that are of primary concern for an analysis of the Vietnamese reform process. The first line is represented by the development experience of other Asian countries. After the collapse of Soviet Union not only Vietnam came to be more economically integrated with the rest of East Asia but also more exposed to the interpretations of the 'East Asian miracle' promoted by Japan (and South Korea). These interpretations argued that economic growth had been achieved through state strategic guidance (the so-called 'East Asian developmental state'), and therefore suggested a path to industrialization that was at odds with development orthodoxy. However, as we will discuss further in this work, these strategies were still within the frame of a capitalist logic. There is, therefore, a second line of enquiring that is necessarily important for understanding the economic reforms in a socialist country like Vietnam, especially having in mind the high price that this nation paid for achieving decolonization and implementing a radical programme of political and economic socialist transformation. The question regards the possibility to further the socialist transition while embracing market-friendly reforms. Here the experience from Japan, South Korea and Taiwan has little to offer to Vietnam given the different purposes that development strategies were serving: economic growth as a modality of capitalist stabilization in North East Asia; economic growth as an attempt

---

[1] Contrary to the perception of most Westerners, Vietnam is a large country. With more than 80 million inhabitants it ranks 13th in the world and second in Southeast Asia (after Indonesia) for population. This misperception regarding the country's populace is symptomatic of the substantial lack of information in the West about Vietnam. The 'Vietnam war' remains the most popular genre in American fiction literature, but general understanding about the country is scanty and dismaying. As we will see, the number of scientific studies about Vietnam is also rather limited.

to consolidate a socialist transition in Vietnam. The main issues where potential contradictions with the proclaimed socialist ideals may emerge regards, on the one hand, how the 'open door' policy will affect the economic sovereignty and which kind of position the country will assume in the international system; and, on the other hand, the changes within the country in terms of social (class) differentiation.

Although Vietnam is facing quite complex dilemmas in deciding upon its development strategies, the contrast between alternative views is substantially concealed in the current debate. This has also created a major obstacle in conducting this investigation. In order to let the different options emerge we had first to make an effort in breaking the pervasive dominance of the neoliberal discourse. The following pages have been written with the main objective to claim for the need of a more open debate about the future strategies and about the past achievements of *doi moi*.

This need for a more open debate is confirmed by the prevailing ideological uniformity of the studies on the Vietnamese reform process. The bulk of the international literature has been produced so far by a few agencies and a restricted number of scholars, broadly within the cultural paradigm of neoliberal thinking. The dominance of 'orthodoxy' in the studies on contemporary Vietnam would be *per se* an interesting topic to investigate. This is probably a result of left wing and liberal researchers' disappointment with the events subsequent to the Vietnamese victory in the resistance war against the United States (i.e., the invasion of Cambodia and the hard line adopted in managing reunification). Disaffection led many scholars to distance themselves from their previous engagement with Vietnam or even to raise openly their criticisms (as in the well-known case of Gabriel Kolko 1997). In general, many of those who had supported Vietnam in the war period remain undecided in their assessment of the reform process inaugurated as *doi mo*i: positively impressed by the important economic results achieved, but worried about the possible social implications. These researchers have normally abstained from attempting an overall assessment of the reform process. This silence left a free hand to a new generation of Western economists, which entered the scene (often as consultants for international agencies) taking a decisive stance in favour of furthering the transformation of the country into a fully-fledged market economy. Thus, most of the current literature – including that produced by 'Westernising' Vietnamese – has the tendency to constantly reproduce the same discourse. At the same time, the Vietnamese authorities have seldom expressed views that were an open challenge to the new established orthodoxy – rather, it has been the implementation of policies to show the extent of dissent in some strategic areas.

Apart from the need not to challenge the views held by the international donors,[2] the Vietnamese leadership has faced two major obstacles in delineating a well-defined national development strategy, as we will discuss further in the next chapters. On the

[2] The need for a developing country in search of concessional loans from the international financial institutions and preferential access to Western markets not to challenge openly 'orthodox' thinking is a general condition. This has also been experienced by other East Asian countries such as South Korea and Taiwan at an earlier stage of their industrialisation drive, when they made an effort to conceal characteristic features of their development strategies and officially bowed to Western prescriptions (see White and Wade 1988: 7 – 8; Dixon 2002).

one hand, the reform process has been rather more imposed by events than freely chosen. The complexity to maintain a 'socialist orientation' while *de facto* been forced to embark on a transition towards a market economy is evident. The national tradition of reaching decisions by consensus has further complicated the task of the leadership and often led to rather vague policy declarations. On the other hand, the international organisations (especially the World Bank and the UNDP) and a small number of mainstream economists have occupied centre stage in policy research. By virtue of their overwhelming economic and intellectual resources, the international agencies and their advisors have apparently succeeded in exerting a hegemonic guidance even over those Vietnamese institutions charged with strategic planning. National independent research has lost much of its influence and local scholars have been either subsumed in internationally supported research or substantially marginalised.[3]

The national leadership seems to be trapped between the Western and Westernising modernizers and the representatives of declining economic interests inherited from the central planning era (like the State Owned Enterprises). The space of manoeuvre for 'alternative' economic strategies – i.e., the ability to lead the reform process on a path in line with the proclaimed socialist ideals – appears to be rather small.

One should always remember, however, that in a complex country like Vietnam the appearance might not reflect the concrete reality of life. A superficial reading of policy documents may be misleading. The line of resistance of the Vietnamese leadership against the imposition of the international financial institutions is not evident in policy declarations but in the tough negotiation of concrete measures and a well-defended autonomy in the implementation of reforms.[4]

The dominance of neoliberal thinking in delineating the official reform agenda and the resilience of the Vietnamese leadership in the concrete implementation of reforms makes any assessment of *doi moi* very complex. Mainstream authors interpret the Vietnamese resistance simply as an inability to carry out needed measures. For these authors, the Vietnamese government is constantly responsible for 'delays' and compliance with backward interests. For non-orthodox scholars, instead, these apparent 'delays' may be the symptoms of disagreements about the measures to be taken. But in the absence of an open policy debate the analysis of the contentious issues is not easy. The query is how much the disagreements are based on an

---

[3] International agencies have an irresistible power in co-opting local scholars, in a process that risks undermining the scope for critical and independent research. By participating in foreign-sponsored research local scholars not only receive allowances many times higher than their normal salaries, but also get access to professional training, travel grants, new career opportunities, etc. Thus, by virtue of their intellectual dominance and their economic means, the international organisations have great leverage in promoting conformist and opportunistic behaviours among local scholars (as well as among international scholars highly paid for their consultancy jobs). International cooperation in policy research, which is often intended to promote capacity building and institutional strengthening, risks achieving dismaying results even when it is carried out with the best intentions.

[4] We will see in Chapter 4, for example, that substantial disagreements have emerged since 1996 in the negotiation for structural adjustment loans, up to the point that the IMF suspended the third instalment of a loan already approved. We will also see that Vietnam *de facto* forced the US to reopen negotiation for a bilateral trade agreement, when Washington was already preparing for the signature.

alternative vision – not officially stated but clear in the minds of policymakers – and how much they reveal the resistance of stakeholders whose particularistic interests would be adversely hit by the approved policies.

The present research suggests that the Vietnamese decision-making process is multifarious and articulated, and in many instances bottom-up rather than top-down or, more precisely, a complex web of vertical and horizontal relations. The representatives of different interests – provinces, ministries, and state-owned enterprises – have much leverage for influencing the decisions taken by the central administration (and even to resist the adopted decisions). The highest echelons of the party and government have more a coordinating function than the power to emanate autocratic decisions. This is a further motivation for claiming that the logic of the Vietnamese strategy is better understood *ex post* – on the basis of what is done in concrete terms – rather than by looking at public statements.

The analysis of concrete policy-implementation, however, requires a frame for analysis – a frame that allows selecting the data to be collected and to organise the findings in a meaningful way. A frame for analysis able to depart significantly from the conventional wisdom requires to be grounded in a different paradigm, as it will be argued thereafter. We will suggest that the neoliberal paradigm has lost much of its authority due to its failure in promoting development and economic growth. This failure is now widely recognized as a consequence of theoretical inconsistency. The debate on the East Asian economic crisis has been a major blow to the so-called Washington Consensus, i.e., the strategy for economic development based on the neoliberal orthodoxy. From that debate it became evident to many that the neoliberal doctrine had been unable to explain both the long period economic growth in East Asia and the abrupt crisis of 1997/98. Notwithstanding the hegemonic decline of the neoliberal discourse, its (adjusted) prescriptions still dominate the policy advise enforced by the international financial institutions on developing countries – as we will indicate in the case of Vietnam. A new, alternative, paradigm, able to persuasively replace the failing one, has not emerged yet. We will claim that the 'East Asian developmental state' model has contributed to the crisis of the dominant paradigm by producing evidences that could not be integrated within the existing theoretical foundations. However, that development model is strongly embedded in a particular historical and geographical context and it could not be extended to different contexts without a high level of simplification. Such simplification could lead either to implement import-substitution strategies like those (not very successfully) applied in Latin America on the advice of structuralist economists, or to be re-absorbed into the existing paradigm. An alternative paradigm requires a more radical departure from the prevailing one. A major contender to development orthodoxy has been the neo-marxist theoretical tradition connected to the 'dependency school'. This contender has been hit and marginalised by the neoliberal counter-revolution of the late 1970s, and further challenged by the collapse of Soviet Union and the market-friendly reform process in China (and Vietnam). However, the cracking of the Washington Consensus is pointing once again at the same issues that the dependency school had identified as an obstacle to economic growth. The widespread criticism of the World Trade Organization, for example, is denouncing the unequal exchange and the risks for developing countries deriving from free trade. We will return to these issues later in this chapter and again in the next one.

Vietnam after the regional crisis

Vietnam was less hit by the regional financial meltdown of 1997/98 than many of its neighbours. But after 1998 it faced an important deceleration of economic growth. Mainstream (neo-classical) analysts indicated that, after the recovery began in the region, Vietnam risked losing the opportunity for further growth if it did not implement bold and rapid economic reforms: privatising state owned enterprises, restructuring the financial sector, adopting a 'neutral' trade regime and sustaining the development of the private sector. The 'lesson' from the region was used to support this reform agenda. However, what lessons are to be learned from the regional crisis remains a controversial question. The debate on the crisis and on the development models in East Asia is still heated and very different views have been presented (see Masina 2002a).

Vietnam suffered an economic slowdown one year before the onset of the regional crisis. This has been interpreted by the international financial institutions as a sign that the reform process had lost momentum and, particularly, the trust from international investors was fading. Therefore, Hanoi has been compelled to make the country more attractive to foreign investments in order to benefit from the comparative advantage of a cheap and well-educated labour force. The need for specific reforms is undeniable, since Vietnam (like most of its neighbours) is suffering from bureaucratic inefficiencies, red tape, corruption, faltering legal system, etc. Even more importantly, Vietnam needs reforms to address key issues in terms of policy planning: e.g., identification of priorities in industrial development, growth of a sound financial system able to support strategic investments, etc. But the criticisms directed at Vietnam tend not to give enough attention to the regional dimension. When Vietnam started to suffer from a reduction in the flow of foreign direct investments this was part of a wider regional trend. Thus, to place the blame exclusively on national deficiencies risks missing a crucial point. The interpretation presented in our work is that the economic slowdown in Vietnam on the eve of the East Asian crisis had roots in a regional malaise. This interpretation – presented in chapter three – has important implications for future development strategies.

The onset of the regional economic crisis has brought to the attention of a wider public the debate on the so-called 'East Asian miracle'. The first chapter of this work supports the view that the debate on the 'developmental state' is fundamental for understanding the extraordinary economic trajectories in a number of East Asian countries. Although the experience of the 'developmental state' has been either contested or ignored by the international financial institutions and by mainstream economists, it is quite logical to assume that the Vietnamese authorities have looked at this model as a source for inspiration – and such a model has also been sponsored by Japan, the largest single source of development aid to the country. The view presented in our work is that the debate on the East Asian 'developmental state' represents an important reference for understanding the current directions of *doi moi*.

The neoliberal recipes on the one hand and the 'developmental state' on the other hand provide a contrasting range of possibilities and allow the Vietnamese experience to be put into a meaningful comparative perspective.

However, there are at least three major questions to take into consideration in contrasting the Vietnamese case with those of Northeast Asia. First, the 'success stories' of countries like South Korea and Taiwan – with a selective combination of import-substitution and export-orientation – were supported by a favourable international regime (with the US interested in promoting economic growth in non-communist East Asia). The recent financial crisis in East Asia was a result of increasing tensions in the international system about the trade regime. Therefore, it will not be easy for a 'new entry' like Vietnam to move in this increasingly hostile environment. An example of these problems is given by the negotiations between Vietnam and the USA on a trade agreement, discussed in chapter four.

The second question regards the sustainability of the 'developmental state' strategies. The experience of the other Asian countries has shown a depletion of natural resources and severe damage to the environment, indicating that such a model in a densely populated agricultural country like Vietnam would rapidly cause disastrous effects. Also in terms of human development the lessons from the region are controversial. In many areas concerning the experience of the poor, Vietnam has something to teach rather than to learn with respect to its richer neighbours.[5]

The third issue regards state capacity. A 'developmental state' model requires institutions able to carry out complex functions in terms of strategic planning and policy coordination. This has so far been a major obstacle in the attempts to 'emulate' the East Asian models in other contexts (e.g., in Africa). The adoption of a 'developmental state' perspective in Vietnam – notwithstanding a cultural proximity with other regional countries that have built their success story upon such a model – would not be easy either. That would require not only strong political will, but a great ability in institutional reform (including a change in the mindset of the bureaucracy).

This work make use of the 'developmental state' model to argue that even within the prevailing international order, dominated by capitalist forces, alternatives do exist to the development orthodoxy. However, the Vietnamese 'transition' incorporates another fundamental element: an attempt to maintain a socialist aspiration while embarking on market-economy practices. The Vietnamese leadership has been wary of any sophisticated theoretical explanation to delineate how the country can avoid a *de facto* transition towards a full-fledged capitalist market economy – something that is normally denounced in Vietnam as the danger of a 'peaceful evolution'. An analysis of the reform process must take into account this specific question in the Vietnamese development experience. This work claims that in order to understand the possible outcomes of this complex transition we should broaden up the analysis to a set of debate related to Marxist theories, which is officially also the theoretical background of the Vietnamese leadership.

[5] A number of recent studies (see in the following) have indicated that Vietnam can be taken as a model for its impressive results in terms of poverty reduction and for its ability to reach the target provided by the Millennium round.

Methodological considerations

Beliefs and valuations

This study criticises the attempt by the development orthodoxy to impose its own views as objective and based on a superior scientific value. Such an attempt is rather typical of economic and political discourses based on neo-classical economics, whose mathematical-like laws are considered as non-disputable truths. In 1935, for example, in the preface to his *Essay on Nature and Significance of Economic Science*, Lionel Robbins claimed:

> The efforts of economists during the last hundred and fifty years have resulted in the establishment of a body of generalisations whose substantial accuracy and importance are open to question only by the ignorant or the perverse (cited in Easlea 1973: 157).[6]

Although, as we can see, the current doctrinarism has well-established roots, the neoliberal counter-revolution has been particularly assertive in enforcing a conception of social relations based on the logic of the self-regulated market. As argued by Samir Amin (1998) the ideology of capitalism has always tended to be economic determinist, but the 'single thought' endorsed by neoliberalism is exceptionally adamant in relying on 'pure economics' as the ultimate yardstick for guiding policy decisions. Contrary to what was done by other civilizations in the past (as indicated by Karl Polanyi) capitalism has attempted to reverse the relation between politics and economics by putting economics in command and politics as a dependent variable.[7] The effort to present policy decisions as dependent on objective scientific laws has the function to conceal the ideological motivations and the interest representation that unavoidably characterise any societal organisation. In the over two centuries since the first industrial revolution, this endeavour to subjugate society to the logic of 'pure economics' has been only partially successful, and conflicts (some even resulting in socialist revolutions) have constantly emerged. But since the demise of the long Fordist-Keynesian cycle, the neoliberal counter-revolution has achieved new momentum (and even more so, after the collapse of Soviet Union). We will see in the next chapter how neoliberal thinking, and its related development orthodoxy, has been actually readjusted over time. A basic feature that has not changed was the attempt to disguise the value premises and the ideological foundations of the policies it supported as motivated by objective and scientific laws.

In contesting the logic promoted by the neoliberal forces, I will not try to oppose a different 'objective' truth. On the contrary, following the lesson of the Swedish

---

[6] Incidentally we may remind that Robbins' neo-classical tenets were soon to be successfully contested by such an 'ignorant' and 'perverse' economist as Keynes (and the same Robbins was led to modify his views). Only with the neoliberal counter-revolution of the late 1970s neo-classical economics assumed again centre stage – and the world economy returned to face instability, sluggish growth or even depression as in the inter-war period of neo-classical dominance.

[7] Polanyi shows, however, that society eventually reacted and succeeded in bringing the market under political and social control (see Cox 1995: 39).

economist Gunnar Myrdal, my assumption is that each scholar (like any other person) is necessarily influenced by 'beliefs' and 'valuations' (Myrdal 1968, 1970). These 'beliefs' and 'valuation'[8] are not only the results of personal choices, but are also influenced by the cultural and social environment in which one is embedded and the interests that one (consciously or not) tends to represent. A scholar should be aware of the ideological and cultural background that will unavoidably affect his/her own research and should not try to conceal his/her own 'beliefs' and 'valuations' in search for an objective scientific investigation. Only an honest reflection on these premises can help the scholar to reduce the risk of being involuntarily biased. Every scientific work is, however, inevitably subjective and biased – is therefore important to make the reader aware of the premises, values and purposes that have guided the scholar in his/her research.
In the next chapter I will present the theoretical tools used in this research and I will make explicit my cultural/political standpoint. In the following pages I will try to make clear the beliefs and valuations that are at the root of this work.

My research interest for Vietnam began in the mid 1990s. By that time, the first phase of *doi moi* was completed. Vietnam had already irreversibly moved towards a market-based economy, although the country's leadership proclaimed that this did not imply a desertion of the socialist project. The country was on a path of increasing integration into the world economy and the political relations at regional and international level had been thoroughly reorganised. My research interest was connected (and still is) to political concerns. Was the Vietnamese transition bound to produce a reversal of the socialist finalities that had inspired its long and costly struggle for liberation and social change? The question was not (is not) 'ideological', that is, motivated by abstract motivations. On the contrary, this question was (is) very concrete: after the devastating experiences of the 'transition' in former Soviet Union and in many of its European satellite countries, the possible costs of a similar process in Vietnam could not be ignored. Vietnam – one of the poorest nations in the world, after over thirty years of war (but also mistakes in economic management) – had achieved impressing results in terms of human development: life expectancy, school enrolment, literacy, healthcare services, etc. Were these achievements going to be reversed as it had happened in the former Soviet Union? The case of China indicated a much more successful transition to market-economy: economic growth, poverty reduction, generalised improvement in living conditions. As it is now evident after many years since the beginning of the reform process, the Vietnamese transition is more closely related to the experience of China than to that of former Soviet Union. However, also the more successful cases of China and Vietnam do present disquieting questions. Poverty reduction has been coupled with increased economic disparity. Economic restructuring has resulted in redundancy in State Owned Enterprises at the same time when modernization of agriculture has implied a labour surplus in rural areas. Public services (like schools and healthcare), once free for all, now require the payment of fees (and, often, of even more substantial 'fees' under the table). While the transition process in Vietnam and China is still progressing and open to different possible outcomes, one can even wonder if these countries will opt for an American *workfare* model rather than a more inclusive Western European-style Welfare system. Such an

[8] 'The beliefs express our ideas about what reality actually is, or was, while valuations express our ideas of how it ought to be, or ought to have been' (Myrdal 1970: 15).

outcome could after all be dictated by the increasing economic gaps (even more so in China than in Vietnam) between rich and poor regions and between urban and rural areas. European Welfare systems can (with increasing difficulty) manage wealth redistribution within a population whose economic level is extremely homogeneous when compared with that of China and Vietnam.

Gunnar Myrdal did not emphasise the need to clarify 'beliefs' and 'valuations' to suggest that the outcomes of a scientific research are necessarily predetermined by their premises. While the investigation cannot be 'objective', the ethos of social sciences remains the search for objective truth. In the words of Myrdal: 'social science has demonstrated power of self-healing' (1970: 40). This means that a student must be aware that his/her own premises will tend to influence the way in which the research is conducted, leading towards results coherent with the premises. A critical reflection on these premises is hence essential for reducing (though obviously not completely removing) involuntary biases. Through this critical self-analysis a student may even change his/her original beliefs and valuations.

A partial change in my beliefs and valuations did actually occur – or better, what changed was the perspective from which I learned to look at the Vietnamese reform process. This specific research is substantially concerned with the macroeconomic aspects of the reform process. However, it has constantly intertwined with other studies I have participated in – normally with investigations at grassroots level – about poverty in Vietnam. The findings of these poverty-related investigations are only partially included in this study, but those experiences have transformed my way of thinking.

From the perspective of a European scholar, the long-term implications of the reform process are the major concerns. At stake is the sustainability of the undeniable results in terms of poverty reduction that Vietnam has experienced since the late 1980s. An increase in economic inequality represents a major problem as it may lead to a transformation in interests' representation in the country and to a departure from the current poverty reduction drive. From the perspective of a Vietnamese poor, however, short-term achievements have a paramount importance because they represent – often literally – a matter of life or death. A peasant I interviewed in a village of Hung Yen province (Red River Delta) in July 2002, told me that he accumulated huge debts with moneylenders in order to pay for the treatment of his heart disease. At the time of my interview, his wife was in a hospital in Hanoi to undertake an eyes operation, and this was bound to increase the debt burden on the family (which had already forced two of the three kids to search informal jobs in the capital). When I asked if he did not prefer the time when healthcare was free, his answer confused me. He said that at that time healthcare standards were very low and he would have probably died. Better be impoverished by debts than to die. A similar perspective was presented by a widow with three teenage children in the same village. The two younger daughters were forced to leave the school and one became a fruit seller in Hanoi; the family decided to make an investment for its future by allowing the older son to continue education until higher secondary school. This widow told me that at the time when schools were free of charge the quality was low and therefore school enrolment did not guarantee the possibility to find a good job afterwards. There may be a number of reasons to explain these answers. In any case they express a point of view that should be taken on board. According to an opinion poll conducted in the winter 2002, Vietnam is the country in the world in which the population is the most optimist about the future. My direct investigation has confirmed what reported by a number of studies (discussed in Chapter 4): that poverty reduction has also been beneficial for many among the poorest and the most vulnerable. For example, I have been confirmed by a large number of interviews that the living conditions of street children in Hanoi have substantially improved during the 1990s (Gallina and Masina 2003).

The fact that the wide majority of the Vietnamese population seems to consider favourably the *doi moi* does not eliminate risks and reasons for concern. There are two major issues that are fundamental for Vietnam and for any other developing country. The first is the social structures and class-related interest composition within the country. A radical process of economic reform like the Vietnamese *doi moi* will obviously affect the national social structures and this will eventually determine the direction for the furthering of the reform process. The second, related, issue regards the position of the country in the international economic system. These two issues are discussed throughout this research. Let us review here the number of associated beliefs and valuations that have influenced the way in which my research agenda has been shaped.

I do believe that the Vietnamese *doi moi* is a process led by national forces although it has been imposed on the country by external constraints (especially the end of the Cold War and the collapse of Soviet Union). I do not agree with the view expressed by Gabriel Kolko (1997) that the national leadership has *de facto* implemented policies decided elsewhere (according to Kolko, the IMF had a paramount influence already in shaping the macro-economic stabilization of 1989-91, that is, some years ahead it resumed lending to the country). Although, as repeatedly argued in this work, the international financial institutions have attempted to influence the agenda setting for the reform process; the country has been quite resilient. My belief is that the national leadership is still concerned about the welfare of its population. There is increasing evidence that a national bourgeoisie is emerging and that this bourgeoisie has strong connections with the Party, but there is scanty indication that state institutions have been hijacked to serve specific purposes of the bourgeoisie in contrast with those of the poorest strata of the population. However, this is a very concrete risk for the future.

My valuation is that the state strategic planning must play a significant role in promoting economic development in a 'late-industrializer', as I will argue in Chapter 1 and thereafter. However, how national political conditions will evolve and if they will be supportive towards 'developmental state' policies in the future cannot be predicted yet, and this is a point on which this work cannot be expected to give clear answers. We can simply point out different hypotheses on the basis of the experience of other countries in the region.

The nature of class-relevant relations within the country is also a major factor in shaping the way of integration into the wider economy (or better, here there is a process of circular causation). My belief, contrary to mainstream wisdom, is that globalisation – especially when translated as 'free trade' – is potentially devastating for developing countries. My belief is also that reform agenda (development orthodoxy) promoted by the international financial institutions is generally more beneficial to the interests of the countries controlling these institutions (i.e., the rich industrialised nations) than the countries that they are supposed to assist. A quite extended literature (discussed *infra*) supports my belief, although this is clearly an area of wide dissent in the scholarly community.

Referring to a long tradition of studies inspired by Marx, I believe that the inclusion of developing countries into a global 'world-system' (a process in which the current 'globalisation' represents only a new phase) has a double (and often contradictory) nature. On the one hand, it tends to destroy traditional productive systems and to enforce a modern (capitalist) mode of production; on the other hand, it tends to establish unequal relations through which the core (the industrialised countries) exploit the periphery (Third World countries) and perpetuate a condition of dependency that can also inhibit the creation of modern capitalist forces. This issue will be discussed further in Chapter 1. Here I want to make explicit how my belief that Vietnam risks to loose autonomy through integration into the wider economy has influenced my research agenda. After the end of the Cold War, Vietnam had no alternative to the furthering of economic and political relations with its Asian neighbour and with the West. But this made more imperative the question of how the country could at the same time exploit the benefits of a wider integration into the world market economy and defend its national interests. This is not a new question, as it has been for centuries a paramount theme in economic research. In this work, I have suggested the need to look at the policies implemented by a number of East Asian countries for analysing this issue. I will discuss further in the following chapters the specific conditions that lead to the adoption of that set of policies that has characterised the so-called East Asian developmental state and the lesson that Vietnam could learn from those experiences. My belief is that the East Asian developmental state has been an instrument of capitalist stabilization in the region, and therefore could/should not be replicated by Vietnam. However, the 'strategic planning' underpinning that model of economic development represented a successful strategy for breaking the condition of 'dependency' imposed on developing countries and has allowed an impressive catching-up. While the East Asian developmental state was successful also because it was coherent with specific geopolitical conditions, my valuation is that Vietnam can still benefit from studying those experiences carefully.

Research approach and choice of theories

As already suggested, the beliefs and valuations that underpin the policy advice presented to Vietnam by the international agencies are never explicit. The reform agenda is packaged as merely inspired by 'pure economics' on the one hand, and by comparative experience from development practices in the rest of the world – something on which the international agencies claim unrivalled knowledge – on the other hand. If the conceptual frame defined by this prevailing logic is accepted, any further research can only respond to problem-solving functions, that is, can only give answers to questions coherent with the given parameters. As argued by Robert Cox (1995), a critical theory instead has the function to challenge constituted frameworks and to create the conditions for new directions. In this sense, this work is disciplinarily related to political economy as fittingly defined by Cox:

> Political economy … is concerned with the historically constituted frameworks or structures within which political and economic activity

> takes place. It stands back from the apparent fixity of the present to ask how the existing structures came into being and how they may be changing, or how they may be induced to change. In this sense, political economy is critical theory (Cox 1995: 32).

In the following pages, I will present a number of cases in which alternative options in terms of economic policies could be taken, depending on the different models and development theories that one choices to apply. Each of the policy decisions cannot be understood *per se*, but reflects a wider conceptual frame. While it is possible to verify if a policy decision is coherent with the theoretical frame in which it is embedded, it is much more complex to define if it is 'right' or 'wrong' in absolute terms. Specific policy actions and even specific theories cannot be understood in isolation: they form part of higher-level theoretical constructions – 'paradigms', as Thomas Kuhn called them in his groundbreaking research. A paradigm consists of a 'strong network of commitments – conceptual, theoretical, instrumental and methodological', thus permitting 'selection, evaluation, and criticism', and that it is 'the source of the methods, problem-field and standards of solution accepted by any mature scientific community at any given time' (Kuhn 1962, cited in Easlea 1973: 11). Kuhn confutes the positivist idea for which scientific knowledge development would be a cumulative process resulting from the empirical testing of hypotheses. On the contrary, scientific development is a discontinuous process, where revolutions (paradigm changes) occur when new discoveries cannot be adjusted within the existing paradigm (Blomström and Hettne 1984: 2-3). As long as a paradigm holds, the work of scholars will be 'normal science', which means an incremental process of theory development and a 'strenuous and devoted attempt to force nature into conceptual boxes supplied by the paradigm' (Kuhn 1962, cited in Easlea 1973: 11-12). But when the pieces of the jigsaw puzzle fail persistently to fit together in the way they should according to normal sciences, then there is 'paradigm crisis' which opens the way for a scientific revolution and eventually for the rising of a new paradigm.

The explanation of scientific knowledge development provided by Kuhn is obviously contested by those scholars who try to defend the 'objective' value of science and its development as a cumulative process that does not entail revolutions. This is certainly the case of the neoliberal discourse that, in order to maintain its coherence and logical strengths, must reject Kuhn and cling to neo-classical economics. Neo-classical economics has two specific characteristics. First, being a positivist offspring, it does not concede space to self-critical analysis and defends its scientific objectivity on the basis of mathematical-like laws. In this sense, neo-classical economics represents the corner stone of a paradigm, which has inner coherence and might in interpreting society (other social sciences may be adjusted to operate within this paradigm). Second, neo-classical economics is able to construct meaningful theories by reducing the complexity of society to few fundamental laws that can then be tested through mathematical models. This simplification – the reduction of man to *homo oeconomicus* - gives to the paradigm based on neo-classical economics explanatory power but is an obstacle in reaching a more articulated and complex understanding of the real world.

The applicability of Kuhn's theories of scientific discovery to social sciences has been widely discussed and often rejected. On the one hand, society seems to escape from any attempt to constrain its vitality within the straitjackets of universal propositions. On the other hand, differently from natural sciences, in social sciences there is not marked distinction between the object and the subject of the study and any investigation of society has necessarily also an impact on the society itself, thus contributing to transform the object of the investigation (see Easlea 1973: 149-154).
To be sure, an attempt to apply to social sciences a scientific method (inspired by neo-classical economics) has been visible in different fields ranging from sociology to international relations (under the banners of *behaviouralism*). But this attempt has only partially succeeded.
Due to the differences between social sciences and natural sciences also the rise and the fall of scientific paradigm tends to operate in a different way. Albert O. Hirschman, for example, pointed out a major difference:

> In the natural sciences, as Thomas Kuhn has shown, the formation of a new paradigm is followed by an extended period in which the paradigm is fully accepted and the labours of 'normal science' are devoted to its verification, application, and further extension. In the social sciences, on the other hand, the enunciation of a new paradigm not only gives rise to similar sympathetic labours, but is often followed almost immediately by a persistent onslaught of qualification, criticism, and outright demolition that is very much part of normal social sciences. This situation explains the distinctive intellectual climate of the social sciences: here the confident belief in a genuine cumulative growth of knowledge, so characteristic of the natural sciences, hardly ever has a chance to arise (Hirschman 1977: 67, cited in Blomström and Hettne 1984: 3-4).

This excerpt from Hirschman draws attention also to another major difference between natural and social sciences. In natural sciences, the diffusion of a new paradigm implies the dismissal of the previous one. This is not normally the case in social sciences: here contending paradigms can co-exist, although one may maintain for a period of time a hegemonic position. Thus, while the paradigm crisis in natural sciences is the sign of the ascendance of a competing paradigm, in social science the process of formation of new paradigms is less linear.
In a number of authors, however, the emphasis on the difference between social sciences and natural sciences seem to be related to a possible misconception of what a paradigm is, or at least what a paradigm is for Kuhn. A paradigm is not a theory nor simply a coordinated set of theories. It rests on a *scientific ideal*, a *representation of reality*, and a *research ethic* (Andersen 1994: 21) that are above particular theories. Thus, the dismissal of one theory does not represent necessarily a paradigm crisis.

This work is confronted with three competing paradigms. Although we can claim that each of these paradigms is somehow facing a crisis (but not necessarily a terminal one) they define the field of our investigation because each of them has influence on some important forces in the Vietnamese transition.

The first of these paradigms is, as already mentioned, the positivist/neo-classical/liberal one. Its representation of reality and its scientific ideal are easily understood from what presented above. Its research ethic is – allegedly – based on 'pure' science and 'pure' economics. We add 'allegedly' because this paradigm has often been used to cover less 'pure' interests of capitalist forces, although this was theoretically a contradiction of the theory (but was coherent with practical purposes that the development of this paradigm was meant to serve).[9] This paradigm could be defined as an offspring of the fatal encounter between liberalism and positivism.

The second paradigm has its roots in mercantilism and political realism. International economy as an arena of conflict dominates its representation of reality. Its scientific ideal is theories that promote state power and economic development. Its research ethic is political activism to support state-led industrialization.
The set of theories stemming from this paradigm presented in this study belong to a particular subgroup: they are designed by scholars who consider necessary a strong role of the (capitalist) state in promoting industrialization as a condition for escaping underdevelopment. However, these scholars have in general no sympathy for the authoritarian regimes that have characterised the application of these economic strategies in East Asia, that is, the region of more successful application of these strategies. If these scholars can be accused of political ambiguity (a criticism that can be moved also to this work), this reflects the old dilemma between revolutionaries and reformists in the assessment, for example, of the Western European welfare states and Keynesian economic policies. Although a revolutionary can be critical to the role of capitalist stabilization (an intent explicit in Keynes) that these policies obtained, s/he cannot neglect the improvements in the working classes living conditions.

The third paradigm is based on Marx and on the scholarly tradition he has inspired. Here the scientific ideal is theories that can help transforming the world, not only to studying it. Its representation of reality holds that history is shaped by the class struggles determined by the mode of production. When applied to international development studies, a Marxist approach is concerned both with conflicts within the country and between the core and the periphery. The research ethic is critical, based on the analysis of objective and subjective factors, and aiming at transforming reality.
This work mostly deals with those Marxist theories that have analysed the dependent relations existing between so-called developing countries and industrialised countries. Since in the case of East Asia – and so far, also in the case of the Vietnamese *doi moi* – the result of integration into the world economy has been an impressive catching-up rather than underdevelopment, these theories are faced with a formidable challenge. However, this apparent contradiction may be explained as an exception that confirms rather than confuting the rule. These theories are important for understanding what the future can hold for the Vietnamese transition.
This work will claim that the Vietnamese reform process has been the result of two factors. One was external: the end of the Cold War compelled a reorganization of economic and political relations and eventually resulted in the 'open door' policy. The other was internal: bottom-up, 'fence-breaking' activities that in the end made the Vietnamese economy 'grow out of the plan' (as in the expression used by Naughton in his famous study on China). Like in the case of China, the political sanctioning of the reform process came after a failed attempt of recentralization and rivitalization of

[9] This apparent contradiction is well elucidated in Amin 1998.

central planning. While we found no convincing evidence that the launch of *doi moi* was the result of the ascendance of a national bourgeoisie or the betrayal of socialist idealities by sectors of the party leadership, the reform is bound to produce (as it is already happening) a rearticultation of class-relevant dynamics. Marxist theories remain the best tools for investigating this social tranformation that, although still at rather embryonic stage, represents the most important query for the future of Vietnam.

The following chapter will be used to present the theories deriving from these three competing paradigms, and eventually we will present how our eclectic framework has been shaped for conducting this research.

Research strategy

The methodological approach adopted for this investigation reflects on the one hand the aims to be achieved and on the other hand a number of specific conditions and constraints. Ideally, the methodology is inspired by critical theory, which implies to analyse simultaneously the *system,* the *lifeworld*,[10] and their reciprocal relations in shaping social conditions (see Andersen 1994). In the context of the present investigation a critical approach requires to take into exam not only the concrete evidences about the evolution of the Vietnamese reform process, but also the systemic influences that shaped the setting of this process. As in the case of other developing countries, apart from the national preconditions, the space of action for the Vietnamese policy-making was influenced from the outside in two ways: in concrete and material terms, via the constraints exerted by the country's growing integration into a wider economy; in political and theoretical way, via a strong conceptual pressure on the process of agenda setting by the international agencies. The first of these two mechanisms of control is quite evident and visible. The second mechanism is subtler and therefore less obvious: the strength of neoliberal forces is in fact in the ability to present a biased policy advise as neutral. Since the aim of this investigation is not to present problem-solving solutions to specific issues but to challenge the legitimacy of the prevailing theoretical frameworks, this work was bound to operate simultaneously at theoretical and empirical level. Empirical data were collected to demonstrate that in contentious areas different options were (are) potentially available, but only one of these options was (is) admitted for discussion by prevailing forces. However, the selection of data and areas of empirical investigation was guided by clearly stated theoretical questions. The method of investigation was therefore more deductive than empirical-analytical.

The topic of this research regards the transition from a centrally planned to a marked-based economy. Contrary to the experience of other 'transitional' countries, Vietnam (like China) allegedly embarked this reform process as a way of consolidating the socialist finalities and not departing from them. The first phase of the reform process was substantially completed by the early 1990s and had as its most distinctive feature the redistribution of land from the Communes to the private households. From the mid 1990s a new phase in the Vietnamese transition began and was soon confronted with

[10] The concepts of *system* and *lifeworld* are defined by Jürgen Habermas is his *The Theory of Communicative Action.*

the problems related to the regional economic crisis. This second phase of *doi moi* is in many regards more complex that the previous one because it may lead to a complete systemic change of the socio-economic institutions. At the same time, the geopolitical and geoeconomic context has become more instable and hardly supportive of the Vietnamese economic development drive. This work is thus dealing with an open process, whose future outcomes cannot be deterministically anticipated, but where is becoming increasingly visible how key policy decisions may lay the foundation for a radical transformation of the economic, political and social structures. As it has been claimed *supra*, this study rests on the assumption that critical knowledge has the task not only to investigate reality ex post, but also to create the conditions for a change. While the responsibility for taking policy decisions about the future of Vietnam must rests in the hands of the Vietnamese themselves, a critical study can help in elucidating the different options available. This work tries to contribute to this task by using a comparative approach and presenting how other countries – especially other East Asian countries – have responded to problems similar to those that Vietnam is facing in the second phase of *doi moi*. The major references for this comparison will be three economies from North East Asia (Japan, South Korea and Taiwan), where (capitalist) developmental state strategies were more systematically applied; China, which shares with Vietnam a peculiar transition towards a 'market-oriented economy with socialist characteristics'; and the rest of Southeast Asia (particularly Thailand, Indonesia and Malaysia), where, in comparison to North East Asia, the catching-up drive began later and developmental state practices were less systematic.

This empirical investigation is based on the analysis of the official documents approved by the Vietnamese Communist Party and by the Vietnamese Government, the reports by the international financial institutions and other major agencies, Vietnamese and international agencies' background studies and policy reports, and statistics. The reason for concentrating on the attention on these sources is to put in evidence the more contentious areas in the future steps in the Vietnamese *doi moi*. We will claim that on a number of policies there is a rather wide consensus in assessing the achievements of the reform process. But on key aspects (reform of the financial sector, privatization of State Owned Enterprises, trade liberalization, and the role of the private sector) fundamental differences exist and clearly emerge from the analysis of official sources. We will also try to show how the international financial institutions have constantly tried to push Vietnam towards the adoption of the measures they supported (by alternatively praising and threatening, by withholding loans, increasing conditionalities, etc). In particular, we will show that after the regional crisis the pressure on Vietnam increased through – inconsistent and eventually contested by the events – warnings: Vietnam was going to face a financial crisis within 5 years, Vietnam was not going to recover after the regional crisis, investors were going to abandon Vietnam, etc. In Chapter 3 we will also demonstrate that on a very sensitive issues – FDI flows – data were presented in a way that could only be understood as serving specific political purposes.

Apart from official documents and statistics, this work relies on a rather large number of secondary sources both on Vietnam and the regional economies. In particular, the comparative undertake is supported by a bulk of literature concerning the East Asian developmental state. Statistics and original sources concerning other countries in the region have been only used for the empirical analysis of FDI flows at the time of the regional economic crisis.

This study has greatly benefited from interviews and talks (often informal talks over a meal or a glass of bear) with a number of Vietnamese and foreign scholars. These talks have strongly helped in putting things into perspective and often clarified important issues. In same cases, the guidance received by colleagues and friends is explicitly acknowledged in these pages. However, this work is not based (openly) on interviews and direct quotations. This decision was taken after a thorough reflection and it was necessarily a second best. As a relatively young Western scholar I had rather easy access to the Western scholarly community and to mid-ranking officers of international financial institutions and other agencies. Access to Vietnamese sources was more difficult, and this would have *per se* already produced a distortion. I am very much aware of the *socialising* influence that contacts with only one of the parts in the game tends to have. Obviously, a Western scholar is easily led to see things through the glasses of the international agencies, especially when s/he has established personal relation with officers working in these institutions.

Access to the Vietnamese senior political/administrative leadership was frankly out of question. The only realistic option was to rely on Vietnamese scholars for my interviews: this was a painstaking and expensive process,[11] which eventually revealed to be not particularly productive. An apt research strategy for conducting meaningful interviewed could have been found, but it would have been very time consuming and would have probably taken this work on a different course than the one intended. The decisive motivation that made me opting for not using interviews openly and systematically as a primary source was, however, not due to practical difficulties but to more substantial reasons. These reasons relate to the status of policy-oriented research in Vietnam.

This work will claim repeatedly that the Vietnamese authorities have chosen to avoid confronting the international financial institutions with strong policy declarations and that their line of resistance could only be detected by looking at how the various measures were implemented. Vietnam, like other developing countries, was not in a position to openly challenge powerful institutions whose loans were so important. There is, however, something more to it. Historically, the Vietnamese cultural tradition has never been particularly interested in theoretical speculation. Contrary to China, the Vietnamese intellectuals – from Confucianism up to the revolutionary leaders – have been much more concerned with the concrete praxis than with abstract theory. This fundamental pragmatism has been also a significant feature of the Vietnamese revolutionary process (see Chesneaux 1971, and also Masina 1999a). The

---

[11] Policy-oriented research in Vietnam is dominated by international projects, which often bring in large amounts of money. This has created a situation for which in general scholars expect to be paid for interviews and even expect an 'envelop' for attending a conference. The system of payment for interviews has now spread up to grassroots investigations even in remote areas of the country.

Apart from the malpractices derived by contacts with wealthy foreign agencies, there are other two reasons for which scholars expect payment for an interview. First, their 'hard' (regular) salary is generally very low and they need to do extra work to cope; they get a 'soft' (often much higher than the 'hard' one) when they conduct a research even for their own institution. Second, information is considered to be an important asset that should not be given away freely. Information flows within the public administration are often problematic.

Vietnamese intellectuals have given important contributions to the practical adaptation of theories to the concrete needs of the country, but have avoided to engage in highly theoretical work both in the Confucian period and later on (Nguyen Khac Vien 1971). This essential pragmatism is something that the same Vietnamese have not only acknowledged but also emphasised as a positive attitude (also marking their diversity from the Chinese). It is renowned that Ho Chi Minh used to say sarcastically that he had no need for writing much, because Mao Zedong had already written everything that had to be written.

In the articulated Vietnamese decision-making system, national policies are always adjusted and interpreted by the different echelons in the chain of command. Policy decisions have less authority than a foreign observer would be led to believe. In this context, theoretical policy research has a rather low status. Until the 1990s, university lecturers were only meant to teach and not to make research. The research that really matters is conducted by research centres whose prestige is proportional to their proximity to powerful ministers. The substantial policy debate is generally secluded from public scrutiny. Even when one of these scholars/policy-makers accepts to give an interview to a foreign colleague, the outcomes are normally very modest. Scholars who are more remote from the 'sun' may be more open to talk, but not particularly informed. The same difficulty also applies to scientific articles, which are normally written to present decision already taken rather than to discuss open issues. The real discussions are conducted behind closed doors. And until the late 1990s even the state budget was regarded as a national security secret. Paradoxically (or maybe not), I found that there was a more open and interesting debate in local business magazines published in English than on scientific journals published in Vietnamese.
One could mistakenly take the seclusion of the policy debate and the subordinated role of the intellectuals as a result of an authoritarian political regime. Certainly, the political structures of Vietnam are not particularly conducive to open and wide-ranging policy debate (although the role of the Parliament has substantially increased since the late 1990s). But more fundamentally these conditions reflect centuries of cultural traditions, which have also shaped the forms of modern political structures.

Given these circumstances, I eventually decided to give priority in this research to official documents that presented the outcomes of the decision-making, and to documents and statistics that could give a sense of the achievements in the reform process. By comparing the studies and documents produced over ten years, I could trace the evolution of the policy debate. This is recognised as a second best, but as a realistic solution for conducting a research with this kind of scope and purposes. Future investigations may help to clarify a number of aspects and to correct errors and omissions.

Although this work is not based on an empirical investigation either of quantitative or qualitative sources – but rather attempted a critical analysis of the underlying structures – *sensing* the country was a necessary condition. I have already indicated that my way of looking at the reform process has been strongly affected by poverty-related investigations. Also important has been to return to Vietnam regularly in the span of 8 years and assist to the rapid transformations both in urban and rural areas. Through the years I have been blessed by the friendship of many Vietnamese, which gave me the opportunity to see how the reform process was affecting their lives and the lives of the people around them. The results of other investigations that I have conducted in Vietnam during the period of this research have been reported elsewhere. However, the influence of those works has obviously reverberated on these pages.

The structure of the work

The interpretations on the rise and the fall of the East Asian miracle offer the opportunity to revise and update a classical debate in the study of political economy. In many regards the present discussion is rooted in the historical opposition between Adam Smith and David Ricardo versus Friedrich List, i.e., the different perspective between economists coming from the first industrial country and economists from a (nineteenth century) 'late developer' like Germany. While the English classical economists could emphasise the virtues of the 'invisible hand' and free trade, the German economist would emphasise the role of the state as the *primum mobile* of socio-economic progress (White and Wade 1988: 1). The famous work of Alexander Gerschenkron (1966) has confirmed that the process of industrialisation in Western Europe actually relied on an important role of the state in promoting the development of national industry, including protection of infant industry through high tariffs. Once industrialisation had been achieved, however, Western countries returned to the classical theory of free trade. Particularly, it was the United Sates at the end of World War II that assumed free trade as the cornerstone of its foreign policy and imposed this doctrine on its reluctant allies (Kolko and Kolko 1972).[12] The Bretton Woods agreements and later on the Marshal Plan linked American aid for post-war reconstruction to the acceptance of free trade and the close integration of Western European and American economies. Eventually, the same free trade ideology came to be presented to developing countries as the only path towards industrialisation and economic prosperity. Chapter 1 will discuss how, since the late 1970s, the development orthodoxy has been constantly revising and adjusting its discourse constructed around the doctrines of free trade and self-regulated markets – a constant revision that never departed from these ideological tenets.

This work supports the view that economic development in a number of East Asian countries has been achieved through a Listian-type 'developmental state'. In this sense, East Asia has been until the recent regional economic crisis an anomaly in the developing world, acting in contradiction to the logic supported by the forces dominating the international regime. The anomaly has been possible for two reasons: first, for a particular system of regional economic integration, based on the developmental experience of Japan; second, for the specific conditions that the Cold War (and the hot wars in Korea and Vietnam) assumed in that part of the world. With the end of Cold War motivations and the rapid growth of a new tier of countries (among which China), the experience of East Asia was becoming too visible a contradiction within the international regime – and potentially a threat. This

[12] In a longer term, world-system analysis perspective, Immanuel Wallerstein (1983) motivated that hegemonic countries promote free trade when they are at the apex of their power, but start to violate free trade norms once their hegemony declines.

consideration led some scholars (e.g., Amoroso 2002) to argue that behind the recent regional crisis there was also an attempt to 'normalise' East Asia and to restore the region within the frame of the orthodox neoliberal practice.

Chapter 1 recalls the key features of the East Asian 'developmental state'. The literature on the East Asian 'developmental state' (the classical studies by Robert Wade, Gordon White, Alice Amsden, Linda Weiss, etc.) offers an important heuristic methodology, which allows analysing not only how a specific country adheres to an abstract model, but also what the country's characteristics and peculiarities are.
The same chapter also introduces the terms of the Vietnamese 'transition' by indicating that the reform process in Vietnam has been rather original – important similarities, though, do exist with the Chinese case, while the path has been substantially different from the experience of Eastern Europe.
Finally, Chapter 1 present a critical assessment of the key concepts and theories used in this work on the basis of a Marxist standpoint.

Chapter 2 reconnects to the question of transition in more empirical terms, by presenting a historical review of the first phase of *doi moi*. Here particular emphasis is put on the 'double nature' of the reform process in Vietnam: on the one hand, a reform process resulting from changes in policy planning as a result of external and internal constraints; on the other hand, a bottom-up process, in which national authorities have been forced to respond to 'fence breaking' activities at the grassroots level by eventually incorporating and rationalising these changes from below into a national frame. The existence of 'fence breaking' activities remains an important feature of the Vietnamese reform process, as it will be suggested in the following parts of this work.

Chapter 3 looks at the impact of the regional economic crisis on Vietnam and suggests that the crisis has been used by orthodox scholars and the international financial institutions to increase their leverage on the reform process. A review of the empirical data indicates that such major indicators as the flows of foreign direct investment have been interpreted in a rather arbitrary way, and so draw questionable conclusions.

Chapter 4 brings into the investigation the more controversial issues in the policy reform debate and suggests that behind the façade of consensus different views may be supported by the international financial institutions and the Vietnamese authorities. The different options available to Vietnam are discussed also through a comparison with the developmental experience of other East Asian countries.

Chapter 5 focuses on the debate on governance – one of the most controversial issues not only in the Vietnamese debate, but more generally in the Post Washington consensus – and suggests that the East Asian 'developmental states' have relied on a specific fix of government guidance due to particular political contexts. Thus, this chapter argues that the question of governance and institutional reform cannot (should not) be separated from an analysis of class-relevant interests and political objectives – contrary to the current attempt to look at governance as a technicality.

Chapter 1
Reflection on the analytical tools

The purpose of this chapter is to present the main theories and concepts upon which the researched has been built. We have already argued that mainstream studies are seldom explicit about their own theoretical foundations – by definition, mainstream views are perceived as based on common sense. A critical research instead must begin with a clarification of the analytical tools in order to make possible for the reader to understand – and eventually criticise – the logic behind the research process.
We should underline that in presenting different views regarding the nature of economic development we should not expect to see a linear process for which new theories incrementally adjust and correct older ones. Recalling again the lesson of Thomas Khun, a cumulative process of theory revision and adjustment can only occur within the same paradigm. Theories embedded in different paradigms cannot be confronted or confuted, and not even empirical evidences allow to ascertain an indisputable truth, because no consensus can be established on the choice of the evidences and on their interpretation. As Khun reminded, the transition from a paradigm to another is 'a transition between incommensurables' (Easlea 1973: 15). The effect of trade liberalization on industrialization and economic growth is a classical example of how economists relying on contrasting scientific paradigms cannot find a conclusive agreement, notwithstanding the empirical evidence accumulated in over two centuries.

Four sets of debates are presented in this chapter. The first is the very definition of 'orthodoxy' in development practice and its evolution over time. Since this work aims at breaking the aura of 'superior scientific truth' hold by neoliberalism, there is a need to start by looking at the discourse that we intend to challenge. Within the lineage of neoliberal orthodoxy important changes can be traced, which reflect the attempt by the core of neoliberal orthodoxy to maintain hegemony by continuously readjusting its discourse.

Notwithstanding the many attempts to reshuffle and reinvigorate its tenets, the orthodoxy has not been able to come to terms with a key feature of East Asia economic growth: the so-called 'developmental state'. Mainstream academia and the international financial institutions have actually tried – unsuccessfully, in our opinion – to use the Asian economic crisis to rule out the 'developmental state' as a form of undesirable 'crony capitalism' (cf. Masina 2002a). In contrast with mainstream interpretations, this work holds that the historical experience of economies such as South Korea and Taiwan – experiences that Vietnam has been trying to emulate – cannot be really understood without referring to the 'development state' concept. Thus, the second debate presented in the chapter regards the 'developmental state', and in particular its East Asian version.

The third discussion analysed in the following pages focuses on the concept of 'transition'. Although there is a general consensus in defining Vietnam as a country in transition from a centrally planned to market economy, what is precisely meant by such a statement is often unclear. There are reasons to argue that the Vietnamese case is in many regards distant from the experience of the former Soviet Union and Eastern Europe, and rather more similar to the Chinese case. This implies that the use of the term 'transition' should be handled with care in order not to generate misunderstandings. This issue is considered theoretically in the following pages, and illustrated on the basis of the concrete Vietnamese historical experience in Chapter 2.

The fourth element in this chapter will be an attempt to reflect critically on the challenge brought by the 'East Asian developmental state' and by the Chinese and Vietnamese transition to the Marxist scholarly tradition. This reflection will allow to deepen the analysis of the major theories and concepts used in this study.

Orthodoxy and economic development in East Asia

The first element in the theoretical background of this work is a critical review of the so-called 'Washington consensus' or 'orthodoxy' in development thinking. This neoliberal 'consensus' was the result of what John Toye (1993 [1987]) has described as a 'counter-revolution in development theory and practice' interpreted by a group of professional economists during the late 1970s and early 1980s. Within this 'counter-revolutionary' group differences did exist on certain issues. However:

> they are united in opposition to Keynes and neo-Keynesianism, 'structuralist' theories of development and the use of economic planning for development purposes. On the positive side, they are united by the belief that the problems of economic development can only be solved by an economic system with freely operating markets and a government that undertakes a minimum of functions (Toye 1993: vii).

This 'counter-revolution' in the development discourse was parallel and connected to the emergence of neoliberal governments (e.g., Thatcher in the UK and Reagan in the US). The ascendancy of the neoliberal narrative stemmed from the impasse of the previous regime: in the 1970s economic stagnation, inflation, unemployment, international financial instability brought to an end a period of growth and prosperity. The first oil shock in 1973 was the event that actually concluded this Golden Age, as the historian Eric Hobsbawm (1994) called it, which had lasted since the end of World War II. The economic crisis resulted in the rise of a new hegemonic thinking. Post-Keynesian economics was overturned by advocates of monetarist policies. Neoliberalism became the doctrine to inspire not only policies in the Western world, but also the development discourse at large.

The paradigm 'shift' was symbolically represented by a change in the helm of the World Bank, the organisation which – because of its 'unrivalled budget for research and policy-formulation capacity in comparison to any other development organisation' (Berger and Beeson 1998: 492) – had the largest influence in setting the agenda in the development debate. Berger and Beeson document how the transition from the presidency of McNamara to the presidency of Tom Clausen in 1981 represented a clear shift in the Bank priorities and a 'devout commitment to neoliberalism', which was particularly strong in the new head of the research department Anne Krueger (1998: 490–491).[13] This change had immediate implications for the developing world:

> While financial assistance to governments of developing countries had been used in the past as 'a substitute for structural adjustment', it was increasingly used to 'support structural adjustment'. Thus the changing international context allowed the Bank to use structural adjustment loans to lock recipient governments into a particular sort of politico-economic order, one that reflected both interests and assumption of its major sponsors (Berger and Beeson 1998: 489).

The early 1980s were the period when the neoliberal propositions were expressed in the most straightforward manner. Already in the second part of the 1980s, however, the discourse was readjusted in order to reinforce the consensus around the core elements of the orthodoxy. Thus, the accent shifted to the need for 'market friendly' policies, rather than complete *laissez faire.*[14] This shift also implied a reassessment of the role of government in development. The concept of *good governance* was introduced, to replace the less defendable idea of minimum government intervention: however, 'governance' – as was confirmed in a 1997 Report – was conceived as a technical feature, which concealed the political dimension of state initiatives (Dixon 2002).

The process of continuous readjustment of the neoliberal discourse on development was a direct consequence of the need to defend the orthodoxy from increasing criticisms. The failure of structural adjustment programmes in Sub-Saharan Africa, for instance, exposed the World Bank and her 'sister organisation' – the IMF – to the accusation of actually having aggravated the economic conditions of those countries (e.g., Mosley, Harrigan and Toye 1991; George and Sabelli 1994).

The 1990s saw the first wave of neoliberal cold-warriors (e.g., Thatcher and Reagan) replaced by a new generation of political leaders (e.g., Clinton, and later on Blair) who attempted to build consensus on a new blend of reformed neoliberal discourse as the core ideology of the post-Cold War age. This was also reflected in the readjustment of the development orthodoxy, as announced in 1991 by a new World Bank President, Lewis Preston. He declared at a World Bank – IMF meeting in Bangkok, that:

> the demise of the Soviet Union Bloc had led to 'the broad convergence of development thinking which has replaced ideological conflict', while a consensus based on the free-market, a balance between the private sector

[13] Berger and Beeson remind that the 'intolerance of dissent' maintained by Anne Krueger was not necessarily shared by other Bank's officers and those policies always coherently implemented by the different departments. This was possible because under the President Clausen the Bank lost the monolithic structure that she had under the McNamara administration (for a critical and vivid description of the McNamara presidency see George and Sabelli 1994).
In 2001 Anne Krueger has been appointed as Chief Economist of the International Monetary Fund by the administration of George W. Bush.

[14] The 1991 World Development Report conceded that 'market-friendly policies – neither complete laissez faire nor interventionism – are optimal for growth and income distribution' (Berger and Beeson 1998: 491).

> and government and sustainable economic growth was spreading around the globe (Berger and Beeson 1998: 492).

This long experience in remaking the official development narrative, adapting to the changing conditions, also explains the World Bank policy (and the positions of the American administration and of many 'orthodox' scholars, like Jeffrey Sachs) during and after the East Asian economic crisis. The dramatic events of this crisis have exposed, like never before, the 'Washington consensus' to the critical scrutiny of a wide international audience. The failure of the International Monetary Fund in anticipating the financial meltdown and in responding adequately to the crisis after its outbreak have become the symbol of a 'cracking of the Washington consensus' (Bullard 2002). However, the public criticism of the 'Washington consensus' from the same core of its orthodoxy does confirm the traditional attitude to attempt to renovate the neoliberal discourse without a consistent change of paradigm (Masina 2002a).[15] This interpretation is confirmed by entry in the choir of those asking to supersede traditional structural adjustment programmes: nothing less than the then US Treasury Secretary (and former World Bank Chief Economist) Larry Summers. The resignation of the IMF Acting Manager Michel Camdessus – whose unfortunate posture during the signature of bailout package with the Indonesian President Suharto was interpreted by many Asians as the very symbol of Western arrogance – further supports the idea of an attempt to move toward a new 'consensus' (the so-called 'post-Washington consensus) in development. Probably, the fault of Camdessus was to have remained the prisoner of superseded doctrinaire positions, thus making his and the IMF position not defendable.

At the core of the neoliberal effort to maintain the orthodoxy in development theory in the midst of the Asian crisis one central element can be recognised: the attempt to discredit the so-called East Asian 'developmental state' as a viable model for economic growth. Somehow, the 'orthodoxy' has tried to vindicate the failure in incorporating the development experience of countries such as Taiwan and South Korea within the neoliberal explanatory paradigm.[16] Thus, the accusation of 'crony capitalism' was deployed against these countries to indicate that their economic success was impaired by distortions, eventually causing the financial crisis.

The interpretation of economic growth in East Asia had probably already been the most complex battlefield for the development orthodoxy during the 1990s. Since the late 1980s, for example, the World Bank was increasingly under pressure both from

---

[15] Rightly, a reviewer of my edited volume on *Rethinking Development in East Asia*, in whose Introduction I have already reported this interpretation, has reminded that as an Italian I should quote *Il Gattopardo* by Tomaso di Lampedusa: i.e., the strategy to change everything in order not to change anything. We may wonder if the recent views of the former World Bank Chief Economist (and Nobel laureate) Joseph Stiglitz are part of this paradigm readjustment or represent a real conversion on the road to Damascus.

[16] Toye, for instance, recalls that Francis Fukuyama in his *The End of History*, failed in giving an explanation of the success story of these countries (although acknowledging their high economic growth) and confused their cases with the 'genuinely free-market' (and less successful) case of 'the Chicagoan experiment in Pinochet's Chile' (Toye 1993: 12).

Japan and from a group of 'statist'[17] scholars, whose alternative explanation of the development trajectories in East Asian countries had received wide attention. The famous 1993 World Bank study on the 'East Asian Miracle' was requested (and financed) by Japan, which was increasingly assertive in trying to see recognised its own development model as a strategy for the region. This report reached a line of compromise in declaring that a group of High Performing Asian Economies had achieved economic growth by 'getting the basics right': i.e., recognising the role of government in broader terms while avoiding market distortions by 'getting the price right' (Masina 2002a).

This report, however, failed to adequately address to views articulated by the 'statist' scholars. In fact, these scholars – who were inspired by Keynes, although in a broad sense[18] – presented an explanation of economic growth in East Asia which was an irreducible threat to the neoliberal orthodoxy. In a number of well documented studies on Japan (Johnson 1982 and 1995), South Korea (Amsden 1989), Taiwan (Wade 1990), and more widely (White 1988), they emphasised the role of the state in promoting development and governing the market.
The orthodoxy represented by the World Bank had either supported the view that these countries were free from 'distortions' represented by state interventions, or even that state interventions had been used to remove 'distortions', i.e., in order to let the market 'get the prices right' (Berger and Beeson 1998; Dixon 2002). On the other side of the debate, the 'statist' scholars claimed that these countries had achieved industrialisation and high growth *because* of selective state interventions: e.g., by channelling financial resources through public banks to strategic industrial sectors.[19] Not only had growth been achieved without 'free-market' policies; but also growth was achieved through policies that intentionally altered the market allocation of resources and supported long-term industrial strategies. To use the famous expression of Alice Amsden (1989: 139–155; 1994: 630–631), these countries succeeded because they 'got the prices wrong' in agency terms (i.e., the World Bank terms).

As is quite clear, this interpretation of economic development in East Asia could not be integrated within any readjustment of the neoliberal orthodoxy. Therefore, the validity of a state-led development model had to be denied. The attempt to confute the 'developmental state' was also visible in Vietnam, where the key international agencies (i.e., World Bank, IMF, Asian Development Bank and UNDP) carefully presented the experience from the region in terms coherent with the orthodoxy. For instance, in October 1997 – when the region was already in the midst of financial crisis – a World Bank report pointed to Vietnam good examples from Southeast Asia

[17] In this work 'statist' is used to indicate a group of scholars who emphasise the role of the state in promoting economic development, and could be loosely referred to as supporting a so-called 'developmental state' approach. These scholars should not be confused with those supporting centrally planned economies.

[18] According to Toye, these scholar where inspired by Keynes, as 'an advocate of reform capitalism, in which the state plays a supplementary and co-ordinating role in a basically market economy'. However, in more precise terms, the strategy adopted by East Asian countries relied on 'long-term industrial policies, rather than the short-term demand management policies which are the hall-mark of Keynesianism in its narrow (too narrow) sense' (Toye 1993: 13–14).

[19] It should be noticed the specification *selective* state interventions. Here lays a key element in the discussion regarding the Vietnamese case. Obviously, not all forms of state interventions are beneficial.

countries, which had 'particular relevance given some of the initial similarities between their economies and the Vietnamese economy.' These countries – among which the success story of Indonesia (sic!) – were praised because of their emphasis on labour-intensive industry and significant investment in agriculture and rural development:

This emphasis on agriculture and rural development was important in sustaining the growth outcomes, and also in promoting greater equity with growth. Market friendly policies that removed distortions in the economy, and allowed resources to be allocated more efficiently to high-yielding investments and to activities in which these economies could compete internationally, played a key role in this success (World Bank 1997: 25).

A few months later, however, the lesson presented to Vietnam had changed. A UNDP Staff Report published in June 1998 specifically to indicate to Vietnam the lesson to be learned from the crisis, insisted on blaming *poor governance* as the culprit, and suggested that market failure was actually produced by *government failure* (UNDP 1998: 2). This apparent schizophrenia is not the result of a substantial disagreement between the two agencies. It revealed the attempt to defend the orthodoxy in an emergency situation. However, it resulted in embarrassing contradictions between the discourses of the different agencies – most visible was the endeavour by the World Bank to distance itself from the hard-core IMF views about the regional crisis (see Bullard 2002) – or even a turnabout in the declarations of the same agencies.

The East Asian developmental state model

This work is concerned with a specific variant of the 'developmental state', that is, the complex of growth strategies and institutional arrangements experimented with in East Asia – particularly by Japan first, and by Taiwan and South Korea later on. An 'East Asian developmental state' model can be identified *a posteriori* by reflecting on the peculiar historical experiences of these countries. The striking economic results achieved in the region makes the attempt to investigate the existence of a specific growth model, and to verify the conditions of its replicability within and outside East Asia, an important task in development research.

For the sake of clarity, before entering the discussion about the 'East Asian developmental state' model, it is useful to anticipate two remarks. The first is about the use of the 'developmental state' notion in a wider context, i.e., outside the specific case of East Asia. As noted by Gordon White (1993), the process of state building in the post-war era of de-colonisation has been intrinsically connected to the notion of development.

'Development' has come to mean a process whereby socio-economic change, rather than evolving through some 'spontaneous' dynamic, can be organised and promoted consciously by some organising and directing agent; and that agent *par excellence* is the state. The 'developmental state', therefore, is a state which sets out to promote national development by means of institutionalised pattern of policy intervention guided by some kind of 'plan' or strategic conception, and plays a central role in that process (White 1993: 4).

The label 'developmental state' has been used to refer to a wide variety of cases – especially but not exclusively in the developing world – where the role of the state as an agent of economic development was given paramount importance. Notwithstanding their respective differences, these 'developmental states' can be grouped together on the ground of their divergence not only from traditional liberal *laissez-faire* but also from the Keynesian managerial state (White 1993: 5).

A very broad and encompassing definition, however, risks making the use of the term 'developmental state' rather ambiguous and useless. On the one hand, the solutions adopted by states in promoting national development have been dissimilar and often divergent. On the other hand, in many cases the rhetoric of development has been used to conceal the support granted to the short-term interests of 'rent-seekers' – i.e., a blatant reversal of the 'developmental state' rationale.

The developmental experience of Northeast Asia – and to a certain degree, also of Southeast Asia – can be contrasted with the experience of other regions like South Asia or Latin America (see Masina 2002a). The same issue of corruption, which has occupied a central place in the post-crisis debate, indicates the existence of differences rather than similarities between East Asia and other regions (Putzel 2002, also referring to Mushtaq Khanh 2000, introduces a distinction between 'growth enhancing corruption' vs. 'growth hindering corruption', suggesting that in Northeast Asian a certain level of corruption was functional to accelerated industrialization, while in Southeast Asia corruption also supported rent-seeking behaviours). This work will not pursue a definition of a general 'developmental state' model, but will search for a much more specific and historically contextual explanation of the 'East Asian developmental state'. Reference to the developmental experiences of other regions, and to their relevant interpretations, will be made only to illustrate specific issues on which comparison can shed more light either by emphasising differences or by suggesting similarities.

A second remark should be added when dealing with a socialist country like Vietnam. Within the broad family of 'developmental states' can be distinguished two breeds. Both breeds underline the role of the state in promoting economic growth through planning and government intervention; but one remains within the lineage of the capitalist regime, while the other identifies state guidance as a leverage for socialist transformation. 'State capitalism' and 'state socialism' have long been competing models within East Asia, where China, North Korea and Vietnam have represented examples of socialist 'developmental states' (White 1988 and White 1993). In the next pages, however, the term developmental state will be used only to identify the specific capitalist variant experimented with in Japan, Taiwan and South Korea (and later, although not always coherently, by some of the Southeast Asian countries). In adopting strategies of radical economic reform both China and Vietnam have looked for inspiration at the developmental experience of their more economically advanced neighbours. The East Asian developmental state model has been perceived as a solution for reinvigorating the national economy, including granting more autonomy to market institutions, without dismantling state control on the overall direction and finality of societal transformation. By renouncing to key elements of the 'state socialist' model, China and Vietnam have *de facto* moved closer to the developmental trajectory of their neighbours. Nevertheless, the ultimate results of the process of transition in China and Vietnam cannot be easily predicted. The possibility of successfully picking and choosing elements of 'state capitalism' and fitting them within a strategy of 'market socialism' is clearly a complex endeavour, which might lead to an erosion of the socialist aspirations. In the case of Vietnam, although the national authorities firmly reject any hint that the country may gradually be converted into a capitalist state (condemning this outcome as so-called 'peaceful evolution' attempted by inimical Western forces), this work suggests that the experience of East Asian 'state capitalism' seems to exert a strong power of attraction (and this is even more visible in China). Socialist ideals may be replaced by nationalism as tool for mass-mobilization and for reinforcing a national identity.

Developmental state versus self regulated market

Research about the East Asian developmental state ground its roots in a wider and older scholarly tradition focusing on the role of the state in promoting economic growth (and, hence, also national power). Due to these explicit linkages, 'statist' scholars – i.e., scholars that put the emphasis on the role of the state – have been defined as 'neo-mercantilist' (or even 'realist', in the language of international relations theorists). For these scholars, international economic relations are essentially a zero–sum game, where national states must guard and defend their interests. Economic power is intended as a condition for state survival, and economic development is a key element in the process of state building.[20] The historical lineage can be traced from contemporary research on Asia to scholars of the nineteen-century whose work was inspired by the need to promote economic development and state power in 'late-comers' such as Germany and the United States. The work of Friedrich List, in particular – with its distinction between 'cosmopolitical political economy' (i.e., based on free trade and reflecting the interests of Great Britain as the first industrial power) versus 'national political economy' (i.e., defending a national economic space where 'late developers' can nurture their infantry industry) – still exerts a great deal of influence.

Against the backdrop of this wider scholarly tradition, research on East Asia has attained in recent years a high status and autonomy of its own. This was due to the impressive economic performance of a number of East Asian countries, and the appeal that their success exerted on the developing world at large. Thus, the contention about an alleged 'East Asian development model' has achieved a keynote position in recent development economics and political economy research.

At the same time, the growth of a rather autonomous debate on the 'East Asian developmental state' has also reflected a tendency in social sciences to move from a search for universal laws to more contextual analysis. Therefore, the research on the East Asian developmental state has taken into account country and region-specific

---

[20] For a more detailed analysis of neo-mercantilism and the other historical traditions in international political economy, a key reference remains the volume by Robert Gilpin (1987). Björn Hettne (1993) provides a very interesting discussion of neo-mercantilism and its developmental implications.

conditions in terms of history, international relations, social structures, culture, etc.[21] This attention to the local specific context also advises against any easy generalisation on a *regional* 'East Asian' development model.

To a large extent, the study of the so-called East Asian developmental state remains an attempt to analyse how other countries have measured up to the Japanese model. The very special position of Japan in the region should be kept in mind when discussing how the East Asian countries have come to forge their development strategies. First of all, Japan is the only non-Western country so far to succeed in reaching the same economic standing as the most advanced industrial nations.[22] This success has obviously invited emulation by neighbouring countries. Second, as a colonial power Japan has had a very strong influence in shaping the economic institutions of its former colonies, i.e., South Korea and Taiwan – the two economies which are most similar to the Japanese developmental experience.[23] Third, the economic dominance of Japan on the region has had a major impact on the other countries. The tendency of Japan to organise its productive system in a regional dimension is something that was not halted after the notorious war-period's attempt to establish a so-called 'Co-prosperity area'. Rather, in the post-war era the integration of the region within the frame of the characteristic Japanese subcontracting system has increased steadily, with major implications for the industrial development of

[21] This search for more contextual analysis is in itself a reason of conflict with more 'orthodox' (i.e., neoclassical) studies, especially with those economists or institutions which have attempted to interpret reality in terms of universalistic mathematical models. It is well known that the World Bank and the IMF have been often (and rightly) accused to try to impose the same prescriptions throughout the developing world without any consideration for the specific national contexts.
It is useful to note, however, that the choice of a more contextual research is not exempt from risks. There is no doubt that cultures and traditions shape the institutional frames and influence capability and vulnerability of local communities. But they are also very complex concepts to deal with. On the one hand, it is difficult to really grasp the implications of specific cultures for economic development. An often quoted example of this difficulty is Max Weber conception of Confucianism as a hindrance to economic growth, while many recent studies have seen in the Confucian family and societal system of mutual obligations and trust a powerful resource for making business. On the other hand, cultures and traditions are sometimes used as justification or ideological coverage for specific political purposes. Cultures and traditions have been used to justify aggressive nationalism or to consolidate specific power structures. Western scholars have often been too indulgent and naïf in accepting 'Asian values', without investigating either their power implications or their historical development. And Asian scholars – in very visible ways, Japanese scholars – have tended to cover behind a curtain of traditional values capitalist class struggle at home and imperialism abroad. On this regard, Ollman (2001) gives an interesting account of how many Japanese traditions – including the cult of the Emperor – are modern creations. On the same issue, see also the classical study by Jon Halliday (1975). The analysis of how specific historical events have contributed to shape the economic and political institutions of Asian countries (as well as in Western countries) contrasts with a still alive tendency to look at Asia with the glasses of a old-fashion 'orientalism'. That is, to search for 'exoticism' and mystery rather than scientific explanations.
[22] In the language of the word–system scholars, Japan is the only country who has moved from the 'periphery' to the 'core'. The special status of Japan is also well illustrated by the definition of 'Triadic globalisation': i.e. a word economy dominated by a 'Triad' of which Japan represents one vertex.
[23] See Bruce Cumings (1999a) and Robert Wade (1990) for a discussion of this crucial issue. For what concerns the present work it is useful to contrast the Japanese promotion of heavy industry in Korea and of modern agriculture in Taiwan, with the French more short-termed predatory attitude in Vietnam. In colonial Vietnam only some small-scale light industry was developed, to serve the needs of the French local residents and of the colonial elite.

many Asian countries. Foreign direct investments and development aid have been powerful channels for promoting the Japanese developmental model.[24]

It is normal to trace the origin of the East Asian developmental state studies to the pioneering work by Chalmers Johnson on *MITI and the Japanese Miracle* (1982). Johnson's research suggested that the Japanese system of political economy could be understood not (or at least not simply) in terms of cultural traditions, but more basically by looking at the specific historical events that the country had been facing. The Japanese model of top-down and centrally planned industrialisation had developed in order to cope with an international order dominated by Western nations. The experience of war (beginning with the Japanese occupation of Manchuria) had contributed to shape particular political institutions where economic planning was functional to military purposes. Social mobilisation through militant nationalism, however, was maintained after World War II, making possible the continuance of centralised bureaucratic control of industrial development. The Ministry of International Trade and Industry could be considered not only as a key institution in this bureaucratic coordination of the industrial building-up through aggressive trade policy, but also a symbol of the Japanese characteristic developmental model.

The volume by Chalmers Johnson had a significant impact, especially in the Anglo-Saxon scientific community: on the one hand stimulating a new line of research, on the other hand provoking rejections and attempts of rebuff its core thesis.[25] The fact that many scholars would try to deny that economic success can derive from industrial policy and economic planning is not surprising. Economic 'orthodoxy' has constantly opposed such propositions and even tried to vindicate its shattering wisdom about the Asian experience during the regional crisis (Masina 2002a). Other scholars, however, have built upon Johnson's work, trying to reach a deeper understanding of the developmental model adopted by Japan, and later by South Korea and Taiwan. Among these scholars, probably the most influential has been Robert Wade, with his *Governing the Market* (1990).

While crediting Johnson for his path setting research, Wade criticises the failure to elaborate a rigorous theory. According to Wade, the 'picture of centralised state interacting with the private sector from a position of pre-eminence so as to secure development objectives' is not sufficient to delineate a coherent theory:

> Its specification of institutional arrangements is descriptive rather than comparative–analytic, so what the developmental state is contrasted with is not clear. It also says little about the nature of policies and their impact on industrial performance. Indeed, Johnson's institutional arrangements

---

[24] A well-known account of the role of Japan in shaping a regional productive system is provided by Bruce Cumings (1984) (we have dealt on this issue in Masina 1996). For an analysis of the complex web of economic relations between Japan and the other Asian countries before and during the Asian economic crisis see Sum 2002 and Masina 2002a.
Japan has quite openly attempted the promotion of its own developmental strategy as a model for the region with the aim to reassert its hegemony. As discussed in Masina 2002a, this attempt has produced tensions within the international financial institutions, which have perceived the Japanese initiatives as a challenge to the 'orthodoxy'.

[25] For a review of the debate motivated by Chalmers Johnson's work, see the volume edited by Meredith Woo-Cumings (1999).

> are for the most part as consistent with simulated free market policies as with more directive ones (Wade 1990: 27).

Thus, Wade feels the need to move one step further:

> I now propose a 'governed market' theory which builds on both the idea of the developmental state and on the older development economics' understanding of the nature of the development problem (Wade 1990: 27).

The interpretation supported by Robert Wade focuses on the role of government in guiding the market towards specific purposes, i.e., economic development. This role of the state was made possible by the corporatist and authoritarian regimes existing in East Asia – corporatist and authoritarian regimes that, however, were motivated to discourage rent-seeking activities and to promote economic growth by both national and international constraints (see also Putzel 2002).

Like other development economists, Wade identifies capital accumulation 'as the principal general force for growth'. But the importance of his *governed market theory* is the emphasis on the specific modalities in which capital accumulation took place in East Asia and was transformed in a powerful engine for growth. The superior performance of East Asian countries is considered as

> the result of a level and composition of investment different from what Free Market and Simulated Free Market theories would have produced, and different, too, from what 'interventionist' economic policies pursued by many other LDCs would have produced. Government policies deliberately got some prices 'wrong', so as to change the signals to which decentralised market agents responded, and also used nonprice means to alter the behaviour of market agents. The resulting high level of investment generated fast turnover of machinery, and hence fast transfer of newer technology into actual production (Wade 1990: 29).

The developmental state model suggested by Wade is based on a strong state, with the power and the political autonomy (i.e., insulation from particularistic interests) to enforce national strategies. This 'strong version' of the developmental state is synthesised by Laurids Lauridsen (1995) as a system where the 'visible hand' of the state stimulates and pushes economic development:

- by stimulating very high levels of productive investments, making for fast transfer of newer technology into actual production,
- by directing more investment in certain key industries than would have occurred without state intervention,
- by spreading and socialising investment risks,
- by taming the international market forces to domestic needs,
- by stimulating the "animal spirits" of investors through "state created rents",
- by imposing discipline on the private business sector through specified performance requirements,

- and by exposing many industries to international competition in foreign markets if not at home (Lauridsen 1995: 26).[26]

In the same lineage of 'strong' developmental state interpretations can be included another influential author: the MIT professor Alice Amsden. While Wade's *Governing the Market* was based on the study of the Taiwanese experience, Amsden's *Asia's Next Giant: South Korea and Late Industrialisation* (1989) is – as is clear from the title – a study of South Korea (both studies are, however, also rooted in solid comparative analysis). The research by Amsden is, in some ways, an even more ambitious attempt (and, thus, is also more problematic) in so far as it attempts to identify general patterns that could be adapted also to different regions. In her *Asia's Next Giant* the focus is on the specific characteristics of contemporary late industrialisation, which require state interventions different in nature and extension from those of the past:

> The subsidy serves as a symbol of late industrialisation, not just in Korea and Taiwan, but also in Japan, the Latin American countries, and so on. The First Industrial Revolution was built on laissez-faire, the Second on infantry industry protection. In late industrialisation, the foundation is the subsidy – which includes both protection and financial incentives. The allocation of subsidies has rendered the government not merely a banker, as Gerschenkron (1962) conceived it, but an entrepreneur, using the subsidy to decide what, when, and whereby relative prices are determined (Amsden 1989: 143–144).

Along the same line of research is also Amsden's more recent work (2001), where she defines an analytical framework for understanding the process of industrialisation in a wide range of countries: 'the Rest' – distinct from the first group of developers but also from 'the Other' less successful developing nations. The focus is on the conditions that made possible this group of successful late developers to build their economic development upon learning from the more industrial advanced countries and to apply this acquired knowledge to their developmental purposes. Amsden identifies these conditions in the existence of an innovative 'control mechanism' able to compensate for the skills deficit:

> A control mechanism is a set of institutions that imposes discipline on economic behaviour. The control mechanism of "the rest" revolved around the principle of *reciprocity*. Subsides ('intermediate assets') were allocated to make manufacturing profitable – to facilitate the flow of resources from primary product assets to knowledge-based assets – but did not become giveaways. Recipients of intermediate assets were subjected to *monitorable performance standars that were redistributive in nature and results-oriented*. The reciprocal control mechanism of 'the rest' thus transformed the inefficiency and venality associated with government intervention into collective good, just as the 'invisible hand' of the North Atlantic's market-driven control mechanism transformed the chaos and selfishness of market forces into general well-being (Mendiville

[26] In his review of the main literature analysing the East Asian developmental state model Laurids Lauridsen defines as a 'strong version' the interpretation inspired by Wade but also by other authors such as Alice Amsden (1989) apart from Chalmers Johnson (1982).

> 1714 [reprint 1924]). The reciprocal control mechanism of the North Atlantic minimized market failure. The reciprocal control mechanism of 'the rest' minimized government failure (Amsden 2001).[27]

According to these 'strong' interpretations the East Asian developmental state is based on strategic industrial and trade policies, which can be defined as consisting of four elements: selectivity, flexibility, coherence and competitive orientation:

> *Selectivity*, in that the state creates progressively shifting competitive advantages instead of just adapting to existing comparative advantages. *Flexibility*, in the sense that adaptation to the shifting international economic conjunctures and the shifting 'windows of opportunity' in the world market requires a high degree of flexibility. *Coherence*, in that the different policies must be part of an overall cumulative and co-ordinated policy. *Competitiveness*, in the sense that policy intervention must be oriented towards development of a competitive production in (predominantly) private enterprises (Lauridsen 1995: 26–27)

These path-setting definitions, based on a binding set of conditions, help in clarifying some aspects of the East Asian developmental model, but necessarily present new questions. And even more so, when this research tries to verify how the experience of successful neighbours can be a source of inspiration for the Vietnamese development strategy. The first questions regard the nature of the state charged with such formidable tasks. Is the condition of authoritarianism and corporatism a necessity for enforcing a coherent developmental strategy? What about the representation of interests within the country? And how strong (in terms of state capacity) must a government be to carry out these complex developmental tasks? These issues are addressed in the following section (and further in chapter 5). The second group of questions – discussed in the last section of this part – regard, instead, the viability of developmental state policies in the post-Cold War (and post East Asian economic crisis) context.

State–business (capital) relations and the role of bureaucracy

The nature of the state (interests representation, role of bureaucracy, relations between business and government, etc.) has been at the centre of the recent debate on the developmental state model. The question at stake is how the state can maintain a high degree of autonomy – necessary so that it does not succumb to particularistic interests – while having enough connections with the business world to perform well-oriented coordination functions. New studies have emerged emphasising not the coercive strength of the state authority but the capacity of bureaucracy to govern the process of economic development through coordination and consensus.
The interest regarding these studies in the framework of the present research is twofold:

[27] Amsden's *The Rise of 'the Rest'* is a very stimulating contribution. But the attempt to pull together a rather heterogeneous group of countries, including some whose economic performance has been substantially dismaying, within a single explanatory frame risks making the all construction problematic.

- first, the (unquestionable) historical linkage between authoritarianism and developmental state practices in Northeast Asia (Japan, South Korea and Taiwan) – if confirmed as a *conditio sine qua non* – would confine the adoption of such a model to specific geopolitical conditions and to an age already terminated. Nor would this work like to suggest the need to introduce a fascist-like corporatist regime in Vietnam (or elsewhere) in order to achieve economic development;
- second, a 'strong' state – especially if authoritarianism is ruled out – able to exert its coercive command over business without activating a powerful reaction internally and internationally is something rare in the developing world. Coordination is still a complex task (very complex for a country like Vietnam, as we will discuss in Chapter 5) but somehow more plausible.

Among the scholars that have attempted to reopen a space of action for a 'softer' kind of developmental state, by conjugating state autonomy with embeddedness, are Peter Evans (1989 and 1995) and Linda Weiss (1995, 1998 and 2000).

Evans has defined this apparently contradictory position of the state versus the business as 'embedded autonomy'. 'Embedded autonomy' operates through a fusion of bureaucratic insulation from particularistic societal pressure and networks of concrete social ties 'that link the state intimately and aggressively to particular social groups with whom the state shares a joint project of transformation' (Evans 1995: 59).

Linda Weiss has embarked on an attempt to define a new theory, which takes the initial steps from Wade's *governed market* but changes to *governed interdependence*. Looking at Wade's strategic industrial policies, Weiss suggests that:

> what makes the policies so effective is a particular kind of state structure and a particular kind of relationship between state and industry. I call this institutional arrangement 'governed interdependence'. It describes a system of central coordination based on the cooperation of government and industry. Policies for this or that industry, sectors, or technology are not simply imposed by bureaucrats or politicians. They are the results of regular and extensive consultation and coordination with the private sector (Weiss 1995: 594).

'Governed interdependence' rests on a 'distinctive kind of government–business relations' where 'coordination and cooperation go hand in hand'.

> Economic projects are advanced by public–private cooperation, but their adoption and implementation are disciplined and monitored by the state. The claim is not that existing accounts ignore the existence of 'cooperation' in East Asia government–business relations… Rather, the problems is that they are unable to integrate the reality and idea of public–private cooperation into a theory of state capacity… (Weiss 1995: 591).

The stress on state capacity – versus an abstract notion of 'governance' – is a very important analytical contribution provided by Linda Weiss. We have already recalled that the concept of 'governance' was developed by the neoliberal orthodoxy when it became evident the need to delineate the functions of the state in regulating the economy, after the ideological contemplation of minimum state intervention. However, the notion of governance is intentionally focussing on efficiency and transparency without any consideration given to the question of *which kind of institutions should be developed in order to accomplish which purposes*. The attempt by Linda Weiss to delineate a theory of state capacity, instead, illustrates how institutions are functional to specific political agendas and in turn specific institutions shape particular kinds of economic (and social) development.

By studying the experience of Northeast Asia, Linda Weiss indicates that the capacity of a state to implement policies consistent with developmental and growth-oriented goals depends on a number of conditions, including a competent and committed bureaucracy and insulation against special interest groups.

> Three main features of the East Asian state's internal organisation are relevant in this regard: the quality and prestige of the economic bureaucrats; a strong in-house capacity for information gathering; and the appointment of a key agency charged with the task of policy coordination. These conditions are significant in so far as they contribute to the *insulation* or autonomy of the bureaucracy, thereby preserving policymaking from domination by special interests and other growth-retarding pressures (Weiss 1995: 596).

In Chapter 5 we will return to these three characteristics by discussing the Vietnamese case in view of the developmental experience in the region. Insulation from particularistic interests – especially those represented by the management of the State Owned Enterprises, who have easy access to the higher echelons of political and administrative power – represents for Vietnam a powerful obstacle to any attempt to institute strategic industrial and trade policy.

Developmental state in the post-Cold War era

Among the arguments presented to contrast the 'developmental state' as a model for other countries aiming to follow the path of the first 'Asian tigers' there are two (interrelated) assertions that require some scrutiny. One of these arguments looks at the international conditions for the viability of a developmental state, while the second focuses on the internal conditions.

The first argument is that the scope for state interventions in guiding the development of a national economy is constrained by the growing internationalisation of the world economy and by the rules characterising this process (deregulation, privatisation, liberalisation, etc.). Explained in different terms, the Cold-War regime had been supportive to those state interventions which were functional to Western geopolitical interests (e.g., the United States supported Taiwan and South Korea building-up through economic practices that were at odds with the free market principles enforced on other less strategic developing countries). But in the era of globalisation there is no space for initiatives that contradict the neoliberal order.

The second argument is that the 'developmental state' can be conceived as a mechanism for promoting a first wave of industrialisation, but not for achieving higher levels of economic development. The more an economy (and a society) becomes mature and diversified, the more selective and complex industrial policies become inefficient. This argument has been called 'the irony of state strength' (see Lauridsen 1995: 31). That is, an effective developmental state would also create the conditions for its own replacement.

These two arguments contain elements of truth. I have dealt elsewhere with these issues (e.g., Masina 2002a), where I have discussed how the events setting the stage and eventually precipitating the regional economic crisis should be analysed bearing in mind the transformations undergone in the East Asian countries and the changes in the international position of these countries. We can recall here briefly the main points.

The end of the Cold War came at a moment when aggressive export from East Asia (and the perspective of China as a new economic giant) had already changed Western perceptions concerning strategic interests. Geoeconomics had already superseded geopolitics in defining Western priorities in Asia (Li *et al.* 2002; Sum 2002). Thus, it should not come as a surprise that the United States, its Western allies and the international financial institutions representing Western interests, tried to dismantle those institutional mechanisms that had supported economic development up to the point that some Asian countries could become dangerous competitors on international markets. This attempt to dismantle the developmental state was already in place before the official end of the Cold War and became even more evident afterwards (see, e.g., Li *et al.* 2002; Dixon 2002). The more crucial battleground in this Western crusade regarded the liberalisation of Asian financial markets, eventually depriving Asian governments of essential regulatory mechanisms. Financial liberalisation, though, was not simply imposed through coercion, but was also embarked by the Asian countries as a way to cope with a change in the international position of their countries (Chandrasekhar and Ghosh 2002; Sum 2002). The loss of key regulation tools by states that had been previously ruled by 'strong governments' proved a major factor in setting the stage for the financial crisis. This reading of the Asian crisis does not imply – as some authors and politicians have done with their blaming of financial speculators –any kind of conspiracy theory. But it does imply that the Asian crisis can be understood against a background of a mounting clash of strategic interests between Anglo-American capital and Asian national capitals (Amoroso 2002).

While not embarking on a detailed examination of how this strategic clash came about and its concrete implications for Asian countries, here we should look at the theoretical implications of the problem. That is, does the change in the international system mean that the space of action for the 'developmental state' has dissolved? Clearly, this is a question that, if addressed in its general terms, concerns one of the most debated issues in economics and political sciences: that is, the national state's capacity in the age of globalisation. Neoliberal scholars such as Keinichi Ohmae (1990, 1995) have claimed that states have lost power and that this is a positive outcome. On the other end of the spectrum, however, there are a number of authors who claim that national institutions still play a strategic role. And this strategic role is not limited to defending national economic space: states intervene by actively internationalising their economic activities in support of the economic interests they represent. On the resilience of states' strategic functions authors as diverse as Robert Gilpin (1987), Susan Strange (1998), Leo Panitch (2000), Jim Glassman (1999), Linda Weiss (1998) and Robert Wade (1996) agree. For these authors states matter so much that the imperial domain exerted by the institutions of the United States (or those international institutions it controls, like the IMF and the World Bank) is an essential support for the power of American corporations. But state power is not only limited to the rich and powerful nations like the United States: it remains important even in poor and marginal developing countries. In the words of Linda Weiss (1998) the notion of a 'powerless state' is a myth that serves ideological and political purposes. Although the international system does exert constraints over nation states, these international conditions are often exploited by national elites to serve their own agenda. State capacity is limited not so much by external constrictions but by the will of its own elites, which are often part of international networks that benefit from exploiting the resources of the territory that these elites should represent.[28] National formations characterised by stronger cohesion – as is normally the case in East Asia – do maintain a degree of power in implementing developmental state policies even when they are exposed to strong pressure from outside. For example, Frederic Deyo (2002) suggests that the Thai state may have moved towards a 'developmental state' type of close government-business relationship in support of the national SMEs sector after the regional economic crisis, notwithstanding the pressure from the international financial institutions.

Even if we assume that states do maintain power in mediating their integration into the world economy, it should be repeated that the conditions for Vietnam are sensibly different from those in which the developmental experience of Northeast Asia took place. In the case of the latter, heterodox trade practices were accepted by the United States because the economic growth of these countries was functional to Cold War geopolitical considerations. The situation now is completely different, as will be discussed in the following, for example by looking at the complex negotiations for a trade agreement between Vietnam and the United States.

The other question to look at is the alleged declining role of the developmental state once a certain degree of economic development has been achieved. Again, the recent experience of the Asian crisis helps in elucidating the issue. The already mentioned financial liberalisation, for instance, could not be understood solely as something imposed upon Asian countries. There is some ground in looking at it as something that countries like South Korea and Thailand have also chosen to implement as a mean to further their catching-up drive and to diversify their economic basis (Sum 2002; Chandrasekhar and Ghosh 2002; Weiss 1998 and 2000). Financial liberalisation has reduced the state capability to allocate credit on the basis of strategic planning, thus undermining a key feature of the developmental state. But does this imply that the experience of the East Asian developmental state has come to an end?

[28] For an interesting re-appraisal of this point, which relate to the classical 'dependent development' debate, see Glassman 1999.

An answer to this question depends on the definition adopted to describe the developmental state model. If a hard-core definition is adopted – implying a coercive control on the economic activities by an authoritarian political regime – it is probably correct to assume that that historical experience was concluded in the late 1980s, when both South Korea and Taiwan achieved a substantial democratisation of their political institutions.

But if the definition applied is more flexible and 'soft' – emphasising coordination over coercion, as suggested by Linda Weiss (1995 and 1998) – then there is no need to rule out that countries may choose to further their developmental experience on the basis of an updated version of the model. The issue was actually so much open to different outcomes that the IMF intervention during the Asian crisis has forcibly attempted the dismantling of the remaining aspects of the developmental state (see Bullard 1998 and 2002).

It is not possible to adequately conclude such a complex debate on the possible continuation of developmental state practices. It is useful to remember, however, that not only have a number of authors recently confirmed the vitality of such institutional arrangements (e.g., Amsden 2001; Weiss 1998 and 2000); but also that some have seen the possibility for the developmental state arrangements to face more subtle and complex tasks once the first stage of industrialisation has been achieved. As reminded by Lauridsen

> The thesis that *more complex economies make industrial policies more inefficient* and that the price mechanisms therefore need to be allowed to work more freely, has been opposed by Amsden and Eoh who argue that industrial policy-making becomes easier as the economy grow more complex, because the number of industry that must be promoted becomes smaller in relation to already existing mature industries that can be left alone (Amsden and Eoh 1993: 380) (Lauridsen 1995: 32).

The Vietnamese 'transition' in comparative perspective

Vietnam at the turn of the millennium is a poor and largely agricultural country in search for a path to rapid industrialisation and economic growth. We have suggested that in the search for this path Vietnam is somehow inspired by the experience of its neighbouring countries and by the model denominated 'East Asian developmental state'. However, Vietnamese economic reform also incorporates another dimension: a transition from a centrally planned economy to a 'socialist market economy', which makes this country different from most of its neighbours with the notable exception of China (and Laos). In the terminology developed to delineate the transformations that occurred in Central and Eastern Europe, Vietnam is a 'transitional' economy. A comparison with the historical experience of the European former socialist countries would indicate a number of common features, deriving from the Soviet Union's influence in the setting up of a socialist state in Vietnam (as discussed in Chapter 2). Interesting similarities could also be traced in the attempts of reform toward a so-called 'market socialism' in Central Europe (particularly, in Hungary after 1968) and the current reform in Vietnam. However, differences would prove bigger than the similarities, thus making such comparison problematic and complex (and far outside the limits of the present research).[29] For example, the Soviet Union and socialist European countries were developed industrial countries, with a mechanised agriculture. The large majority of the population, both in urban and in rural areas, was employed directly by the state, with a minimal space for 'informal' activities (e.g., petty trade). Vietnam, instead, was and still is essentially a rural-based economy, with a very low percentage of the working force employed by the state.[30] Even in the relatively brief period during which collectivisation of agriculture was attempted, families maintained small 'private' lots and the possibility of trading their products. Moreover, both the historical experience which led to the construction of a socialist state in Vietnam and the national and international conditions motivating the beginning of a reform process affected this country in very specific ways, which are rather different from the Eastern Europe case. In other words, the specific national and international context in which *doi moi* evolved – issues at stake, modalities, timing, external constraints, etc. – brought forth a unique process that does not match up with the explanatory paradigms adopted for the European 'transitional economies'.

A comparison with the Chinese case proves, instead, very useful. Not only has the long-term historical experience of the two countries been closely connected, but also important similarities (and important differences) have characterised the two parallel revolutions and the two parallel processes of economic reform.[31] Both countries have undergone a long revolutionary process where national liberation and socialist transformation have been closely related and interconnected, and where poor peasants have been the leading forces in the revolutionary movement. Both countries embarked on a parallel process of economic reform, with the ruling Communist Parties attempting a transition from central planning to a market economy with 'socialist characteristics'. And while the initial phase of the economic reform was conducted in a condition of hostility between the two countries, after the collapse of the Soviet Union relations substantially improved at Party and State level, thus making the similarities in the two reform processes clearer.

The relevant similarities in the historical experience make the study of the differences even more interesting. Two of these differences have a particular importance in the context of this work. The first regards the strengths and political control exerted by the state. Historically, the Chinese State has been stronger than the Vietnamese one. Since the early 1950s the Chinese central authorities have maintained a firm control

[29] It is useful the remind that the ultimate aim of the reforms introduced in Hungary in 1968 and in other countries belonging to the Soviet bloc was to 'rationalize' central planning, not to replace central planning with market mechanisms. Both in the Chinese and Vietnamese reform, instead, there is a clear acceptance of the need to supersede central planning, while maintaining state guidance in economic development. (See Naughton 1995 on this point in relation to China).

[30] The state sector in Vietnam did never employ more than 16 per cent of the workforce, and the percentage declined sharply in the first phase of the reform process: it was about 10 per cent in 1991 and below 9 per cent by mid 1990s. Employment in the State Owned Enterprises accounted only for 9.7 per cent of the workforce at the launch of *doi moi*, and it was down to 6.2 per cent in 1991 (cf. McCarty 2001:8–9).

[31] Notwithstanding the obvious relevance of this comparative analysis the number of studies dedicated to the two countries is surprisingly limited. A remarkable exception is Chan, Kerkvliet and Unger 1999.

over the local administrations.[32] Although the economic reform has further enhanced the differences among the various provinces – and risks of political instability were particularly visible in the mid 1990s – the central government has been able to maintain a firm grip. This was done both by increasing the political representation of the richest regions in the central government, but also by increasing national control on tax revenues. It should also been borne in mind that the reform process inaugurated by Deng Xiaoping was also in response to a failed attempt to reorganise centralised national planning at the end of the Cultural Revolution (1966-76). The innovative solution encapsulated by the reform process was to use this increased decentralised power as an engine for economic transformation, but this coexisted with a re-establishment in the modalities of central government coordination and control.

Compared to China, the influence of the Vietnamese central government on the different provinces has always been much weaker. In modern times, the significant decentralisation of power was a result of many years of war, when the local administration had to carry out their duties without easy communication with Hanoi. The experience of the war is probably at the root of another evident distinction between China and Vietnam. The need to maintain unity within the ranks of the party, and of society as a whole, has led Vietnam to develop a decision-making process based on consensus. This may explain why Vietnam never experienced such radical political conflicts within the Communist Party as China did during the Great Leap Forward and the Cultural Revolution. The search for consensus still represents a key feature of Vietnamese policy-making, which makes every step in the process of economic reform complex and often cumbersome.

From this difference in the power of the central state may also derive another key difference in the two parallel processes of economic reform in China and Vietnam. In China reform was started when a political faction within the national leadership (i.e., the one led by Deng Xiaoping) gained power indicating the need to improve the economic standing of the country as a necessary mean for consolidating the political authority of the Party (White 1993). The outset of Chinese economic reform was largely a top-down process, and the central government remained the key actor in determining the path of the process (including transient slow-down, when the economy was overheated). The Vietnamese case, instead – as discussed in Chapter 2 – is rather a story of a bottom-up process. National authorities have ratified *a posteriori* dynamics already underway in society. Both in China and in Vietnam elements of 'market' have always coexisted with the plan, on a scale incomparable with the experience of Central and Eastern Europe. But in Vietnam the coexistence of market and plan has been more pervasive than in China – especially in the South were the collectivisation of the land was a very short-lived experiment.
The impact of evolving international events was important in shaping the reform process in both countries. Vietnam, however, was clearly more vulnerable and was forced to react fast to the decline, and then to the collapse, of the Soviet Union. This explains why the Vietnamese reform process gained momentum between 1989 and 1991, when it was realised a programme of macroeconomic stabilisation which has

[32] The major threat to the central authority was represented by the so-called affair Gao Gang in the early 1950s. The leader of Manchuria (a key industrial region) was suspected of challenging the authority of Beijing (probably with Soviet support). Gao Gang eventually committed suicide in 1954.

been likened to IMF-induced structural adjustment (see the discussion in Chapter 2). However – and here is a key element and a marked difference with the case of the Soviet Union and Eastern Europe – this macroeconomic stabilisation was successful because it did not *start* but rather *concluded* the Vietnamese 'transition'. In the caustic expression coined by Fforde and de Vylder (1996) by that time Vietnam had managed to make 'price matter', even if important distortions in the economy did exist.

Chapter 2 confirms the hypothesis – now acknowledged in Vietnamese studies – that the Vietnamese 'transition' was basically concluded in the early 1990s. By that time, central planning had been replaced by market mechanisms in the allocation of resources and in the organisation of production. Once the Vietnamese economy started to operate largely on the basis of market forces the need to develop a new regulatory framework and a new institutional setting came to occupy central stage in the political debate. While the adoption of a market-based economy was mostly accepted, the specific ways in which this market economy should operate remained a matter of contention throughout the 1990s. The experience of the regional crisis added a new dimension to the debate, which is far from concluded at the time of presenting this work.

Given the still open issues in the process of institutional reform, one might argue that the Vietnamese 'transition' is still not complete. However, it seems useful to stress that the current debate about the development of suitable economic and political institutions and adequate legal and regulatory frameworks has more resemblance with the debate in other poor developing countries than in the industrialised countries of Central and Eastern Europe. Thus, in introducing the debate regarding issues like 'governance' and institutional reform, this work will not deal specifically with the experience of other 'transitional' economies, but will explore the issues more on the basis of a regional and 'developing countries' perspective.

Criticism of the analytical tools from a Marxist viewpoint

We have already argued that the impressive economic growth of a number of East Asian countries since the 1950s can hardly be explained within the frame provided by the neoclassical paradigm. The catching-up achieved by these countries confutes both the modernisation theories of the post-war period and the new orthodoxy prevailed after the neoliberal counter-revolution of the late 1970s. At the same time, the experience of East Asia represents also a major challenge to the dependency theories, including those advanced by neo-Marxist scholars. The dependency school indicated that the Third World suffered for a condition of unequal exchange with the North, and therefore further integration brought underdevelopment rather than the diffusion of a modern productive system. This view was supported also by neo-Marxist scholars who argued that dependency reinforced regressive elements in the traditional systems of production – here they departed from the classical Marxist tradition that had instead emphasised the 'progressive' role of colonialism in promoting a modern (capitalist) mode of production in the South (Blomström and Hettne 1984). The fact that a number of countries in East Asia – especially in North East Asia, but to some extent also in South East Asia) – not only escaped underdevelopment but reached levels of industrialization comparable to those of the North in the span of a few decades can be interpreted as a contradiction for the dependency theories. Further, the rapid economic growth achieved by China and Vietnam after they embarked reform processes reintroducing market economy and the simultaneous collapse of state socialism in Soviet Union were interpreted by conservative scholars as the prove of an alleged decline of the Marxist scholarly tradition. Here we need to take into consideration some issues stemming from these arguments.

The post-war economic development of East Asia represents in many regards a special case within the Third World. We have already indicated some of its distinctive characteristics. Many of the countries in the region faced national and international conditions that eventually converged in supporting a rapid process of industrialization. This was a region where the process of decolonization was strongly influenced, when not openly directed, by Communist forces. China, North Korea and Vietnam (plus Laos since 1975 and Cambodia for a short-lived and tragic phase) indicated the construction of a socialist state as a way to break the colonial dominance. All the other countries of Southeast Asia (Malaysia, Indonesia, Philippines, Thailand and Burma) had at some stage strong Communist parties and even faced revolutionary insurgency. Although Roosevelt and Truman had given priority to Europe in the post-war reconstruction and they had tried to avoid being caught up in Asian conflicts,[33] it was in this region that the first major military conflict of the Cold War erupted. The Korean War was soon followed by a direct American involvement in Vietnam. The Korean War changed the American perception of Asia. The reliance on ideological motivations – anti-Communist containment – to win isolationist tendency at home and to support an American world leadership (including the Marshal Plan), had made impossible for the Truman Administration to exploit the harsh relations that existed between Moscow and Beijing since the establishment of the People's Republic of China. Until the Korean War, Washington indulged in a rather inconclusive policy, not willing to risk a military involvement in order to prevent the invasion of Taiwan but unable to come to terms with the new government in Beijing. As soon as the Korean War started, however, the American policy changed and in the American public opinion emerged the view that China had been 'lost'. This was later a major motivation to justify the intervention in Vietnam: after the loss of China, the US could not afford loosing Asia through a 'domino effect' that would have spread from Vietnam.[34]
Given the specific geopolitical context of East Asia, the United States perceived that the economic build-up of its regional allies was a necessary instrument of capitalist stabilisation (Hersh 1993 and 1998). This became the political and economic frame in which Japan was allowed to re-establish a regional productive order, with a triangular relation between the US, Japan and developing East Asia. The reorganization of a regional system of division of labour was achieved through the extension to the region of the Japanese multi-layered subcontracting system, which also activated productive resources available in loco (Arrighi *et al.* 1993), that is, operating in way markedly

[33] Still in January 1950 Truman and the State Secretary Acheson had confirmed that Taiwan and South Korea were outside the defence perimeter guaranteed by the US. And the State Department had clearly indicated the contrariety in being involved in the Chinese civil war in defence of Chiang Kai-shek.
[34] For an historical reconstruction of the American 'China policy' in the period 1947-1971, see Masina 1993.

different from the relocation of production to Latin America by American and European companies (Masina 1996).

The specific geopolitical conditions of East Asia can therefore explain why this region was in better conditions than other to escape the exploitative nature of the unequal exchange: a condition for which the terms of trade are biased in favour of country exporting industrially advanced products and against countries exporting raw materials and low value adding products. For many years the United States was willing to maintain a negative trade balance with these countries, whose economic stability was considered strategic. The East Asian US allies were even allowed to manipulate the exchange rates and to introduce selective import tariffs, without facing an American retaliation (e.g., Wade 1990). Obviously, this special relation was bound to come to an end once the East Asian countries had become dangerous competitors for American companies. Eventually the Japanese-led regional productive order came to conflict with Western geoeconomic interests and here lay the foundation of the regional economic crisis that unfolded in 1997 (Masina 2000a).

Geopolitical considerations and the inclusion in the Japanese multi-layered subcontracting system were decisive factors, but they would not have allowed an impressive catching-up if national conditions had not been supportive of a rapid industrialisation drive. The East Asian developmental state was the specific device that allowed a selected group of countries to size the opportunity of industrialization 'by invitation'. We argue here, therefore, that the developmental state played a fundamental role in breaking the dependency and prevent that economic integration with the North would result in underdevelopment.
But why a small group of East Asian countries succeeded in creating conditions for which the state was granted authority over the national capitalist forces in enforcing strategic planning? We will return to this important question in more details in Chapter 5, where we will also discuss the applicability of a developmental state model to Vietnam. In few words, we can say that the motivations for this special role of the state bureaucracy was related to the same geopolitical considerations discussed above. East Asia was a region where the conditions for a socialist revolution were very concrete. In the two countries that more systematically implemented a (Japan's inspired) developmental state – South Korea and Taiwan – the risk of being overthrown by their rivals (i.e., North Korea and China) was extremely high. In such a condition of political risk, similar to the risk that Japan had faced of becoming a colony, the most dynamic sectors of the national capitalist forces perceived the need to enforced a process of economic modernization that would serve their aims of political stabilization. Backward capitalist forces were forced to adjust to this strategy in the name of state survival and capitalist stabilization.

The conditions existing in East Asia in the aftermath of the Second World War and the Korean War were thus the cause of political and economic strategies that operated simultaneously both at international/regional and at national level. As the conditions were quite special the policies that resulted from them were also quite special. A number of other factors played a role (culture, the previous experience of Japanese colonization, the existence of an economically dynamic Chinese Diaspora, etc.) but an understanding of the so-called 'East Asian miracle' cannot depart from the nature of the political conflict existing in the region both internationally and in terms of national class struggles. Therefore, rather than confuting a Marxist theoretical frame, the development of East Asia confirms the validity of the research questions and of the analytical approaches that the Marxist tradition has inspired.

The East Asian developmental state was based on a corporatist system that in Chapter 5 we will argue relates to the Fascist experience. Like for Italian Fascism, the developmental state served purposes of modernization and social transformation: i.e., it was not only a regressive movement nor a movement aiming at maintaining the *status quo*.[35] But the East Asian corporatist state, like the fascist state, conducted the process of modernization with the aim to defend the strategic needs of the capital and to consolidate the prevailing political order. The state guaranteed a certain level of income redistribution because this was vital in order to prevent a socialist revolution. But Welfare provisions were generally at a low level. Large industrial companies granted some health insurances and pensions to their employees through paternalistic schemes. The rural world was partially sustained (e.g., technical and extension services), although in general the national economic was biased towards the extraction of resources from agriculture to support industrialization. The precise modalities in which the East Asian developmental state operated varied obviously from country to country, and only in North East Asian the system was implemented in a thorough and systematic way. However, the class nature of the developmental state was a common feature across the region. In Korea and Taiwan this model was implemented by dictatorships until the late 1980s, and notwithstanding the economic success and the partial redistribution of wealth operated through the system this developmental model has been criticised as a form of 'compressed modernization' (Chang 2002). In Southeast Asia elements borrowed from the 'developmental state' model were combined with more traditional forms of capitalist exploitation and also in this case authoritarian political forms prevailed in most countries. A number of authors have underlined the 'uneven' nature of the modernization process in Southeast Asia (e.g., Dixon and Drakakis-Smith 1997; Parnwell 1996; Schmidt, Hersh and Fold 1998) indicating how in a context of generalised economic growth high prices were paid by different sectors of society, not to mention the environment.

In introducing the debate on the East Asian developmental state we do not intend to neglect the dark side of this historical experience. Apologists of the model may rightly argue that the Asian countries that implemented these strategies not only achieved high level of per capita GDP growth over two or three decades, but even featured lower inequality than other developing countries (see data in World Bank 1993). We agree that these results should not be disregarded. Compared to other developing regions East Asia (some countries more than others) did certainly better in securing an improvement in the living conditions of its population. However, we also agree with the detractors in denouncing the high human, social and environmental costs paid in order to achieve the catching-up with industrialised countries.

The experience of the East Asian best economic performers does represent a point of reference in the region. The wish to emulate the prosperity of its richer neighbours is very visible in Vietnam: for example, in the last few years is noticeable an admiration

[35] In Chapter 5 we will rely on the analysis of Fascism by Antonio Gramsci to make this point.

for South Korean fashion, cosmetics, mobile telephones and electronics (also due to the images channelled via popular South Korean soap operas).[36] Like it or not, the developmental experience of the region is something that Vietnam needs to come to terms with.

We give here large space to the developmental state because we also explicitly consider that Vietnam *could* and *should* learn a number of lessons from that model. On key issues, the experience of the developmental state as a challenge to the orthodox recipes can present Vietnam a wide range of possibilities and create the conditions for independent and conscious strategy decisions. In its transition toward a market-based economy Vietnam (like China) is dismantling the last leverages of the past central planning. State-led strategic planning may be an appealing formula for allowing the economy to operate on the basis of market laws, but to maintain state guidance in strategic areas. We will discuss later in this text the concrete conditions for the adoption of such policies in Vietnam. From a political perspective, we should not overlook the fact that the technical devices that have been created in order to support capitalist development cannot be neutrally transferred to a country that officially maintains a socialist aspiration. Not only Vietnam should adjust the model on the basis of its own national characteristics and needs, but should also be able to pick and choose in a way that is coherent with the political – that is, class-relevant relations within the country – finalities that intends to promote. The definition of political strategies, and the eventual adoption of selected features of the East Asia developmental state, can be assisted by the research of scholars that in recent years have contributed to a further clarification of the specific variations of the model in the different countries and of their evolution over time. In particular, it is useful to underline that the research of scholars like Linda Weiss have tended to emphasised the coordination (rather than coercion) functions of state strategic planning, thus to make possible the adoption of these strategies also in more democratic and less exploitative political contexts than those of Taiwan and South Korea in the post-war years.

The importance for Vietnam of strategic planning in managing its integration into the world economy is mainly in reducing the risks of dependency. As we will discuss in Chapter 4, for example, the bilateral trade agreement with the US and the eventual entrance in the WTO risk to confine Vietnam to the export of raw materials, agricultural commodities, garments and footwear. China, who is experiencing a parallel transition, has the advantage of a much larger internal market and is therefore able to impose conditions even to the largest transnational corporations. Vietnam has 80 million people but still a rather small market and it is therefore much more vulnerable – we will discuss *infra* that this vulnerability is further enhanced by an industrialization strategy highly dependent on Foreign Direct Investment.
China has not only succeeded in escaping dependency while re-engaging integration into the world economy, but according to a number of authors (Wallerstein, Arrighi, Frank, etc.) is also on course to emerge as the new word hegemonic centre as the United States accentuates its tendency to decline by relying on coercion and military

[36] This process of identification with the Asian models was visible also in the occasion of the 2002 World Football Championship – a quite annoying experience for this writer, who unfortunately watched the matched between Italy and South Korea in Hanoi!

power and by proving to be not any longer able to guaranteed international political and economic stability.
Vietnam has benefited from a number of positive conjunctures in the first phase of *doi moi*, but the post-regional economic crisis is now presenting significant difficulties for the next steps in the reform process.
Both Vietnam and China may succeed in their respective goals in exploiting a deeper integration into the world economy. Both countries can rely on strong nationalism as a mobilizing factor. This nationalism may significantly influence the national elites and avoid that these elites enter in strategic alliances with other international elites in a joint exploitation of the national resources (this point is developed further in Chapter 5). But nationalism may also lead to a sort of corporatist state, where the national development ideology serves to cover up class-relevant conflicts within the country.

The process of economic reform in Vietnam (like in China) has already produced a rearticulation of class dynamics. However, the evolution of this process has not gone so far to allow drawing any clear conclusion. A number of questions must remain unanswered for the time being. The main one is the way in which transformations in the mode of production will affect class relations. This is a difficult question to answer in a country where only 12 percent of the workforce is employed in industry, while the large majority is engaged in agriculture or in the informal sector (and often in both, with seasonal and temporary fluctuations). Inequality has substantially increased since the beginning of the reform process, especially between rural and urban areas (and only limitedly within urban and rural areas). But this rise in inequality has been accompanied by such a dramatic improvement in the country economic conditions and poverty reduction to advice caution in our judgment. Compared to China, where also poverty has declined but inequality increased, the Vietnamese case presents less visible signs of distress. In particular, in several industrial areas of China (like the Rusty Belt in the Northeast) redundancies have hit workers and exposed them to the loss of social security provisions normally granted by the state companies. In Vietnam industrial redundancy is a relatively minor problem, while (like in China) the main concern is for the lack of jobs for over one million young people that enter the labour market every year.

Since the judgment on the rearticulation of class relevant relations is suspended, a precise understanding of the functions of the state (in the present and for the future) is also problematic. In fact, as rightly argued by Schmidt, Hersh and Fold, the state cannot be 'fetishized as an autonomous entity'. The state 'should be understood as a social form, that is a form of social relations' (1998:9). This is true for the 'East Asian developmental state', whose transformative purposes responded to specific political interests. And this is also true for a socialist state like Vietnam in a process of economic transition. Through our investigation we have not found decisive evidence to conclude that the process of economic reform has already involved a transformation of the political agenda for which state apparatuses are now serving finalities in contradiction with the proclaimed socialist aspiration. But we have not found either a clear indication of how the national leadership intends to deal with the complex conundrum of promoting a capitalist-style market economy while maintaining a socialist perspective. The fact that the state sector should maintain a leading role in the economy does not imply *per se* anything about socialism: state-led

industrialization with a strong reliance on State Owned Enterprises was carried out by several capitalist countries. The experience of Taiwan under Chiang Kai-shek and Italy under Mussolini indicate that a dominant role of the State Owned Enterprises and an authoritarian political regime can even be compatible with fascist or fascist-like projects. Thus, state guidance may lead to socialism only if the interests represented by the state structures are constructed in a way to prevent the tendency of states to respond to the needs of the forces that dominate in the productive process.
While the project of socialist construction in Vietnam appears rather vague, the Vietnamese state should be acknowledged for a capable management of the transition in a way to reduce the impact of the systemic shock and to shelter the most vulnerable. In particular, a remarkable and positive feature of Vietnamese transition has been the great attention given to the rural world. Agricultural diversification has been the major contribution to poverty reduction during the 1990s. This has been possible due to a number of state interventions (infrastructure, extension services, price stabilization of commodities, etc.), which have accompanied the return of market dynamics in agriculture. This is also a crucial area in which the Vietnamese reform has been parallel with (and inspired by) the Chinese one. The attempt to reinforce the rural world as a condition for creating a socially broad-based growth, that is, creating a virtuous and cumulative circle of reciprocally reinforcing causations, does not only related to the revolutionary strategies of the Chinese Communists but was also explicitly adopted following the lesson of Gunnar Myrdal and other scholars concerned with the vulnerability of industrialization processes in developing countries (see Fan 1997).
In this text agricultural development is rather neglected because this is an issue on which there is a substantial agreement in the policy debate. But the importance of this sector should not be absolutely overlooked. We should also underline that for a country that has suffered food shortage as late as in the1980s, and where a part of the population is still facing malnourishment if not undernourishment,[37] self-reliance in food production is considered as an important priority. Reinforcing agriculture and the rural world was the first priority established by the Vietnamese Communist Party when the regional economic crisis unfolded in 1997.

The extension of the Vietnamese Welfare system is still very limited. Until the Communes were in control of agricultural production they also took responsibility for the provision of basic education and basic health care system. Today user fees are charged for most services and additional payment (under the table) are often requested. The state is able to provide free health care insurances to (some of) the poorest. Pensions cover only former state employees. Unemployment benefits exist as temporary measures for workers who have lost the job in State Owned Enterprises. The creation of viable system of redistribution should also be an indicator to assess the socialist nature of a state. But also in this case the judgment must be suspended. The state budget cannot really allow a more extended Welfare system. During the 1990s economic growth has substantially ‘trickled down’ creating the condition for poverty reduction. Thus, apparently the Vietnamese leadership is now more concerned with generating growth than promoting redistribution. But what the future holds for the future phases in the reform process cannot be predicted at this stage.

[37] Rice and vegetables, with very little intake of proteins, still represent the diet of many poor peasants.

Chapter 2
The historical background: Vietnam between revolution and economic reform

This chapter aims at providing an historical background useful to the assessment of the Vietnamese *doi moi* and the post-crisis debate on the development agenda. The presentation is based on a selection of themes and events, as relevant to the present research, i.e., without embarking into a thorough reconstruction of the Vietnamese recent history. Following a chronological order, our attention focuses on two key issues:
the impact of the two 'Indochinese wars' on the construction of a socialist-state;
the beginning of the economic reform process, and its dynamics until the onset of the regional economic crisis.

The making of the socialist state: wars, national reunification and economic policy

At the conclusion of World War II it was evident that in Vietnam, like in other parts of Asia, the colonial era was arrived to an end. After the 'August Revolution' of 1945, the anticolonial movement, lead by Ho Chi Minh and the Communist party, proclaimed the independence. France, however, was not ready to accept this *fait accompli*. The attempt to restate the colonial rule on Vietnam (and on the rest of Indochina) resulted into a war, which was terminated only by the French military defeat at Dien Bien Phu (April 1954). After the Geneva Agreements (July 1954) the country was temporarily divided in two parts along the 17th parallel. On theory, the two administrations were supposed to organise elections within two years and to prepare the peaceful reunification of the country. In reality, the conditions for peaceful reunification were very remote, especially for the international constraints on the country[38]. In the North it was established the Democratic Republic of Vietnam, under the leadership of the Communist party. In the South it was established the Republic of Vietnam, an authoritarian regime increasingly dependent for survival on the American support. Only in April 1975, after a long and terrible war, concluded with the withdrawal of the American army (1973) and the complete collapse of the Southern regime, the country was finally reunified.

Next section presents a synthetic introduction to the major policies adopted in North Vietnam for the construction a socialist state. The following section analyses the process of reunification and the attempt to transfer to the South the economic model adopted in the North. The last section of this part discusses the transitional period: i.e.,

[38] Two factors can be reminded. First the increasing American involvement in South Vietnam, which in a few years led to a direct military intervention. Second the ambiguous role of China, later on denounced by the Vietnamese Communist party. During and after the Geneva agreements, the Chinese government was not too keen of promoting the reunification of Vietnam, which was considered as a potential contender in the Southeast Asian geopolitical equilibrium. A Vietnam divided and dependent on Chinese support was probably a more appealing option for Beijing.

the period immediately precedent the official adoption of the reform process, and during which a number of policies are anticipated

From 1954 to the national reunification

The Vietnamese liberation movement against the French colonialism eventually succeeded thanks to the support it received from the poor peasants. Thus, land reform was one of the first initiatives that the new DRV government was committed to assume. In many regards, the land reform was a success. Through it more than 2 million acres (800.000 hectares) of land were distributed. And more than 2 million farm families – well over half the total number in the DRV – received at least some land. The reform had also the effect to undermine the historical domination of the landed gentry and to support the rise of a new village leadership composed of poor and middle peasants emerged (Duiker 1995: 136). Its implementation, however, resulted in abuses and excesses. In order to break the hierarchical structure of the traditional rural world, which could have easily led to a reversion of the reform's results, peasants were invited to criticise the landlords (whose land was confiscated) and lists of 'enemies' were made. The excessive zealous of local officers, combined with the exploitation of the political campaign to regulate private conflicts, led to severe abuses. This reality was acknowledged by the Communist party in 1956, recognising that many innocents had been wrongly classified as enemies and thereby deprived of their land. The assumption of responsibility for the errors committed was sanctioned with the removal from office of the party General Secretary Truong Chinh and several other senior officials who were responsible for carrying out the program (Duiker 1995: 137).

The next step in the transformation of the rural world was the process of collectivisation started in 1958. The decision to move toward the collective ownership of land was decided on the basis of the assumption that it would have permitted a more effective use of the land through the consolidation of small farm plots and the introduction of widespread mechanisation. The choice to promote collectivisation at this early stage of economic development was based more on the contemporary Chinese example than on the Leninist tradition. While Lenin prescribed 'mechanisation before collectivisation', in 1955 Mao Zedong had reversed this order because he was convinced that industrialisation could not be achieved on the foundation of a backward agricultural sector.[39]
Collectivisation was also aiming to give all farmers – both rich and poor – 'the chance to benefit from capital accumulation in agriculture and to prevent the possibility of peasants losing their land through the bankruptcies which would be the inevitable result of allowing private accumulation and a free market' (Beresford 1988: 59)

The formation of the cooperatives in the North was substantially well received by the peasants. Peasants support was motivated by the fact that the cooperatives were seen as a way to adapting the traditional forms of corporate solidarity. The cooperatives

[39] The need of Mao to accelerate the process of industrialisation in China – culminated into the dramatic Great Leap Forward – was also motivated by the underlying conflict with Soviet Union. This conflict became openly visible in 1957, and led to a complete rupture in the 1960.

could fulfil welfare roles, reinforcing the social cohesion between individuals and within the local community. 'They could help families in difficulties, for example, if a parent was dead; they could help the families of men in the army; and they could help finance valuable services such as the rapidly expanding medical and school systems' (Fforde and de Vylder 1996: 57).

By the early 1960s more than 80 per cent of all farm families in the lowland districts had been enrolled in either semisocialist cooperatives or fully socialist collective organisations (Duiker 1995: 138). Few years after, in 1968, the process of collectivisation could be considered as concluded. By that time, 90 per cent of North Vietnamese belonged to the higher-level cooperatives in which all land and means of production were collectively owned and remuneration was awarded in principle according to labour contributed (Beresford 1988: 59). Disappointingly, however, collective ownership did not significantly increase the grain production, in part because mechanisation remained low, with less than 7 per cent of the land ploughed by tractor (Duiker 1995: 138). A substantial increase in land productivity would have required a higher capital investment in chemical fertilizers (or livestock to produce organic material). But this was complicated by the fact that, even after the reform, farm size in the North were typically too small to produce the required surpluses (Beresford 1988: 59). Furthermore, since 1960 the government priority was the construction of heavy industry and capital investment was mainly directed to that aim.

To understand the frame in which the Vietnamese leadership made plans for the edification of a socialist state, it should be born in mind the particular conditions of the country after the Geneva agreements. First, North Vietnam was impoverished by years of war and colonial exploitation[40] and its rudimentary industry and infrastructures were in urgent need of rehabilitation. A well-known Vietnamese scholar reminds, e.g., that:

> In 1954, modern industry accounted for only 1.5 per cent of total production, and not a single motor could be found in any village of North Vietnam… One year after the liberation of North Vietnam, annual generation of electricity totalled less than 53 million kwh, and the proportion of modern industry still in full production was around 3.4 per cent (Nguyen Khac Vien 1993: 295).

The other essential factor to remember is that Vietnam was a country at war, and therefore its economy had to be organised in consequence. Huge subsidies to industrial sectors essential for the military needs, for instance, are the rule in each

[40] An assessment of the long-term development implications deriving from the French colonial rule remains a controversial issue. On the one hand, France certainly subjected the country to a regime of harsh economic exploitation (e.g., Marr 1981); on the other hand, France also contributed to the development of a consumer goods related light industry (Nørlund 1989). However – contrary to the experience of the Japanese colonisation in Manchuria, Korea and Taiwan – France did not support in Vietnam the development of a heavy industry. The differences between the Japanese colonisation of Taiwan and the French colonisation of Vietnam are well discussed by Bruce Cumings (1999a): Japan financed physical infrastructures (roads, railways, harbours and irrigation) but also promoted agricultural extension, technical schools, peasants associations, etc. Nothing of this kind was realised by France. The question of the reforms introduced by Japan remains a sensitive one, because it risks being confused with a justification of the Japanese colonial rule (see also discussion in Wade 1990).

state at war, although they can produce distortions in the economy (Kolko 1997: 20).[41] The war, together with national deficiencies in economic policies, made North Vietnam also exceptionally aid-dependent: 'from 1966 to 1975, foreign grants and loans averaged 63.2 per cent of the non military budget' (Riedel and Turley 1999: 13).

The central planning system applied by Soviet Union and China offered Vietnam a model, which seemed to respond to the needs of the country under its particular conditions. This system[42] had a strong emphasis on the need to promote a rapid industrialisation through the leading role of state owned enterprises. Like in other socialist countries the collectivisation of agriculture was functional to the accumulation of the capital needed to finance the development of heavy industry. However, the 'DRV model' was also the result of a compromise, adapting the Soviet-model to the local conditions existing in the country (Fforde and de Vylder 1996). The Vietnamese practice differed from the Soviet model in two crucial respects. First, as in China, a large number of state enterprises were managed by provincial or local authorities, with a tendency to decentralisation that was greatly accelerated after 1965 in response to US strategic bombing. Second, a large informal economy continued to exist along side the state-run sector (Irvin 1995: 728).

The working of this central planning system in Vietnam is synthetically described by Fforde and de Vylder in the following terms:

> Capital resources were supplied by the state to SOEs in order to produce a certain product. These resources were essentially supplied free. Each unit was managed by a level of the state bureaucracy (a ministry, if centrally-managed; a provincial or city department, if locally-managed) that allocated labour to it. The unit was then given a regular production target, in quantity terms, and in order for it to meet this target it was provided with levels of current inputs calculated on the basis of simple arithmetic norms. These inputs were supplied directly to the unit by the state, and its output was also supplied directly to the state. The unites was there essentially to produce for the target, and with almost no freedom to chose either what it produced or who it produced for, the unit had little interest in either the value of what it produced or the real costs involved in doing so… (Fforde and de Vylder 1996: 58).

The First Five-Years Plan (1961 to 1965) was successful in developing a modern state industry, showing remarkable rates of growth. This result was achieved also through large supplies of aid coming from China and Soviet Union. However, as the five-years plan progressed, macroeconomic tension mounted. The tax base did not expand fast enough to cover the expenditure needs and foreign trade position deteriorated. But the more serious threat to the stability of the system was the poor result in

[41] Gabriel Kolko, recalling the war experience in other countries such Germany, Britain and the Unites States, concludes that: 'Few, if any, of Communist Vietnam's economic policies from 1955 to 1975 differed in principle from what states normally do during wars' (1997: 21).
[42] Important differences existed between the Chinese and the Soviet models, and in both countries 'models' changed overtime. However, also the Chinese system during the First Five Years Plan (1953-58) was strongly influenced by the Soviet example.

agriculture, leading to an increase in food costs. State employees' real wages fell by around 25 per cent during the first five-years plan and food supplies for non-agricultural workers became more expansive. According to Fforde and de Vylder (1996: 59–60) there were three main reasons to make food supply growing too slow to meet the increasing demand: '1. Inefficiencies in the cooperatives; 2. Agriculture remained poor of resources; 3. As free market prices rose, cooperators increasingly preferred to work on their so-called private lots'.[43]

From 1965 North Vietnamese paramount concern became the military effort to support the liberation movement in the South and to resist the intense American bombing in the North. Thus, a second Five-Years Plan was postponed and more flexible one-year programmes were adopted. Substantial foreign aid sustained the survival of the county in the emergency situation. However, the North Vietnamese state institutions resisted to the hardships of the war, not only succeeding to carry out the military effort, but also to achieve important results in socio-economic development (health care, education, etc.). The North Vietnamese performance was notable when compared to the parallel decay of the South Vietnam, where the large American military and economic aid could not prevent the progressive collapse of socio-economic institutions. After the Paris Agreements in 1973, and the withdrawal of the American troops, the South Vietnamese regime was clearly not able to survive for long (notwithstanding the on-going abundant American economic support). Two years after, in April 1975, the North Vietnamese army entered in Saigon, putting to an end the war and reaching the reunification of the country. However, the reunification opened a new difficult period in the Vietnamese history. Apart from other political and social considerations, the economic model developed in North Vietnam was affected by problems and distortions, which had been already visible in the early 1960s and had been further enhanced by the war period.

The reunification of the country

The 'Vietnam war' (or the 'American war' for the Vietnamese) came to an end in April 1975. The country was finally reunified under a national government for the first time for over a century. However, the process of reunification and construction of a new state was characterized by severe drawbacks. Many of the problems derived from the way in which the reunification process was handled: the South was integrated into the northern institutions, without an adequate understanding of its socio-economic dynamics. Party officers from Hanoi, which assumed control of the administration in the South, had often only a limited knowledge of the local conditions. The need to rely on cadres from the North was also a result of the weak basis available for a new local administration. The long clandestine war and specific American covert actions[44] hit the South's intelligentsia very severely. Large numbers

[43] Even in the full 'socialist collectives' peasants were allowed to maintain private plots, corresponding to 5 per cent of the collective land. The products from these plots could be sold on local markets. In many areas peasants tended to dedicate more energy to these lands than to the collective farming; and in some cases the dimension of private plots were increased with the consent of local authorities.

[44] For instance, the notorious CIA-led Operation Phoenix was directed to the systematic murder of those democratic activists, which were considered sympathetic with the Communist forces.

of the remaining intelligentsia – including the Chinese ethnic minority – were considered insufficiently trustworthy, because of real or alleged connections with the former regime.[45]

At the time of reunification, the social structures of North and South Vietnam had developed in quite different ways.[46] These differences were the result of the long period of separation after 1954, but also of longer-term factors connected to the historical heritage of the French colonial rule. The clearing and cultivation of new lands in the South had been conducted under French control, and relied more on a system of modern capitalist exploitation than on the traditional organisation of the Vietnamese village. As a result, 'private property was established on a more widespread basis in the southern region, whereas in the north and centre it co-existed with more traditional forms of land ownership' (Beresford 1988: 55). Land ownership in the South at the end of the French colonial period was more polarised than in the North. However, a process of land reform took place also in the South, although the process was gradual and extended over three decades. The redistribution of land was the combined result of the reforms imposed by the Communist forces on the liberated areas and the several reforms attempted by the regime in the South to consolidate its power. By the time of reunification, the change that had occurred in land ownership were remarkable:

Whereas in 1955, the poor peasants had constituted over 70 per cent of the rural population and owned only 14 per cent of the land, by 1978, when the first post-war survey of land tenure in Mekong delta was carried out, they were less than a quarter (and owned 8 per cent of the land). Instead the great bulk of peasants were classified as middle or rich and it was these peasants who produced the large market surplus of the delta (Beresford 1988: 56).

The structure of land tenure in the South explains why the peasants were much less ready to accept collectivisation and the creation of cooperatives than those in the North.

In the South, as in the North, the war had an all-encompassing impact in shaping the socio-economic structures. The devastation produced by the war in the rural areas of the South – either because of American bombing or because of Saigon's attempts to cut the connections between the 'Viet Cong' and the peasants – was a major cause

---

[45] The Vietnamese historian Nguyen Khac Vien criticises the 'atmosphere of political suspicion [toward] those who had worked in the Saigon Administration' (1993: 390). This led to the dismissal of thousands of former officers from all the levels of the new administration, even in technical services. Also, errors were made in sending to 're-education camps' officers whose association with the previous regime had not been marked by criminal behaviours. Nguyen Kahc Vien puts in relations these mistakes and excesses to the post-war environment, were forces opposed to the new regime (supported by the United States and China) tried to sabotage the economic reconstruction and in some case attempted military insurgency.

[46] For the sake of simplicity in this text the conventional dichotomy North/South is employed. However, at least five geographical areas could be distinguished with different socio-economic characteristics. Traditionally, the country is considered as consisting of a North (Bach Bo), a Centre (Trung Bo) and a South (Nam Bo). This distinction relies on historical and natural differences (reflected in the French colonial organisation), and still playing an important role. (For a critical assessment of the three region in the revolutionary movement see Chesneaux 1972). At the time of reunification, the part of Centre below the 17th parallel was more easily integrated into the new socialist system than the rest of the 'South', exactly for this long-historical heritage (e.g., Beresford 1988: 63).

behind the rapid urbanisation. Large numbers of dislocated villagers were forced to seek shelter in the shantytowns of Saigon and of other major cities. This also led to a number of social problems such as the spread of drug abuse and prostitution, which were left to the new socialist administration. The urbanisation in the South contrasted with the situation in the North, where people sought repair from the American bombing in the countryside (and also part of the industrial plants was relocated in rural areas). In 1975, around 35 per cent of the South Vietnamese population lived in urban areas, while the figure for North Vietnam was only 11 per cent (Beresford 1988: 57). These differences were visible also in the organisation of the economy, which in both parts of the country was a 'war economy'. While the 'war economy' in the North emphasised the development of a heavy industry, the industrial basis of the South remained weak (with only 3 per cent of the population employed in the sector, including mining, construction, transport and public utilities). In the South, the service sector, including commerce and administration accounted for the largest share of GDP (Beresford 1988: 57), and was largely dependent on the circulation of the American aid.

The integration of two parts of the country that had experienced for decades such different conditions was not an easy task. The strategy adopted by the national leadership was to accelerate the socialist transformation of the country, through a rapid and radical change in the economic institutions of the South. This decision was announced in December 1976 at the Fourth CPV Congress, and adopted by the party leadership in late 1977. Plans were made to begin the process of socialist transformation in the southern provinces early the following year (Duiker 1995: 146). As in the North, this strategy was based on the creation of joint state-private enterprises in modern industry, the collectivization of agriculture and handicraft industries, and the attempt to bring domestic circulation of goods under state control through the creation of a state trading network and administrative pricing system (Beresford 1988: 63). The decision to abolish private trade and manufacturing was put into practice in March 1978, when all major industrial and commercial enterprises remaining in private hands were suddenly placed under state control and their goods confiscated. Only small firms under family ownership were permitted to remain in private hands. This reform also involved the remaining small private sector in the North, which predominantly consisted of ethnic Chinese merchants and manufacturers (Duiker 1995: 146).
The collectivisation of agriculture achieved different results in the different areas previously controlled by the Saigon regime. In the impoverished central regions collectivisation was successful and quick and the output recovered and grew rapidly. But in the Mekong delta the collectivisation campaign was a failure: by mid–1980 only 50 per cent of peasants belonged to cooperatives, and only 36 per cent of the land had been incorporated (Beresford 1988: 63).

The economic and political reforms introduced in the country after reunification had been decided on the basis of optimistic plans concerning the possibility of moving rapidly ahead toward the complete socialist transformation. However, this optimism was contradicted by the events of the period 1978–79. By late 1979, the there were sever economic problems and the need for a change in the economic strategy was apparent. The economic crisis was a result of many factors. First and foremost, was the invasion of Cambodia (December 1978), which also produced a Chinese military retaliation (February 1979), and increased the country's political and economic isolation. Economic aid from China and Western countries as well as foreign trade sharply declined, causing Vietnam to depend more heavily on the Soviet Union. Second, the poor results of the economic and political measures adopted after the reunification exacerbated the tensions in the country. This also generated a tragic reaction that further compromised the international standing of Vietnam: several hundred thousand people – mostly ethnic Chinese – flew the country, either moving to China or escaping by sea (thus becoming known to the world as 'boat people'). The drama of the 'boat people', together with the invasion of Cambodia, greatly influenced international public opinion, which had previously expressed sympathy to Vietnam as victim of the American imperialism. This change in its international image had concrete implications for the draining of economic aid even from those countries and movements which had supported Vietnam during the war. Third, poor harvests resulting from bad weather, and also from peasants' foot-dragging against the forced collectivisation in the South, caused the country to suffer from a sever food shortage, particularly effecting the population of urban areas.

The combination of these negative conditions resulted in 'a systemic crisis' (Fforde and de Vylder 1996: 12). Apart from its transient motivations, the crisis indicated a planning system's failure to control the allocation of resources. From this crisis a spontaneous process of change developed, which can be considered as the real starting point of the process than officially adopted as *doi moi*.
[It] forced economic agents – individuals as well as agricultural cooperatives and state enterprises – to engage in a process of 'reform from below'. 'Fence breaking' […] became increasingly common, and the authorities had to admit tacitly that the DRV[47] model had (perhaps temporarily) become unsustainable (Fforde and de Vylder 1996: 12–13).
The spontaneous process of 'reform from below' was sanctioned by the Sixth Plenum of the Central Committee in the autumn of 1979, making possible to adopt reforms that ratified *ex post* the transformations which were already taking place.

The transition: from 1979 to 1990

From the Sixth Plenum to the Sixth Congress

In the years immediately following the Sixth Plenum a number of reforms were introduced. These reforms were intended by the CPV as tactical concession, which would not represent a real change of policy. In fact, in 1984–85, once the national economic conditions had improved, an attempt was made to move back to a more orthodox strategy. But the failure of the measures adopted in 1985 led, instead, to a more resolute adoption of a reform strategy (*doi moi*).

[47] Democratic Republic of Vietnam was the name of North Vietnam before unification.

Table 2.1 – Five Years Plans: Targets and Outcomes

		Percentage Rates of Growth		
		National Income	Agricultural Production	Industrial Production
Second FYP,	Plan	13–14	8–10	16–18
1976–80	Actual	0.5	1.9	0.6
Third FYP,	Plan	4.5–5	6–6	4–5
1981–85	Actual	6.4	4.9	9.5
Fourth FYP,	Plan	4.3	1.4	5.6
1986–90	Actual	4.4	3.5	4.3

Source: Fforde and de Vylder 1996: 167

Although the concessions made by the party after the Sixth Plenum were meant to be only tactical retreats, they allowed the development of what Fforde and de Vylder (1996: 126) call the 'transitional model'. In the new environment, farmers were once again authorised to sell their products on open markets, and a limited degree of private commerce and manufacturing was tolerated (Duiker 1995: 148).

In January 1981, Directive 100, popularly known as the 'contract system', was approved, introducing some elements of rural decollectivisiation. Under this system tasks (ploughing, irrigating the land, transplanting, etc.) were 'subcontracted' to households. Peasants were partially working for the cooperatives and paid by the number of workdays (as in the old system) and partially paid by the cooperatives for the contracted tasks (new system). On the land 'subcontracted', each household was required to provide the state a quota of grain in the form of rent, but any grain produced on the land beyond the established quota could be consumed or sold on the free market (Duiker 1995: 148–149). The cooperative maintained control over supply of inputs and marketing.

Table 2.2 – Staples production in Vietnam, 1976–1982

Year	Staples Output (million tonnes paddy equivalent)	Population (million)	Output per capita (kgs)
1976	13.49	49.16	274
1977	12.62	50.41	250
1978	12.26	51.42	238
1979	13.98	52.46	266
1980	14.41	53.72	268
1981	15.00	54.93	273
1982	16.83	56.17	300

Source: GSO 1995

State industry was the main other area in which the process of 'reform from below' forced the party to react with official reforms that ratified the 'unplanned' activities, but also attempted to regulate them. In 1978–79 the halt of Chinese and Western aid sharply reduced the volume of supplies coming through the state monopolies. Thus, enterprises were pushed to find alternative sources for obtaining inputs to fulfil their plan obligations. The inefficiency of the central planning system tended to leave agricultural resources and to produce substantial stocks of industrial materials that were not adequately used. Encouraged by the Sixth Plenum, a number of enterprises started to move outside the official rules in order to procure those under–utilised resources existing in the economy that could be employed to increase output. They also started to look at potential foreign suppliers of input and materials for profitable deals. Diversification of production was pursued in order to procure cash for acquiring new resources through the market. Goods started to be swapped through direct connections with agricultural collectives or other industries. The availability of more resources gave enterprises the means to increase workers' incentives (bonuses), and so to further expand production.

The diffusion of these 'unplanned' activities from late 1979 onwards had two major effects. First, it made possible to make a productive use of under–utilised resources existing in the system, and therefore output recovered surprisingly rapidly in some areas. Second, it increased the pressure for change on the subsidised sectors of the economy, because these sectors faced increased competition from market activities (Fforde and de Vylder 1996: 138). These non-orthodox practices were sanctioned by the Communist party decree number 25 of January 1981, through a new regulation that made possible for state enterprises to perform additional activities beside those prescribed by the plan. The new 'Three Plan system' (similar to the Chinese dual-pricing system) confirmed that enterprises should give priority to the fulfilment of the plan, using input received from the state and supplying the resulting output to the state at low prices (First Plan). But once having fulfilled this obligation, enterprises were allowed to sell additional output generated by their official productive sector on the market (Second Plan), or to produce and sell, the output of their 'minor' products, which were the result of industrial diversification (Third Plan).

These measures regarding agriculture and state industry can be interpreted as the beginning of the official process of reform and the legal basis for the transitional model.

> 'The plan now had to coexist with the world of autonomous transactions in the hybrid transitional model. Prices, costs, and markets began to play a larger role, and economic agents became used to thinking in more market oriented terms' (Fforde and de Vylder 1996: 13).

The adoption of these initial reforms, however, increased imbalances within the system. Elements of the market economy were sanctioned within a central planning frame, making more visible the conflict between different interest groups. In political terms, the adoption of reforms did not imply the choice to renounce to a centrally planned socialist economy. On the contrary, these reforms where accepted only because they were considered useful for making state enterprises more affective in carrying out their plan obligations and for collectives to increase their agricultural output targets. Thus, the adoption of the 'contract system' in agriculture and the 'Three Plans system' in industry was accompanied by restrictions on free trade (Fforde and de Vylder 1996: 141) and an attempt to regain the control on the national economic activities.

The contradictions existing in the system – with part of the economy based on market principles and signed by staggering prices and the other part of the economy based on command economy and depending on subsides – soon came to reverse the positive results achieved in the early 1980s. With output growth declining from 1983, prices increasing and spiralling inflation, the balance of power shifted in favour of the 'hard line' advocates. This led to the adoption of the so-called 'Price–Wage–Money–

Currency Reform' in 1985, which tried to re-establish macroeconomic stability, through a combination of currency reform, increased state prices and higher wages. However, this reform gave poor results. The rationing of key products did not succeed in arresting the price increase on the free market.

With the failure of the 1985 measures political support for 'hard reform socialism' – the combination of reforms and re-centralisation attempted after the Sixth Plenum – evaporated. This opened the way to new political change, which was also represented by a change in the CPV leadership: after the death of the General Secretary Le Duan (and the temporary replacement by Truong Chinh)[48] the somewhat younger and more liberal Nguyen Van Linh was elected to the helm of the party.

The Sixth CPV Congress and the launch of doi moi

The CPV's Sixth Congress represented a clear shift in the Vietnamese strategy. A line of reform and economic liberalisation received a strong political backing from the party and its new leadership. Thus, (and increasingly from the late 1980s) Vietnam embarked on a number of policy changes, which within a few years transformed the international relations, the development strategy and the socio-economic structure of the country.

This fundamental change had two motivations. On the one hand, it reflected the need to address the economic imbalances and shortages produced by the command economy (and aggravated by the persisting war in Cambodia). On the other hand, it derived from the need to cope with the crisis in the Soviet Union, which involved a drying up of economic aid, the loss of the traditional export market, and dangerous isolation in political and military terms.

The emergence of a reformist agenda in 1986 was a direct consequence of the failed re-centralisation of controls attempted in 1985. A heterogeneous coalition of local governments and enterprises that had developed a stake in market and off-plan activities converged in pressuring for a new policy.[49] In December 1986, under the slogan of *doi moi* (renovation) the Sixth Party Congress introduced a new strategy of reforms, which reflected the shift in the composition of interest groups dominating the political discourse. The reforms adopted increased SOEs' autonomy, eliminated the state monopoly of foreign trade, and allowed for small-scale private commercial activities. The function of the state came to be described as like that of an orchestra director rather than that of a controller of the economic machine (Fforde and de Vylder 1996: 145). The new strategy, however, emphasising a 'socialist market

[48] Truong Chinh, former general secretary of the party and pre-eminent ideologue, had been a supporter of accelerated socialist transformation in the South in the 1970s. However, since 1984 he became convinced of the need to implement a reformist agenda. He, together with other senior leaders, initiated to prepare the ground for the subsequent major change (Riedel and Turley 1999: 18).

[49] This coalition is described by Fforde and de Vylder (1996: 143) as resulting from the convergence of three groups:

1. technocrats and pro-markets reformists, pushing for a total dismantling of the DRV model;
2. rising commercial interests within the state sector in search of better economic benefits;
3. Southern liberals who wished to see a return to the pre-1975 system.

economy', confirmed the central role of the state in leading the national economy, and ruled out significant reduction of government control over SOEs, dismantling the planning apparatus, or abolition of the dual price system. The adoption of a 'compromising agenda' in the initial phase of *doi moi*, leads Riedel and Turley (1999: 20) to interpret the reform as dominated by 'a path of least resistance: rewarding groups that had or could be expected to support a partial marketisation and postponing measures that might inflict real pain'.
Notwithstanding the adoption of *doi moi* was the result of a compromise between different forces and interests, it opened the way for a number of reforms that were discussed and eventually approved during the following two years.

Reforms were decided and implemented in key areas, including the reorganisation (and downsizing) of state bureaucracy and the development of the legal system. Two decrees were approved in 1988 to regulate the 'families economy' (i.e., activities by state or collectives employees undertaken in addition to their main occupation) and the 'private and individual sectors'. In both cases, the legislation was not only more positive toward these private activities than in the previous years but also supportive (Cf. Fforde and de Vylder 1996: 154–156).
Local authorities were not allowed to interfere with family economic activities. Households could freely sell any product they had, once they had fulfilled their contracts with state or collective economic units; could freely sign contracts with export or import organisations; could open and freely used bank accounts and borrow money; could receive foreign exchange from family members abroad to invest in production.
The legislation on private and individual sector was also sympathetic, stating that 'the state accepts the positive role and long-term existence of the private and individual sectors' (Fforde and de Vylder 1996: 155). The decree ratified the freedom for any citizen that was not a state employee or a cooperative member to engage in private economic activities. These activities were not regulated by planning, and were understood to be self-managed. Private enterprises had the property of their means of production and were allowed to hire labour and to form joint-ventures with state units or cooperatives. Enterprises should be registered and pay taxes, but local authorities were not allowed to interfere with production or to levy special taxes. Further, private enterprises could receive foreign investments (which were regulated by a specific law), while their exports and imports were to be channelled through state trading organisations.

Agriculture was the target of another major reform with the aim of increasing output and mobilising agricultural surpluses through material incentives. In April 1988, the party approved a decree, commonly known as the Contract 10 system, which made individual households the base of agricultural production in exchange for the payment of an agricultural tax. Households were awarded land rights for 15 years. At the same time, the decree still restricted the sale, renting and exchange of land except in certain limited situations. The cooperatives retained some duties to support traditional safety nets (e.g., for families of war-dead).
The decree changed the managerial structure of cooperatives by emphasising internal democracy and leading to the sacking of incompetent and/or corrupt cadres (eventually this led to the dismissal of 50 per cent of rural cadres). The decree also

prohibited the cooperatives' superior level (the districts) from issuing orders to the cooperatives, and thus 'finally destroyed the rural basis of the command economy' (Fforde and de Vylder 1996: 157). Further, restrictions on grain trade between provinces were removed.

Table 2.3 – Staples production in Vietnam, 1983 – 1992

Year	Staples Output (million tonnes paddy equivalent)	Population (million)	Output per capita (kgs)
1983	16.99	57.37	296
1984	17.80	58.65	303
1985	18.20	59.87	304
1986	18.38	61.11	301
1987	17.56	62.47	281
1988	19.58	63.73	307
1989	21.51	64.77	332
1990	21.49	66.23	324
1991	21.99	67.77	324
1992	24.21	69.40	349

Source: GSO 1997

Together with this decree, the government also decided to increase investment in agriculture, to reduce the number of intermediaries between the state and producers in supplying agriculture and purchasing from it, and to set up a new Agricultural Development Bank in order to facilitate farmers access to credit.
In 1988–89 grain prices doubled in real terms, representing a 'large swing in the domestic terms of trade in agriculture's favour' (Irvin 1995: 730). These measures succeeded in boosting agricultural production, and especially rice output. A record harvest in the 1989–90 crop allowed Vietnam to become the world's third largest rice exporter after Thailand and the USA, reversing a long historical dependency on rice imports.

A new regulation concerning state owned enterprises (decree 217) was introduced in 1987. This made a distinction between enterprises operating in key areas – where the state needed to maintain control over output – and normal enterprises that were only liable to the state for taxes. The regulation was meant to simplify state management and to dismantle the traditional control apparatus, although results of the reform were only partial in this area. Enterprises gained the freedom to recruit workers and to acquire and dispose of resources which were outside the constraints imposed by the plan (although in some areas the Three Plan System was maintained) (Fforde and de Vylder 1996: 158).

The policy of *doi moi* had been launched as a strategy for enhancing economic growth. However, the results of the first two years were dismaying: instability accelerated and the state budget deficit became critical. The pressure of an increasing private sector competition reduced the income of SOEs, which were the main source of support to the state budget. The end of state monopoly on foreign trade and an overvalued exchange rate caused losses to exporters, while undervalued imports increased competition for domestic producers, adding pressure to the state to grant subsidies. Given the difficulty of introducing new forms of taxation, payments of subsidies implied a burgeoning deficit and continuing triple-digit inflation. A poor harvest in 1987 further contributed to making the situation more critical with pockets of famine that lasted into spring 1988 (Riedel and Turley 1999: 20). Notwithstanding the critical situation, when the CPV Central Committee met in March 1989 to assess the first two years of the implementation of *doi moi*, the commitment to the reform agenda was not only confirmed but also translated into a bolder plan for macroeconomic stabilisation.

Why the party chose to deepen the reform process at this critical juncture remains one of most complex puzzles that arises when trying to analyse *doi moi*. The policy of macroeconomic stabilisation adopted and implemented between 1989 and 1990 is normally related to IMF style structural adjustment. The reference to IMF led strategies raises two questions. First, how was a consensus created on such a bold reform package? Second, why has Vietnam been successful where most other developing countries adopting IMF inspired structural adjustment failed? A certain level of consensus exists among scholars in connecting the positive result of the macroeconomic stabilisation of the late 1980s in Vietnam – contrary to the case of 'big bang' reforms in other 'transition economies' – to a longer-term reform, which started to make 'price matter' already since the late 1970s. This is the view held by Fforde and de Vylder (1996), now largely accepted in the scholarly community (we will return to this soon). More controversial, is the identification of the *primum mobile* behind the reform package adopted in 1989. In particular, it remains unclear the role played by the IMF and other external actors. A critic of the *doi moi* process – Gabriel Kolko (1997) – considers that by that time the Vietnamese leadership was strongly influenced by the IMF, whose line was represented in the country by the influential government adviser Nguyen Xuan Oanh. Mr Oanh was a former IMF officer and a former Acting Premier of South Vietnam. At the conclusion of the war, after a brief house arrest, he became an associate of Vo Van Kiet[50] and since 1983 a government adviser. Although the IMF did not resume lending to Vietnam until the removal of the American embargo in 1994, contacts were kept between the two sides also through regular IMF staff missions, several of which were conducted in the first half of 1989. However, most scholars seem to exclude the possibility that the IMF played a direct role in influencing Vietnamese decision-making. For instance Riedel and Turley (1999: 22), although maintaining that the policy adopted by Hanoi in 1989 resembled 'pure IMF orthodoxy', stress that the IMF had no material leverage over Vietnamese policy, and that the adoption of the macroeconomic stabilisation was an autonomous decision by the national leadership. The same conclusion is reached by Ronnås and Sjöberg (1991). These scholars tend to consider the adoption of a bold reform policy as a national decision taken by the Vietnamese leadership in order to cope with a very critical situation.

Macroeconomic stabilisation 1989–90

Counter-inflationary measures were adopted by the government in early 1989. Bank interest rates on savings were brought clearly above current inflation restoring people trust in the national currency. Positive interest rates motivated people to deposit *dong* with banks and put a sudden halt to the hoarding of food and goods. Within a few

[50] Party leader in Ho Chi Minh City and later Prime minister.

months the country moved from a shortage economy to a situation where household and enterprises were encouraged to sell their stocks on the market. According to the Vietnamese economist Vo Dai Luoc[51] the exceptional surplus in rice production of 1989 should also be understood against the background of the situation created by the counter-inflationary measures. In fact, per capita output did not increase sufficiently to justify the abundance of rice on the market (Vo Dai Luoc 1995: 73).
The high interest rates placed strong financial pressure on the state owned enterprises, which found it increasingly difficult to service their debt and were forced to liquidate their inventories in search of liquidity. More generally, high interest rates and a restrictive money supply policy threatened to lead the country into a severe recession, consequently these measures were partially relaxed by May 1989, however they were not reversed. At the same time, banks started to lend money to SOEs charging interest rates higher than inflation (but lower than the rates paid to depositors) thereby reducing state subsidies to SOEs (Vo Dai Luoc 1995: 75).

Table 2.4 – Real GDP Growth and Inflation, 1985 – 1996

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Real GDP Growth	5.7	3.4	3.3	5.1	8.0	5.1	6.0	8.6	8.1
Inflation rate	132	487	317	311	76	67.5	67.6	17.5	5.2

Source: General Statistical Office 1997

Price liberalisation for most goods also indirectly contributed to the anti-inflationary policy reducing the scope for arbitrage and speculation of the price differential between state-fixed prices and market prices. The state retained the function of controlling and stabilizing the prices of key products (e.g., rice and gold), but let most prices fluctuate in line with supply and demand (Fforde and de Vylder 1996: 177; Vo Dai Luoc 1995: 76).
Price liberalisation was also introduced in another key sector, where market dislocation had affected the Vietnamese economy in previous years that is official exchange rates for foreign currencies and precious metals were set at market prices level, thus reducing people's hoarding of gold and hard currencies (Vo Dai Luoc 1995: 76).

Overall, these anti-inflationary measures were quite successful in achieving stabilisation, although they did not remove the causes of inflationary tendency and structural instability of the system. On the contrary, these measures made more evident the contradiction represented by the introduction of a market economy without the existence of an effective market for the factors of production: land, labour and capital. Therefore, the reforms of the late 1980s set the agenda for a new phase of the reform process in the early 1990s. This new phase was based on an interest rate reform (1992), a rising flow of foreign direct investment, the growth of the private sector and strong de facto privatisation, and the resumption of multilateral lending (late 1993) (Fforde and de Vylder 1996: 126). By the end of the 1980s, however, the 'transition' – to use the terms of an influential interpretation of Vietnamese recent history – was over:

[51] Director of the Institute of World Economy, at the National Centre for Social Sciences and Humanities – one of the leading research institutions in the country.

> ‘as the process continued into the 1990s, Vietnam’s development problems would, to an increasing extent, come to resemble those of other low-income developing countries (Fforde and de Vylder 1996: 20).

Reorganising international relations[52]

The structural transformation of Vietnamese economy was also a result of a major change in the international regime. The crisis in the Soviet Union resulted in a drying-up of economic aid, the loss of the traditional export market, and a dangerous isolation in political and military terms. In the space of a few years, Vietnam managed to respond to this change by undertaking an overall reorganisation of its international relations, which achieved important results. Not only did it avoid being hurt by the end of the Cold war, but it also enhanced its strategic regional position. The withdrawal of Vietnamese troops from Cambodia (September 1989) paved the way for the re-establishment of economic and political ties with many countries in the region and beyond. In the few months following the Paris agreements on Cambodia in October 1991, Hanoi reached a full normalisation of diplomatic relations with most countries, including China, with which Vietnam had a brief but intense armed clash in 1979.

The rapprochement with the nation’s Southeast Asian neighbours, which had already begun in 1992, was successfully concluded by Vietnam’s formal admission into ASEAN (July 1995), which eventually opened the way for participation in AFTA (ASEAN Free Trade Area).

The normalisation of relations with the United States was somewhat slower. Washington maintained an embargo on Vietnam until February 1994 but full diplomatic relations were not reinstated until June 1995. Despite this in July 1993, the American administration removed barriers to multilateral aid, allowing the World Bank to resume lending to the country the following October.

The overall achievement of this global revolution in Vietnamese international relations is remarkable for two reasons. First, this revolution was carefully managed, *improving relations in all directions simultaneously*. While Vietnam proved to have great ability in playing the ‘Chinese card’ – i.e., letting Southeast Asian countries and the United States understand the importance of a common front with Vietnam – Hanoi was, at the same time, able to obtain a notable improvement in relations with Beijing.

Second, the enhanced international position of Vietnam proved to be a key resource for receiving financial support for economic reforms within the country. From the moment it started to receive official development assistance (ODA) until a few months before the onset of the regional economic crisis, Vietnam seemed to benefit from a kind of preferential treatment that some considered to be connected with its strategic position and its careful foreign policy.[53]

[52] This section is based on Masina (2002b).
[53] This interpretation has been confirmed to me by officers of the UN system in Hanoi, during informal talks in the spring of 1998.

From 1991 to the regional crisis: a general survey[54]

One of the most important results of the first period of reforms was macroeconomic stabilisation. Strong revenue improvement (from the larger volume of foreign trade, higher taxation of state owned enterprises and increasing oil production) allowed for the amelioration of the country's fiscal position. The trend was further reinforced by the virtual elimination of direct subsides to SOEs in 1991. An immediate positive result of this larger state income was the possibility of expanding public spending on health and education from about 7.5 per cent of current expenditure in 1988 to about 18.7 per cent in 1996 (World Bank 1997: 16).

At the same time, the enhanced fiscal position and the elimination of domestic bank financing allowed greater monetary control and a significant reduction in inflation: since 1993 inflation remained within a single digit range, after years of hyperinflation. Most importantly, macroeconomic stabilisation was achieved together with fast economic growth and poverty reduction. In the decade 1987–1996 GDP growth was on average 7.3 per cent, increasing to over 9 per cent in 1995 and 1996. Over the decade, this result translated into an annual average per capita real income growth of about 5 per cent, increasing GDP per capita from $100 in 1987 to about $300 in 1996 (World Bank 1997: 17).

Table 2.5 – Selected economic data, 1992–1997

	1992	1993	1994	1995	1996	1997
Population (millions)	68	69.2	70.3	71.5	72.7	73.9
GDP per capita ($)	130	145	186	221	290	339
Real GDP growth rate	8.6	8.1	8.8	9.5	9.3	8.2
Inflation	17.5	5.2	14.4	12.7	4.5	3.6

Source: UNDP Hanoi office homepage

Dialogue with multilateral financial institutions was instrumental to a settlement of Vietnamese external debt, which took place at the end of 1993. Hard currency debt with bilateral and multilateral creditors was renegotiated through a mixture of rescheduling and an estimated $3.8 billion write-off. In 1998, Vietnam signed an agreement for debt and debt-service reduction with the London Club, which allowed the settlement of all its outstanding private uninsured commercial debt in arrears. Agreements were also reached with former Soviet Union' states, allowing Vietnam to convert debt denominated in rubles into hard currency at a favourable rates. The last of these agreements was signed with Russia – Vietnam largest non-convertible creditor – in September 2000.[55]

A World Bank study estimated the Vietnamese convertible debt sock in 1999 to be US$ 11.14 billion, of which about half was concessional, and the remaining non-concessional debt was mostly linked to foreign investment projects. The same study – presented at the end of 1999 for the annual donors' Consultative Group – considered Vietnamese debt sustainable and foresaw that debt service as GDP percentage was due to decline from 7.7 in 1999 to 5.7 in 2002.

[54] Parts of this and next sections are based on Masina (2002)b.

[55] This deal fixed the amount of the debt at US$1.7 billions (Russia had initially claimed 11 billions) to be repaid in 23 years, with 10 per cent to be paid in cash and the rest through commodities and export opportunities (*Far Eastern Economic Review*, 9 November 2000).

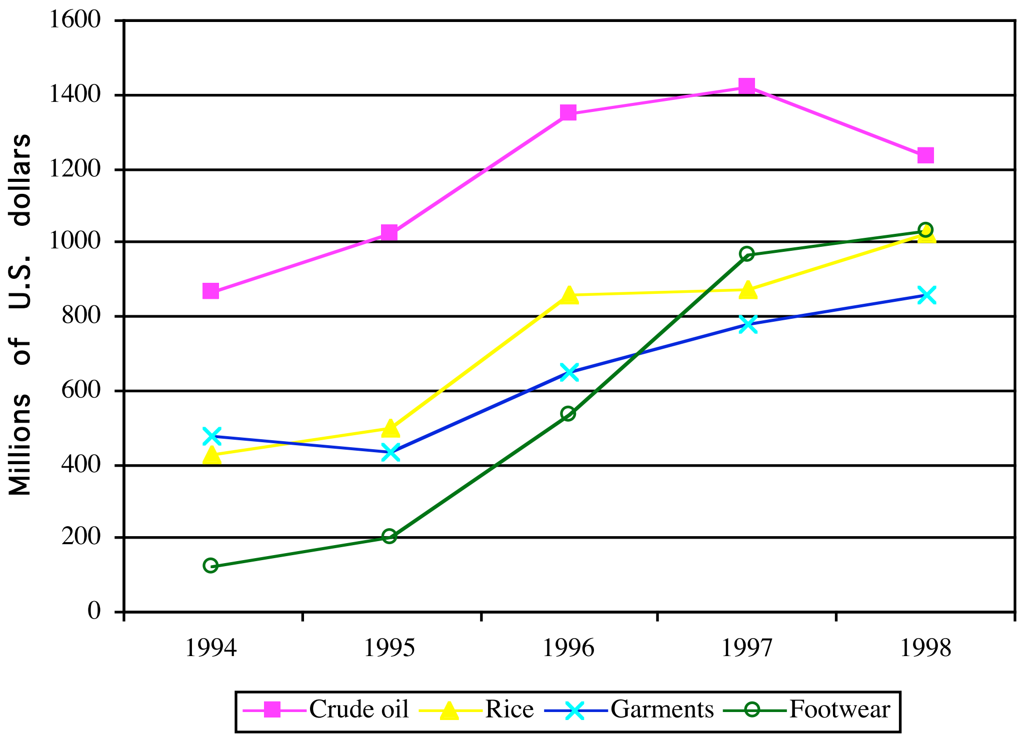
Table 2.6 – External trade, 1992–1997

	1992	1993	1994	1995	1996	1997
Export ($ m)	2581	2985	4054	5449	7256	9145
Import ($ m)	2541	3924	5826	8155	11144	11622
Current account balance (as % of GDP)	–1.3	–10.9	–12.5	–13.1	–10.4	–6.5

Source: UNDP Hanoi office homepage

In the years before the regional economic crisis, the virtuous circle between macroeconomic stabilisation and growth was also a result and a cause of an improved role of the external sector. Foreign trade increased from 46 per cent of GDP in 1989 to 97 per cent in 1996, though imports grew faster than exports, leading to a deterioration of current account balance. However, export composition improved. Rice and crude oil (the two largest export products) saw their share of total exports declining from 40 per cent in 1990 to 30 per cent in 1996, while there was a raise of manufactured products to from barely 2 per cent in 1990 to almost 30 per cent in 1996.

Chart 2.1 - Exports: selected commodities



Based on: IMF 1999b

From the early 1990s, foreign direct investments (FDI) became an important stimulus to growth, accounting for up to 28 per cent of total investment expenditure in the country in 1996. FDI was particularly important in reducing a balance of payments deficit produced by a level of national saving reportedly lower than the rate of national investment (see Chapter 3 for a discussion of FDI flows). It should be noted, however, that the official data on national investments do not properly reflect the real dynamics. Although the data report a remarkable increase in gross investment formation from 14.3 per cent of GDP in 1991 to 25.1 in 1995, this figure still represents a rather modest rate compared to many other developing countries and well below the investment rates achieved in rapidly growing economies such as China, Thailand, Malaysia and Indonesia (Griffin 1998a: 9). This modest rate of capital accumulation should not have been able to support such rapid economic growth. Therefore, the more likely conclusion is that the level of national investment is actually underestimated (Fforde and de Vylder 1996: 306–307; Griffin 1998a: 9):

> Much may be missed, namely, private investment in urban small and medium enterprises, urban informal sector investments in service activities and workshops, investment by small farmers and land improvements, many investment in small-scale non-agricultural rural activities, and most investments which require an expenditure of labour effort rather than the purchase of equipment and materials…' (Griffin 1998a: 10).

Official Development Assistance (ODA) grew rapidly after the US government removed its opposition toward lending by the international financial institutions. Annual commitments reached US$ 2.4 billion in 1997. The rate of disbursements remained low, but on the eve of the regional crisis Vietnam improved its ODA absorption capability and implementation speed, allowing the disbursement to grow from $611 million in 1995 to almost 1billion in 1996 and 1997.

Table 2.7 – ODA 1991–1997 (Millions of U.S. dollars)

	1991	1992	1993	1994	1995	1996	1997
Pledges			1990	1860	2000	2300	2400
Disbursement	338	356	274	624	611	984	944

UNDP computation from Hanoi office homepage

A large trade deficit – since 1993 over 10 per cent of GDP – was balanced by increasing disbursement of FDI and ODA. However, after 1996 the trend raised concern among national authorities and international organisation. A decline in FDI commitment posed the risk that the increase in ODA disbursement could not cover adequately the high deficit in the current account, and the government could have been forced to depend on non-concessionary loans for financing the balance of payment. This led Vietnamese authorities to intervene to curtail the trade deficit already before the regional crisis with measures directed to curb import (World Bank 1997).

Table 2.8 – Balance of Payments
(In million US dollars)

	1993	1994	1995	1996	1997
Export	2985	4054	5198	7330	9145
Import	–3532	–5250	–7543	–10483	–10460
Trade Balance	–547	–1196	–2345	–3153	–1358
Services and Transfers	–220	11	417	704	–327
Current Account Balance	–767	–1185	–1928	–2449	–1642
Disbursements	54	272	443	772	1022
Scheduled Amortisation	–652	–547	–733	–729	–804
Short Term Loans (Net)	–313	124	–184	224	–534
Direct Foreign Investment	832	1048	2236	1838	2003
Capital Account Balance	–78	897	1762	2105	1688
Errors and Omissions	–210	–121	–32	65	–50
Overall Balance	–1056	–409	–199	–278	–4
Financing	1056	409	199	278	4
Change in NFA (excl. IMF)	477	–292	–439	–441	–265
IMF Credit (Net)	–39	175	92	178	–54
Debt Rescheduling	883	0	0	0	0
Change in Arrears	–266	526	546	541	323
Memo Item: Current Account Balance/GDP (%)					
Excluding grants	-	-	–10.2	–11.3	–9.7
Including grants	-	-	–9.6	–8.9	–9.9

Based on World Bank 1997 and 1999

As it will be discussed in the following chapter, the adoption of drastic measures before the regional crisis in order to contain the trade deficit proved successful. Current account deficit was reduced to 6.5 per cent of GDP in 1997 and 4.2 in 1998 (UNDP Economic Bulletin February 2000).

Macroeconomic stability was also achieved through a prudent fiscal policy. Budget deficit was at –0.2 per cent of GDP on a cash basis in 1996.

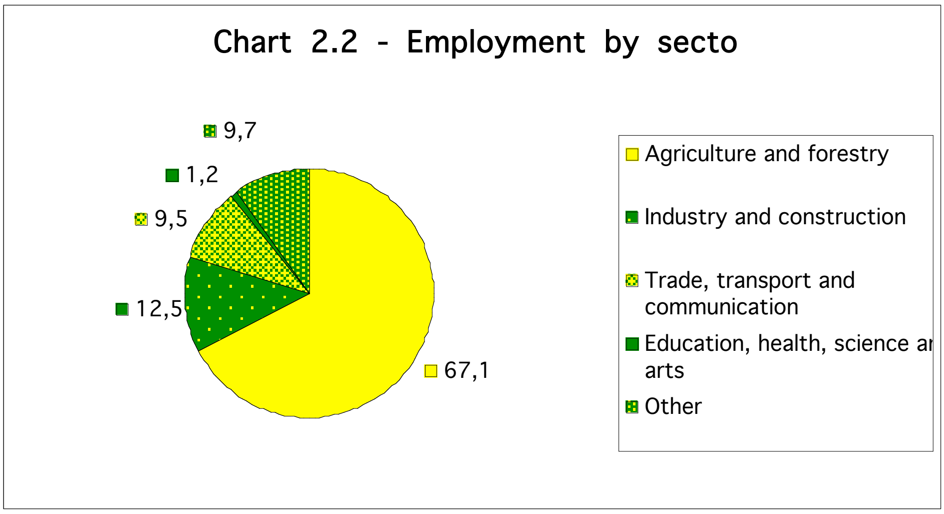
The declining share in State Owned Enterprises contribution to the state revenues reflected both a structural change in the economy and a weakening of SOEs financial performance (see in the following). Stability was also maintained after start of the regional crisis, with budget deficits of 1.4 per cent in 1997 and 1.1 in 1998. However, the shrinkage of state revenues (as a percentage of GDP) due to the economic slowdown affected social expenditure, which after having reached 8.0 of GDP in 1996 (from 4.4 in 1990) declined to 6.3 in 1999 (World Bank 1999a).

Table 2.9 – Fiscal Balance

	1992	1993	1994	1995	1996	1997
Total Revenues and Grants	19.0	22.5	24.7	23.9	22.9	21.1
Tax Revenues	5.0	8.3	9.9	10.5	10.3	9.0
Transfers from SOEs	10.8	11.2	12.1	9.8	9.5	8.8
Other non-Tax Revenues	2.5	2.2	2.1	2.9	2.5	2.6
Grants	0.8	0.7	0.7	0.7	0.6	0.8
Current Expenditure	14.0	18.8	18.3	17.8	16.4	15.7
Capital Expenditure	5.8	7.0	6.9	5.4	5.7	6.2
Overall Balance (Cash Basis)	–1.7	–4.6	–1.1	–0.5	–0,2	–1.4
Financing	1.7	4.6	1.1	0.5	0,2	1.4
Foreign Loans (Net)	2.4	2.7	0.1	–0.7	0.0	0.7
Domestic Loans (Net)	–0.7	1.8	0.9	1.2	0.2	0.8

Source: World Bank 1999a

In the years before the onset of the regional crisis, agriculture remained a key sector in the Vietnamese economy, although it represented a declining share of GDP (from 1993 onwards below 30 per cent). About 70 per cent of Vietnamese workers continued to be employed in agriculture, and about 50 per cent of Vietnamese exports (including forestry and aquatic products) derived from agriculture. Between 1991 and 1996 the sector had an average growth of 4.9 per cent (Economist Intelligence Unit 1997: 39).



Based on International Monetary Fund, 1999b

The reforms of agriculture of 1981 and 1988 were further enhanced by a new law approved in July 1993, as a consequence households and individual acquired the right to exchange, transfer, rent, inherit, and mortgage land use rights. The state maintained land ownership, but farmers had long-term contracts, which increased their propensity to invest. After having achieved food self-sufficiency, and actually having reached the status of major rice exporter, in the early 1990s Vietnam moved successfully toward product diversification and a larger output of cash crops. This agricultural diversification also resulted in an important contribution to poverty reduction.

However, the creation of a decentralised food processing industry in rural areas, able to employ the labour force which had been laid off as a result of agricultural mechanisation, remained a development target which was difficult to achieve for lack of investments.

Table 2.10 – GDP composition by economic sector (1991 – 1997)
(Percentage)

	1991	1992	1993	1994	1995	1996	1997
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
State	34.1	36.2	40.8	41.3	42.3	-	40.5
Non state	65.9	63.8	59.2	58.7	57.7	-	59.5
Industry	23.8	27.3	28.9	29.6	30.0	29.7	32.1
State	15.5	17.9	19.0	19.7	-	-	-
Non-State	8.3	9.3	9.9	9.9	-	-	-
Agriculture	40.5	33.9	29.9	28.4	27.2	27.8	25.8
Service	35.7	38.8	41.2	41.6	41.7	42.5	42.2
Transport and communic.	3.7	4.2	4.4	4.1	3.9	3.8	4.0
Trade	12.7	13.8	12.8	13.6	13.1	15.9	15.6
Banking	1.4	1.4	1.7	2.0	2.4	1.9	1.7
Publ. adm., medical, edu.	8.9	8.8	10.5	10.7	10.2	8.4	8.3
Tourism, NGOs and others	9.0	10.5	11.7	11.3	12.0	12.6	12.5

Based on: World Bank 1997 and 1999

Interpretative remarks on the first phase of economic reform

The formative phase of DRV institutions was a crucial period in the shaping of the country's socio-economic dynamics, also preparing the ground and setting the frame for the future economic reforms. In fact, the reaction to the economic problems experienced from the early 1960s onward in North Vietnam was a spontaneous adaptation process and the development of unplanned activities. This adaptation process included the development of a parallel free-market, which partially eroded the power of state monopolies. Activities outside the plan were carried out even by state owned enterprises, sometimes in order to procure the resources to perform tasks foreseen by the plan. After 1965, with the starting of the American strategic bombing on North Vietnam, and the consequent decentralisation of industry, this tendency was further enhanced. The control by central authorities on many areas of the country often became impossible (Kolko 1997).
Fforde and de Vylder (1996) identify these 'fence-breaking' activities of the early 1960s, as being outside the plan and sometimes in contrast with it, as the first foundation of the Vietnamese reform process. The central thesis of their study – which remains the most authoritative interpretation of the recent Vietnamese economic history – is that the reforms inaugurated in the 1980s as *doi moi* were the result of changes already made by society and ratified *a posteriori* by the national authorities. Thus, they describe the economic and political history of the country as process in which the Vietnamese leadership has tried to accommodate, regulate, or

contrast pressures from below, sometimes by supporting a reformist agenda and sometimes by reintroducing a more 'orthodox' strategy. This interpretation has important implications. On the one hand, it suggests a different measure of the reform by establishing its roots in the early 1960s (and by considering the 'transition' from plan to market already concluded at the end of the 1980s). On the other hand, it offers an explanation of the reform as a 'process'. The definition of the reform as a 'process' means to put in evidence the modality of interaction between the society and the state by confuting a description of the reform as a series of top-down policy decisions and by highlighting the national characteristics of the Vietnamese experience.
The interpretation of the Vietnamese reform as a bottom-up process leads Fforde and de Vylder to draw a negative conclusion about the Vietnamese state as a 'weak state', unable to implement a coherent policy and to implement a full-fledged so-called 'neo-Stalinist' model. This view of Vietnam as a 'weak state' lacking the institutional resources to operate a planning system is confirmed by other authors (e.g., Riedel and Turley 1999: 13). However, this *weakness* should also be considered in connection to a certain degree of flexibility of the Vietnamese leadership at crucial stages of the reform process; a flexibility or lack of will to impose authority through coercion which could be understood as the result of a plurality of factors. First, the different views existing within the Vietnamese leadership, which resulted into different policy decisions depending on the prevalence of one line or another.[56] Second, especially under war conditions, the central leadership could not maintain a close control over the activities carried out in the different parts of the country. Local authorities often had a rather free hand in adapting national policies to the local conditions, and at times this adaptation resulted in something very far from the official line. Third, the eclecticism and the pragmatism of the CPV could be understood as a positive resource deriving from the long historical experience of the Vietnamese civilisation (see Masina 1999a). Pragmatism and ability in learning by doing have certainly characterised the current economic reform process (e.g., Griffin 1998a: 13).[57] Finally, the inclination to accommodate pressures coming from outside the state apparatus and its own organisation can be understood as a functional specificity of the Vietnamese state (Kerkvliet 1995a: 67), which represents more a resource in maintaining a close relation with society than a weakness.
Whatever definition we use a relative weakness of the Vietnamese State in implementing a coherent development strategy remains an undeniable key issue in the recent history of the country – including the most recent period.

The following chapters will discuss the impact of the regional crisis on Vietnam, and the implications in terms of development strategy. Here, however, some preliminary

[56] In this sense, Vietnam (like China) was never 'Stalinist' or 'neo-Stalinist'. A wide debate within the leadership has always existed (and still exists) without that the prevailing group eliminated the other and without the formation of permanent factions. The stress within the CPV has been on collegiality of the decisions, and the party has maintained its unity even in face of the devastating split between China and the Soviet Union (Vietnam even attempted a mediation between the two). A comparison between Vietnam and China (e.g., Chan, Kerkvliet and Unger 1999: 9) would further suggest that not only in Vietnam the political conflict within the Communist Party was less harsh than in China, but also class warfare within society was less violent.
[57] Since the late 1970s pragmatism has been the very symbol of the Chinese reform process led by Deng Xiaoping – probably the major source of inspiration for the Vietnamese leadership in recent years.

considerations on the first phase of *doi moi* can be drawn. The synthetic historical background presented in the previous pages has supported the view that the Vietnamese 'transition' – i.e., the transition from a system dominated by central planning to a system were market forces played a decisive role – was already accomplished by the late 1980s. The transition was concluded by the macroeconomic stabilisation of the early 1990s, which partially incorporated elements typical of structural adjustment programmes. Using the famous expression coined by Fforde and de Vylder, the rationale of this reform was not much that of 'getting the price right', but rather a question of *making the prices matter*' (Fforde and de Vylder 1996: 18).
The achievements of Vietnam during this process of systemic change clearly contrast with the tragic results of many other so-called 'transitional economies', which were inspired by a 'big bang' approach. The gradualist model adopted by Vietnam could rather be compared to the Chinese case, where a longer term transition allowed the autonomous development of productive forces and capital able to compensate the displacements produced by the reform. Again in the words of Fforde and de Vylder:

> 'The package of drastic reform did not begin with a severe and unpopular austerity program with layoffs and price increases. Rather, the transitional model had created conditions for both extensive structural changes and commercialisation of the state and cooperative sectors before the final assault on the remnants of the DRV program in 1989… By 1989, prices mattered and autonomous capital had been accumulated outside as well as within the state and cooperative structures. This permitted the links between macro policies and micro responses to work reasonably well (Fforde and de Vylder 1996: 19).

The Vietnamese and Chinese cases also differ with the Eastern European and former Soviet Union 'transitions' on another essential point. By promoting a gradual reform, which did not imply the dismantling of key socio-economic institutions, Vietnam and China could make the best use of positive socialist heritage in terms of equality, human capital formation, good educational and health care systems. In both China and Vietnam social institutions were threatened by the 'transition' to an economic system increasingly dominated by market logic, and paid a price in terms of effectiveness of their educational and health care systems;[58] but neither of the two countries faced a drama comparable with that of former Soviet Union.
An equitable distribution of land (through land reform, collectivisation and de-collectivisation) proved to be an important endowment for Vietnam, and a key resource for avoiding increased poverty. In addition,

> 'Vietnam also inherited from the socialist period a fairly equal distribution of human capital. Literacy was widespread, most people had at least few years of formal education and the great majority of the population had access to health care. As a result, Vietnam possessed at the outset of the reforms a skilled and healthy labour force that was able to respond quickly to economic opportunities' (Griffin 1998a: 12–13).

However, it should be remembered that, notwithstanding its achievements, the process of economic transition in Vietnam was also a painful and dramatic period for

[58] For Vietnam see, e.g., World Bank (1998c)

large sector of the population. Various sectors of society found ways to cope with the new situation, and often managed to take advantage of the new opportunities. For others which could not or would not participate in the new 'gold fever' climate, living conditions deteriorated. In particular, state employees, teachers, health care operators, etc, saw not only their economic conditions but also their social status undermined. An author very critical of the overall reform process such as Gabriel Kolko sees in this mixture of demoralisation and economic necessity the dramatic increasing of corruption in the public administration.
'The real income of civil servants dropped by about two-thirds from 1985 to 1991, by which point cadres were compelled to choose between corruption, leaving the state sector, or going hungry, and many chose or were compelled to cheat. In 1993 most civil servants earned between $15 and $20 a month, less than half the wages for skilled workers, and their real incomes have continued to deteriorate since then' (Kolko 1997).

Reports denouncing the persisting difficulties for a large part of the population appear every day also in the local Vietnamese media. Although we will see in chapter 4 that recent studies on poverty have indicated that the number of people living below the poverty line has declined, those studies also underline that many Vietnamese still live only slightly above that line, and need to fight every day to make ends meet. For instance, an article published before the onset of the regional crisis about living conditions in the largest Vietnamese towns stated:

> 'In the last four years, the price index has risen by 33 per cent while the minimum wage has only increased by 20 per cent. A recent survey on living conditions in Ho Chi Minh City showed that state administrative officers lead difficult lives. The average income in the health care sector is $55 a month, of which 51 per cent come from salary and the rest from other works, and sources such as lunch allowances and bonuses. The education sector is even worse with an average monthly income of $45. The survey found that only 5% of residents have incomes of more than $140 a month, while 15 per cent have incomes of $100–140 per month. About 30 per cent of those surveyed had monthly incomes of between $65 and $100. The survey claimed that, to meet basic needs, a city resident would need at least $65 a month (Vietnam Economic Times 1997: 2).

Chapter 3
Vietnam and the regional economic crisis

Before the onset of the regional economic crisis, the relations between Vietnam and the international financial institutions became critical. The international agencies and a number of scholars started to blame national authorities for a slow-down in the reform process. A decrease in economic growth in the wake of the regional crisis, connected to a shrinkage of foreign direct investment, was assumed by Western observers to be the sign that these criticisms were legitimate. On the basis of an empirical analysis, this chapter aims to expose the way in which the 'common wisdom' on Vietnamese economic and political conditions is strongly influenced by ideological assumptions and proves rather inconsistent when closely scrutinised. Biased by the political intent to push Vietnam toward the implementation of a specific reform agenda (discussed in the following chapter), the international financial institutions have insisted upon an ideological interpretation and have failed to take into account wider regional and international dynamics, an understanding of which would be crucial for the identification of sustainable long-term development strategies.

In the Wake of the Regional Crisis

This section starts by discussing the 'common wisdom', which has arisen concerning the lesson that Vietnam should learn from the regional crisis. This common wisdom is based on the mainstream interpretations of the regional crisis: i.e., 'crony capitalism' in East Asia and unstable international financial markets, which eventually made the mixture of unchecked globalisation and ill-regulated local institutions collapse into confidence tricks, speculation, and panic.[59] After the crisis many of the worse hit countries — including Thailand and South Korea — have started to implement systemic reforms and, by doing so, have succeeded in restoring growth. Therefore, if Vietnam wants to take advantage of the new regional economic trend, it should address basic issues which are a hindrance to growth. Vietnam — continues the mainstream interpretation[60] — has its own form of 'crony capitalism', a 'cosy' relationship between the state and state-owned enterprises (SOEs), which results in distortions and a sub-optimal allocation of resources (e.g., credit from state banks). The deceleration of economic growth in 1997 (from 9.3 per cent to 8.2 per cent of

[59] For a critical review of the different interpretations see Masina 2002a and the other contributions in the same volume.

[60] It should be noted that there are only a very limited number of international analysts working on independent interpretations of Vietnam's current economic development. This makes it possible for a small group of scholars and international financial institutions officers to lay down an interpretative frame that is constantly repeated in reports, media, studies, etc. This is what can be schematically defined as 'common wisdom'. Within this general 'common wisdom', however, significant differences exist in the interpretation of specific issues.

GDP)[61] had already been considered a result of a slower pace in the reform process by the mid 1990s (World Bank 1997a). The evidence that something was starting to go wrong in the Vietnamese economy was the shrinkage in foreign direct investment (FDI) commitment and disbursement already *before the onset of the regional crisi*s. A World Bank report indicated that this slowdown was 'unusual, as the pattern in other developing countries is that disbursement continued to grow even after approvals begin to decline, due to a 2–3 years implementation lag'. And this could be linked to the 'cumbersome procedures that still exist for the approval, registration and implementation of foreign-invested projects, and to the perception that the "costs of doing business" in Vietnam are too high' (World Bank 1997a: 3).

After the crisis, a sharp decline in FDI disbursements was again explained as being the result of investors' uncertainty, because investors did not know if 'the government will adopt accelerated reforms'. A World Bank report released in 1999 claimed that investment returned to 'Korea, Malaysia and Thailand but not yet to Vietnam'. It conceded that the 'biggest decline came in foreign direct investment from East Asia and Japan, which is not surprising given the crisis in the region', but it immediately reminded its readers that 'declines in FDI commitments had started as early as in 1996' (World Bank 1999a). That is to say, the regional crisis made problems existing prior to the crisis, essentially for domestic reasons, more dramatic and severe.

It is interesting to note the insistence of the international financial institutions in this explanation of FDI decline. The issue is a very sensitive one in the Vietnamese economic reform debate, given the country's need for investment. This chapter — in contradiction to the wisdom presented above — argues that the supposed causal nexus between a slowing pace in the reform process and shrinkage in FDI flows has probably been largely overestimated. In fact, the empirical analysis of foreign direct investment composition can support an interpretation quite different from the one normally accepted.

Table 3.1 – Commitments of Foreign Direct Investment, 1995–1997
(In Million of U.S. dollars)

	1995	1996	1997
Industry	2467	2735	1658
Heavy Industry	*1479*	*1283*	*985*
Economic Processing Zone	*246*	*0*	*218*
Light Industry	*510*	*862*	*318*
Food	*232*	*590*	*137*
Oil and gas	0	52	51
Construction	686	630	711
Transport and comm..	439	688	784
Real estate	2698	3300	338
Hotels and tourism	*810*	*-65*	*112*
Office property and apartments	*1888*	*3366*	*225*
Agriculture, forestry and fisheries	318	113	589
Services	114	184	324
Total	6722	7702	4456

Source: IMF 1999b

[61] In March 1999, the General Statistical Office of Vietnam revised the historical series of economic data for the country. The real GDP growth rate for 1997 was reported at 8.8 per cent in the old series and at 8.2 per cent in the new series (IMF 1999b).

The first point in our analysis concerns the dynamics of FDI commitments. The data indicate that FDI commitments to Vietnam increased rapidly during the early 1990s and reached their peak in 1995. As was widely reported, the data for 1996 were inflated by two large real-estate projects approved in December, one of which it alone accounting for about US$1 billion was subsequently cancelled in November 1998.[62] In 1997 a decline in FDI commitments became evident, marking a worrying change of direction. This decline, however, should be considered while also taking into account the sector composition of commitments. The major factor in the decline was actually real estate, which dropped form 40.1 per cent of the total in 1995 and 42.8 per cent in 1996 to only 7.6 per cent in 1997. Thus, by subtracting the real estate commitment from the total, one finds that in 1997 there was practically no shrinkage in FDI outside this specific sector. This is especially interesting considering that the regional crisis had already unfolded in the second half of the year (Table 3.2).

Table 3.2 – FDI Commitment, 1995 – 1997
(in million of U.S. dollars)

	1995	1996	1997
Total	6722	7702	4456
Real estate	2698	3300	338
Total *minus* Real estate	4024	4402	4118

Source: Re-elaborated from IMF 1999b

Commitment in agriculture, services, construction, transport and telecommunications actually increased. Investment in industry, however, declined in all the sub-sectors.
A drop in real estate in 1997 is consistent with a description of the pre-crisis East Asian economy as being dominated by elements of 'bubble economy' (see Sum 2002; Chandrasekhar and Ghosh 2002). The real estate market in Vietnam was largely speculative in the mid 1990s, as in the rest of the region, and it was dominated by the same East Asian financial groups which defaulted in 1997, thus promptly cancelling former FDI commitments in Vietnam and elsewhere. The contraction in FDI commitments in industry is something more complex. It could be the result of at least three different factors, or combinations of these. It could derive from a decline in the attractiveness of Vietnam as a productive location this is the 'official wisdom'. It could derive from a (temporary) decreased propensity to expand production abroad by countries which had traditionally represented a major source of FDI in Vietnam. It could derive from over-investment in the Vietnamese productive system, beyond the absorption capability of this small economy. In the following pages, this work will claim that all of these three elements played a role, and that it would be erroneous to focus on a single explanation. It is also important to note that a sectoral analysis of FDI commitment reveals that the shrinkage in industry was compensated for by investment in other sectors (notably agriculture), thus redressing a negative tendency rightly criticised by the international donors and the international financial institutions.

[62] I would like to thank Curt Nestor, Göteborg University, for his information and comments on FDI flows. He should not be held responsible for the interpretation presented in this work.

Table 3.3 – Disbursement of Foreign Direct Investment, 1992–1998
(In Million of U.S. dollars)

	1992	1995	1996	1997	1998
Industry	49	737	843	969	330
Heavy Industry	*20*	*296*	*331*	*422*	*102*
Economic Processing Zone	*3*	*39*	*123*	*75*	*25*
Light Industry	*10*	*232*	*324*	*365*	*123*
Food	*15*	*171*	*65*	*108*	*80*
Oil and gas	73	582	301	1	50
Construction	6	113	274	151	250
Transport and comm.	19	159	81	77	15
Real estate	53	433	366	423	113
Hotels and tourism	*43*	*254*	*219*	*297*	*73*
Office property and apartments	*10*	*180*	*146*	*126*	*40*
Agriculture, forestry and fisheries	12	121	75	285	41
Services	104	115	23	167	2
Total	316	2260	1963	2074	800

Source: IMF 1999b

The data regarding FDI disbursements too show a picture slightly different from the one described by the international financial institutions. First of all, the negative trend reported in 1996 was already partially reversed in 1997. But, again, it is the sectoral distribution of FDI that provides the most useful information. The historical series of FDI disbursement is strongly affected by the instability of the oil sector where — considering the high costs of projects in the field — a single initiative can alter significantly the total for one year. Thus, to study the consistency of trends it could be useful to subtract the disbursement for oil and real-estate projects from the total (Table 3.4).

Table 3.4 – Disbursement of Foreign Direct Investment, 1992 – 1998
(In Million of U.S. dollars)

	1992	1995	1996	1997	1998
Total	316	2260	1963	2074	800
Real Estate	53	433	366	423	113
Oil and Gas	73	582	301	1	50
Total minus Real Est & Oil	190	1245	1296	1650	637

Re-elaborated from: IMF 1999b

This simple operation reveals that before 1998, i.e., before the effects of the Asian crisis became apparent, there was no substantial decrease in FDI in Vietnam. The attempt, therefore, to use an alleged contraction in FDI inflows as an indication of national deficiencies in implementing the necessary reforms proves rather inconsistent.

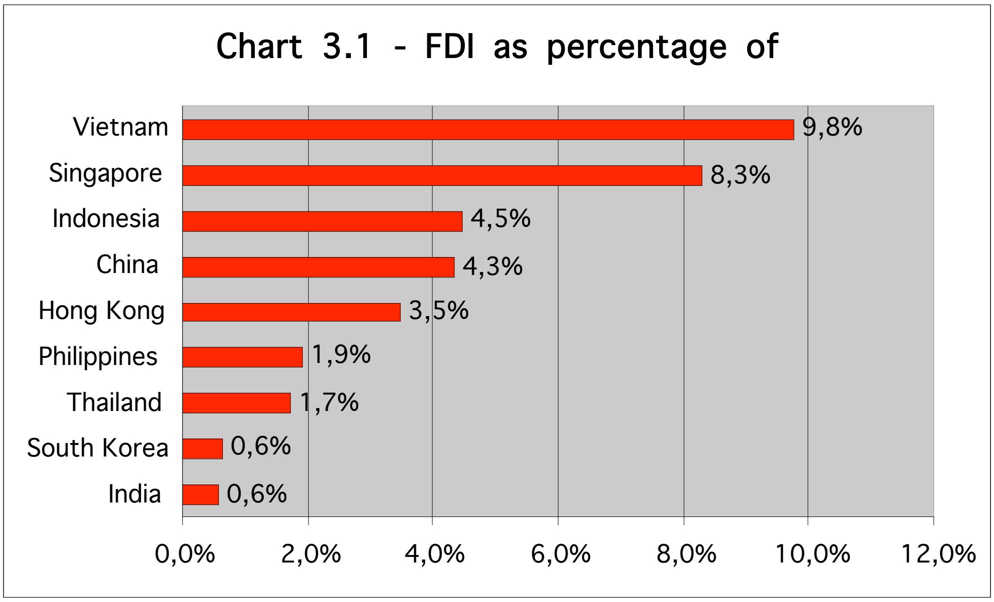
Further, a point often neglected by the most literature on Vietnam is that before the regional crisis the country was a host for FDI inflows that were disproportionately high considering the limited dimensions of its national economy. A comparison with other larger Asian economies can be illustrative in this regard (Table 3.5).

Table 3.5 – FDI inflows, by selected Asian economies, 1993 – 1998
(Billion US dollars)

	1993	1994	1995	1996	1997	1998
Hong Kong	3.66	4.13	3.28	5.52	6.00	1.60
India	0.55	0.97	2.14	2.43	3.35	2.26
Indonesia	2.00	2.11	4.35	6.19	4.67	-0.36
South Korea	0.59	0.81	1.78	2.33	2.84	5.14
Philippines	1.24	1.59	1.48	1.52	1.22	1.71
Taiwan	0.92	1.38	1.56	1.86	2.25	0.22
Thailand	1.81	1.36	2.07	2.34	3.73	6.97
Vietnam	1.00	1.50	2.00	2.50	2.95	1.90

Source: UNCTAD 1999

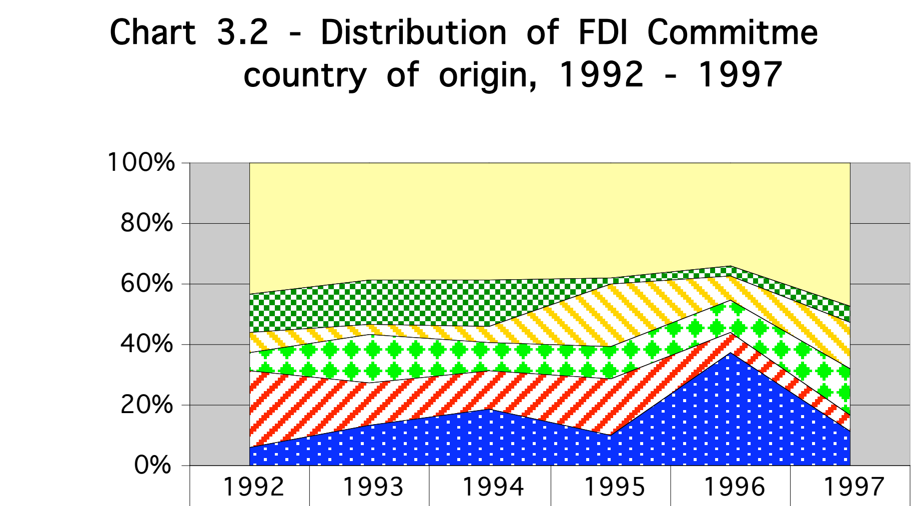
Although the data provided by the UNCTAD *World Investment Report* do not concord exactly with the Vietnamese statistics, they enable a rough comparison to be made. Thus, it appears that FDI inflows to Vietnam in 1996 were higher than those to much larger economies such as India, South Korea, Taiwan and Thailand. This consideration raises the legitimate suspicion that, in the mid 1990s, Vietnam might have been involved in a rush for investments, which might have been above the realistic economic conditions of the country (see Dixon 2000: 284-285). Figure 1 shows that FDI inflow to Vietnam in 1996 was higher than the regional average as a percentage of GNP.



Re-elaborated from data: World Bank (1999) *World Development Report* (countries GNP in 1998); UNCTAD (1999) *World Investment Report* (countries FDI inflows in 1996).

A sharp drop in FDI disbursement is visible in 1998. The negative trend is confirmed by the available figures for 1999, which report a further contraction to US$500 million. These data will be discussed in the next section, dealing with the impact of the regional crisis on Vietnam. However, some observations can be added along the same lines. Once again, the reported 'wisdom' that investments are not returning to Vietnam simply because the national authorities are not sending the right signals about their commitment toward enhanced reform requires some qualification. In fact,

it can be easily shown that the shrinkage of FDI flows to Vietnam is also connected to a parallel decrease in out
ward investment from those countries which had represented the dominant source of FDI to Vietnam. Therefore, to tell Vietnam of the need to restore confidence among investors as a panacea could be misleading. (This is not to deny that in a regime of falling investments and increasing competition it is important that Vietnam should be able to adopt measures to attract investments).



	1992	1993	1994	1995	1996	1997
Other	43,3%	38,5%	38,9%	37,7%	33,8%	47,5%
Hong Kong	12,3%	14,7%	15,1%	2,4%	3,5%	5,3%
Japan	7,0%	3,5%	5,6%	20,8%	8,2%	15,4%
South Korea	5,7%	15,8%	8,9%	10,4%	10,3%	15,0%
Taiwan	25,4%	13,9%	13,2%	18,6%	6,7%	5,3%
Singapore	6,2%	13,5%	18,4%	10,1%	37,5%	11,4%

Source: IMF 1999b

Chart 3.2 shows that over 60 per cent of FDI to Vietnam before the regional financial crisis originated from East Asian countries (in the chart 'other' includes also China, Thailand and Malaysia). Table 3.6 indicates that these countries had a contraction in their overall investment outflows after the onset of the crisis.

Table 3.6 – FDI Outflows, by selected economies, 1993 – 1998
(Millions U.S. dollars)

	1993	1994	1995	1996	1997	1998
China	4,400	2,000	2,000	2114	2,563	1,600
Hong Kong	17,713	21,437	25,000	26531	24,407	18,762
Japan	13,834	18,521	22,630	23428	25,993	24,152
South Korea	1,340	2,461	3,552	4670	4,449	4,756
Malaysia	1,464	2,591	3,091	4133	3,425	1,921
Singapore	2,152	4,577	6,281	6274	4,722	3,108
Taiwan	2,611	2,640	2,983	3843	5,222	3,794
Thailand	232	492	887	931	447	122

Source: UNCTAD (1999) *World Investment Report*

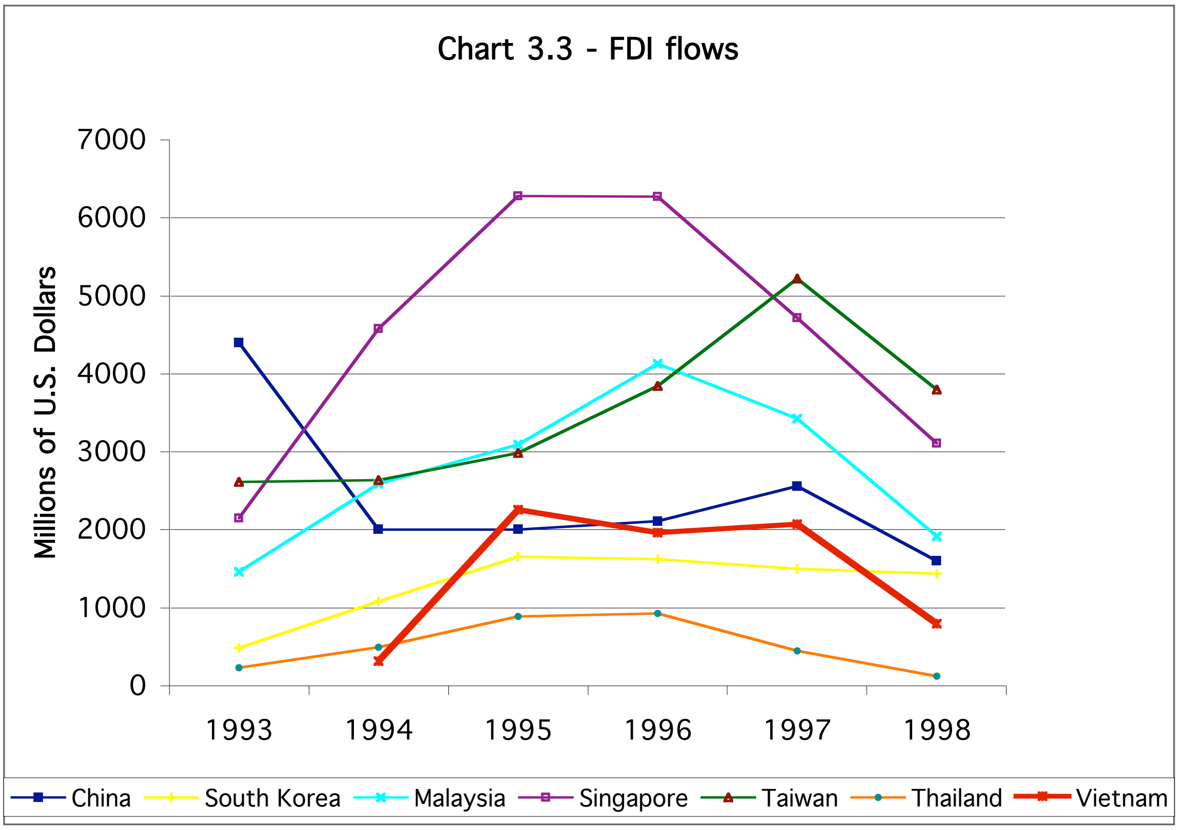
In most of these countries the contraction in FDI outflows between 1997 and 1998 is remarkable. South Korea stands out as being the only exception: in this case there is a slight increase in the global outflow of FDI. However, closer investigation reveals a relocation of investment towards Europe and North America, and a reduction in flows towards Southeast Asia.

Table 3.7 – FDI Outflows from South Korea to Southeast Asia, 1993 – 1998

	1993	1994	1995	1996	1997	1998
SE Asia	486	1080	1652	1625	1497	1441
Total	1262	2299	3070	4233	3217	3777

Source: National Statistic Office of Korea (1999) *Korea Statistical Yearbook*.

These considerations make it possible to argue that the shrinkage of FDI inflows to Vietnam in 1998 was connected to a general regional trend. This is illustrated by the chart contained in Chart 3.3, where the curves of the FDI outflows from selected Asian countries (in the case of South Korea the data on outflows to Southeast Asia have been used) are compared with the curve represented by FDI inflows to Vietnam. The correlation is clearly visible.



World FDI outflows by China, Malaysia, Singapore, Taiwan and Thailand; FDI flows by South Korea toward Southeast Asia; Total FDI inflow disbursement in Vietnam
Re-elaborated from: UNCTAD (1999) *World Investment Report*; National Statistic Office, Republic of Korea (1999) *Korea Statistical Yearbook*.; IMF 1999b.

The arguments presented above seem to indicate that the ‘official wisdom’ has produced an oversimplified explanation of investment flows to Vietnam by neglecting the wider regional economic dynamics. This chapter does not deny that national deficiencies and shortcomings have played a major role in producing discontent among investors at a critical juncture: i.e., in the wake of a regional economic crisis, when gloomy economic indicators led investors to reassess the rationale for their presence in the region. Once the regional perspectives had become less encouraging, the difficulties of doing business in Vietnam also assumed more visibility as a reason for discontent among foreign investors and entrepreneurs. The Vietnamese authorities came to be blamed for unclear administrative regulations, excessive red tape and corruption. While not contradicting the need to address these national shortcomings adequately — a need that was also recognised by the Vietnamese authorities, as witnessed by a number of reforms introduced during 1999 and 2000 — this chapter tries to draw attention to the regional dimension of the crisis, which has been largely neglected.

Our evidence suggests that Vietnam might have been more closely integrated into the regional economic dynamics before the East Asian crisis than previously accepted. This might have resulted in a large flow of FDI to the country — a flow probably exceeding the absorption capability of an as yet small economy with significant infrastructural bottlenecks. In other words, Vietnam might have been affected by the same over-investment tendencies existing in the region.[63] That part of the FDI flow represented by real estate had a speculative nature, as in the rest of the region. This speculative nature was further suggested by an abnormal share of investment commitments (17.8 per cent on the 1996 total) from an offshore location such as the British Virgin Islands. The contraction in FDI disbursement after the onset of the crisis in East Asia was correlated to a regional trend. Further, the fact that investors have returned to South Korea and Thailand is a consideration of no real significance for Vietnam: this trend is clearly connected to the acquisition of local corporations after these countries have been forced to liberalize their markets as a condition for receiving IMF bail-out loans. Nor does Malaysia provide a strong case to support the indications of the international financial institutions: as is well known, Kuala Lumpur has actually moved in a rather different direction from the one suggested by Washington (by imposing controls on short-term capital flows), and has therefore been repeatedly criticised.

Moreover, another consideration could be added to clarify the background for an assessment of Vietnam’s economic performance. A comparison with the regional data gives grounds for relating the partial deceleration of the Vietnamese economy in 1997 to a regional trend. In fact, the figures in Table 3.8 show that many other countries in the region — as has been reported in numerous studies — were already facing economic difficulties before the crisis, difficulties that exploded in the form of financial crisis.

[63] In pre-crisis East Asia there was an over-investment tendency, visible in key industrial sectors and motivated by a strong ‘catching up’ drive (see the discussion presented by the different contributions contained in Masina 2002a). This, however, does not imply that the region — and Vietnam in particular — does not have the potential to further expand industrial production.

Table 3.8 – Real GDP growth, percentage

	1996	1997	1998
China	9.6	8.8	7.8
Indonesia	8.0	4.5	-13.7
South Korea	6.8	5.0	-5.8
Malaysia	8.6	7.5	-7.5
Philippines	5.8	5.5	-0.5
Thailand	5.5	-1.3	-9.4
Vietnam	9.3	8.2	5.8

World Bank (2000) *Asian Recovery homepage*

The Impact of the Regional Crisis

The interpretation of the data presented above indicates that the association of Vietnam with the regional economy was more pronounced than normally reported. Correctly, two considerations have often been presented to explain why the impact of the crisis on Vietnam has been less severe than on other countries. First, the non-convertibility of the *dong* and the regulation of trade and exchange transactions have partially insulated the country from the vagaries of the financial market and averted speculative attacks. Second, Vietnam is a country where a large part of the economy is still ‘informal’ and family-based. Thus, many analysts have supposed that the ‘return to the village’, the protection of traditional safety-nets, and the flexible urban ‘informal sector’ have largely absorbed the negative impact of the crisis on the living conditions of the poorest. This second issue brings us back to one of the key questions in the crisis and post-crisis debate. It has implications not only for the policies to adopt in periods of crisis, but also involves an assessment of the very foundations of the past and future developmental dynamics of Southeast Asian countries. However, this discussion would lead us beyond the immediate compass of this study.[64]
The first question — the relative insulation from the regional financial meltdown — is discussed here. The focus we intend to adopt is not an assessment of the short-term impact of the crisis, but an analysis of the medium and long-term development implications. The questions at stake are the conditions for Vietnam’s future economic development and the policies to be implemented in order to achieve the goal of accelerated industrialization. Before the crisis Vietnam was moving fast along the path taken by other regional ‘success stories’. The basic assumption of national authorities and of foreign investors was that Vietnam could further integrate into the regional economy and benefit from new rounds of investment from countries whose comparative advantage was shifting towards more technology-intensive and labour-intensive production. Therefore, discussing the impact of the crisis means discussing the way in which this long-term plan has been affected. This chapter will make three basic points:

1. In the medium term, the impact on the Vietnamese economy has been severe. The crisis has implied not only a halt to further productive relocations but also

[64] We have discussed this issue in my edited volume on Rethinking Development in East Asia (Masina 2002a), particularly reflecting on the contributions by Parnwell 2002 and Rigg 2002. A comparative study on ‘sustainable livelihoods’ in Vietnam, Laos and Thailand is currently undergoing to further the analysis anticipated with that volume.

a reverse trend, with companies retrenching to their original productive bases. The appreciation of the *dong* against most regional currencies has partially reduced the attractiveness of the cheap Vietnamese labour force.

2. In the longer term, Vietnam will probably succeed again in becoming an attractive location for labour-intensive production, especially because of its large population and its well-educated labour force. However, Vietnam faces and will face strong competition from China and other Southeast Asian countries.
3. The broad implications of the crisis should be considered against the background of an increasing political confrontation between Asian economies and Western capital represented also by multilateral organisations (such as the WTO) and the international financial institutions. Vietnam will come under increasing pressure and will be requested to adopt a 'liberal' economic policy. A number of elements signal that this confrontation between Vietnam and the West has already begun.

The Regional Crisis and Vietnam's Macroeconomic Standing

In autumn 1997, when the financial contagion was spreading through the region, Vietnam — which was partially insulated by the fact that its currency was not freely convertible — seemed more concerned with two other internal problems. The first was Typhoon Linda, the worst tropical storm to hit the country in five decades. The second was the tense political situation — with peasant demonstrations and riots against corrupt local officers — in the northern coastal province of Thai Binh. Typhoon Linda devastated central and southern provinces. A few months later, the typhoon was followed by an extended drought that further jeopardised the economy of those areas, affecting cash crops such as coffee in particular. The other 'typhoon', the peasant uprising in Thai Binh, represented a very worrying signal of potential political instability, forcing the leadership to react. The peasant demonstrations received support not only from war veterans and retired party officers but also from the army, who clearly resisted the use of force to repress disturbances. Eventually the party leadership intervened, removing controversial local officers, and put a great deal of effort into reopening a political dialogue within the province — the effort included several visits to Thai Binh by top party and government leaders.[65]

During 1998, however, the effects of the regional crisis on the Vietnamese economy became increasingly evident: at the end of the year all major macroeconomic indicators suggested that the situation was becoming critical. Currency devaluation in many neighbouring countries exposed Vietnam to increased competition at the same time as export markets for its national products, two thirds of which consist of East Asian countries, were shrinking. Export growth in 1998 slowed to 0.3 per cent, compared with about 22 per cent in 1997. After a further decline in the first four months of 1999, with a 7.5 per cent year-on-year drop, exports recovered appreciably in the second part of the year. The higher price of oil in the international markets and

[65] In an interview with a high official in the Ministry of Foreign Affairs in October 1997, the author was told that the management of the Thai Binh disturbances showed that the Vietnamese political system was functioning well, the state being able to react and respond to the people's demands.

the increased volume of exports in agriculture, garments and footwear resulted in a 23.6 per cent export growth rate in 1999 (UNDP 2000).

To avoid aggravating the trade deficit, which was already considered to be too high before the regional crisis, the government intervened to restrict imports. This resulted in a negative growth in imports in 1998 (-1 per cent) and a marginal increase in 1999 (1.1 per cent). The shrinkage in imports brought the trade deficit down to US$2,171 million in 1998 and only US$100 million in 1999. However, although these figures indicated some relief for the national current accounts, the shrinkage of imports also signalled a downturn in productive investment in machinery and capital goods.

Vietnam did not enter a recession, unlike many other countries in the region, but GDP growth declined sharply. During 1998 the government was forced to readjust its expectations downward from the planned nine per cent to about six per cent. The official data indicate that real GDP growth was at 5.8 per cent in 1998 and at 4.7 per cent in 1999.[66] In 1998, in order to regain some competitiveness for its exports, Vietnam devalued the *dong* by about 20 per cent against the US dollar. Notwithstanding this devaluation, in the midst of the regional crisis the Vietnamese currency appreciated consistently against most regional currencies. By the end of 1999 the Vietnamese *dong* had risen by about 20 per cent against the currencies of Thailand, Malaysia and the Philippines and by about 60 per cent against the Indonesian *rupiah*, compared to pre-crisis exchange rates. The Chinese *renminbi* and the Hongkong dollar remained stable against the American dollar, thus resulting in a *dong* devaluation of about 20 per cent against these two currencies.

Table 3.9 – Changes in exchange rates during the financial crisis – December 1999

	National currency versus US $			National currency versus VN Dong		
	% apprec. Dec 96 - Dec 99	% apprec. Jul 97 - Low	% apprec. Jul 97 - Dec 99	% apprec. Dec 96 - Dec 99	% apprec. Jul 97 - Low	% apprec. Jul 97 - Dec 99
Vietnam	-27	-20	-20	-	-	-
Philippines	-36	-42	-35	-18	-39	-22
Malaysia	-33	-44	-34	-16	-41	-20
Thailand	-34	-53	-35	-16	-50	-22
Indonesia	-67	-85	-66	-59	-84	-60
Hong Kong	-1	0	0	26	5	20
China	0	0	0	27	5	20
Taiwan	-13	-20	-12	10	-4	6
Korea	-26	-49	-22	-6	-47	-6
Japan	13	-22	11	43	-7	33

From: UNDP Hanoi Office, Socio-economic Bulletin, March 2000

The medium-term implications of these exchange-rate readjustments in the region, which evidently imply a change in comparative advantages, will be discussed further in the next part of this chapter.

[66] The international financial institutions have suggested on several occasions that these figures should be revised downwards. They have estimated growth at about 3 per cent or 4 per cent in 1997 and about 2 per cent or 3 per cent in 1999. Vietnamese authorities might have tried to adjust figures upwards for political purposes. The international financial institutions, instead, might have presented a bleak scenario in order to push the government to accept their prescriptions. The fear expressed by the World Bank (1999a) in December 1999 that 'Vietnam now faces the possibility of becoming one of the slower performers in the region' was not confirmed by the data.

In the emergency situation created by the regional crisis, the Vietnamese government proved quite successful in maintaining macroeconomic stability. This was recognised by the international financial institutions, which also admitted that their pessimistic forecasting had been avoided:

In the two years of East Asian recession, Vietnam has followed a cautious economic stance, giving priority to ensuring macroeconomic stability rather than taking risks in order to achieve higher growth. This has led to some successes. Contrary to the fears of eighteen months ago, Vietnam has avoided the serious balance-of-payments, fiscal or banking crises that have been common in the region… (World Bank 1999a)

However, as the same World Bank's report also indicated, the impact of growth contraction has been significant in many regards. A major effect — probably with longer term implications — was a fall in investment as a share of GDP: from 29 per cent in 1997 to an estimated 19 per cent in 1999, with half of this decline attributed to the aforementioned shrinkage in foreign investment flows (World Bank 1999a).

Another major implication of the crisis was a slump in government revenues from 23 per cent of GDP in 1996 to 17.8 per cent in 1999 (UNDP 2000). This decrease forced the government to cut expenditure accordingly in order to avoid fiscal instability, thus curtailing resources for an expansionary economic policy (of the kind attempted, instead, by China). However, to reduce the impact of the recession on the population, the government sought to protect social expenditures (World Bank 1999a).

The attempt by the Vietnamese authorities to attract more official development assistance (ODA) in order to compensate for the drop in FDI and relieve the balance of payments deficit did not succeed. The regional economic crisis unfolded at the moment in which the dialogue between the Vietnamese government and the international financial institutions was characterised by deep disagreements on the reform agenda and on the timing of its implementation. In 1997 the IMF withheld the sum of roughly US$176 million, which had been agreed in 1994 as the third instalment of a three-year Enhanced Structural Adjustment Facility (ESAF) amounting to US$530 million.

In the midst of the economic difficulties resulting from the regional crisis the IMF maintained its reluctance to a new ESAF, thus also hampering a fresh World Bank Structural Adjustment Credit (SAC). Only in April 2001 – well after the end of the regional crisis and after that the international financial institutions had been the object of severe criticisms for their conduct – the two Bretton Woods institutions restored concessional lending to Vietnam.

While structural adjustment facilities were withheld, official development assistance to Vietnam was discussed in Paris in December 1998 by the Consultative Group for Vietnam (CG), the coordination meeting of international donors. The CG pledged US$2.2 billion of development aid to the country, less than the US$2.4 billion committed in 1997. However, the CG offered a further $500 million package during the year in the event of an acceleration of the reform process. In December 1999, the annual Consultative Group meeting, held in Hanoi, further increased the share of ODA conditional on an acceleration in the reform process. Donors pledged US$2.1 billion, and promised a further US$700 million if the government proceeded in the direction prescribed by the 1999 World Bank-coordinated report *Preparing for Take-*

off?. In other words, it is quite evident the attempt by the international financial institutions and other Western donors to exploit the economic difficulties of Vietnam during the regional crisis in order to impose their own (neoliberal) prescriptions.

The shrinkage in external trade and FDI, the lower than expected level of ODA, the lack of specific support from the IMF and the World Bank — all of these factors made the country more vulnerable to the risk of running short of foreign exchange in the midst of a regional financial crisis. Therefore, the national reserves in foreign currencies and gold were put under strong pressure, threatening to make the country unable to repay the short-term debts accumulated by state-owned and private enterprises. However, the measures adopted by the Vietnamese authorities to control import flows and maintain a low trade deficit proved successful in averting the most pessimistic prediction of an impending financial meltdown (UNDP 1998) or high increase in the balance of payment deficit (World Bank 1997a).

The positive results in the macroeconomic position and the improved trade balance did not conceal the negative impact of the crisis. The need to curtail the fiscal deficit and avoid an inflationary upsurge led Vietnamese authorities to adopt a strict monetary policy and renounce anti-cyclical interventions (as done, instead, by China through a large expansion of public spending). This was effective in containing inflation which, after rising from 3.8 per cent in 1997 to 9.2 per cent in 1998, went down to 0.1 per cent in 1999 and remained low thereafter. The drastic cutback in inflation — to the verge of a deflationary drive — was largely motivated by a drop in food prices (in part as a result of a record rice harvest), which account for the largest portion of a basket of goods and services on which the price index is based. However, it also resulted from a drop in the aggregate demand for investments and national consumption. Reports of stock-piling and of industrial plants producing far below their potential output were recurrent themes in the national and international media throughout 1998 and 1999.

The economic slowdown also had an impact on the people's living conditions, though a precise account is limited by the scarcity of data and would require an ad hoc investigation. Many sources indicate that a protracted economic downturn could compromise the important results achieved in terms of poverty reduction, given that many people live slightly above the poverty line (World Bank 1999c). The official data indicate that urban unemployment rose from 6.85 per cent in 1998 to 7.4 per cent in 1999 (Reuters 6 October 1999). However, a calculation of unemployment or underemployment in rural areas or in the non-official sectors in urban areas is not available.

Vietnam and the 'Flying Geese' Pattern in the Post-Crisis Environment

In the pre-crisis period Vietnam successfully increased its integration into the regional productive system. East Asia absorbed about two thirds of Vietnam's exports and was the origin of over 60 per cent of direct investment in the country. To fully appreciate the importance of the association with the region it should be recalled that Vietnam is a rather outward-oriented economy: in 1996 foreign trade amounted to 89.7 per cent of GDP (Fukase and Martin 1999a: 2). Its exports-to-GDP ratio is higher than that of the other 14 East Asian member countries of the World Bank, including South Korea, Indonesia, Malaysia, Thailand and China (Khan 1998: 23). The high level of integration into the regional economy was inspired by the so-called 'flying geese' pattern, a process whereby Japanese companies — and increasingly those of the Asian NIEs — relocated labour-intensive production in order to cope with the shifting of their comparative advantages towards more technology-intensive production. We should clarify, however, that the expression 'flying geese' is used here as an acronym to indicate an articulated system of regional division of labour which was far from the idyllic cooperation that the 'flying geese' expression is trying to convey. Behind the rhetoric of this image – that Japanese scholars employed to emphasise the role of Japan in leading junior Asian countries towards economic prosperity – laid a reality made of labour exploitation on the one hand and competition among the industrial groups of the different countries on the other hand (see Cumings 1987; Arrighi *et al.* 1993; Masina 1996). The more a number of Asian countries progressed in their effort towards industrialization the more their companies tried to break the Japanese control and to achieve a world level position on their own (Sum 2002).

Notwithstanding the conflicts that were inherent to the regional division of labour, there is a large consensus in suggesting that the 'flying geese' dynamics played a key role in promoting economic growth in East Asia since the l960s. The appreciation of the Japanese yen after the Plaza Accord (1985) forced a new round of foreign direct investment to the region, which in turn moved the comparative advantages of economies such as Taiwan and South Korea towards more technological and capital-intensive productions. This compelled a further reorganization of the regional system of division of labour that created new opportunities for a new tier of countries – especially China and Vietnam (Masina 1996; Jomo 2001a). Vietnam tried to benefit from these productive relocations, particularly from South Korea, Taiwan and Singapore, with positive results from 1990 to 1997.

As already anticipated in chapter 1 and discussed further in chapters 4 and 5 the first group of Asian industrializers were able to size the opportunities created by the favourable regional contexts through effective national planning. Probably inspired by the experience of other Asian countries, also Vietnam tried to manage the integration of the country into the regional productive system with state guidance measures that, however, were more closely related to the traditional central planning than to the market governance of Northeast Asian economies (see discussion in the next two chapters).

An analysis of changing comparative advantages in East Asia and the reorganisation of regional productive systems in a post-crisis environment represents a necessary condition for the identification of policies capable of restoring economic growth in Vietnam and for the planning of medium-term and long-term strategies. But the 'common wisdom' based on neo-classical economics tends to confute the need for such planning, supporting the view that reforms serving further liberalisation and a more 'neutral' trade regime would *per se* increase Vietnamese competitiveness. Thus, the international financial institutions, which would have the means for a large-scale investigation, remain silent in providing elements useful in understanding the dynamics characterising economic restructuring in post-crisis East Asia. This reticence is also evident in the studies produced by mainstream scholars and institutions to assist the Vietnamese authorities in furthering the process of economic reforms.

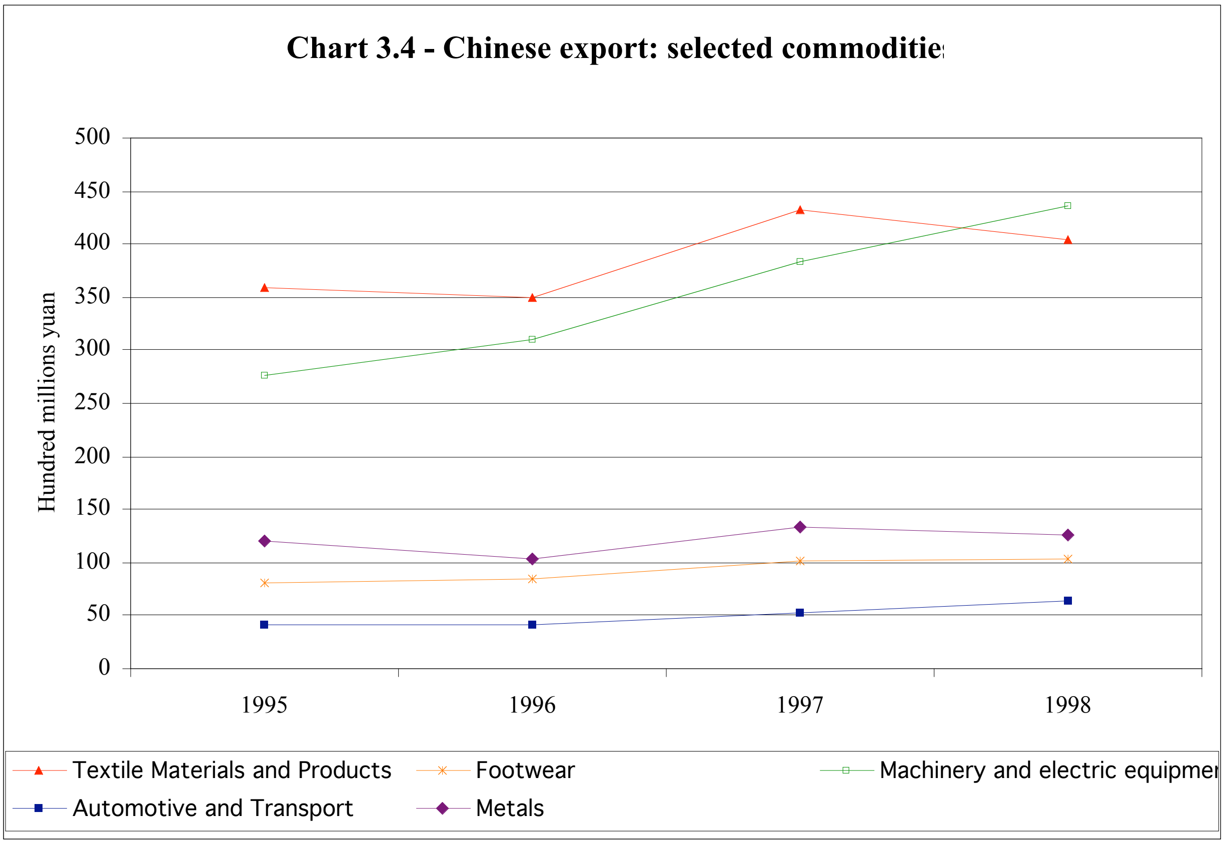
An investigation of East Asian productive systes restructuring during and after the regional crisis is outside the scope of this work. However, the following lines present a sample analysis of few data with the aim of supporting the need for more exhaustive and systematic research in this direction.

China is generally the first country to be examined in order to understand not only the changes in regional trends but also more specifically the changing environment for the Vietnamese economy. With its enormous reserve of cheap labour, China has been Vietnam's principal competitor as a location for labour-intensive production. China's relatively higher technological level and higher productivity has made production cheaper in many low-range industrial sectors. This has resulted in large-scale smuggling from China to Vietnam (estimated at about 20 per cent of Vietnamese imports).

During the regional crisis China visibly strengthened its position as a leading force in East Asia. Not only did the country succeed in maintaining growth of over seven per cent, but it also played a significant role in supporting regional economic stability. China, which had devalued the *renminbi* in 1993, made it very clear during the regional financial meltdown that it would defend the exchange rate of its currency (and that of the Hongkong dollar) with its large foreign reserves. The stability of the Chinese currency averted a new round of currency depreciation that would have certainly resulted from any *renminbi* devaluation. China's stance was further reinforced by a comparison with the economic and political impasse visible in the other East Asian giant, Japan. In June of 1998, for instance, at a time when the low value of the Japanese *yen* was putting great pressure on the exports of other Asian nations, China played a major role (behind the scenes) to reverse the trend. The Chinese threat to devalue its currency induced the US administration to dispatch the (then) deputy secretary at the US Treasury, Larry Summers, to Tokyo in order to convince Japan to intervene in defence of the *yen.*

The stability of the *renminbi* during the crisis resulted in a significant appreciation of the Chinese currency against all other major regional currencies. By December 1999 the value of the *renminbi* had increased over 30 per cent against the currencies of Thailand, Malaysia and the Philippines, 22 per cent against the South Korean *won*, and 12 per cent against the Taiwanese dollar. However, notwithstanding currency appreciation, China avoided a major shrinkage in its exports. The data for 1998 suggest that this was done thanks to a *significant shift in export composition, moving towards more technology-intensive and higher value-adding production*.

An analysis of export composition in the midst of the East Asian crisis indicates that textiles and garments — typical labour-intensive production — have suffered the most from currency appreciation. Exports of machinery and electrical equipment, on the other hand, continued to grow, indicating that China is increasingly becoming a big player in a sector long dominated by other East Asian countries. Growth in the export of automotive and transportation equipment was also remarkable, suggesting a successful diversification into more advanced industrial production. Notwithstanding the important diversification in export composition, the available data show that China did pay a price for the devaluation of other regional currencies: export growth was only 0.5 per cent in 1998 and turned negative in 1999 (but the data indicate a recovery in 2000).



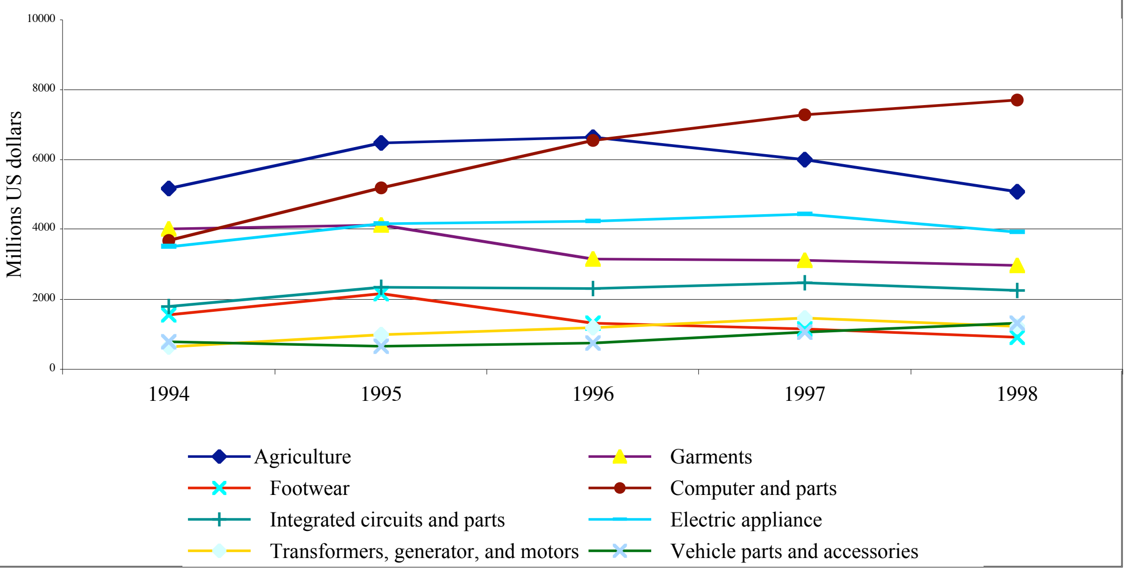
Source: National Statistical Bureau of People's Republic of China (1999) *China Statistical Yearbook n 18*. Beijing: China Statistic Press.

Thailand is the next country to look at in order to understand how the reorganisation of the regional productive system will affect Vietnamese growth perspectives. In recent years, Thailand has been a competitor to Vietnam, but also a source of foreign investment. Before being hit hard by the regional crisis, Thailand together with Malaysia and Indonesia was known as a 'second tier' country, one following a path of accelerated industrialisation led by the other Asian NIEs. According to the 'flying geese' model of the regional productive order, Thailand was just one step ahead of Vietnam and China. Thus the upgrading of Thai production towards more technology-intensive production would leave room for Vietnam in the labour-intensive sector. At the end of 1998, notwithstanding wide currency devaluation, Thai exports were still below pre-crisis level in US dollar terms. Imports had appreciably decreased, thus allowing a readjustment of the trade balance, but exports apparently failed to take advantage of increased competitiveness in terms of labour costs.[67] A rapid overview of the composition of Thai exports, however, seems to indicate that currency devaluation boosted exports less than might have been expected because

[67] The data on the composition of exports contained in the Statistical Annex of an IMF Staff Report published in February 2000, cover the period until 1998. In that year, the Thai economy had a contraction of about 10.4 per cent. GDP growth turned positive only in 1999.

Thailand did not re-engage in labour-intensive production but carried out further industrial upgrading.

Chart 3.5 - Thai export: selected commodities



Source: IMF (2000) Thailand: Statistical Appendix. IMF Staff Country Report No. 00/20.

The overview of data contained in an IMF statistical report released in February 2000 indicated that exports in garments, footwear and other labour-intensive production declined in dollar terms in line with a trend started before the regional crisis. Exports in more advanced sectors such as computers and vehicles had grown rapidly instead.

As with China, the compositional pattern of Thai exports seems to indicate that the crisis has not undermined and has probably even extended Vietnam's potential for increasing its market share in the export of labour-intensive production.[68] The data do confirm that this potential has been exploited successfully: in 1999 the growth in Vietnam's exports in the garment sector was over 103 per cent and, in footwear, it was over 34 per cent.

Table 3.10 – Vietnamese Export growth, 1995-1999
(percentage)

	1995	1996	1997	1998	1999
Garments	-9.45%	51.04%	19.82%	10.00%	103.61%
Footwear	63.93%	165.50%	81.73%	6.94%	34.88%

Sources: IMF 1999b; UNDP Statistical Bulletin 2000

[68] This is also confirmed by analysis of the export composition of another important 'crisis' country such as Korea. Not even in 1998, with an economic contraction of 5.8 per cent, huge devaluation and shrinking exports, South Korea saw a growth in export performance of its light industry. (See data contained in the IMF Staff Country Report No. 10/00, *South Korea: Statistical Annex*.). The largest Southeast Asian country — Indonesia — was at the end of 1999 still in the midst of economic recession and political instability, which reduced its ability to compete in international markets.

The data is also confirmed by a qualitative investigation conducted on behalf of the Norwegian trade unions in the summer of 1999. Using a survey carried out in Ho Chi Minh City and Danang on enterprises engaged in textile, garment and footwear production, the research showed that the crisis did not have a very severe impact on these companies. In particular, foreign-affiliated companies, whose production was mainly directed abroad, could rely on foreign partners in finding new markets. The wage increase in dollar terms compared to neighbouring countries was not considered by those managers interviewed as a factor important enough to motivate production relocation out of Vietnam. Although foreign investment in these labour-intensive sectors tended to originate in other East Asian countries, foreign entrepreneurs were acting as middlemen in an international production chain controlled by large Western multinational corporations (e.g., Nike), whose markets were largely located in OECD nations (Nørlund 1999).

The data on Vietnamese export growth in 1999 seem to indicate a favourable trend in the reorganisation of regional production systems. This may imply that Vietnam could succeed in further extending its market share in labour-intensive production, benefiting from industrial upgrading in other East Asian countries. In order to be sustainable, this trend will require a higher level of investment, including FDI. However, it is possible to foresee a return to higher levels of investment if present favourable conditions are confirmed. At the same time, it should be noticed that such a rapid export increase in 1999 may indicate that the investment level before the crisis (including FDI) had resulted in an expansion of industrial output potential, which might not have been entirely exploited yet.

Analytical remarks

This chapter has presented the hypothesis that the Vietnamese economy may be more integrated into regional production systems than it is normally suggested. Already in the wake of the regional economic crisis, Vietnam faced a mild deceleration in economic growth and shrinkage in FDI inflows. This was largely a result of the economic imbalances mounting in the region (overproduction, speculative bubbles in the real estate sector, etc.) which eventually unfolded in the form of financial and economic crisis. However, the economic downturn was interpreted by the international financial institutions (and by a number of mainstream analysts) as an indication of national shortcomings in the process of economic reform. Although shortcomings were undeniable — and they may have resulted in discontent among foreign entrepreneurs, thus reducing their propensity to make further investments — the interpretation provided by neoliberal analysts was excessively unilateral, failing to take adequate account of the regional dimension of FDI shrinkage. This unilateral interpretation may be understood as an attempt to push Vietnam towards a more 'orthodox' development strategy.

Contrary to the predictions of the international financial institutions, after the Asian crisis Vietnam was fast in recovering its role as exporter of labour-intensive production (in particular, garments and footwear). However, upgrading its industry towards more value-added forms of production requires industrial strategies that are able to save the country from the tyranny of static comparative advantages. The experience of the region in this regard has been successful — following what has been described as a 'flying geese' path — also due to favourable geopolitical conditions. The reorganisation of regional production systems following the East Asian economic crisis will be the decisive factor in determining the conditions for Vietnamese industrial development.

Chapter 4
The reform agenda after the regional crisis

Even before the onset of the regional economic crisis the 'official wisdom' had already converged in identifying four main issues as cornerstones for the enhancement of the economic reform: 1) privatisation of state owned enterprises (SOEs), 2) reform of the financial sector, 3) trade liberalisation and 4) development of the private sector. This agenda was confirmed after the crisis by the major international agencies (e.g., World Bank 1999a; IMF 1999a; UNDP 1999). Officially, the Vietnamese authorities subscribe to this agenda; in reality, significant resistance on key aspects of this package does exist. In the worlds of Tran Xuan Gia, at the time Minister of Planning and Investment at the donors Consultative Group Meeting in December 1999:

> We all agree on *what* reforms need to be done. The discussion is about *how*. We agree that without accelerated reforms we cannot grow rapidly and therefore the question is how best to accelerate the 'doi moi' process (World Bank homepage, emphasis in the original).

The role of 'agenda setting' played by the international financial institutions should be considered against the background of relative impasse within the Vietnamese leadership in promoting a clear-cut reform strategy. Although the state and party leaders maintain a broad commitment to *doi moi*, the complexity of the reform process and the existence of conflicting economic and political interests have resulted since the early 1990s in a rather uncertain trajectory. A number of scholars (e.g., Fforde, Kokko and Ronnås) maintain that the implementation of bold reform measures in the period from 1989 to 1991 was the result of the pressure deriving from fading Soviet and Eastern European aid. The positive results of these reforms, accompanied after 1992 by increased development assistance from bilateral and multilateral donors and large flows of FDI, decreased the pressure for a furthering of *doi moi* and reduced the leadership's commitment to implement sensitive measures. Actually, by 1994 the positive economic results made the Vietnamese government conclude that the systemic crisis was over. This perception led to an attempt to regain control over the foreign-invested sector and to put higher emphasis on self-reliance (Dixon 2000: 284; Dixon and Kilgour 2002: 604-605). The change of attitude by the national leadership led Adam Fforde (1998b) to voice openly the view that too large aid flows to Vietnam would maintain the *status quo* and delay needed reforms.

The belief that the Vietnamese economy was reaching a situation of impasse already before the regional crisis motivated a number of scholars and the international financial institutions to take the lead in the definition of a new reform agenda. Ari Kokko described the situation in the following terms:

> Even before the advent of the Asian crisis in July 1997, it had become apparent that it might not be possible to sustain the high growth rate without further reforms. The reason was that serious structural weaknesses had begun to endanger the stability of the economy. The problems included inefficient SOEs and banks, growing current account deficits,

> and a trade policy bias in favour of import substitution. The development of the private sector was also obstructed by unclear rules, often favouring SOEs, excessive red tape, and corruption (Kokko 1998b: 3)

Many of the issues indicated by Kokko and by other authors are undeniable. The lack of consensus within the Vietnamese leadership on a policy able to give new momentum to the reform process is quite evident. Given the careful (and rather successful) macroeconomic management in the midst of the Asian crisis it is possible to imagine that the Vietnamese authorities maintain a more firm control on the economic policy than it would appear superficially. It is also possible that – given the internal divergences and the need to avoid contrasts with the international donors –cautious and pragmatic policy-making is considered by leading Vietnamese forces as safer than embarking into highly theoretical and programmatic enunciation. However, there are indications to support the view that at least since the Mid-Term National Conference of January 1994 the dialectic within the party has not been able to converge on a clear political strategy and has led to a situation which has been defined as 'reform immobilism' (Womack 1997). Skirmishes between so-called (by Western analysts) 'reformist' and 'conservative' forces before and during the Eighth Party Congress of May 1996 did not result in a more clear definition of the party agenda (Riedel and Turley 1999: 36:40).[69] Rather, the party remained split along lines that reflect the representation of different sectoral interests (e.g., Vasavakul 1997).

No significant changes in the party line emerged at the Ninth Congress of April 2001. Although the Congress was marked by the dramatic dismissal of the secretary-general Le Kha Phieu, this outcome was connected to the accusation that Phieu had abused his power and was not the result of a change in the political balance.[70] The Congress appointed as the new party leader Nuong Duc Manh, who had emerged as a popular political figure thanks to his ability in giving a more prominent role to the National Assembly (where he served as Chairman) – an institution that had previously been described as a mere rubber-stamp of decisions already taken by the party and the government.[71] The rise to power of Nong Duc Manh was made possible by his talent in mediating among the different interest groups and factions within the party. Although he belongs to a younger generation and has often been described as a reformer, his election was not the sign that the party was willing to undertake radical changes.

An attempt to understand the political debate within the communist party on the basis of categories like 'reformer' or 'conservative', however, risks to oversimplify reality and even to produce serious misconceptions. As has already been recalled, the Vietnamese leadership tends to act by searching for consensus rather than operating

[69] 'The Congress documents were significant not as guidelines for policy but as snapshots of the contested ground, over which bickering and bargaining would continue once the Congress was over' (Riedel and Turley 1999: 39).

[70] Le Kha Phieu had apparently used his connections with the army for spying on his fellow party leaders. Such unacceptable behaviour led the three elder 'Senior Advisers' to the Central Committee – Do Muoi, Le Duc Anh and Vo Van Kiet – to let it be known that Phieu had lost their support, thus making it impossible for him to be re-elected.

[71] It is often reported that the popularity of Nong Duc Manh is also due to the rumour that he was a natural son of the late President Ho Chi Minh.

abrupt shifts. This *modus operandi* reflects two essential characteristics of the Vietnamese decision making process. On the one hand, there is a broad consensus within the core leadership that the reform process is irreversible, but that this should not lead to the dismantling of the core tenet of the Vietnamese revolution. The definition of 'market economy with socialist characteristics' may be scarcely supported by a strong theoretical foundation, but it is in any case rich of political implications, able to coalesce a large part of the current leadership. On the other hand, the interest representation within the various echelons and sectors of the party is much richer than any representation in terms of two competing factions (conservative and reformers) could explain. As suggested by a Japanese scholar well-acquainted with the Vietnamese political system, the decision making process is neither top-down nor bottom up, but rather diffused and articulated, as in a 'multidimensional web of human and organizational leaderships in which everyone must operate'.[72]

We will return to the question of interest representation in the next chapter. The remaining pages of this chapter will try to explore some of the crucial elements of the reform process looking at the most contentious issues in the current debate.

The development strategy to 2010

An important set of strategy documents was prepared ahead of the Ninth Party Congress of April 2001. These documents were based on a number of sector studies prepared by the relevant ministries and agencies and involved a rather lengthy and open debate. Eventually, the Ninth Congress approved two key documents: a ten-year *Strategy for Socio-Economic Development, 2001-2010* and a *5-Year Plan for Socio-Economic Development, 2001-2005*. In the process that led to the drafting of these documents, international agencies and Western consultants played an important role behind the scenes: in particular, a joint UNDP-MPI exercise for the drafting of background papers for the ten-year strategy was the channel for the involvement of a number of Western scholars. Although the strategy documents approved by the Party should obviously be regarded as 'national', it is wise to consider that they also reflect a sort of compromise with the international financial institutions. Once again, the compromise was reached by approving documents that set goals and targets, but fell short of indicating in a precise manner the policies to be implemented for reaching those targets. Only in a few cases did these documents express significant strategy formulations (see the following) – most of the rest consists of a rather boring litany of past achievements and future expectations.

Some light on the more contentious issues is shed by a report coordinated by the World Bank (and prepared in cooperation with the ADB and the UNDP) ahead of the Consultative Group Meeting of December 2000 – *Vietnam 2010*, *Pillars of Development*. This report was specifically prepared as a commentary on the early drafts of the ten-year strategy papers.

[72] I am grateful to Prof. Kenichi Ohno for this comment and much useful advice in a frequent exchange of emails in winter 2001/2.

Pillars of Development is also relevant for another important reason: it marks the shift from a superseded structural adjustment approach to a broader based poverty reduction strategy. In the late 1990s (also thanks to the debate following the Asian crisis)[73] structural adjustment strategies came to be widely acknowledged by public opinion and by the scientific community as a failure if not a cause of further impoverishment for Third World countries. Although it is open to question if this debate produced a substantial change in the core tenets of orthodox development practice, the expression 'structural adjustment' was replaced by 'poverty reduction strategies' and the negotiations between the Bretton Woods institutions and local governments were made more open and transparent, also involving representatives of NGOs and the civil society.

The need of a deeper understanding of poverty dynamics was acknowledged by the World Bank, which in 1999 dedicated its World Development Report to a study of poverty dynamics known as *Attacking Poverty*. This study, however, did not overcome the divide between the World Bank and its critics. In the end, this timid attempt by the World Bank to address one of the issues on which it had been more openly criticised resulted in a major public relations fiasco. Ravi Kanbur – the scholar appointed to direct the drafting of *Attacking Poverty* – resigned because the Bank would oppose any significant shift from its development orthodoxy.[74]

An interesting aspect in the preparation of *Attacking Poverty* was a wide investigation on poverty based on participatory and grassroots-informed methodologies. This investigation was inspired by Robert Chambers and his colleagues at the Institute of Development Studies in Brighton, and was financially supported by the British DfID. This wide-ranging exercise had the aim to complement the more traditional top-down, quantitative data normally used by the governments and the international financial institutions. The results of the investigation were published in 3 volumes as *Voices of the Poor*. While the findings of *Voices of the Poor* are scarcely reflected in the global *Attacking Poverty,* some of the country studies which formed part of this exercise had a larger impact at national level. Among the countries that benefited the most from this participatory investigation is Vietnam.[75] We will discuss in more detail at the end of this chapter the findings of the two Vietnam-based studies *Voices of the Poor* and *Attacking Poverty*, which were released by the World Bank in Hanoi in late 1999. For the moment it suffices to say that these studies contributed to the understanding that poverty is a complex issue and that poverty reduction strategies must be broad based. New notions – new for the international financial institutions – were finally acknowledged: economic growth is not *per se* a guarantee of poverty reduction if this growth does not translate into more employment and better redistribution of

[73] See, e.g., Masina 2002a and the other contributions collected in the same volume.

[74] The World Bank and the US Treasury, in particular, would insist on a hard-line message regarding free trade. See Kanbur 2001 for an account of the current disagreements in development policies – this account is however shy in reporting the reasons that forced its author to resign from his important job. For more detailed information about the resignation of Kanbur (and Stiglitz) see Wade 2001.

[75] The Vietnamese *Attacking Poverty* and *Voices of the Poor* are actually considered as the most successful among these studies. This seems at least to be the view among international experts, as it was confirmed during a private conversation with a representative in the Poverty Working Group of the OECD's Development Assistance Committee.

resources; and the poor can be particularly vulnerable if macroeconomic change is not accompanied by measures supportive of their livelihoods.

Pillars of Development was part of this general reassessment of development strategies by the international agencies – and particularly the World Bank – both in Vietnam and internationally. The report took on board the issue of broader based poverty reduction strategies in a more evident way than in the two strategy documents eventually approved by the Ninth Congress and led to a further round of negotiation about the development strategy for Vietnam at the beginning of the 2000s. At stake in this negotiation was the future economic assistance to the country by the international financial institutions and by the other multilateral and bilateral donors. This new debate culminated in a *Comprehensive Poverty Reduction and Growth Strategy (CPRGS)* released by the Vietnamese government in May 2002.

Both *Pillars of Development* (World Bank 2000) and the *Comprehensive Poverty Reduction and Growth Strategy, CPRGS* (2002) were built in a way to make poverty reduction emerge as the cornerstone of development strategy. *Pillars of Development* was presented as a set of technical advices that aim at supporting the implementation of the macroeconomic policies decided by the national authorities. The *CPRGS* was a national document, the drafting of which had been supported by extensive consultations with donors, NGOs, different ministries and agencies, and ultimately approved by the government. There is more than one reason, however, to dispute this official account.

A number of recent studies (e.g., Wilks and Lefrançe 2002) have argued that the replacement of structural adjustment policies with poverty reduction strategies has not changed substantially the ways in which the international financial institutions control the process of policy formulation by their client countries. Scholars and policy-makers in developing countries often lack information and the technical expertise to challenge views presented as authoritative by the World Bank and its partner institutions. Due to its large economic and intellectual resources, the World Bank has great leverage in taking the lead in policy formulation, even if the outcomes are presented as national deliberations and as the result of a wide process of consultation. Further, the World Bank's leverage is not only a consequence of its power as a source of intellectual guidance but also of its role as lender to developing countries. It is fair to underline (as in Wilks and Lefrançe 2002) that the position of the World Bank is made ambiguous by this double status: on the one hand, an organization which officially aims at empowering developing countries with stronger resources for deciding about their own strategies; on the other hand, a bank which has unbalanced power relationship with its clients and must also guard its own economic interests.

The general pattern in the power relations between the World Bank and developing countries assumes a specific dimension in Vietnam. As we have already suggested, the Vietnamese authorities have constantly avoided proclaiming any long-term strategy that may be at odds with the prescriptions of the international institutions or let visibly emerge the nature of disagreements on specific issues. Thus, it is no surprise that the documents approved by the Ninth Congress have remained vague in indicating the policies to be adopted for reaching the approved economic targets.

Once again, the World Bank had an easy job in occupying this empty space with its own prescriptions (*Pillars of Development*). This role of guidance has also concerned the drafting of the *Comprehensive Poverty Reduction and Growth Strategy*. Like in the 'good old days', in the era of Poverty Reduction Strategies World Bank and IMF officially define their country assistance programme on the basis of the development strategies indicated by the local governments. And like in the 'good old days' the local governments receive quite a large amount of 'help' and 'advice' in deciding upon 'their own' strategies.

Notwithstanding the existence of this recent set of policy documents, the debate between the Vietnamese authorities and the international financial institutions risks to remain largely obscure. Few clues are left to the analyst: and one of them seems even paradoxical. The international financial institutions have often been accused in the past of putting too much emphasis on economic growth and not enough on the way in which this growth was generated or on the impact of growth on poverty, employment, welfare, etc. As we have seen, now the World Bank (apparently) sees poverty reduction as the centrepiece for development strategies in Vietnam. At the same time, we learn that the inclusion of the term 'growth' in the title of the CPRGS had been made on Vietnamese insistence and against the standard suggested by Washington. *Pillars of Development* (as other previous World Bank reports for Vietnam had also done) openly states that 'quality' of growth is crucial and a slower rate of economic growth would be preferable if this leads to more job generation and wider poverty reduction. If the core of the 'development orthodoxy' has abandoned the idea that economic growth would 'trickle down' and increase people's welfare, why does Hanoi remain so obsessed with growth? Is this a heritage of the old central planning mindset, or some misperceived ambition by country leaders, or even a disregard for the conditions of the poor? Three hints suggest that the answer may be different from what would appear to be the case. First, the Vietnamese 'obsession' with growth is tacitly supported by Japan and its international cooperation agency (JICA) – if the Vietnamese policy-makers may be suspected of being too isolated from the international scientific debate this is certainly not the case for the Japanese experts. Second, the Vietnamese leadership cannot be easily accused of disregarding the need of the poor: as we will indicate later in this chapter, according to the same World Bank (1999b) *no other country has reduced poverty so much as Vietnam did during the 1990s*. Third, after the collapse of Soviet Union and fall of Suharto in Indonesia the Vietnamese leadership is very much aware that its political survival depends on the economic conditions of the country. High rates of unemployment or inadequate results in poverty reduction could be destabilizing.

These hints suggest that the latent disagreement between the national authorities and the international financial institutions is not about poverty reduction but *on key elements of the macroeconomic policy*. That is, the accent on growth may indicate that Vietnam identifies an active role of the state in leading the development process – industrial policies, trade policies, control on finance, etc. – as a required factor for securing at the same time economic growth and sustainable poverty reduction. The World Bank uses poverty reduction to justify its claim that Vietnam should not distort the economy with measures that create trade advantages and preferential access to foreign investments for capital-intensive production controlled by SOEs. Market friendly measures and more encouragement to the private sector would – according to the World Bank – be more effective in creating job opportunities and reducing poverty.

The Vietnamese leadership – in the practical implementation of reforms if not in policy statements – appears to be scarcely convinced by this interpretation. Rather, Hanoi seems to be looking at the experience of other Asian countries where the state has been the *primus motor* in the economy. Such an interest in practices that we could inscribe within the frame of the 'East Asian developmental state' also justifies the support of Japanese experts for an attitude that is defiant of neoliberal recipes for poverty reduction – Japan is obviously keen on having a new important Asian country following its own path.[76] We will argue, however, that while the East Asian developmental experience is regarded as a source of inspiration in resisting the neoliberal prescriptions, the measures adopted so far in the reform process scarcely resemble a coherent developmental state model. At the same time, it is important to underline that the Vietnamese authorities may hold that there is no contradiction between an East Asian developmental state type of economic policy and poverty reduction. Successful poverty reduction and low levels of economic inequality have been essential features of the so-called East Asian Miracle, as the 1993 World Bank study recognised. Support to the rural world and corporative systems of economic redistribution have been functional to the implementation of authoritarian developmental states models in Asia (as illustrated, e.g., by Wade 1990 and Putzel 2002). Corporatist income redistribution was part of a hegemonic discourse that made it possible for the Asian developmental state to mobilise the entire nation in an effort of 'compressed modernization' (Chang 2002).

An effort in disclosing the veil of apparent agreement – for which the Vietnamese slow implementation of a number of measures is simply 'delay' – reveals that fundamental issues in the reform process are still unresolved. At the centre of this (undercover) debate is once more the interpretation of the developmental experience of East Asia. While the *East Asian Miracle* (World Bank 1993) was a complex and articulated study, its findings are presented by *Pillars of Development* in rather simplistic terms:

> The high performing economies of East Asia (i.e., South Korea, Taiwan-China, Malaysia, Thailand, Indonesia) have demonstrated convincingly the sort of policies that must be implemented to sustain annual per capita growth rates of 5-7 percent over several decades and generate large reductions in poverty. Greater openness to the world, more freedom for the private sector, an effective banking system and macroeconomic and fiscal stability – complemented by superb access to primary education and to infrastructure services – helped these economies to generate high rates

[76] I rely for this point regarding the views of the Japanese experts – and before the Asian crisis also of South Korean advisors – on private conversations with scholars (Vietnamese, Japanese but also Western) and with officers of international agencies. The research directed by Prof. Keinichi Ohno in cooperation with the Vietnamese National Economic University has also indicated the need for industrial policies that related more with the experience of Japan and other Asian countries than with the neoliberal orthodoxy.

> of investment, savings, exports, employment and productivity growth (World Bank 2000: 22).[77]

We will see in the next pages that this simplistic interpretation –within the frame of a reformed Washington orthodoxy – is still insisted upon in the most recent documents which aim at inspiring the Vietnamese development strategy after the regional economic crisis. We will investigate the main elements of this debate and try to put in evidence where the line of dissent lies.

Foreign trade

Establishment of a 'neutral' trade regime

Among the policy reforms promoted by the current development agenda, trade liberalisation is probably the most controversial. To be sure, the contention on the advantages and disadvantages for a developing country in joining a 'free trade' regime does not regard only Vietnam. The relation between trade liberalisation and growth is one of the most debated issues in economic theory and in development studies. However, the international financial institutions and mainstream scholars tend to conceal this debate: their request for trade liberalisation in Vietnam is presented as authoritatively based on economic theory and on the empirical experience from developing countries within and outside the region. Mainstream policy advice tends to express the 'orthodox' view in a quite uncompromising way. To give only one example, James Riedel – a well-known Vietnam expert, recently author with William Turley of an OECD sponsored study (1999) – illustrated his view in the following terms:

> In the vast literature on the economic development over the past 100 years, there is no empirical regularity that is more robust across time and countries than the positive relation between openness to trade and economic growth (Riedel 1999: 11).

Such a proposition should probably be understood in its normative value – an attempt to push for specific policy measures in Vietnam – rather than as a contribution to increase the scientific awareness of the problem. But considering the complexity of the debate on the issue, a more cautious approach would be recommended. Most economists would agree that foreign trade is beneficial to economic growth. But the positive virtues of *free trade*, especially for a late-comer, are the object of various degrees of dissent. For instance, a well-known criticism of the neoliberal attempt to impose free-trade as orthodoxy in the development discourse is contained in Robert Wade (1990), which also reports a caustic sentence by Dani Rodrik:

> if truth-in-advertising were to apply to policy advice, each prescription for trade liberalisation should be accompanied by a disclaimer: 'Warning!

[77] Once again we must note how the World Bank's regime of truth is constructed by simply ignoring the wide scientific debate. The conclusions of the Asian Miracle have been challenged by a very large number of scholars and – especially after the regional economic crisis – it is intellectually improper to deny this debate. There is rather little general consensus on what has been 'convincingly demonstrated' about the developmental experience of the high performing East Asian countries.

> Trade liberalisation cannot be shown on theoretical grounds to enhance technical efficiency; nor has it been empirically demonstrated to do so' (Wade 1990: 20).

It is also important to remind that the current debate about trade liberalisation is in many ways paradoxical. While free trade has become a pervasive ideology, the world economy is actually characterised by a revival of protectionism and trade blocs. And this is even more paradoxical because protectionism is adopted by the same industrialised nations that search to enforce trade liberalisation on developing countries. Besides, changes in international trade regulations in the last twenty years have increasingly reflected the interests of industrialised countries and transnational corporations rather than the needs of developing countries. For instance, Jomo K.S. – while suggesting that Southeast Asian nations can still succeed in seizing opportunities offered by the international markets – notes that

> [T]he resurgence of protectionism and the emergence of new international economic governance are creating less favourable circumstances. The extensions of GATT's jurisdiction to foreign investment, the international trade in services and intellectual property rights, as well as the establishment of the World Trade Organization (WTO) have strengthened transnational corporate hegemony and imposed additional costs on new industrialization efforts… (Jomo 2001b: 467–468).

Within this complex environment, Vietnam is engaging in a process of trade liberalization. Although the country has unquestionably benefited from increased international trade during the 1990s, the next steps in this area of the reform process are arduous.

There is a certain level of consensus in reporting that, in spite of the reforms introduced in the past few years, Vietnamese trade policy remains strongly biased in favour of import substitution. This evidence leads the international financial institutions to draw the conclusion that the present trade regime produces a sub-optimal allocation of resources. For instance, a report released by the IMF in 1999 argues:

> Although [trade restrictions are] intended to promote 'strategic' industries, the effect has been to promote inefficient import substitution. Chronic overcapacity, uneconomic production scales, and high costs are common. These problems are not transitory, because the import substituting industries are not competitive and have little prospect of exporting. Such industries impose substantial costs on all sectors of the economy, especially agricultural exports, and contribute little to employment (IMF 1999a: 59).

On the basis of this bleak description the IMF and the World Bank present their normal recipe: *trade liberalisation*.[78] Before discussing the current trade regime in Vietnam, it may be useful to restate the goal that this section aims to reach. Although this work does not deny that Vietnam suffers from an inefficient import substitution

[78] As usual, differences do exist between these two *sister institutions*. While the IMF is asking for a neutral trade regime, the World Bank is somehow more nuanced in arguing for trade liberalisation.

policy, it tries to illustrate that the *free trade* is only one of the options available for Vietnamese policymakers. Away from the prescriptions provided by the orthodoxy, there are at least other two strategies that have been presented in the debate either on Vietnamese or East Asian development. The first strategy involves export promotion to compensate exporters for the disadvantages produced by the import substitution bias (theory of simulated free-market). The second involves a full-fledged strategic trade policy, with a selective adoption of import substitution and export orientation (as suggested by different authors promoting 'developmental state' policies). While free trade theory considers state intervention as always counterproductive, the other two theories justify the need – under specific circumstances – for trade policy involving the use of restrictions to imports.

Looking at the concrete Vietnamese case, orthodox scholars consider the existing import substitution bias as a problem that the reform process should seek to remove. Scholars inspired by the developmental state model, instead, try to assess trade policy using as a parameter the efficacy in supporting industrial upgrading and catching-up dynamics. These different views can be traced in the policy bargaining for the definition of a reform agenda for Vietnam. In fact, the Vietnamese authorities, although not openly challenging the rationale of orthodox prescriptions, tend to resist the implementation of downright trade liberalisation measures. However, it would be difficult to claim that the trade policy implemented by the Vietnamese authorities reflects a 'developmental state' strategy: it offers protection also to specific interest of powerful actors (e.g., SOEs dominating specific industrial sectors) in areas where these interests are actually not functional to the national catching-up drive.

A precise assessment of the Vietnamese trade policy – strengths, weaknesses and distortions – as conducive to catching-up is complicated by the absence of a specific literature. Most literature is in fact looking at the present trade regime only to evaluate how much it departs from free-trade orthodoxy and which measures should be taken to redress the import-substitution bias.

In a paper suggesting the adoption of export-supporting measures, to be adopted while gradually moving toward a more liberal trade regime – a position that could be related to the simulated free-trade theory – Ari Kokko has given a description of the Vietnamese import sector that may indicate a catching-up attempt:

> The structure of imports [of Vietnam] is largely what one would expect in a country with an ambitious development program. The bulk of imports is made up of capital goods and raw materials used for investment and production. The most important individual import items are fuel, steel, and fertilisers, but the imports of semi-finished products, such as electronic components and textiles, have also grown rapidly in recent years. Consumer good imports have been remarkably small, representing only around 10 percent of imports in 1996. However, it should be noted that the structure of imports is determined by trade policy rather then pure market forces: import tariffs are higher and license requirements more stringent for consumer goods than for machinery, equipment, and intermediates. In fact, Vietnamese trade policy has explicitly aimed to

> restrict consumer good imports in order to provide a captive market for local producers (Kokko 1998a: 12).

This description provides an interesting hint about the underlying dynamic in the Vietnamese trade regime. However, this hint does not allow us to distinguish if these distortions are the result of a rational trade strategy, for which market distortions are functional to an accelerated industrialization drive, or are simply the result of rent seeking behaviour by leading economic forces.

Vietnam is currently moving towards a less distorted trade regime. With a number of measures adopted since the late 1980s, export quotas have been removed for most export and many import commodities, export duties have been abolished for most products and import duties have been generally reduced and rationalised, the foreign exchange rate has been unified and substantially led to depend on market forces (cf., e.g., Khan 1998; Kokko 1998a; Kokko and Zejan 1996; World Bank 1997 and 1999a; IMF 1999a).
The reforms implemented so far, however, have not eliminated the many distortions existing in the current trade regime. The World Bank indicates that tariffs and quantitative restrictions discourage production in sectors in which the country would have comparative advantages and support production – and attract FDI – in sectors in which Vietnam cannot be competitive (World Bank 2000: 26).

In recent years, Vietnam has signed a number of international agreements and committed itself to further trade liberalization. In particular, it has joined the ASEAN Free Trade Area (AFTA), has signed a bilateral trade agreement with the United States (USBTA) and has officially expressed the ambition to join the WTO soon. The commitment to an increasing integration into the global market and trade liberalization has been reiterated by the Ninth Party Congress and has been included in the official development strategy (VRS 2002: 43). However, the cost for the Vietnamese enterprises risk to be very high in consequence of these international commitments:

> By early 2003 quantitative import restrictions (QRs) on six products (i.e. cement, steel, paper, glass, vegetable oil and ceramic products) are expected to be removed and tariffs on 95 percent of tariff lines for ASEAN countries reduced to 20 percent; tariffs on ASEAN imports will drop further to 5 percent by 2006. Under the USBTA, there will be cuts in protection of imports into Vietnam of around 30 to 50 percent on the current tariff rates on 250 different tariff lines covering both industrial and agricultural products... In addition, a wide range of service sectors, including telecommunications, banking, insurance, distribution, tourism, accounting, architecture, engineering, computing, management consulting, education, and health services will also be opened up for foreign investment World Bank 2000: 26).

In the future years it will be possible to see how the Vietnamese authorities will cope with the implementation of these costly measures. It is possible to imagine that some sectors of the Vietnamese intelligentsia see trade liberalization as a way to increase the productivity of the national economic system. However, it seems realistic to assume that the Vietnamese authorities have accepted to play the game of trade liberalization because they perceived that given the prevailing power structures in the world economy there were no alternative options. Nonetheless, significant resistance remains. In the next section we will indicate that one of the key trade agreements signed by Vietnam – the bilateral pact with the US – was the result of a rather painful process and barely reflected a convinced change in the mindset of senior policymakers.

The concrete implications of the agreements subscribed to by Vietnam cannot be easily anticipated. There are hints to indicate that a number of ASEAN countries may eventually converge in making the implementation of AFTA less imperative and rapid than expected. At the same time, the experience of countries like Japan (but even the United States and the European Union) suggests that it is possible to maintain some discretionary power (e.g., through disguised non-tariff barriers) in protecting national producers even in an officially open trade regime. This may also be done by countries like China and Vietnam, which have a long tradition in resisting external impositions (Perkins 2001: 254).

On the basis of the signed commitments, the Vietnamese authorities agree with the neoclassical recipes; but on the basis of what concretely has been done until now this agreement is much less obvious. It is legitimate to assume that – notwithstanding the official declarations – there is some line of resistance to complete trade liberalization. However, it is unclear where precisely this line of resistance lays. It may be a rather passive resistance, defending rent seeking interests promoted by SOEs and their foreign partners; or may be a more proactive resistance, inspired by the developmental model of other Asian countries. Although there is no definite evidence that Vietnam is concretely trying to repeat the lesson coming from high performing Asian economies – a lesson that is however promoted by Japan, the largest source of development aid to the country – it is useful to reiterate here some key aspects of this lesson as interpreted by important 'statist' scholars. The regional experience may help in putting the Vietnamese case into perspective and allow a better appreciation of the issues in the current debate and what are the options open to Vietnam.

'Statist' scholars, reflecting especially on the cases of South Korea and Taiwan, have indicated that these 'late-comers' have succeeded not by adopting free trade but through the implementation of selective trade policies combining export promotion with import substitution. For instance, Robert Wade (1990) reminds that:

> 'The evidence suggests that, overall, the policies of import substitution in the 1950s [in Taiwan and South Korea] had a very important role in preparing the way for later success. They did so both by channelling resources from agriculture to industry through the exchange rate and domestic terms of trade, and by more direct promotion in certain sectors' (Wade 1990: 85).

It is important to underline that the example provided by South Korea and Taiwan – and before them by Japan – did not consist of import substitution strategies versus export-led growth. Rather, these East Asian countries relied on trade policies combining selective import-substitution and export promotion on the basis of national industrial policies. Therefore, industrial sectors which received (temporary) protection from foreign competition were forced to increase their technological skill and their competitiveness (at least, on foreign markets) and were not allowed to indulge in rent-seeking behaviour. Even more, the North East Asian governments used temporary import restrictions as a source of leverage to impose discipline on industry:

> East Asian governments have generally made protection [against import] conditional, either by specifying limited-duration tariffs and quotas to hasten upgrading and innovation, or by tying protective measures to export obligations. Both Korea and Taiwan pursued such schemes throughout their high-growth era. Japan has also used protection as a creative discipline. In the important electronics industry, companies had to work feverishly to improve productivity and develop technology to meet liberalization schedules. According to JETRO, the government 'always refused to extend liberalization periods, with the specific intention of exhorting domestic manufacturers to pull out all the stops to meet the deadlines' (JETRO 1993: 139) (Weiss 1998: 73–74).

It was the mix of import-substitution and export promotion that made possible such diverse interpretations of the Taiwanese and South Korean cases, with scholars emphasising one aspect or the other of these composite trade policies. The attempt to present the 'miracle' of these two economies as simply based on export-led patterns responds to the neoliberal need to build up consensus on orthodox practices. This attempt, however, does not hold against the evidences coming from the study of the concrete historical development.

> 'A study of the sources of growth in nine countries from the 1950s to the 1970s concludes that Taiwan and Korea stand out from the others in terms of the contribution of import substitution to the growth of manufactured output (de Melo 1985). They are the only countries in the sample where import substitution contributed as much as one-third of manufactured growth in any sub-period… The overall patterns of manufactured growth with strong import substitution preceding export expansion is observed in virtually all sectors in both countries… Result from the sample are consistent with the proposition that countries which experience fast export-led growth have earlier had a period in which import substitution was a very important component of total growth…' (Wade 1990: 84).

The evidence collected by Wade and by the other 'statist' economists is acknowledged by the scholarly community, although with various nuances.[79] Many scholars recognise the importance of selective trade policy – including import-substitution – at least in the early stage of the industrialisation drive. For instance, one of the most influential economists working on Vietnam – the already mentioned Ari Kokko – who is in general critical of the Vietnamese import-substitution policy,

[79] We have already seen that even the World Bank's *East Asian Miracle* of 1993 had to concede that growth in these countries was a result of something more than 'getting the price right'. The importance of state-led development strategies has been even more openly recognised in the more recent studies of one of the key authors of the *East Asian Miracle* – Joseph Stiglitz (2001).

concedes that these policies may have played a positive role in the 1950s and 1960s in Taiwan:

> The Korean experience highlights the danger of selective export promotion, but it would probably be inappropriate to conclude that targeted incentives never work. The Taiwanese experience provides a contrasting example. Taiwanese export promotion policies have targeted specific industries already from the 1960s. The promoted industries included plastic, synthetic fibres, apparel, electronic components, consumer electronics, home appliances, and watches and clocks. Exporters were given access to toll-free import already before a general trade liberalisation was commenced, and low-interest credit was used to subsidise the establishment of new exporter firms (Kokko 1998a: 51).

The distinction made by Kokko between Korea and Taiwan is something we will discuss later on in this chapter. This is very relevant for us because Vietnam has been looking at South Korea for inspiration (especially because of the reminiscence between the Korean *chaebols* and the Vietnamese SOEs), and after the regional crisis many turned to Taiwan as a better model. We will argue that the insistence on an alleged difference among the development models of the two countries serves specific ideological purposes and it is scarcely supported by the facts.

While the regional experience may provide an important example for Vietnam, there are critical areas in which history cannot be repeated. South Korea and Taiwan were allowed to carry out for a long period of time selective trade policies without facing retaliation because Western countries – especially the US – were mostly concerned with Cold-war geopolitical equilibrium (e.g., Li *et al.* 2002). For a 'late late-comer' like Vietnam (and even more so for a socialist country) no discount can be expected in the post-Cold war environment (see also Perkins 2001: 248).

The trade agreement with the United States

It may be useful to recall here the contrasted dealings that led to the signature of the bilateral trade agreement between Vietnam and the United States. The story indicates that while the official declarations encourage a rapid liberalization of trade, strong resistance does exist among key political leaders.

On 25 July 1999 American and Vietnamese negotiators, after three years of talks, announced that they had reached an 'agreement in principle' for a trade pact. At stake for Vietnam was the possibility to reach Normal Trading Relations (formerly Most Favoured Nation status) with the United States, implying substantial tax reduction for Vietnamese exports (i.e., garments, textiles, shoes and other light industrial products) to the American market.[80] The implications for the Clinton administration, although less dramatic than for the Vietnamese side, were important both in economic and political terms. On the one hand, it included easier economic access to the second most populated Southeast Asian country (and thirteenth worldwide). On the other

---

[80] Vietnam was one of the few countries in the world not to have normal trade relations with the United States, together with North Korea, Laos, Cuba and Iraq.

hand, it involved the possibility symbolically to heal the wounds of the past, showing that Washington was able to dictate the rules for economic relations with the former enemy and even to acquire leverage on the Vietnamese national economy. As the then U.S. Trade Representative explained, this agreement was more than a simple trade agreement:

> The provisions of this agreement will go well beyond the bilateral commercial agreements negotiated in the past to end Jackson-Vanik restrictions on other covered economies. When completed, the agreement will set a course toward greater openness, receding government control over the economy, and ultimately greater freedoms for individuals in Vietnam to find jobs and determine their own futures (Irvine 1999).

In other terms, 25 years after the dramatic defeat, the American administration was searching requital by forcing Vietnam to obey the blueprint of capitalist orthodoxy.

After the historical announcement of July 1999, the two sides carried out further talks to define the details of the agreement. The American administration made plans for a signing ceremony early in September, during an APEC Summit in New Zealand where both President Clinton and the Prime Minister Phan Van Khai were participating. A few days before that date, however, the Vietnamese government informed the American side not to be ready to sign the agreement.

The reason for the Vietnamese abrupt decision to step back from signing the agreement has never been made public. Observers have linked the Vietnamese withdrawal to an unfortunate meeting between the US Secretary of State Madeline Albright and the CPV Secretary General Le Kha Phieu on the eve of the APEC Summit. During that 'less than cordial meeting' Mrs Albright made non-diplomatic comments about Vietnam's poor human rights record (AFP 17 October 1999) and even stepped outside the agreed agenda by trying to include the issue of democratisation (*Los Angeles Times*, 1 November 1999). Journalistic sources also indicate that Vietnam might have decided to await the conclusion of the Chinese agreement with the US about admission to the WTO before signing its own agreement. This caution could be understood as a way to express 'respect' to the powerful neighbour and with the hope that China – as a more powerful negotiator – could reach a favourable deal with the US that could eventually be translated to Vietnam (Business Week Online 15 November 1999; Reuters 17 November 1999).

Whatever contingent reason may have contributed to prevent the signature of the agreement with the US, it is not difficult to imagine that a major discontent had emerged within the core of the Vietnamese communist party about the clauses contained in the draft.

A World Bank research report released in November 1999 explained on the basis of an econometric model that Vietnam would derive important advantages by signing the deal:

> Vietnamese exports to the United States would more than double, and Vietnam would gain substantial welfare benefits from improved market access and increased availability of imports…

> The results suggest that after a change to MFN status for Vietnam, its exports to the United States would more than double, from the 1996 baseline of $338 million to $768 million. By conservative estimates, welfare gains in Vietnam would be about $118 million a year, or a 0.9 percent increase in real income per capita. Sixty percent of that gain would come from improved terms of trade and the other 40 percent from gains in efficiency. Because Vietnam's exports to the United States have been growing rapidly since the lifting of the embargo in 1994, the trade expansion resulting from MFN status may be larger by the time Vietnam obtains it. Based on 1998 values, the increase in exports would have been around $750 million a year (Fukase and Martin 1999b: i).

The results presented in this report have been often repeated by various sources to highlight the irrationality of the Vietnamese behaviour in withdrawing from such an opportunity. However, two considerations could be made in trying to understand the preoccupation of the Vietnamese side.

The first consideration regards the methodology applied in this study and therefore the results achieved. The two authors explain that their study is based on a 'Global Trade Analyses (GTAP) model' which 'is a relatively static multi-sector multi-region Applied General Equilibrium (AGE) model' (Fukuse and Martin 1999b: 10). That means that their study does not consider the long-term developmental implications of the trade agreement. According to the projections contained in the World Bank study, Vietnamese output in textile and clothing would sensibly increase (respectively by 7 and 31 percent) as a result of expanded export to the American market, but *output in other more advanced sectors would decrease* (Fukase and Martin 1999b: 15). Moreover, the trade agreement will force Vietnam to liberalise imports and to concede American companies national treatment in such strategic areas as insurance, finance and telecommunications.

A second consideration about the impact of the trade agreement is included as a caveat in the same World Bank study. The export advantages in the key sectors for Vietnam, i.e., textile and garments, would be more visible in the first year of implementation; after that period the American administration would regulate imports through a system of quotas which would strongly curtail the Vietnamese export potential. To illustrate the advantages of signing a trade agreement with the US, the two authors quote the Cambodian case and conclude with a surprisingly naïve remark:

> Unfortunately, the ability of the importing countries to impose quotas has, if anything, been increased by the move from the Multifibre Arrangement (MFA) to the Agreement on Textile and Clothing (ATC). While Article 3 of the MFA required that the exports from an *individual supplier* should be causing market disruption before quotas could be imposed, Article 6 of the ATC allows quotas to be imposed when *total imports* are causing market disruption. For small suppliers such as Cambodia, this change is particularly unfortunate (Fukase and Martin 1999b: 14, emphasis in the original).

Commenting on this same issue, Jonathan Tombes (1999), after reporting a clear warning to Vietnam from a representative of the American Apparel Manufacturers Association, added:

> If Vietnam has not yet learned of the U.S. textile industry's influence in Washington, it will sometime after its woven cotton shirts and similar items reach California ports

In the months following the failed signature of the bilateral agreement with the United States, Vietnam let emerge its worries about the existing trade regime. For instance, although the country maintained its bid to becoming a member of the WTO, the Vietnamese government openly hailed the failure of the WTO Summit in December 1999, defining the collapse of global trade talks in Seattle as a success for developing countries. In a declaration reported by Reuters (9 December 1999) and ABC (10 December 1999) the Minister of Commerce Truong Dinh Tuyen 1999 said that rich countries had forced developing nations to accept previous global trade agreements. He also pointed out that rich nations had used technical criteria, such as anti-dumping policies, to build a smoke screen of protection to stop goods from poor countries entering their markets. And he concluded that 'Vietnam needed its own road map for integration into the world economy, something that would have to take into account the country's national independence and sovereignty' (Reuters 9 December 1999).

After a new round of negotiations – during which Vietnam apparently obtained better conditions in critical areas such as the telecommunication sector – the bilateral trade agreement was eventually signed. The pact was then ratified by the two parliaments and came into force in December 2001. However, the tortuous negotiations and diplomatic accident of the failed signature revealed anxiety about trade liberalization and provided an unusual glimpse of the internal policy discussion within the high echelons of Vietnamese policymaking.

State Owned Enterprises

Privatisation of State Owned Enterprise (SOEs) lists high in the priorities indicated by the international financial institutions for the furthering of the *doi moi* process. The existence of a large state sector is considered as a major burden preventing the country from realising its economic potential. SOEs, through their connections with political and administrative officers, benefit from explicit forms of state support and unofficial protection in competing with the infant private sector. SOEs drain most of the credit from the still weak banking system, thus depriving the private sector of needed capital. SOEs benefit from formal and informal privileges in international trade (with preferential access to import and export quotas). Furthermore, import-substituting and inefficient SOEs distract most of FDI to capital-intensive production, which gives only a modest contribution to employment generation and sustainable industrial development.

This list of complaints is well known to those familiar with the current literature on Vietnam. And we must concede that many of these complaints are correct. However, we may argue that there are different options available for restructuring the SOE sector.

Even during the war and under the centrally planned economic system the state sector never extended as much as in the Soviet Union or in the Eastern European countries, and it declined from around 16 percent of the labour force to below 9 percent by the mid 1990s (MacCarty 2001: 8-9). Currently, State Owned Enterprises employ less than 6 percent of the national labour force. Notwithstanding its limited dimension, the state sector is perceived by the CPV as a key instrument for leading the country towards industrialization and the achievement of its socialist goals. Even more: a leading role for the state sector in the economy appears to be the last ideological stronghold in a context of market liberalization. Socialism is presented as a process of economic development, which is not in contrast with market economy as long as the state retains the control of strategic industries. This view is confirmed in the list of goals established by the Ten-Year Strategy approved by the party in April 2001:

> 'To continue innovating and developing the State economic sector so as to properly play its leading role in the economy. The State economic sector is an important material force and the instrument for the State's orientation and macro-regulation toward the economy…' (CPV 2001: 27).

Officially, the Vietnamese insistence in maintaining the state sector as the leading force in the economy is accepted by the international financial institutions, although it is quite clear that this formal consent hides a substantial disagreement:

> [T]here is no real conflict between the Strategy's emphasis on the state-sector being the 'leading sector' and the effective SOE reform, if such reform is viewed as a prerequisite to being competitive and thus a 'leader' in key sectors. But SOEs may use this emphasis on 'leading', to focus an expanded investment-program without completing reform and seeking protection to avoid losing that investment. Unless SOEs are fully restructured and their management abilities and behaviour altered to compete effectively in the market place, any expanded investment program is likely to repeat many of the experiences of the 1990s, i.e., create few jobs, generate little profit, accumulate high debt and build uncompetitive capital stock (World Bank 2000: 32).

The line of compromise between the Vietnamese authorities and the international financial institutions consists of two elements: divesture and *de facto* privatisation of small and non-strategic SOEs and restructuring of the strategic SOEs. This line of compromise is however not easy to implement as the current impasse indicates. Between 1989 and 1991 the number of SOEs was reduced from about 12,000 to about 6,000 through liquidation and mergers of small companies operating under the control of local authorities. These measures were possible because, on the one hand, they were justified by the urgency of macroeconomic stabilisation and, on the other hand, they regarded enterprises of relatively low importance in the overall industrial strategy. Since the mid 1990s a substantial impasse has become apparent. SOEs lost direct subsidies from the state, but they maintained preferential access to credit by state owned banks and a great deal of leverage in influencing government decisions regarding trade regulation. The attempt to promote the 'equitisation' (a more politically-correct expression for privatisation, with equities sold to employees and managers) of small and medium enterprises falls well behind the target, as often reminded by the World Bank and other agencies (e.g., WB, *Macroeconomic Update*, January 2000: 7; WB, *Vietnam Economic Monitor*, Spring 2002: 16-17). The problems in the 'equitisation' process relates to difficulties in raising capital for the purchase of equities and to the managers' and workers' fear of losing the support granted to state enterprises.

For larger enterprises and for those operating in strategic sectors the government has attempted reorganization with the creation of large industrial conglomerates, merging companies operating in the same sectors or geographical area. This consolidation was conducted ahead of the regional economic crisis and was apparently inspired by the South Korean *chaebols*. The process resulted in the creation of 18 General Corporations and 70 Special Corporations, accounting for an estimated 80 percent of resources and production capacity of Vietnam's SOEs (Kokko 1998a: 32).

Table 4.1 – List of General Corporations

Company Name	
Vietnam Electric Corporation	Vietnam Steel Corporation
Vietnam Coal Corporation	Vietnam Coffee Corporation
Vietnam Petroleum Corporation	Vietnam Tobacco Corporation
Vietnam Cement Corporation	Vietnam Paper Corporation
Vietnam Maritime Corporation	Northern Food Corporation
Vietnam Civil Aviation Corporation	Southern Food Corporation
Vietnam Post and Telecommunications Corp.	Vietnam Chemicals Corporation
Vietnam Gemstones and Gold Corporation	Vietnam Rubber Corporation
Vietnam Textile and Garments Corporation	Vietnam Railways Corporation

Source: Kokko 1998a: 31

The limited equitisation of non-strategic enterprises and the consolidation of the strategic ones into large conglomerates has evidently not solved the problems of inefficiency and rent-seeking behaviour. As we will see in the following paragraphs, the poor performance of large SOEs represent major problems for the reform of the financial sector. Further, the high level of indebtedness of SOEs (in the range of 20 percent of the aggregate turnover) is not only a threat to the stability of the banking system, but also a hindrance to the work of those efficient companies in the state sector:

> Loss-making SOEs are also weakening the few efficient firms in the state sector: about a third of the total debt is internal to the SOEs sector. This internal debt alone is nearly seven times larger than the aggregate value of the sector's working capital (Kokko 1998a: 32).

It appears quite evident that the present condition of the state sector poses a major challenge to the reform process. The worries expressed by the international financial institutions and by a number of independent scholars are therefore fully legitimate. Less obvious is the analysis of the possible solutions for tackling the problem.

An option available is the one suggested by the development orthodoxy: privatisation *tout court*. However, such an option is not politically acceptable for the Vietnamese leadership, nor would the poor results achieved along this path in many developing countries encourage Vietnam to take this advice. So, the World Bank in Vietnam has repacked its proposal in a more conciliatory way.[81] By conceding that Vietnam is determined to maintain a relevant state sector, the accent is put on the conditions for making such a sector viable:

> The evidence of enterprise reform from around the world illustrates that countries that have succeeded in building the best performing state enterprise sectors have done better in implementing comprehensive sector reform programs covering five broad elements: divestiture, competition, hard budget constraints, financial sector reform, and changes in the relationships between governments and SOE managers (World Bank 1997:40).

The five elements indicated by the World Bank report can be integrated into quite divergent frames. They may be understood as conditions for 'putting the price right', that is to make the state sector operate on the basis of market rules, removing restrictions and distortions. But these five elements – *mutatis mutandi* – could also be taken on board by state-led industrialization strategies as done by other countries in the region. While in the centrally planned economy competition was ruled out and credit allocation was regulated by the plan, in industrial catching-up strategies implemented in East Asian developmental states competition was enforced (especially by pushing companies to compete on foreign markets) and credit allocation was based on results. The state sector was forced to reach outcomes that would not have been possible in relying on self-regulated market conditions, but rent-seeking behaviour was avoided through clear performance criteria. Credit allocation was politically directed, but made available only to those enterprises that could realistically achieve specific targets. The state sector played a major role in this industrialisation drive, including in an economy that after the Asian crisis was praised in Vietnam as an example of private sector vitality.

> [In Taiwan] in many sectors public enterprises have been used as the chosen instrument for a big push. This is true for the early years of fuels, chemicals, mining, metals, fertilisers, and food processing; but even in sectors where public enterprises did not dominate, such as textiles and plastics, the state aggressively led private producers in the early years. Later, during the late 1950s and 1960s, public enterprises accounted for a large part of total investment in synthetic fibres, metals, shipbuilding, and other industries… In advanced electronics, public research organisations

[81] It should be remembered once more that the World Bank officers in Vietnam have proven to be quite able in mediating between Washington doctrinaire views and the concrete conditions in the field. The World Bank is not a monolithic institution and the cautious attitude by the local staff may indicate some internal debate.

> and public enterprise spinoffs have been used to acquire and commercialise new technology; and even in the software part of the industry a public enterprise has had a large presence over the 1980s (Wade 1990: 110-111).

Still reflecting on the case of Taiwan, Robert Wade goes on to describe the kind of direct and indirect support that SOEs have received – support that were functional to industrialisation strategies established by national authorities:

> Public enterprises are strongly represented in sectors which one would otherwise expect to be dominated by multinational corporations…
> Public enterprises have also received preferential investment financing in various forms. These include direct disbursement from the government budget, loans or grants from the two special development funds under the planner's control, foreign loans (all access to which is controlled by the government), and preferential access to longer-term finance through the banking system. They have been able to borrow at concessional rates, but never more than a few percentage points less than the normal rate for secured loans; and when credit is tight the government may –secretly – instruct the banks to make money available for public enterprises before the private ones. Some public enterprises have also been in a monopoly position (Wade 1990: 180).

The Vietnamese consolidation of SOEs into large industrial conglomerates could be understood as an attempt to replicate the developmental experience in the region. It should be underlined that although South Korea is known for its large private *chaebols* and the Taiwanese economy is dominated by small and medium private enterprises, in both cases the post-war industrialization relied also upon large state conglomerates. In Taiwan, for instance, as late as in 1980, the six biggest public enterprises had sales equal to the fifty biggest private industrial concerns (Wade 1990: 178). Similar proportions also existed in South Korea. Large state enterprises played a leading role in a number of heavy industry and chemical sectors, apart from the provision of public utilities. Again in the words of Robert Wade:

> [State enterprises are important] in sectors where the efficient scale of production is capital-intensive and large relative to both product markets and factor markets, and where linkages to downstream industries are high... The public enterprise sector is also used, whether for military or civilian production, as a substitute for attempts to induce private firms to enter new fields with high entry barriers. The main import-substituting projects of the 1970s – petroleum and petrochemicals, steel and other basic metals, ship-building, and nuclear power – were carried out by public enterprises; and major expansion projects in heavy machinery, heavy electrical machinery, trucks, and integrated circuit production have been undertaken by public enterprises' (Wade 1990: 178-179).

In the interpretation presented by Robert Wade and other 'statist' scholars a SOEs' leading role in guiding the industrialization process may well be a positive factor.

However, the impact of a large state sector in the economy depends on the system of checks and balances established in order to avoid rent-seeking behaviour and to force companies to stick to their targets.

In her famous study on South Korea, Alice Amsden illustrates how the government maintained a tight control even over the largest corporations, both public and private.

> 'The disciplines exerted by the state, and the rise of big business, were interactive. Big business consolidated its power in response to the government's performance-based incentives, In exchange for stunning performance in the areas of exports, R&D, or new product introduction, leading firms were rewarded with further licenses to expand, thus enlarging the scale of business in general. In exchange for entering especially risky industries, the government rewarded entrants with other industrial licenses in more lucrative sectors, thus furthering the development of the diversified business group in particular' (Amsden 1989: 14-15).

In the Vietnamese case, the ability to indicate targets and rigid performance criteria is plainly absent. Not only have state enterprises been habituated to soft budget constraints but state support was also not dependent on performance (but rather on connections between managers and political apparatuses). Is Vietnam now trying to move towards a more stringent model of industrial policy?

The *Comprehensive Poverty Reduction and Growth Strategy (CPRGS)* approved by the Vietnamese government in May 2002 seems to hint in this direction. It states as an objective to be achieved:

> 'Issuance of criteria for evaluating business performance and specification of the supervision and sanction mechanisms applicable to different types of SOEs, particularly those that are fully or largely owned by the State and State Corporations, to effectively encourage efficient managers and penalize inefficient ones' (SRV 2002: 35).

But even conceding that the Vietnamese political leadership converges in adopting a strategy that emulates the developmental practices of North East Asia, does the country have the resources for implementing this kind of industrial model? One of the very few studies that have tried to give an answer to this question has been published recently by Dwight Perkins as a chapter in a volume edited by Stiglitz and Yusuf and published by the World Bank. This study is based on an analysis of the Chinese and the Vietnamese cases in comparison with other East Asian States. In the case of China, Perkins considers that state guidance cannot be conducted on a comparable scale with South Korea and Taiwan due to the size of the Chinese economy and the number of companies operating in its territory. In South Korea in the early 1970s the largest 47 conglomerates accounted for 37 percent of industrial production – and it was therefore possible for the government to control them. If China tried to create a few hundred conglomerates producing one third of industrial output, these conglomerates would be 10 to 20 times larger than the South Korean *chaebols* in the

1970s (Perkins 2001: 258). Compared to China, the task to coordinate Vietnamese conglomerates would be a much easier endeavour:

> The state share of gross industrial output in 1992 was 71 percent, and this share rose during the reform period of the 1990s… The Vietnamese central government, therefore, had direct control of most industrial output even after a decade of reform. By controlling a few hundred enterprises, the government policymakers in Hanoi could, in principle, direct and supervise most of the industrial production that mattered (Perkins 2001: 259).

Political will is, however, another proposition over and above having the capacity to carry out complex and delicate functions of industrial coordination. We will return to this issue in more precise terms in the following chapter. However, we should underline here that the historical development of Vietnamese institutions and an industrial culture still rooted in a centrally planned economy mindset might be a formidable obstacle.

Looking at the experience in the region a number of authors have pointed out that state coordination was conducted through a mixture of 'embedded autonomy' (Evans 1992 and 1995) and 'government interdependence' (Weiss 1998), where the state bureaucracy retained functions of strategic planning but did not interfere with the management of individual companies. The Vietnamese (and Chinese) institutional and industrial frame, combined with political and cultural traditions, may result in a major constraint. On the one hand, Vietnam does not have an efficient and honest bureaucracy insulated from particularistic pressures coming from politicians and individual enterprises. This is a significant difference compared to Japan and South Korea, but also to other Southeast Asian countries where at least some agencies maintain a large autonomy and prestige. On the other hand, in Vietnam like in China the heredity of the past is still very present, and strategic planning may easily be interpreted as a revival of command central planning:

> The economic bureaucracy in both countries was built and trained to carry out a Soviet-style system of central planning, not the kind of strategic planning that existed in Korea and Japan… The latter system relied on guidance while the Soviet-style system relies on orders… It is likely that the decision to create a Korean or Japanese-style strategic planning system would become an excuse to retain as much of the old planning bureaucracy as possible. Some of these people could be retrained for the new approach, but many would stick as well as they could to the old ways they know best (Perkins 2001: 260).

Vietnamese policymakers are now confronted with a difficult dilemma. They have decided to move out from the command planned economy and have indicated that the adoption of a marked-based economy is permanent. They are pressured from several quarters towards the adoption of a more market-friendly economic policy. At the same time, they seem to perceive that replicating the successful catching-up results in industrial development of other Asian countries requires complex institutional changes, which may be beyond the existing institutional resources and most probably beyond the ruling political balance.

A further consideration may be attempted in order to measure out the replicability of the developmental state-type of industrial policy in Vietnam. The Asian countries that adopted a state-led model of industrial development did so through a political compromise between the state apparatus and the national bourgeoisie. For these countries significant results in economic development were a *conditio sine qua non* for state survival against powerful threats – in Japan from colonial dominance and in Taiwan and South Korea from Communist contenders. A strong role of the state in promoting industrialisation, even against the will of particularistic and backward factions among capitalist forces, was imposed on the basis of an ideology and an institutional practice that is closely reminiscent of fascist Italy. A corporatist state was functional to a historical function of modernization, which went well ahead of the most regressive aspects of political repression and class exploitation (we will return on this interpretation inspired by Antonio Gramsci in the next chapter). The existence of powerful threats made the local capitalist forces willing to accept limitation to their autonomy and allow the state to perform strong guidance functions (see Masina 2002a). This special linkage between state apparatuses and capitalist forces was a result (but also a condition for a further development) of a cohesive national bourgeoisie, which also maintained its national roots during successive waves of economic internationalisation. The existence of a rather cohesive national bourgeoisie can be understood as a powerful resource in the development of East Asia – note, incidentally, that nationalism has become the main leverage that China is using to mobilise its national forces and the Chinese communities overseas.

Even in those countries in which the national roots of the local bourgeoisie are more pronounced, however, elites have a tendency to become internationalised and to enter into strategic alliances with other international capitalist forces (Yeung 2002 and Plesner 2002 for South Korea). Not only do national elites have a tendency to become internationalised, they also try to use state resources – 'internationalising' the state – for achieving their own purposes (Glassman 1999).

Contrary to the experience of other countries in the region, Vietnam is largely dependent on FDI for its industrialisation drive. This flow of investment, linking foreign corporations to powerful sectors of the national bourgeoisie via the SOEs, is due to have major implications for the political balance of the country. An interesting definition of SOEs as a site of alliances of insider and outsider groups is provided by Adam Fforde:

> Nominally, SOEs produce around 1/3 of GDP and possess a very high share of Vietnam's modern economic assets. They employ around 2 million people in a population of around 75 million. Yet, what are they? What are Vietnamese SOEs and how does this reality fit with the policy dialogue and real political processes? The basic argument made is that they are, in practice, sites of de facto joint ventures between various 'insiders' groups. It is the complexity and incoherence of these alliances that gives the political economy its stability, as it permits for adjustments

as and when resources availability shifts: insiders can co-opt outsiders (such as sources of FDI), when they wish (Fforde 1998a: 6).

Here a major question is open to further analysis. Are these insider groups going to retain their national rooting and are they willing to accept state coordination of their economic activities? Or are they using their political clout to mobilise state resources in order to achieve the status of internationalised elites in a system of alliances with foreign elites? For Taiwan and South Korea the challenge to state-led development practices produced by increasingly internationalised elites came at a stage when the aspiration to close the gap with the West in terms of industrial development had been substantially achieved. For Vietnam the possibility that its national elites may be co-opted into international capitalist networks is a concrete risk at a stage in which the country is still struggling to achieve basic levels of industrial development. Although the leadership is concerned about a possible destabilizing role of a burgeoning private sector, an even more powerful challenge to state guidance towards socialist goals may come from the SOEs through their alliances with foreign capitalist forces via FDI.

Financial sector

The restructuring of the financial sector is not only a pivotal issue in the Vietnamese reform process but also one of the most complex. Here we concentrate many of the dilemmas related to the transition from central planning to a market-oriented economy. Further, Vietnam must cope at the same time with a large level of non-performing loans (especially to SOEs), which would suggest financial restraint, and with the need to rapidly increase capital mobilization for industrial development.

A major change in the financial sector was undertaken in the late 1980s, with the shift from a mono-bank system to a two-tier system. The functions of the central bank – the State Bank of Vietnam – came to be separated from those of 4 state-owned commercial banks (SOCBs). And through the 1990s the commercial leg of the two-tier system was further extended with the advent of new actors: joint stock banks (JSBs), joint venture banks and representative offices and branches of foreign banks.

Table 4.2 – Composition of Vietnam's banking system, 1990–2000

	1990	1994	1999
SOCBs	4	4	5
JSBs	0	36	48
Joint venture banks	0	3	4
Branches and rep. offices of foreign banks	0	41	103

Source: World Bank 2000: 36

Although the banking system became more articulated during the 1990s, the 4 state owned commercial banks maintained a clear dominance: by 1998 these 4 SOCBs accounted for 82 percent of total bank assets and 80 percent of loans and deposits (IMF 1999a: 27).

The need to cope with a faltering supervisory framework, unclear regulatory standards and imprudent lending motivated a number of reforms in the late 1990s, and in particular compelled the merger or liquidation of a number joint-stock banks who were undercapitalised and suffered by serious governance problems. However, the high level of non-performing loans was not only the result of unskilled or imprudent behaviour by bank managers but was also the result of political interference. Lending to SOEs was often conducted on the basis of political decisions, with which even the 4 large SOCBs were forced to comply. At the same time, banks had limited tools for evaluating the feasibility of projects presented by small and medium enterprises, which often maintained only rudimentary accounting systems, nor to precisely assess the collateral offered as guarantees for loans. Overall, in the early 2000s the banking system remained strained and in a fragile condition. In 2000, when Le Duc Thuy was appointed as the new Governor of State Bank of Vietnam, the central bank made public an estimate for which the non-performing loans (NPL) represented 14.5 percent of total lending. At the same time, another state publication reported an estimate for which NPLs could be as high as 28 percent (World Bank, *Macroeconomic Update*, January 2000: 4). In January 2000 the international credit rating agency Standard and Poor announced that due to poor disclosure and underdeveloped risk management systems 'the Vietnamese system is likely to remain at the highest end of the global industry [risk] spectrum' (*Agence France Press*, 24 January 2000).

The reading of different sources indicates that there is little doubt about the need for a radical reform of the financial sector. The shortcomings existing in the system are openly recognised in the recent strategy documents approved by the government and by the Communist party. As in the case of SOEs and trade reforms, however, the reform of the financial sector can be conducted on the basis of contrasting models.

The adoption of more developed transparency and regulatory systems is an indubitable need for the country. Enhancing the governance of the financial sector is the objective of a number of projects supported by bilateral and multilateral agencies and this effort responds to an urgent priority, especially after the financial crisis in the region. Nonetheless, it should be kept in mind that the so-called economic *miracle* attained by other Asian countries was the result of credit practices that clearly departed form Western orthodoxy (e.g., Wade and Veneroso 1998). One of the key tenets of the East Asian developmental state practices was the ability to channel investment to strategic sectors, where market forces would not have supported new initiatives without a strong guidance from the state. Not only were the state promoted financial institutions able to mobilize national savings, but the state also intervened in directing credit to activities that would accelerate economic development.

> [The North East Asia developmental states] played an active role in creating market institutions such as long-term development banks and capital markets to trade bonds and equities, and in establishing an institutional infrastructure that enabled markets to work more effectively. These institutions and markets helped insure that the high volume of savings was invested efficiently. Governments also used their control of

> financial markets to help direct resources in ways that stimulated economic growth… (Stiglitz 1996: 173, quoted form Booth 2001: 35).

Much of the credit allocation behind the extraordinary industrial development of South Korea and Taiwan was the result of state-led policy lending rather than commercial lending motivated by the invisible hand of the market. However, the same restrictions already discussed for the reform of the SOEs apply also to the financial sector. In North East Asia policy lending was motivated by strategic planning and operated on the basis on reasonable industrial plans. Credit was allocated to those enterprises that had a realistic chance to succeed and performance criteria were rigidly defined. Companies operated on the basis of hard budget constrains. The support provided by the government was 'political' in the sense that it responded to policy strategies, but did not depend on particularistic demands coming from local or national policymakers. Although enterprises had very high debt/equity ratios this was functional to a successful industrialisation drive and not to rent seeking. State control was essential in maintaining the coherence of the system and in averting free riders. And obviously, a system constructed on a special relation between (public) banks, enterprises and governments was due to encounter a systemic crisis once financial liberalization was enforced (as it happened in East Asia in the 1990s) and private enterprises could borrow freely on international markets in defiance of national regulatory discipline.

Where does Vietnam stand in this attempt to reform its financial sector? Once again, the reforms introduced so far do not allow the drawing of definite conclusions about the directions for the future. Policy declarations and the reforms implemented until the early 2000s seem to indicate that the country is struggling to put some order in its ailing financial sector, taking the advice of the international financial institutions. For example, in 1999 the government apparently conceded to the need of separating policy lending from commercial lending, also through the institution at the end of 1999 of a National Development Assistance Fund supporting policy based lending, that is making more transparent the relation between SOCBs and SOEs (World Bank, *Macroeconomic Update*, January 2000: 6).

However, two years later in the Ten-Years strategy the Communist party felt the need to reiterate the need to separate policy lending from commercial lending, hinting that not so much has been achieved in this direction. The long list of objectives stated in the Ten-Year strategy is too vague and inclusive to give any sense of priorities or political commitment. Most of the prescriptions are reasonable whatever development model is selected. Only a few lines of this document could be interpreted as a hint of an attempt to move towards forms of strategic planning, although these prescriptions could also be coherent with more orthodox strategies:

> To ensure finances for the strategy-prioritised tasks. To realise policies encouraging development of key economic areas while reserving more investments for difficulty-stricken areas. To continue innovating policies subsidising for generation employment, restructuring of State enterprises, and helping to develop small and medium sized enterprises; to press ahead with popularisation of the public service delivery sector, at the same time ensuring for the poor access to basic social benefits (CPV 2001: 20).

As in the case of the SOEs and trade reforms, here we want to underline that in the current critical stage of post regional crisis rethinking of development strategies contrasting options are opened to Vietnam. Given the condition of the financial sector in the country, a number of the transparency and regulatory measures indicated by the international financial institutions are badly needed. However, in redefining the overall rationale of financial sector reform, a distinction between what can be done under self-regulated market orthodoxy and what can be done on the basis of a more activist state-led industrialisation model should be kept in mind. To be sure, we must underline once more that strategic planning is substantially different from an allocation of resources ruled by central planning, although policymakers may be tempted to justify themselves in terms of strategy planning practices that are instead related to a command economy.

Role of the private sector

Trade, SOEs and the financial sector have been key issues in the negotiations between the Vietnamese government and the international financial institutions for long time. In the last few years, a new theme has assumed increasing prominence: the role of the private sector. The reasons for this increased attention have already been anticipated earlier in this chapter. Agriculture cannot provide jobs for the around one million young people that every year enter the labour market. The agricultural sector is actually already overcrowded, with high levels of underemployment, and incipient mechanization is due to increase redundancy drastically.[82] Nor are State Owned Enterprises able to absorb more labour. Through the 1990s, SOEs have struggled to increase their competitiveness also by increasing efficiency and by curtailing prior over-staffing. As we have already discussed above, an attempt to accelerate the industrialization process and to make the country present in new strategic sectors, has made SOEs prioritise foreign investments in areas that were capital-intensive and labour saving. This trend raises concerns about the possibility to generate new employment opportunities. For example, between 1990 and 1995 the manufacturing state sector almost doubled production at constant prices, but employment declined by about 13 percent (Ronnås 2000: 16). Given the limited ability for agriculture and state enterprises to generate new jobs, it is quite understandable that the private sector is considered as the only viable alternative. Results, however, have been so far below expectations.

---

[82] Although Vietnam relies on intensive agriculture (e.g., rice transplanting), in densely populated rural areas there is an over supply of labour. For example, for an average family in the Red River Delta with around 6 or 7 *sao* of land (one *sao* is about one third of a hectare) farming cannot absorb more than two people: all the other members of the family must find occupations in off-farm activities (which are scarcely available) or migrate. In an investigation conducted in two villages of two different districts in Hung Yen province (Red River delta) in July 2002 it emerged that almost every family had at least one member working in Hanoi either as seasonal or long-term migrants. Of these migrant workers only a very tiny number could find occupations in industry, while the wide majority would work in informal occupations (especially selling fruit or tea, and shoe shining) or in services (night guards in shops, care for elderly people or children, etc.). This investigation was conducted by the author with a team of European and Vietnamese scholars in the frame of an EU INCO-Dev project on 'Sustainable livelihoods in Southeast Asia'.

In the command centrally planned economy the private sector was first strongly constrained if not suppressed altogether and then, since the early 1980s, alternatively tolerated or frowned upon. With the advent of *doi moi* the country was admittedly moving towards a system where the state sector would maintain the lead but where the private sector was also officially encouraged to develop. However, regulations and restrictions inherited from the previous era made the growth of the private sector difficult, while the development of a capitalist private sector (i.e., medium and large private enterprises) was still regarded with apprehension.

The economic slowdown produced by the regional economic crisis was the final push for making the government decide on more decisive action in support of the private sector. A new Enterprise Law was eventually approved, with validity from 1 January 2000. The immediate effect of this law was impressive: in two years 36,000 new private SMEs were licensed, against 6,000 in the two years ahead of the new law (WB, *Vietnam Economic Monitor*, Spring 2002: 16). Part of this imposing result may be tentatively explained by the fact that a number of SMEs had previously operated without official approval – once again, it might have been the emergence of 'fence breaking' activities (as discussed in chapter 2) which motivated the government to recognise *ex-post* a change already undertaken in society. In any case, it is apparent that the approval of the new law, and a number of related policy decisions in the following months (among which the removal of the incompatibility between membership in the Communist Party and ownership of private enterprises), has created a climate more favourable to the development of this sector.

Despite the change of the early 2000s, the international financial institutions have argued that more must be done to make the private sector develop its potentiality as a driving force in the Vietnamese economy and to generate more employment. This view is officially recognised by the Communist party, which in effect seems to have moved towards a more conciliatory position in regards to private economic activities. The Ten-Year strategy approved by the Ninth Congress in 2001 states as an important objective:

> To renew and complete the legal framework, dismantle all obstacles in terms of mechanisms, policy and administrative procedure with a view to maximising all resources, generating a new impetus for the development of production and business by all economic sector with different forms of ownership. All enterprises and citizens are entitled to invest in businesses in the forms stipulated by laws and to be protected by the law. All business organizations in different or mixed forms of ownership are encouraged to develop on a long-term basis, co-operate and compete equally, and constitute an important integral part of the socialist-oriented market economy (CPV 2001: 16-17).

Notwithstanding this official sanction, we have already seen that in crucial areas like access to credit, private SMEs still face a *de facto* discrimination in that the country's scarce financial resources are more easily available for SOEs. In other words, the conditions in which the private sector is operating have substantially improved, but the situation is still far from an ‘equal competition’ among the different sectors of the economy, as stated in the official documents.

Reluctance among the Vietnamese policymakers may be related to three major reservations. First, the private sector may be considered unable to play a major role in strategic sectors, where there is the need to mobilize huge amounts of capital for long periods of time. The private sector may accentuate a dependency of the country on labour intensive and low-tech export sectors such as garments and footwear. Second, the private sector may be considered as vehicle for foreign capital domination – national producers may be trapped into commodity chains in which foreign transnational corporations control prices, outlet markets and labour division. Third, the emergence of a capitalist private sector may be perceived as a challenge to the state’s authority and ultimately as a factor of political destabilization.

These fears are quite reasonable for a poor developing country, and especially for one that has committed to a market oriented economy but has not abandoned the aspiration to socialism. There are, however, a number of considerations that may help in putting these issues in a wider perspective. These considerations regard the modality of integration into the wider economy and the relations with foreign capital; the leverages available to the state for promoting industrial development; and the class-relevant structures within the country.

Vietnam is an economy in which not only does foreign trade represent a very high proportion of GDP but where foreign direct investment is expected to play a much greater role in promoting industrialization than was historically the case in other East Asian countries at the same level of economic development. Given the overwhelming control on FDI by SOEs, the perception that the private sector may become a vehicle of foreign dominance may be misplaced: there is no reason to guarantee that SOEs will not become the real Trojan horse for foreign corporations. In theory, state control over SOEs may provide a stringent adherence to national objectives. In reality, large SOEs tend to act quite independently and the availability of large economic resource may even result in the strong influence of the state apparatus. The role performed by managers of large enterprises does not depend so much on the fact that these enterprises are private or state owned. Their position in relation to national and foreign forces depends on the question whether these managers have developed a sense of national rooting and loyalty to national development objectives or they have been socialised to the logic of international capitalist elites. The power of attraction (money, connections, status, power) of international capitalist forces is not limited to national representatives of foreign corporations but can easily extend also over state managers and even administrative and political elites.
The modalities in which the elites and even the upper strata of the bourgeoisie in Third World countries are normally engulfed into the logics and interests of international capital is a well-know phenomenon. East Asian countries have often been pointed out as a notable exception to this general trend. However, the resilience of East Asian national bourgeoisie against the inducements coming from foreign capitalist forces was not (or not only) the result of the existence of strong state owned enterprises, but of a wider socialisation of national leaderships towards national

development objectives. Thanks to this strong consensus, the state is also able to extend its functions of strategic planning over the private sector.

Particularly in the case North East Asia (Japan, South Korea and Taiwan) the state exerted (and still exerts) a role of guidance and coordination over the private sector: channelling investments, encouraging industrial upgrading, avoiding waste of resource through unregulated competition, supporting export, etc. Quoting once again the classic study by Robert Wade on Taiwan:

> To say that public enterprises [in Taiwan] have often played a central role in creating new capacities is not to say that private firms have been left alone. Incentives and pressure are brought to bear on them through such devices such as import controls and tariffs, entry requirements domestic content requirements, fiscal investment incentives, and concessional credit… And large-scale private firms are often exposed to more discretionary government influence, taking the form of what in Japan is called 'administrative guidance' (Wade 1990: 111).

The experience of North East Asian countries indicates that the question for a country that wants to achieve rapid industrialisation is not so much public vs. private, but which kind of state guidance over both the state and the private sectors. Of course (as we will discuss in the next chapter) guidance requires particular administrative structures and particular skills. Vietnam in this sense is a *weak* state, in the sense that it has a limited capacity in performing complex guidance functions. This should not be confused with the strength to impose, through coercion, rules and regulations that can only prevent the development of the private sector but not use its resources for achieving national development objectives.

The private sector is suspected to be a factor of social diversification, which may even challenge the country's political system. Also in this case some qualifications are needed. Since the beginning of *doi moi* the country has witnessed an increasing gap between rural and urban areas and between the richer and poorer strata of the population, although in a general frame of significant poverty reduction. A new class of affluent bourgeoisie is visible in the major cities (and on a smaller scale in rural areas). However, this affluent bourgeoisie does not derive its wealth only from private enterprises but also from its ability to exploit for its own benefit the complex web of relations linking state officers, managers of SOEs and private entrepreneurs. The rent positions deriving from personal connections are a general phenomenon that goes well beyond the even high level of abuse and corruption. In a country where the largest part of the population is made up by poor peasants it is quite obvious that the well-connected urban bourgeoisie will exploit its resources to acquire wealth and extend its dominance.

Social diversification is undoubtedly due to emerge as a major challenge to the political system, especially if this is not understood as a power structure controlled by a restricted elite but as a political system resting on socialist finalities. On the one hand, there is the risk that the national bourgeoisie – alone or in alliance with international elites – may exploit the authoritarian state forms to serve its class purposes. That is, the national bourgeoisies may hijack the socialist state apparatus for anti-socialist purposes. On the other hand, there is the risk of what the party leadership calls the 'peaceful evolution', that is social changes leading to a Western-style capitalist democracy. Also in this case the national bourgeoisie (in close association with international elites) would seize power leading to a reversal of the socialist national ideals.

Embarking on a process of radical reforms, including the transition towards a market-oriented economy, as Vietnam has done with the adoption of *doi moi*, is something that necessarily compels a change in the class-related structures. This is something that cannot be overlooked by a national leadership that is officially inspired by Marxist dialectic. The development of an industrial private sector is part of this process of social transformation but is only one aspect of this process, together with other major changes such as the *de facto* privatisation of land and a free labour market. As long as the national economy will grow at current rates and poverty reduction will continue, the party can count on a strong support from the population. But this has little to do with socialism. If anything, it has more to do with the Confucian doctrine in which the Emperor rules in virtue of a celestial mandate. If the Emperor guarantees the balance between heaven and earth – that is, if the country is prosperous – this means that the Emperor retains the celestial mandate and people must obey. People can (actually, must) rebel only if the cosmic order has been broken and the Emperor has lost his mandate. But the Confucian doctrine may explain why the party can retain power, not how the state can pursue a socialist transformation of society in a regime of market-oriented economy. The development of the private sector may lead to the creation of a competing leadership, challenging the Communist party – but this is not the only contradiction that the Vietnamese political system is confronted with. To cope with a more fragmented society in terms of class structures the Communist party may be forced to allow a more dialectic representation of class interests, like for example allowing a more independent role for trade unions. This is already partially happening, and in a more consistent way than in China – the Vietnamese official trade unions have apparently found new vitality in dealing with private entrepreneurs, both national and foreigners (Chan and Nørlund 1999). Signs of an increasing awareness of the importance to create channels for interest representation is visible also in the dynamism of the National Assembly, where the debate about new laws is now open and meaningful and where ministers are confronted by assertive deputies in televised public hearings.

In sum, the political implications of the debate about the private sector relate to a much broader set of issues. The need to cope with an emergent private sector may become an important factor for a decisive revival of the Vietnamese political institutions, although it is too early to predict towards which ends.

Readjusting the common wisdom – the myth of Taiwan

There is a taste of irony in reassessing some of the writings published in the months immediately following the regional crisis. We have already seen that a number of authors and institutions have tried to use the crisis to deny the validity of 'developmental state' practices (see Masina 2002a). This was also done in the debate relative to Vietnam, with an explicit attempt to portray an alleged Taiwanese model as an alternative to the South Korean one. The fact that Taiwan was substantially resilient to the regional crisis was taken as a demonstration that market-friendly practices were more successful and desirable. The difficulties that South Korea was facing were instead emphasised to show that state-led industrialization, based on large conglomerates – *chaebols*, but read Vietnamese SOEs – was necessarily entailing economic failure.

The taste of irony is due to the fact that at the time of writing these pages the Taiwanese economy is in more serious distress than the Korean one, due to a global economy deceleration that curtails opportunities for the Taiwanese companies in exporting to Western markets. Taiwan and Singapore appeared to be insulated by the crisis of 1997/98, but their dependence on exports to the United States made them face economic disarray at a time when the rest of the region (including South Korea) was starting to recover from the regional crisis.

Notwithstanding the current impasse, Taiwan represents an outstanding example of successful industrialisation and its experience remains an important case study for Vietnamese analysts. Thus, it may be useful to dedicate a few lines to discuss how the Taiwanese and the South Korean models have been presented to Vietnam – these interpretations are still circulating in the country although they may have lost much of their vim and vigour.

The following two quotations illustrate the ideological attempt to construct a reading of the Asian crisis in order to prevent Vietnam from adopting a state-led industrialisation process. The quotations are from the contributions of two respected scholars in a volume published in 1999 and reflect views widely present in Vietnam's study circles at the time.

> The resilience of the Taiwanese economy to the financial crisis in the region, and the vulnerability of the Korean economy, attests to the superiority of implementing an export-oriented industrial strategy that is free from special incentive schemes to promote selected industries. In other words, the Asian crisis has not diminished the validity of export-oriented industrialisation per se as a development strategy, but it has conclusively demonstrated the unworkability of 'picking winners' in the implementation of this strategy (Leung 1999: 6).

> The fundamental issues are crystallised most vividly in the contest between the 'Korean model' and the 'Taiwan model' of export-oriented industrialisation. The Korean model, whose most prominent features are a high degree of economic concentration in the family-run *chaebol* (business conglomerates) and a heavy-handed industrial policy of picking and promoting 'winners', was a natural favourite of many in the Vietnamese government. Certainly it offers an approach with more of a socialist orientation than the Taiwan model, which features intricate networks of small and medium-sized private companies, and thus a low level of economic concentration and much less government guidance or

> support for industrial development. The Korean model was therefore seen as a way to have it both ways: a capitalist system, but with government in command (Riedel 1999: 26).

Quite opposite views could be motivated to contrast the interpretations presented by these two quotations. Riedel's remark that the Korean model was considered as appealing by the Vietnamese policymakers because it allowed the government to remain in command even in a market-based economy is certainly correct. We have already insisted on the need to make a clear distinction between a command economy and strategic planning. The Vietnamese policymakers would be deceived if they misunderstood this essential difference.

The government's active role in leading state and private enterprises – the large Japanese *keiretsu* or South Korean *chaebols* as well as the Taiwanese SMEs – towards industrial upgrading was part of a general model adopted by the different economies in North East Asia. If differences undoubtedly existed in the different national cases – notoriously the South Korean economy is dominated by large industrial conglomerates, while Taiwan has a much wider presence of small and medium enterprises – there is no hint to indicate that the Taiwanese state played a less active role in strategic guidance than the South Korean one. Actually, Linda Weiss has recently claimed that the Taiwanese resilience to the regional financial meltdown could rather be understood as a result of higher levels of state intervention than in South Korea.

> The state centred on Taipei has held fast to a transformative project (… the strong push for industrial upgrading) and institutionalised that project in dedicated agencies and programmes. In short, its regime goals and institutional arrangements were largely intact when it set about regulatory reform in the late 1980s and 1990s. Because of this, the Taiwanese approached liberalisation quite differently from Korean authorities. Korea perceived and used liberalisation in a way that complemented the larger goal of *dismantling* the structure of credit activism and industrial policy. In Taiwan, however, the process of liberalising capital inflows involved reregulation to *enhance* existing capabilities (Weiss 2000: 31).

We cannot enter in this context the discussion about the liberalisation processes in South Korea and Taiwan in the 1990s. But we must remember that the assertion for which Taiwan in the earlier stages of its industrial development did not 'pick the winners' (as instead South Korea did) is at least controversial. The pioneering study by Robert Wade (1990) presents solid evidence that 'picking the winners' was systematically done by Taiwanese authorities every time they identified new priorities in industrial upgrading either by pushing national companies towards production in new sectors or increasing competitiveness on international markets. Incentives, support but also penalties on poor performers were constantly applied, up to selecting specific firms for specific tasks.

Interestingly, this strong state activism in Taiwan is confirmed by recent studies, although in new forms that respond to the changing national and international conditions.

> Some ten years on [after the publication of Wade's *Governing the Market*], in spite of the rise of democratic politics and neoliberal reformers convinced of the benefits of financial liberalisation, the government's commitment to economic transformation remains firm, at least for now. The emphasis, however, has shifted: away from promoting capital accumulation and towards the constant shift of industrial structure and accelerated upgrading of technology. Indeed, Taiwan boasts one of the most comprehensive programmes for upgrading skills and technology in the industrialised world (Chu and Weiss 1999) (Weiss 2000: 28).

The current difficulties in the Taiwanese economy may even lead to a further enhancement of state guidance. The depression of traditional Western export markets and the increasing role of China as the regional growth engine is comporting a reorientation of the Taiwanese productive system, with a closer integration with the Mainland economy. This process, although it may be regarded as unavoidable, is obviously highly sensitive in political terms and may result in an active role of the government in coordinating key issues such as technology transfer.

For the purposes of our investigation, it is enough to indicate that an alleged Taiwanese model as distinct from and contrasting with the South Korean one is an ephemeral ideological construction, meant to put pressure on the Vietnamese policymakers in the aftermath of the regional economic crisis. Although important differences exist, the role of market guidance played by the state presents common features in both countries.

Poverty reduction and economic inequality

At the end of 1999 two major studies about poverty were presented to the Consultative Group Meeting for Vietnam (an annual meeting between donors and the Vietnamese government). These studies were part of the global reassessment of poverty dynamics discussed above, which culminated in the troubled publication of the World Bank's *World Development Report 2000: Attacking Poverty*. While the resignation of Ravi Kanbur indicated a lack of an international consensus about poverty reduction strategies, in the case of Vietnam these two reports did represent a bold step forward. In the next few pages we will recall some of the main findings of these reports – whose results we largely subscribe to – and we will briefly discuss some of the major implications for development strategies as relevant in the frame of this chapter.

The first of the two studies (World Bank 1999c) was called *Vietnam: Voices of the Poor* and was part of a worldwide exercise managed by the World Bank with the financial support of the British development agency (DfID). The Vietnamese report was based on four Participatory Poverty Assessments conducted by different NGOs in four provinces: Lao Cai (Northern Uplands), Ha Tinh (North Central Coast), Tra Vinh (Mekong Delta) and Ho Chi Minh City (South East, the largest town in the country). The rationale of these investigations was to convey a grassroots-informed understanding of poverty and well-being in terms of both assets endowments and non-material assets (social capital, harmony, participation in community activities, etc.). The study also focused on the vulnerability context (shocks like floods or ill health or stresses like declining price of rice or coffee), the resilience of traditional safety nets and the strengths of coping mechanisms in allowing communities to react.

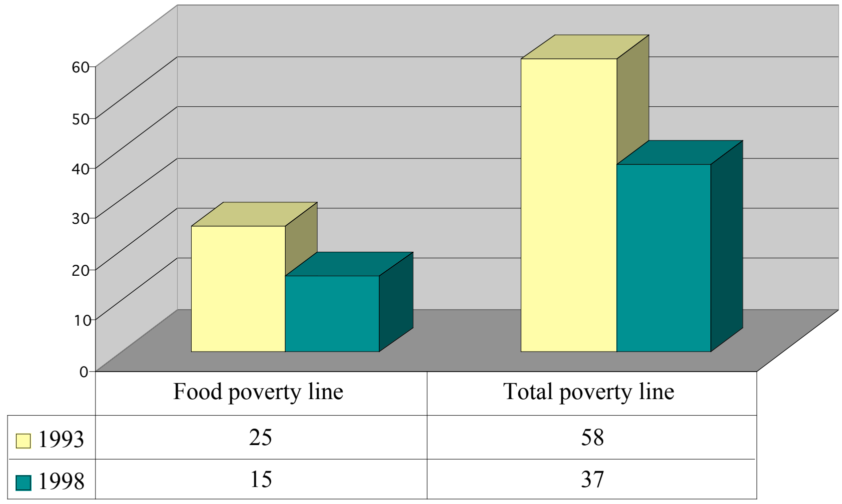
The second study (World Bank 1999b) was called *Vietnam: Attacking Poverty* and was the offspring a Poverty Working Group formed by the Government of Vietnam, donors and NGOs. This study combined the findings of *Voices of the Poor* with statistical data, and especially the results of two Living Standard Surveys (LSS) conducted by the General Statistical Office in 1993 and 1998. By integrating different sources, based on qualitative and quantitative investigations, *Attacking Poverty* was able to provide a multi-faceted interpretation of poverty dynamics.

The picture that emerged from these two studies was that, although Vietnam remained a very poor country by any international standard, poverty reduction in the 1990s had been outstanding.

> 'It is estimated that in the mid-1980's, seven out of every ten Vietnamese were living in poverty. A little more than a decade later – a decade of rapid economic growth – the incidence of poverty has halved. There have been very striking reduction of poverty in Vietnam… (World Bank 1999b: ii).

The following chart (5.1) shows that the number of people living below the national poverty line declined from 58% in 1993 to 37% in 1998. All the indicators presented in the two studies converge in confirming a substantial reduction in poverty (and even those living below the poverty line improved their condition during the 1990s).

Chart 4.1 - Incidence of poverty, 1993 - 1998



Source: World Bank 1999b: iii.

Importantly, the improvement was established not only by statistical data but also by people's perception of increased well-being reported in the participatory exercises.[83] However, vulnerability remained very high not only for the many who live slightly above of the poverty line, but even for more well off strata of the population. Shocks – and particularly illness – can rapidly drive a household with sustainable incomes into poverty traps (e.g., through debts).

Agricultural diversification has been a driving force in poverty reduction. Table 4.3 shows that agricultural incomes have increased by 60.6 per cent over the period 1993-1998, raising the importance of agriculture as a share of income for rural households.

Table 4.3 – Sources of agricultural incomes in rural Vietnam, 1993-1998

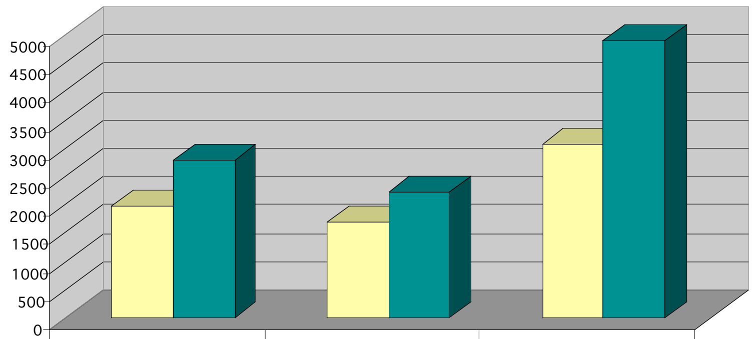
Source of income	Average Household Income (Constant 1998 '000 VND)		Growth over 5 years (%)	Share of Household Income	
	1993	**1998**	**1993-1998**	**1993**	**1998**
Agriculture	2,867	4,606	60.6	37.2	46.8
Non-farm enterprises	1,443	1,884	30.5	18.7	19.2
Wage income	1,687	1,685	-0.1	21.9	17.1
Other income	1,710	1,663	-2.8	22.2	16.9
Total	7,707	9,838	27.6	100.0	100.0

Source: World Bank 1999b: 51

[83] The results are confirmed also by the preliminary findings of the already quoted investigation conducted by the author in cooperation with other European and Asian partners in the frame of an EU INCO-Dev project on 'Sustainable Livelihoods in Southeast Asia'. Fieldwork in Soc Trang (Mekong Delta), Hung Yen (Red River Delta), Tan Trieu (Hanoi) and Hanoi City has indicated that the improvement of living conditions have regarded also the marginal and the most vulnerable.

A comparable contribution of rural diversification to poverty reduction in the future will be difficult due to the limited availability of land. The generation of off-farming activities in rural areas remains therefore an urgent priority. And even more so because the urban industrial sector is not able to enough create job opportunities for potential migrants.

Chart 4.2 - Growth in Real GDP per capita expenditure by Ru
Urban 1993 - 1998



	All Vietnam	Rural	Urban
1993	1964	1692	3058
1998	2771	2207	4907

Source: World Bank 1999b: 71

The two studies reported that inequality has slightly increased over the same period. For example, the ratio of the richest to the poorest quintile went up from 4.9 in 1993 to 5.5. However, by international standards Vietnam remained a moderately equal society and the levels of inequality were comparable with those of South Asian countries and lower of those of other Southeast Asian countries (World Bank 1999b: 69).

An important aspect of the moderate increase in income inequality in Vietnam is that this was the result of a growing gap between urban and rural areas, but there were ‘almost no changes in inequality within rural areas’ (World Bank 1999b: 70). While the increasing gap between rural and urban areas (as visible in chart 4.2) compels serious concern, the low level of inequality within a same region is not only a positive fact but also motivates some reflection about the peculiar condition of the reform process in the country.

We have already suggested that in the debate about the Vietnamese reform strategy some issues may appear paradoxical. A non-orthodox reader from the 1980s would have hardly believed that the following quote could ever appear in an official World Bank publication.

> Although rapid growth will be central to reducing poverty in the coming decade, the *quality and pattern* of growth will also be important. This is because better quality of growth, in the sense of more evenly distributed

> growth across the population, will reduce poverty more even with a lower growth rate. A lower growth rate that is accompanied by sufficient higher employment-creation with a larger share of manufacturing jobs created in rural areas, where most of the poor live, is likely to be more poverty-reducing than a higher growth rate that us less employment-creating or more urban-biased. It is therefore important for Vietnam not only to ensure a high rate of growth but also to promote a better quality and pattern of growth (World Bank 2000: 2).

For years the World Bank, together with her sister institution the IMF and a large part of development orthodoxy, has been criticised for supporting an approach for which the benefits of growth would naturally 'trickle down' to the population. Now, apparently, the World Bank has not only taken on board many of the criticisms it had faced in the past, but it is even promoting those views in the policy negotiation with Vietnam. We have already suggested that this change may be only partially related to a significant paradigmatic shift within the Washington-based institution or to a more open internal dialectic – improvements, however, are visible as for example witnessed by the two excellent studies on poverty in Vietnam. The insistence on the importance of the private sector for employment generation and poverty reduction may be understood as a way to repackage in a more presentable form the evergreen orthodox recipes of liberalisation and privatisation.

Here we want to emphasis one aspect that may be relevant for future development strategies. The pattern of poverty reduction in Vietnam during the 1990s has been quite exceptional when compared both with other Third World countries and even more with the other so-called 'transitional economies' (but similar to China). In Vietnam economic growth *did trickle down* distributing its effects in terms of poverty reduction over all the population. Some regions (especially urban areas) could benefit more than others from the new opportunities created by the reform – but the impact within regions was significantly homogeneous in the sense that there was a very limited increase in inequality. Opportunities created, for instance, by the construction of a new road (a highway as well as a small lane that improves cars access to a village) immediately translates into increased agricultural diversification (due to access to markets) and a variety of off-farming activities. Differences among regions in economic development are in fact largely the result of natural endowments (particularly land and water) and infrastructure.

In many other areas of the Third World the creation of opportunities has not translated into poverty reduction in the same way as in Vietnam during the 1990s, and often have rather resulted in increasing inequality within regions. It seems reasonable to look at the legacy of the socialist period for an explanation of the remarkable accomplishments of Vietnam. It is well known that Vietnam – even during the war period – put a great emphasis on the schooling and health care systems, making the country achieve results in terms of school enrolment, life expectancy, etc. which were far above those of other countries at the same level of economic development. Land reform (both in the North and in the South, see Chapter 2) and an enforced equalitarian system have also avoided the creation of a rural middle class able to seize new opportunities at the expense of the poorest. This situation is not really changed

after the redistribution of land to households (although abuses have been reported): distribution of land within the territory of the old Communes has been substantially fair (while difference exist among different areas).
The economic transition – differently from the Eastern European cases – has been conducted in a condition of political stability, with local and national institutions continuing to provide basic social security and public services.

The results achieved in terms of poverty reduction may explain why Vietnamese authorities are apparently so concerned with *quantity of growth*, while international agencies (which base their views on a wider international experience) may warn about the possible risks of such a one-dimensional view. The rather equalitarian structure of the Vietnamese society, and the lack of a rural bourgeoisie with a distinct class identity and able to control local institutions, may suggest some optimism about the possibility that wealth created by economic development may continue to produce a general improvement of living conditions. The positive results achieved so far, however, should not imply compliance. *Attacking Poverty* rightly points out to the need for a comprehensive programme that addresses poverty, vulnerability and inequality by defining five major areas of intervention: human and social development; physical infrastructure; economic management; regional (rural and urban) development; good governance (World Bank 1999b: 133). Such a comprehensive programme, which we cannot examine here in detail, aims at reinforcing existing assets and avoiding their depletion (in the first phase of *doi moi*, for instance, a decline in secondary school enrolment was reported). At the same time, it tries to increase equal access to resources and opportunities.

While many of the findings of *Attacking Poverty* have been fed into subsequent strategy documents – and in particular the *Comprehensive Poverty Reduction and Growth Strategy* – there is still the risk that a reductive reading of their implications may dominate the development discourse. Here we have expressed the concern that a stated support for poverty reduction and employment generation may be narrowly translated into the idea that more market-friendly measures and a more extended private sector may be the ultimate solution for poverty reduction. This would lead the country on a path that has proved regrettable in most of the Third World and in 'transitional economies'.

On the other hand, we should also point to another major risk: a Vietnamese expectation that economic growth would translate *per se* into poverty reduction. Although we have underlined that Vietnam may be particularly adept in making the best use of opportunities, there is no guarantee that this may continue in the future without a comprehensive effort by the government and the donor community. In this sense, although we may argue that industrialisation in East Asia has been achieved also by extracting resources from agriculture, this was never done in disregard of the living conditions in rural areas. On the contrary, there is a general consensus in reporting that the most successful were those countries who have relied on low levels of economic inequality since the early stages of their industrialisation drive (see World Bank 1993).

Chapter 5
Interests representation, role of bureaucracy and governance

The previous chapter has indicated that the rationale behind the current reform agenda supported by the international financial institutions is largely inspired by the neoliberal orthodoxy, although the same institutions have been forced to blend this paradigm with poverty-oriented measures and to conduct a more open debate on policies. In order to challenge the neoliberal discourse, chapter four has relied on the experience of the region interpreted along the lines of a 'statist' tradition. By contrasting competing approaches to development, this work tries to contribute to a wider framework for analysis of the current debate in Vietnam at a very critical stage in the reform process. Chapter 5 will proceed in the same direction. Chapter 4 has claimed that an alternative development strategy would be *in theory* possible for Vietnam, i.e., this country could try to follow the path that in other East Asian nations has led to impressive results in economic development. Chapter 5 will explore the implications of competing development strategies in terms of institutional reforms. The claim that will be made is that the way in which *governance* is conceived in Vietnam's reform debate supports one specific development strategy – that is, a neoliberal one. If Vietnam intended to implement a 'developmental state' model the rationale of institutional reform would be significantly different. The aim of this chapter is not to suggest that Vietnam *should* implement a developmental state approach. Neither is it to propose that the same conditions – national and international – that allowed other East Asian economies to follow successfully a developmental state model are available to Vietnam (we will actually claim the opposite on different grounds). The aim is rather to show that in terms of institutional reforms the current agenda is coherent with one specific (neoliberal) view and not neutral and objective as often assumed. At the same time, this chapter will indicate that there are important differences in practical terms between the institutional frameworks of Vietnam and of successful 'developers' in East Asia. Once again, Vietnam may choose among competing models or try to forge its own by pick and choose – but the different options and their implications should be made more clearly visible to allow the country's policymakers to take their decisions.

State functions and interests representation

One of the most distinctive features of the East Asian developmental state has often been reported to be the very special way in which national bureaucracies have exerted a role of guidance – in hard authoritarian or soft corporatist manners – over the different economic actors, including powerful capitalist forces. Before presenting the specific arrangements for these functions of state guidance, we should briefly explore the political setting that made it possible for the national bureaucracy to perform such an extraordinary task without generating the opposition of capitalist groups.

We will argue in the following pages that state guidance was possible because key state agencies were insulated from the particularistic demands of specific companies and industrial sectors, and strategies were designed on the basis of higher national imperatives of economic development. This understanding of the *modus operandi* of East Asian states follows the pioneering work of Chalmers Johnson (1982), where the American scholar developed the idea that in Japan politicians do not rule, but 'reign'. That is, politicians fulfil the function of mediating among different social groups and creating a political consensus, but the role of designing and implementing economic strategies is entirely left to a capable bureaucracy which is insulated from political interference.

This dichotomy between bureaucracy and politics has been subsequently contested by a number of authors. On the one hand, for example, Moon and Prasad (1994: 364) dispute the argument on the grounds that not only Park Chung Hee in South Korea but a number of powerful prime ministers in Japan have both reigned and ruled. On the other hand, a number of authors (see below) have revealed that the role of the bureaucracy is far from *super partes* and strong direct linkages do exist between the bureaucracy and capital. The key question, however, remains unanswered: why in some Asian countries did states have such power in exerting guidance through strategic planning over capitalist forces and this interference was not opposed? The relationship between the bourgeoisie and state in East Asia seems to be the opposite to what a mechanical reading of Marx would suggest it should be – state dominance over the bourgeoisie. However, it is the analysis provided by one the most original Marxist thinkers – Antonio Gramsci – that may help to elucidate the question.

For Gramsci, the interplay between the bourgeoisie and the state is never deterministic. The bourgeoisie uses the state apparatus for his own purposes, but the way in which the state operates must reflect the concrete historical conditions and the composition of class forces. In order to maintain their power, the dominant groups may be forced to implement a 'passive revolution', that is, to carry out a process of restoration-revolution in which the demands of the oppressed classes are partially and gradually answered. This 'passive revolution' operates through concessions from above, reduces the strength of the working class in challenging the prevailing order, and thereby consolidates the political power of the bourgeoisie. This intuition allows Gramsci to understand not only the regressive, authoritarian nature of Italian fascism, but also its historical function in the modernization of the country. In a passage referring to the fascist Italy corporatist experience, but that could be easily translated to the context of North East Asia, Gramsci writes:

> L'ipotesi ideologica potrebbe essere presentata in questi termini: si avrebbe una rivoluzione passiva nel fatto che per l'intervento legislativo dello Stato e attraverso l'organizzazione corporativa, nella struttura economica del paese verrebbero introdotte modificazioni più o meno profonde per accentuare l'elemento di «piano di produzione», verrebbe accentuata cioè la socializzazione e cooperazione della produzione senza per ciò toccare (o limitandosi solo a regolare e controllare) l'appropriazione individuale e di gruppo del profitto. Nel quadro concreto dei rapporti sociali italiani questa potrebbe essere l'unica soluzione per

> sviluppare le forze produttive dell'industria sotto la direzione delle classi dirigenti tradizionali, in concorrenza con le più avanzate formazioni industriali di paesi che monopolizzano le materie prime e hanno accumulato capitali imponenti (Gramsci 1977: Q. 10 I § 9 p. 1228).[84]

The mandate to state institutions for taking the lead in modernizing the productive structures comes from the most advanced sectors of the bourgeoisie. That is, the state apparatus may rely on strong political backing even in undertaking measures that hit back at regressive capitalist interests, if the defence of backward interests endangers more advanced ones. But what can produce such a dramatic need for change, up to making capitalist forces willing to give up part of their autonomy and to operate a passive revolution instead of simply repressing working class demands? Why did North East Asia not follow the same path as Latin America?

Fascist Italy, Japan since the Meiji restoration, and post-war Taiwan and South Korea shared some similar features. In all these cases modernization was a condition for survival. Italy was close to a socialist revolution before the advent of fascism. Japan was at risk of becoming a colony. South Korea and Taiwan had to cope with powerful external and internal threats. In all these cases, the survival of traditional and backward economic interests could not be guaranteed and the state was compelled to lead a process of modernization in the collective interests of the bourgeoisie. This state intervention temporarily reduced the autonomy of capitalist forces but had the function of allowing traditional ruling classes to defend and consolidate their strategic economic interests. We should add that corporatist policies were more coherently implemented in North East Asia because fascist Italy always remained uncertain between a state-led modernization drive and a more traditional authoritarian regime. Two tendencies competed within the fascist party, with the more regressive and traditional factions eventually prevailing as the regime consolidated its power.

Since the political mandate to state institutions in North East Asian countries was so strong, it is easier to understand the unique nature of the institutional arrangements. We may agree on the fact that the dichotomy between politics and bureaucracy has often been more theoretical than real. However, three considerations can be advanced. First, politics became more corrupt and seized by particularistic demands when the threat of state survival became less urgent. And for a long time, corruption was integrated into a framework of state guidance and was not in contradiction to it. Second, powerful and competent agencies within the state bureaucracy did exist and were able to operate in conditions that have no equal in other regions. Third, if it is true that the bureaucracy – even the most insulated agencies – had strong linkages with capital, the mandate the bureaucrats received was to make these agencies provide

[84] The ideological hypothesis could be presented in these terms: a passive revolution would be expressed by the fact that through the legislative intervention by the state and through the corporatist organization, in the country economic structure would be introduced more or less deep modifications in order to reinforce the element of 'production plan'; that is, it would be reinforced the socialization and cooperation of production without affecting (or only regulating and controlling) profit appropriation by individuals and groups. In the concrete frame of Italian social relations, this could be the only viable solution for developing the industrial productive forces under the direction of the traditional ruling classes, in competition with the most advanced industrial formations of countries that monopolise raw materials and have accumulated immense capitals (my translation).

services to the advanced capitalist sector as a whole more than to a specific interest group.

Peter Evans (1989) has coined the expression ‘embedded autonomy’ to describe the situation where key state agencies maintain strong linkages with the business world, but also maintain significant autonomy in transforming the inputs received through these linkages into policies. Confirming the strategic function played by a capable and meritocratic bureaucracy as suggested by Chalmers Johnson, Evans writes:

> The efficacy of the developmental state depends on a meritocratic bureaucracy with a strong sense of corporate identity and a dense set of institutionalized links to private elites… Embedded autonomy depends on the existence of a project shared by a highly developed bureaucratic apparatus with interventive capacity built on historical experience and a relatively organised set of private actors who can provide useful intelligence and a possibility of decentralised implementation (Evans 1989: 561, 575, quoted from Weiss 1998: 35–36).

The political dimension of this ‘embedded autonomy’ should not be misunderstood. The ultimate end of state strategic planning is to promote economic growth and modernisation of productive structures as a necessary tool for preserving the political dominance of the ruling classes. The leading role played by a capable and meritocratic bureaucracy is highly coherent with the interests of national capitalist forces. Both Peter Evans and Linda Weiss confirm that the state capacity in promoting transformative policies does not depend on the weakness or fragmentation of dominant groups. On the contrary, ‘encompassing organisation of industrial interests makes effective policy-making more likely’ (Weiss 1998: 34). Ollman (2001), for example, has interestingly investigated the complex linkages between the state bureaucracy and Japanese *keiretsu*: although state officers are insulated from direct interference in promoting strategic planning, they belong to the same capitalist economic elites managing private corporations – whose ranks they will eventually join upon their early retirement from public offices.

As noted by Dixon (2000), the process of industrialization in the first generation of East Asian countries was closely associated with the support of capitalist interests *vis-à-vis* those of labour, and this class dimension was also exploited to attract foreign investments.

> In all cases, [the expansion of the foreign sector] necessitated the undermining of the power of organised labour (Amsden 1994; Dragsbæk Schmid 1997). Indeed, Amsden (1994:632) concluded that the ‘market friendly approach’ that the World Bank attributed to the Highly Performing East Asian Economies amounted to ‘not so friendly to labour’ (Dixon 2000: 283)

For a market-oriented economy ‘with socialist characteristics’ the experience of the region is rather problematic. On the one hand, Vietnam may be tempted to emulate the successful economic trajectory of other Asian countries. On the other hand, the

Communist Party may obviously want to avoid moving towards a situation in which strategic planning responds to the needs of a national capitalist bourgeoisie.

Here two important questions can be raised – without being able to find conclusive answers to either. The first is what are the underlying dynamics in the *doi moi* process in terms of class reorganization? The second is, how can a political mandate for modernization and rationalization of the productive system through strategic planning be obtained in Vietnam on the basis of a political balance more favourable to the working class?

The first question, regarding the class-relevant implications of *doi moi* may be less obvious than it appears. Some authors (like Kolko 1997) have been fast – probably too fast – in concluding that the market-oriented reforms implemented since the late 1980s correspond to a selling out of the socialist revolution. For Kolko, Vietnam has 'lost the peace' and its leadership has sold out the country to its former enemies.

The concrete dimension of class-relevant dynamics remains barely explored by the current literature on the Vietnamese reform process. In rural areas – where most Vietnamese live and work – *doi moi* has implied a redistribution of land to households (including the rights to rent, mortgage or inheritance), but land cannot be sold. As indicated in the previous chapter, inequality within rural areas remains low. Migration from and within rural areas is mainly the result of a very limited amount of land available to each households and a lack of off-farm activities that might be able to absorb the redundant labour force. There is no significant evidence that the poor leave rural areas because they have lost their land or that rich households are extending their land ownership. Inequality is due to increase with current trends, but it is too early to say whether in rural areas a new landed gentry is emerging, with distinct or opposite interests compared to those of the average peasant.

A national bourgeoisie is clearly emerging in cities and in major rural centres. In part this new affluent bourgeoisie is benefiting from the opportunities created by market opening through a myriad of very small and household enterprises. At the same time this new bourgeoisie is benefiting from a rent derived by its strategic position in the intermediation between the state administration, state owned enterprises, market forces, and also a growing foreign sector. This role of intermediation – and particular, the leverage represented by SOEs in the system – has been tentatively explored by Adam Fforde in a few recent contributions (e.g., 1998a) but still demands further investigation because key aspects in the reform process are still too recent to allowing to draw conclusions. The suggestion by Fforde that a new bourgeoisie, with political links to the Party and economic connections with SOEs, may gain control of the state apparatus, through a *de facto* privatisation of state and SOEs resources, has major implications. Such a trend would imply that the country is moving towards a state-led capitalist regime, whereby state resources would be functional to maintaining a *status quo* rather than a modernization of productive structures. These *de facto* privatised SOEs (although formally remaining state property) may engage with foreign economic forces via economic alliances – SOEs would allow these foreign economic forces to benefit from rents (e.g., control on trade) endorsed by state policies, in return for private economic benefits. This would be, therefore, a regressive alliance, with the same exploitative nature of a capitalist regime, but without the economic growth and modernization appeal of the East Asian developmental state.

This interpretation of current developments in Vietnam is powerful and in many ways sound. However, evidence seems to suggest that the current dynamics are far from univocal and still open to different outcomes, as indicated by other studies (e.g., Dixon and Kilgour 2002). To conclude that the state structures are now controlled by private interests, crystallised around the SOEs and other economic resources, would mean to disregard the complex interplay of forces and competing interests within the Party and the state. The Party seems to be still well rooted in Vietnamese society – partly through the vital role played by mass organization such us the Women Union – and the political system maintains the possibility of representing the interests of a broad spectrum of social forces. In particular, as we have already seen in the last chapter, the Vietnamese trades unions do play a significant role in defending workers rights, especially in relations to foreign companies, as indicated by recent studies (Nørlund 1999; Chan and Nørelund 1999; Dixon 2000):

> [In Vietnam] trade unions are deeply embedded in the party and government structures, and protection of the working conditions and wage levels is both expected by workers and remain central to official policy (Dixon 2000: 283).

The second question to consider is if a transformative role played by a capable bureaucracy would be possible in Vietnam on the basis of political conditions different from those that existed in North East Asia. Here an answer can only be highly tentative.

In our presentation we tried to delineate the possible reasons by which countries with strong (but backward) ruling classes, like in North East Asia, permitted a process of modernisation that was led by the state (and therefore exerting constraints over the operation of capitalist forces) without generating a reaction. In the case of Vietnam, the conditions are obviously different. Here the question for implementing a modernization process is not to break the opposition of backward but powerful capitalist forces. Rather, the question is to create a bloc of interests able to converge on such a modernization attempt – allowing for the development of national capitalist forces (as indicated in the *doi moi*) but in a framework that is not exploitative of the working class and which creates a good system of redistribution of the wealth created through industrialization. Such a strategy seems to be the only possible way forward for the CPV – at least, the only possible way without a dramatic change in its political nature. This attempt would be possible in theory, and many hints indicate that this is the bottom-line of the party strategy for the future. But in practical terms, the viability of such a strategy would depend on the political balance within the country, a clear vision of the reforms that have to be implemented, and the availability of the needed (especially human) resources for such a complex transition from central planning to strategic planning.

In the next two sections of this chapter we will explore two central issues in this regard. First, the modality of bureaucratic guidance in state-led industrialization processes in East Asia. And second, the implications of alternative models of governance in creating (or preventing) the conditions for state-led reforms.

State functions and the role of bureaucracy

Scholars inspired by a 'developmental state' approach have underlined the function of strategic guidance exerted by a highly competent bureaucracy over market forces. However, the modalities of this function of strategic guidance have been conceptualised in different ways (for a good review of the debate see Lauridsen 1995). A first group of authors (Chalmers Johnson, Alice Amsden, Robert Wade, etc.), as we have already discussed in Chapter 1, fulfilled the function of 'icebreakers' in challenging the development orthodoxy by emphasising how *strength* and *authority* had allowed a group of East Asian governments to guide the process of accelerated industrialization. A second wave of authors, such as Peter Evans and Linda Weiss, have been confronted with a different task. Both South Korea and Taiwan – two major examples of 'developmental states' – progressively dismantled the authoritarian features of their political systems during the 1980s. These scholars, therefore, had to investigate the conditions for state guidance on the basis of *coordination* rather then *coercion*. The question at stake was to explore if a 'developmental state' practice could be compatible with democratisation and wider integration into the world economy.

Evans and Weiss provided two (complementary) explanations of the mechanisms through which state guidance is implemented. Evans emphasizes 'embedded autonomy' – that is, state agencies well informed and connected with the business world, but autonomous in the decision-making. Weiss developed a theory of 'governed interdependence', where strategic planning is exerted through coordination with market forces, and where the state can preserve effectiveness and autonomy in dealing with a strong capital. For Linda Weiss coordination has the power to better interpret the experience of East Asia than other theories (like Wade's 'governed market') and also offers a framework that maintains its validity for the present:

> In contrast to existing approaches, GI theory rejects the notion that the state's ability to 'impose' its decision is central to its transformative capacity. Unilateralism is more likely to be a developmental minus than a plus. It implies the capacity to act, but not necessarily to act effectively. Of central importance is the state's ability to use its autonomy to consult and to elicit consensus and cooperation from the private sector… Through its linkages with key economic groupings, the state can extract and exchange vital information with producers, stimulate private-sector participation in key policy areas, and mobilize a greater level of industry collaboration in advancing national strategy (Weiss 1998: 39).

In discussing the current debate on the developmental state as relevant for the Vietnamese reform process, there are two issues that have particular importance. The first is the question of 'insulation' or 'embedded autonomy'. In a developmental state framework 'insulation' is something completely different from that available both in authoritarian command economies and also from the institutional autonomy (for example, of Central Banks) prescribed by neoliberal *governance* recipes (see below). The second issue regards the interaction between state agencies and business organizations (or in general interests organizations, including the trades unions).

Historically, both authoritarian guidance and coordination have existed in East Asian developmental states. The case of Park Chung Hee's Korea, for example, was an extreme case of centralized decisionmaking:

> [In the 1970s in South Korea] the president's office designed how the entire heavy industry sector was to be developed, down to and including the scale of individual factories. The president's office then negotiated with the leaders of the *chaebol* to determine who would carry out the government's plans. In this manner, the Korean president, working with a committee of a few dozen specialists, was able to provide hands-on direction to the development of what soon accounted for more than half of all Korean manufacturing output and a comparable share of exports' (Perkins 2001: 258).

However, such extreme cases of centralised decision-making do not represent a typical feature of the model. North East Asian countries that experienced the more coherent developmental state practices relied on specialised agencies (MITI in Japan, the Economic Planning Board in Korea, the Council for Economic Planning and Development in Taiwan) that were able to engage in policy coordination benefiting from both a) high quality information about business needs (embedding) and, b) seclusion from direct contacts with special economic constituencies (autonomy) (see Weiss 1998: 52).

This seclusion was functional to catching-up dynamics, whose political rationale was shared by both capital and state bureaucracy. 'Embedded autonomy' and 'governed interdependence' were instruments of guidance over the market in order to achieve specific purposes. Seclusion was *not* – as in much of the current governance debate – a technical fix to determine which independent institutions should preside over the regulatory frameworks meant to guarantee the optimal functioning of the free market (see Jayasuriya 2001, and below).

Anne Booth (2001) has argued that Southeast Asia also experienced some cases of 'insulated bureaucracy' – like the Bank of Thailand and the Ministry of Finance in Thailand, Indonesia and Malaysia. But, in Southeast Asia, more than in North East Asia, policymakers have always been more ready to listen to influential business lobbies. Interventions in both capital and labour markets were crucial and often carried through at the instigation of, and with the full co-operation of, powerful industrial groups' (Booth 2001: 45). Quoting MacIntyre (1994), Anne Booth suggests that Southeast Asian countries are somewhere between the strong developmental states of North East Asia and the kleptocratic regimes of many African countries:

> Their governments [Thailand, Malaysia and Indonesia] are not hopelessly captured and corrupt but, on the other hand, they are frequently beholden

> to sectional interest groups, and tainted by nepotism and cronyism. Nevertheless, the Malaysian, Thai and Indonesian governments have been capable of coherent policy formulation and implementation in the face of external shocks, and have thus been able to maintain the momentum of growth over several decades. In this, they resemble Taiwan and South Korea to a greater extent than regimes in other parts of the developing world (Booth 2001: 45).

The functioning of this very special institutional arrangement, especially in North East Asia, was guaranteed by the mutual recognition by governments and business forces of the advantages provided by cooperation. Although key agencies were sheltered from particularistic influences, they nonetheless maintained strong institutional linkages with the private (and public) sector.

> In so far as public and private decision-makers get together to exchange information and to coordinate actions, information gaps are minimized and each generally ends up making better decisions than if trapped in isolation. Rather than engaging in purely top-down decision-making, abstracted from the real conditions of production, the economic bureaucracy therefore has a vital mechanism for acquiring production-related information and for coordinating agreement with the private sector in order to design and implement policies better. Moreover, institutional linkages, the forums of negotiation between government and business, make industrial policy decisions more open to public scrutiny… thus reducing the risks of corruption or political favouritism (Weiss 1998: 58–59).

The possibility for key state agencies to act in coordination with business interests without being trapped into corrupt relations with the particularistic interests of specific companies was provided by the encompassing nature of business representation. Quoting Linda Weiss once more: 'Industry or trade associations tend to be highly centralized and increasingly active in the design and implementation of policy' (Weiss 1998: 60). The encompassing nature of business representation and the importance of a 'vast substratum of intermediate organizations [with] a dense and multiple network of affiliation' are also confirmed by Moon and Prasad (1994: 372-373) as key resources in shaping industrial policies.

In the following section we will explore how the current debate on governance in Vietnam may be conducive (or not) to the creation of similar agencies able to conduct transformative functions by substituting strategic planning to central planning. We will suggest that the governance reforms supported by the international agencies (World Bank, ADB and UNDP in particular) seem to lead in a quite different direction.

On the question of encompassing business associations able to cooperate with state agencies in framing industrial and trade policies, the Vietnamese situation is rather removed from the experience of North East Asia. Will the situation change in the future? The official documents hint at changes in direction that may be compatible with developmental state practices:

> Enhancement of the business association's roles in providing business development services for their members, linkage between Government and enterprises, export and trade promotion, right protection of their members (SRV 2002: 36).

However, two major changes would be required before reaching a framework similar to the one experienced in North East Asia. First, the private sector, including large private enterprises, should be willing to link its growth perspective to the coordinating functions of state strategic planning. This would require a shared vision about the purposes and outcomes of the industrialization process. Second, the large state owned sector should also agree on such a framework of interest representation – that is, SOEs should relinquish their direct political linkages with the state administration and should accept more collective and functional channels of policy coordination. The reorganization of major SOEs into large corporations may be a step in this direction, although this may also produce the opposite effect if the managers of the corporations use their powerful political connections for particularistic purposes.

Sate capacity and modern governance

In this study we have suggested that *in principle* Vietnam could be able to move its reform process towards a model different from the one indicated by the international financial institutions. We have recalled the experience of the East Asian countries in order to make evident the range of options available to the Vietnamese policymakers. One question remains, however, to be discussed: would Vietnam have the *capacity* to implement so complex and sophisticated functions as needed for successful strategic planning?

Perkins (2001) has suggested that the size of the Vietnamese industrial sector would allow the state to provide guidance (while the same task would be much more complex in China), but this would require a deep change in the mindset of state officers – the bureaucracy should understand the gulf existing between a command economy and strategic planning. Thus, the question remains. Could the Vietnamese state administration carry out the functions of state guidance typical of a developmental state?

For those who are familiar with Vietnam the answer is quite simple: no! Even assuming that a clear political mandate emerges (as discussed in the first section of this chapter), the state administration does not seem to have the capacity to perform such complex functions. In order to be able to carry out the tasks required for successful strategic planning, the state administration should undertake a deep transformation in terms of institutions and associated capacity building.

Institutional change and capacity building are not new concepts for Vietnam (nor for other developing countries). Programmes supporting modern *governance* are currently implemented in Vietnam with the support of a large number of donors and with the UNDP, the World Bank and the Asian Development Bank in the frontline. Thus, we may wonder which rationale these programmes are serving, and which kinds of capacity building and institutional reforms are being promoted.

The reading of the reports drafted by the various international agencies indicates that there is a concrete effort to help Vietnam improve the work of the state administration in a number of key areas (for a good account of the measures implemented, see Vasavakul 2002). Increasing transparency and fighting corruption are obviously important aims. *Governance* is presented in Vietnam along the same lines as the international agencies have recently done throughout the developing world: transparency, accountability, human development and salary reforms, rule of law, etc. The recipes include the human development of administrative staff. The state should be encouraged to focus on more capable and better-paid civil servants. In the *Vietnam Development Report 2002*, the World Bank goes so far to suggest that the 'downsizing' of public administration (needed to allow better wages) should be implemented carefully, considering the negative experiences in many other countries (World Bank 2001: 58). Much would seem to have changed from the time when the hard-core development orthodoxy of the first period of the Washington consensus identified the state as an obstacle for the optimal operation of market forces and economic development. Thus, do the new governance reforms represent a neutral and benevolent package?

Here we intend to argue that – although individual measures can be useful and beneficial – the rationale of this modern governance is embedded in a new neoliberal discourse that some authors have termed a 'Post Washington Consensus'. The new attention to the role of the state – thus the importance of governance – does not imply a departure from the policies associated with the Washington consensus, but simply an attempt to create a new political consensus for a continuation of the same long-term strategies. The Post Washington consensus concedes that states have an important role to play and that the economy cannot be left alone to the vagaries of the self-regulated market. Thus, the new governance programmes intervene in reinforcing the regulative functions of the state – but in technical forms that conceal the political implications of institutional changes. In this sense, 'strong states' and institutional 'insulation' are part of the conceptual background of neoliberal governance, although with aims that contrast with the transformative functions supported by a developmental state framework.

> 'One of the key differences between the governance programs advocated within the framework of the Washington consensus and the Post Washington consensus [is that] in the former, governance connoted the effective implementation of policies of economic liberalisation while in the latter, there is greater emphasis on governance as an instrument to promote the regulative capacity of the state… Indeed, the recent emphasis on governance is reflected in the increasing attention given to the provision of regulatory frameworks in previously deregulated sectors of the economy, And this is where the PWC can be clearly distinguished from the Washington consensus: it envisages a strong state – albeit

> restructured – in a more regulatory direction as a precondition for liberal markets' Jayasuriya 2001: 2-3).

Central to this new conception of state functions is the emphasis on the 'rule of law', that is, the creation of a level playing field for market forces which is *per se* opposite to state intervention in the economy in terms of strategic planning in defence, for example, of national industry. The 'rule of law' within the country may become an ally of powerful economic forces, including transnational corporations, in the same way as the supranational 'rule of law' enforced by the World Trade Organization.

Within the framework of neoliberal modern *governance* it is therefore highly improbable that the Vietnamese state administration may proceed toward a model of capacity building and institutional reform compatible with strategic planning. Any function of state guidance over market forces would come to conflict with the regulatory framework of modern governance and would be rebuked by 'insulated' technocratic institutions that conceive their function as the defence of the free market.

In conclusion, the creation of state capacity for strategic planning is not simply a matter of diffusion of technical knowledge or adequate training. It would require a political change of direction compared to the current trend established under the banner of modern *governance*.

Conclusions – Transition: where to?

This work has explored the rationale of the new reform agenda in Vietnam as it has emerged in the period following the regional economic crisis. The aim of this study was to help in delineating a framework for analysis that could help with looking at things from a different perspective than the pervasive discourse established by the international financial institutions that, we have claimed, have a great influence in setting the path for the current reform process. As a tool for expanding the scope for policy debate and to explore possible alternatives, we have referred to the experience from the region as interpreted according to a 'developmental state' approach.

Our study indicates that the development strategy supported by the international financial institutions is largely inspired by a so-called Post Washington Consensus. Such new (neoliberal) consensus incorporates many of the fundamental tenets of the previous consensus. However, there are some new features, which are particularly visible in the policy negotiation for Vietnam. Poverty reduction has assumed centre stage in the policy debate – albeit this is used to reintroduce the usual refrain of liberalisation, privatisation and competition. Differences do exist between the different agencies and within them. Thus, it is quite common to find documents by international financial institutions that depart from the prevailing logic. However, as a result of the major cracks in the Washington consensus that have been produced by the East Asian regional crisis, most mainstream positions are now often concealed behind more presentable packaging.

The debate on governance signalled a major change in the foundation of the new consensus: the regulatory functions of the state are now emphasised after two decades of deregulation. However, governance is interpreted as the creation of efficient institutions removed from political influence (but obviously very accessible to the big capital) that rule in the name of their technical expertise rather than on the basis of a political mandate. This new approach to governance in not specific to Vietnam and it is also visible in the industrialised Western world. However, in the case of a poor developing country, such a regulatory and institutional frame may further expose the country to a dependent relation with powerful (foreign) capitalist forces.

The first phase of *doi moi* has been characterised by impressive economic results and by substantial poverty reduction. After the regional economic crisis many East Asian countries – and Vietnam among them – have resumed fast economic growth. However, the way ahead is not so clear. The world economy is characterised by de-synchronization: slow growth or depression in the United States, Western Europe and Japan; crisis in Latin America; fast growth in China and in a number of other Asian countries. The situation is also prone to instability and export-led Asian economies have suffered for the contraction of Western imports (and, therefore, attempted to more closely integrate with China). Vietnam is still struggling to maintain high growth – also a necessity to avoid unemployment assuming destabilising proportions – and to further reduce poverty.

The future for a market economy with socialist characteristics is uncertain, because the ideological rationale that supports the reform process is very ambiguous. The identification of a guiding role for the state sector of the economy *per se* is neither a guarantee that the state will be able to exert control on the national economy nor that socialist objectives can be maintained. A more clear definition of aims, power structures, social and institutional actors and policies would be required – although this clarification may be hampered by the CPV tradition to move along a consensual decision-making process and to avoid confrontation with the international financial institutions.

Hints do exist that the Vietnamese leadership is looking to the developmental experience of other countries in the region and that a model of state-led industrialization is considered as the most appropriate for Vietnam. In our work, however, we have recalled two major issues that seem not clearly addressed in official documents profiling future developing strategies.

First, 'developmental state' strategies in Asia were based on strategic planning – something very much far apart from the kind of command central planning to which the Vietnamese bureaucracy is used. A change towards strategic planning practices would require capacity building and institutional reforms along lines contrasting with the so-called 'modern governance' promoted by the international agencies.

Second, the political mandate for the implementation of such extraordinary state functions in market guidance was a result of capitalist forces' need to protect their long-term interests in a situation of crisis (through a 'passive-revolution'). The political mandate for state-led industrialization along a 'developmental state' model in Vietnam would require a different kind of political consensus – something that is currently barely visible in the country. Central to the possibility to implement a 'developmental state' kind of economic policy will depend on the role of the national elites: i.e., on the choice to act as a national bourgeoisie or to pursue integration into a transnational alliance of capitalist forces. The experience of East Asia has normally indicated that the national bourgeoisie tends to maintain strong roots (and to be sensitive to nationalist calls), but examples of 'comprador bourgeoisie' are also visible.

In conclusion, this work indicates that in this crucial stage of the Vietnamese reform process many of the elements of the debate tend to be concealed behind a fictive generalised consensus. This work has sought to disarticulate some aspects of this neoliberal consensus and to suggest a number of areas in which alternative strategies should be more openly discussed.

Bibliography

Amin, Samir (1998) *Spectres of Capitalism: a Critique of Current Intellectual Fashions*. New York: Monthly Review Press.

Amoroso, Bruno (1998) *On Globalisation*. London: Macmillan.

Amoroso, Bruno (2002) 'Economy and Politics in the East Asian Crisis', in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Amoroso, Bruno – Jin, Ye (2002) 'Vietnam in the Cyclone of Globalisation', in B. Amoroso and A. Gallina (eds), *Essays on Regional Integration and Globalisation*. Roskilde: Federico Caffè Centre.

Amsden, Alice H. (1989) *Asia's next giant: South Korea and late industrialisation*. Oxford: Oxford University Press.

Amsden, Alice H. (1994) 'Why isn't the Whole World Experimenting the East Asian Model of Development: Review of the East Asian Miracle', *World Development*, 22.

Amsden, Alice H. (2001) *The Rise of "the Rest": Late Industrialization Outside the North Atlantic Economies*. New York: Oxford University Press.

Amsden, A. H. – Eoh, Yoon – Dae Euh (1993) 'South Korea's 1980s Financial Reforms: Good-bye Financial Repression (Maybe), Hello New Institutional Restraints', *World Development*, 21 (3).

Andersen, Heini (1994) 'Kritisk Teori', in H. Andersen (ed.) *Videnskabsteori og Metodelære*. Frederiksberg: Samfundslitteratur.

Arrighi, Giovanni (1994) *The Long Twentieth Century: Money, Power, snd the Origins of our Time*. London: Verso.

Arrighi, G. – Ikeda, S. – Irwan, A. (1993) 'The Rise of East Asia: One Miracle or Many?', in R. A. Palat (ed.), *Pacific-Asia and the Future of the World System*. Westport (CT): Greenword Press.

Bell, Peter F. (1996) 'Development or Maldevelopment? The contradictions of Thailand's economic growth', in Michael J.G. Parnwell (ed.) *Univen Development in Thailand*. Aldershot: Avebury, pp.49–62.

Berger, Mark T. – Beeson, Mark (1998) 'Lineages of liberalism and miracles of modernisation: The World Bank, the East Asian trajectory and the international development debate', *Third World Quarterly*, 19 (3), pp 487–504.

Beresford, Melanie (1988) *Vietnam: Politics, Economics and Society*. London and New York: Pinter.

Blomström, Magnus – Hettne, Björn (eds) (1984) *Development Theory in Transition*. London: Zed Books.

Booth, Anne (2001) 'Initial Conditions and Miraculous Growth: Why is Southeast Asia Different from Taiwan and South Korea?', in Jomo K. S. (ed.) *Southeast Asia's Industrialization*. Basingstoke: Palgrave

Bullard, Nicola (2002) ‘Taming the IMF: How the Asian Crisis Cracked the Washington Consensus’, in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Bullard, Nicola, with Walden Bello and Kamal Malhotra (1998) 'Taming the tigers: the IMF and the Asian crisis', in Jomo K. S. (ed) *Tigers in Trouble: Financial governance, liberalization and crises in East Asia*. London: Zed Books Ltd.

Chan, Anita – Kerkvliet, Benedict J. Tria – Unger, Jonathan (eds) (1999), *Transforming Asian Socialism: China and Vietnam Compared*. St Leonard (Australia): Allen & Unwin.

Chan, Anita – Nørlund, Irene (1999) ‘Vietnamese and Chinese Labour Regimes: On the Road to Divergence’, in A. Chan – B. J. T. Kerkvliet – J. Unger (eds) *Transforming Asian Socialism: China and Vietnam Compared*. St Leonard (Australia): Allen & Unwin.

Chang, Kyung-Sup (2002) ‘South Korean Society in the IMF Era: Compressed Capitalist Development and Social Sustainability Crisis’, in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Chandrasekhar, C.P. – Ghosh, Jayati (2002) ‘Finance and the Elusive Recovery: Lessons for Emerging Markets from South Korea and Thailand’ in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Chesneaux, Jean (1971) ‘Le Communisme vietnamienne’, in Chesneaux, Jean – Boudarel, Georges – Hemery, Daniel,*Tradition et Révolution au Vietnam.*. Paris: Editions Anthropos.

Chesneaux, Jean (1972) *Le Vietnam: études de politique et d'histoire.* Paris: Maspero.

Chesneaux, Jean – Boudarel, Georges – Hemery, Daniel (1971) *Tradition et Révolution au Vietnam.*. Paris: Editions Anthropos.

Collotti Pischel, Enrica (1979) *Le origini ideologiche della rivoluzione cinese*. Torino: Einaudi.

Communist Party of Vietnam, Central Committee (2001) *Strategy for Socio-Economic Development, 2001-2010*. Approved by the Ninth Party Congress in April 2001.

Cox, Robert (1995) ‘Critical Political Economy’, in Björn Hettne (ed.), *International Political Economy: Understanding Global Disorder*. London: Zed Books.

Cumings, Bruce (1987) ‘The Origin and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences’, in F. C. Deyo (ed.) *The Political Economy of the new Asian Industrialism*. Itaha: Cornell University Press.

Cumings, Bruce (1999a) *Parallax Visions: Making Sense of American-East Asian Relations*. Durham & London: Duke University Press.

Cumings, Bruce (1999b) ‘Webs with No Spiders, Spiders with No Webs’, in M. Woo-Cumings (ed.), *The Developmental State*. Ithaca, NY: Cornell University Press.

Dapice, David (1999) ‘Point of No Return’, *Vietnam Business Journal*, Vol. IX, No. 1, January.

Deyo, Frederic C. (ed.) (1987) *The Political Economy of the new Asian Industrialism*. Itaha: Cornell University Press.

Deyo, Frederic C. (2002) ‘The “New Developmentalism” in Post-Crisis Asia: The Case of Thailand’s SME Sector’, in Yue-Man Yeung (ed.), *New Challenges for Development and Modernization*. Hong Kong: The Chinese University Press.

Dixon. Chris (2000) ‘State Versus Capital: the Regulation of the Vietnamese Foreign Sector’, *Singapore Journal of Tropical Geography*, 21 (3).

Dixon, Chris (2002) ‘The Developmental Implications of the Pacific Asian Crisis’, in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Dixon, C. and Drakakis-Smith, D. (eds) (1997) *Uneven development in South East Asia*. Aldershot: Ashgate.

Dixon, C. and Kilgour, A. (2002) ‘State, Capital and Resistance to Globalisation in the Vietnamese Transitional Economy’, *Environment and Planning A*, 34, pp. 599–618.

Dragsbaek Schmid, Johannes (1997) ‘The challenge from Southeast Asia: Social forces between equity and growth’, in C. Dixon and D. Drakakis-Smith (eds), *Uneven development in South East Asia*. Aldershot: Ashgate.

Dragsbaek Schmid, Johannes – Hersh, Jacques – Fold Niels (1998) *Social Change in Southeast Asia*. Harlow: Longman.

Duiker, William J. (1995) *Vietnam: Revolution in Transition*. Boulder (Colo.): Westview Press.

Evans, Peter B. (1987) ‘Class, State, and Dependence in East Asia: Lessons for Latin Americanists’, in F. C. Deyo (ed.) *The Political Economy of the new Asian Industrialism*. Itaha: Cornell University Press.

Evans, Peter B. (1989) ‘Predatory, Developmental and Other Apparatuses: A Comparative Political Rconomy Perspectiveon the Third World State’, *Sociological Forum*, 4: 233–246.

Evans, Peter B. (1992) ‘The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change’, in S. Haggard and R.R. Kaufman (eds), *The Politics of Economic Adjustment.* Princeton, NJ: Princeton University Press.

Evans, Peter B. (1995) *Embedded Autonomy: States and Industrial Transformation*. Princeton, NJ: Princeton University Press.

Fan, Cindy Chi-fun (1997) ‘Uneven Development and Beyond: Regional Development Theory in Post-Mao China’, *International Journal of Urban and Regional Research*, 21(4), 620-639.

Fforde, Adam (1998a) ‘Strategic Issues in Vietnamese Development Policy: State Owned Enterprises (SOE)s, Agricultural Cooperatives and Public Administration Reform (PAR)’. Seminar Paper – Political and Social Change, RSPAS, ANU.

Fforde, Adam (1998b) ‘Handouts Won’t Help Vietnam’, *Wall Street Journal*, September 16.

Fforde, Adam – de Vylder, Stefan (1996) *From Plan to Market: The Economic Transition in Vietnam*. Boulder (Colo.): Westview Press.

Fforde, Adam – Goldstone, Anthony (1995) *Vietnam to 2005: Advancing on All Fronts*. London: The Economist Intelligence Unit.

Fukase, Emiko – Martin, Will (1999a) *A Quantitative Evaluation of Vietnam’s Accesion to the ASEAN Free Trade Area (AFTA)*. Washington: Development Research Group, World Bank.

Fukase, Emiko – Martin, Will (1999b) *The Effects of the United States’ Granting Most Favoured Nation Status to Vietnam*. Washington: Development Research Group, World Bank.

General Statistical Office (1997), *Social Indicators in Vietnam, 1990–95*, Statistical Publishing House.

George, Susan – Sabelli, Fabrizio (1994) *Faith and Credit: the World Bank’s Secular Empire*. Harmondsworth: Penguin.

Gerschenkron, A. (1962) *Economic Backwardness in Historical Perspective, A Book of Essays*. Cambridge: Belknap Press of Harvard University Press.

Gilpin, Robert (1987) *The Political Economy of International Relations.* Princeton: Princeton University Press.

Glassman, Jim (1999) ‘State Power beyond the “territorial trap”: the internationalization of the state’, *Political Geography*, 18, 669–696.

Gramsci, Antonio (1977) *I Quaderni del Carcere*. Edizione critica dell’Istituto Gramsci a cura di Valentino Gerratana. Torino: Einaudi.

Griffin, Keith (1998a) ‘Restructuring and Economic Reforms’, in K. Griffin (ed.) *Economic Reform in Vietnam.* Basingstoke: Macmillan.

Griffin, Keith (1998b) ‘The Role of the State in the New Economy’, in K. Griffin (ed.) *Economic Reform in Vietnam.* Basingstoke: Macmillan.

Halliday, Jon (1975) *A Political History of Japanese Capitalism*. New York: Pantheon Books.

Hersh, Jacques (1993) *The USA and the Rise of East Asia*. Basingstoke: Macmillan; New York: St Martin Press.

Hersh, Jacques (1998) ‘The Impact of US Strategy: making South East Asia Safe for Capitalism’, in J. D. Schmidt – J. Hersh – N. Fold (eds) *Social Change in Southeast Asia*. Harlow: Addison Wesley Longman.

Hettne, Björn (1993) ‘Neo-Mercantilism: What’s in a Word?, in J. Martinussen (ed.), *New Institutional Economics and Development Theory.* Occasional Paper No. 6, International Development Studies, Roskilde University.

Hettne, Björn (ed.) (1995) *International Political Economy: Understanding Global Disorder*. London: Zed Books.

Hirst, P. – Thompson, G. (1996) *Globalization in Question*. Oxford: Polity Press.

Hobsbawnm, Eric J. (1994), *Age of Extremes – The Short Twentieth Century 1914–1991*. London: Pantheon Books.

International Monetary Fund (1996) *Vietnam: Transition to a Market Economy*.

International Monetary Fund (1999a) *Vietnam: Selected Issues*. IMF Staff Country Report No. 99/55.

International Monetary Fund (1999b) *Vietnam: Statistical Appendix*. IMF Staff Country Report No. 99/56.

Irvin, George (1995) 'Vietnam: Assessing the Achievement of *Doi Moi*', *Journal of Development Studies*, 31 (5), pp. 725–750.

Irvine, Reed (1999) 'A Special Report on the U.S. – Vietnam Trade Agreement', *Vietnam Business Journal*, 7 (4), October.

Jamieson, Neil L. (1995) *Understanding Vietnam*. Berkeley: University of California Press.

Jayasuriya, Kanishka (2001) 'Governance, Post Washington Consensus and the New Anti Politics', Working Papers Series, No. 2, April 2001. Southeast Asia Research Centre, City University of Hong Kong.

Jerneck, Anne (1995) *Adjusting State and Market in Vietnam*. Lund: Department of Economic History, Lund University.

Johnson, Chalmers (1982) *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975*. Stanford: Stanford University Press.

Jomo K.S. (2001a) 'Introduction: Growth and Structural Change in the Second-Tier Southeast Asian NICs', in Jomo K. S. (ed.) *Southeast Asia's Industrialization*. Basingstoke: Palgrave

Jomo K.S. (2001b) 'Rethinking the role of government policy in Southeast Asia', in J. E. Stiglitz and S. Yusuf, *Rethinking The East Asian Miracle*. Washington: The World Bank and Oxford University Press.

Jomo K.S. (ed.) (1998) *Tigers in Trouble. Financial Governance, Liberalisation and Crises in East Asia*. London: Zed Books Ltd.

Jones, L. – Mason, E. (1982) 'Roles of economic factors in determining the size of and structure of the public-enterprise sector in less-developed countries with mixed economies', in L. Jones (ed.) *Public Enterprises in Less Developed Countries*. New York: Cambridge University Press.

Kanbur, Ravi (2001) 'Economic Policy, Distribution and Poverty: The Nature of Disagreements', *World Development,* 29 (6).

Kerkvliet, Benedict J. T. (1995) ' Rural Society and State Relations', in B. J. T. Kerkvliet and D. J. Porter (eds.) *Vietnam's Rural Transformation*. Boulder (Colo.): Westview Press.

Kerkvliet, Benedict J. T. – Porter, Doug. J. (1995) ' Rural Vietnam in Rural Asia', in B. J. T. Kerkvliet and D. J. Porter (eds.) *Vietnam's Rural Transformation*. Boulder (Colo.): Westview Press.

Khan, Azizur Rahman (1998) 'Integration into the Global Economy', in K. Griffin (ed.) *Economic Reform in Vietnam.* Basingstoke: Macmillan.

Khan, Musthaq (2000) 'Rents, efficiency and growth' and 'Rent-seeking as process', in M. Khan and Jomo K. S. (eds) *Rents and Rent-Seeking*. Cambridge: Cambridge University Press.

Kilgour, Andrea – Drakakis-Smith, David (2002) 'The Changing Economic and Urban Situation in Vietnam', in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Kokko, Ari (1998a) *Managing the Transition to Free Trade: Vietnamese Trade Polocy for the 21st Century*. Policy Discussion Paper No. 98/05, Centre for International Economic Studies, University of Adelaide.

Kokko, Ari (1998b) *Vietnam – Ready for Doi Moi II?* SSE/EFI Working Paper Series in Economics and Finance No. 286. December 1998.

Kolko, Gabriel (1986) *Vietnam: Anatomy of a War 1940 – 1975*. London & Sydney: Allen & Unwin.

Kolko, Gabriel (1997) *Vietnam: Anatomy of a Peace*. New York and London: Routledge.

Kornai, János (1986) 'The Soft Budget Constraint', *Kyklos*, 39 (1) pp.3–30.

Krugman, Paul (1994) 'The myth of Asia's miracle', *Foreign Affairs*, no. 73, pp. 62–78.

Krugman, Paul (1998a) 'What happened to Asia', http://web.mit.edu/krugman/www/DISINTER.html

Krugman, Paul (1998b) 'Asia: What Went Wrong', *Fortune*, 2 March.

Lardy, N. R. (1995) 'The role of foreign trade and investment in China's economic transformation', *China Quarterly*, No. 144.

Latouche, Serge (1996) *The Westernization of the World*. Cambridge: Polity Press.

Lauridsen, Laurids S. (1992) 'The debate on the Developmental State', in John Martinussen (ed.) *Developmental Theory and the Role of the State in Third World Countries*, Occasional Paper No. 2, International Development Studies, Roskilde University.

Lauridsen, Laurids S. (1995) 'The Developmental State and the Asian Miracle: An Introduction to the Debate', in L. S. Lauridsen (ed.) *Institutions and Industrial Development: Asian Experiences*, Occasional Paper No. 16, International Development Studies , Roskilde University.

Le Thanh Khoi (1978) *Socialisme et Développement au Vietnam*. Paris: Presse Universitaire de France.

Leung, Suivah (ed.) (1999) *Vietnam and the East Asian Crisis*. Northampton: Edward Elgar.

Li, Xing – Hersh, Jacques – Johannes Dragsbæk Schmidt (2002) 'The New "Asian Drama": Catching Up at the Crossroads of Neoliberalism', in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Liljeström, Rita – Lindskog, Eva – Nguyen Van Ang – Vuong Xuan Tinh (1998) *Profit and Poverty in Rural Vietnam: Winners and Losers of a Dismantled Revolution*. Richmond: Curzon.

Ljunggren, Börje (1993) *The Challenge of Reform in Indochina*. Cambridge (Ma): Harvard University Press.

Makarney, Shaun Kingsley (1998) 'Development of Commerce in the Red River Delta', in Robert W. Hefner (ed.) *Market Cultures: Society and Morality in the New Asian Capitalism.* Boulder (Colo.): Westview.

Marr, David G. (1981) *Vietnamese tradition on trial, 1920–1945*. Berkeley: University of California Press.

Marr, David G. (1995) *Vietnam 1945: the Quest for Power*. Berkeley: University of California Press.

Marr, David – Werner, Jayne (1974) 'Preface', in Nguyen Khac Vien, *Tradition and Revolution in Vietnam*. Berkeley: Indochina Resource Center.

Martinussen, John (1992) (ed.) *Developmental Theory and the Role of the State in Third World Countries*, Occasional Paper No. 2, International Development Studies, Roskilde University.

Masina, Pietro P. (1996) *Regional and International Dynamics in the Development of East Asia: The Case of Foreign Direct Investment*. Federico Caffè Centre Research Report n.1 1996, Roskilde University.

Masina, Pietro P. (1999a) *Vietnamese Development Strategies between Tradition and Modernity*. Federico Caffè Centre Research Report n.5 1999, Roskilde University.

Masina, Pietro P. (1999b) *Vietnam and the Regional Economic Crisis*. Federico Caffè Centre Research Report n.8 1999, Roskilde University.

Masina, Pietro P. (2002a), 'Introduction', in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press

Masina, Pietro P. (2002b), 'Dealing with the crisis in Vietnam: the rethinking of development strategies', in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Masina, Pietro P. (2002c), 'Vietnam and the regional crisis: the case of a "late late-comer"', *European Journal of East Asian Studies*, 1 (2).

Moon Chung-In – Prasad, Rashemi (1994) 'Beyond the Developmental State: Networks, Politics, and Institutions', *Governance: An international Journal of Policy and Administration*, 7 (4), pp. 360-386).

Mosley, P. – Harrigan, J. – Toye, J. (1991) *Aid and Power: the World Bank and Policy-based Lending*. Routledge: London. Vol 1 and 2.

Myrdal, Gunnar (1968) *Value in Social Theory: a Selection of Essays on Methodology*. (Edited by Paul Streeten). London: Routledge [1959].

Myrdal, Gunnar (1970) *Objectivity in Social Research*. London: Gerald Duckworth [1958].

Narula, Rajneesh – Marin, Anabel (2003) 'FDI and Human Capital Development: Evidences from Argentina'. Mimeo

National Statistic Office, Republic of Korea (1999) *Korea Statistical Yearbook.*

National Statistic Office (1999) *Statistical Yearbook of Thailand, 1998, n 45*.

National Statistical Bureau of People's Republic of China (1999) *China Statistical Yearbook n 18*. Beijing: China Statistic Press.

Naughton, Barry (1995) *Growing out of the Plan: Chinese Economic Reform, 1978—1993.* New York: Cambridge University Press.

Nguyen Khac Vien (1971) 'Confucianism et Marxism au Vietnam' in Chesnaux, Jean – Boudarel, Georges – Hemery, Daniel, *Tradition et Révolution au Vietnam*. Paris: Édition Anthropos.

Nguyen Khac Vien (1975) *Tradition and Revolution in Vietnam*. Berkeley: Berkeley University Press.

Nguyen Khac Vien (1993) *Vietnam: A Long History.* Hanoi: The Gioi.

Nguyen Van Huyen (1994) *La civilisation ancienne du Vietnam.* Hanoi: The Gioi.

Nørlund, Irene (1989) *The French Empire, the Colonial State in Vietnam and the Economic Policy, 1885 – 1940.* Copenhagen Discussion Papers No.9, Center for East and Southeast Asian Studies, University of Copenhagen.

Nørlund, Irene (1999) 'What's the Impact of the Asian Crisis? Economy and Living Conditions in Joint Ventures in the Ho Chi Minh Region and Da Nang'. Passau: Universität Passau. Paper presented at the Fourth Euroviet Conference, 16–18 September 1999.

Nørlund, I. – Gates, C. L. – Vu Cao Dam (eds.) (1995) *Vietnam in a Changing World.* Richmond: Curzon.

Ohmae, Kenichi (1985) *Triad Power: The Comong Shape of Global Competition*. New York: Free Press.

Ohmae, Kenichi (1990) *The Borderless World: Power and Strategy in the Interlocked Economy*. London: Harper Collins.

Ohmae, Kenichi (1995) *The End of the Nation-state: The Rise of Regional Economies*. London: Harper Collins.

Ollman, Bertell (2001) 'Why does the Emperor need the Yakuza? Prolegomenon to a Marxist Theory of the Japanese State', in *New Left Review*, No. 8, pp. 73–98.

Panitch, Leo (2000) 'The New Imperial State', *New Left Review*, No. 2.

Parnwell, Michael J. G. (2002) 'Coping with the Crisis and "Migration Reversal" in Thailand', in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Parnwell, Michael J.G. (ed.) (1996) *Uneven development in Thailand.* Aldershot: Avebury.

Perkins, Dwight H. (2001) ‘Industrial and Financial Policy in China and Vietnam: a New Model or a Reply of the East Asian Experience’, in J. E. Stiglitz and S. Yusuf (eds.), *Rethinking the East Asian Miracle*. Washington: World Bank.

Plesner, Katrine (2002) *Globalisering og den Sydkoreanske Stat: Hvilken Rolle Spiller States I Sydkoreansk Økonomi I 1990erne?*. MA Thesis, Roskilde University. Mimeo.

Polanyi, K (1944) *The Great Transformation*. New York: Holt, Rinehart & Winston Inc.

Putzel, James (2002) ‘Developmental States and Crony Capitalists’, in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Radelet, S. – Sachs, J. (1998) ‘The East Asian Financial Crisis: Diagnosis, Remedies, Prospects’, Harvard Institute for International Development, April 20.

Riedel, James (1999) ‘Needed: A Strategic Vision for Setting Reform Priorities in Vietnam’, in Suivah Leung (ed.) *Vietnam and the East Asian Crisis*. Northampton: Edward Elgar.

Riedel, James – Turley, Williams S. (1999) *The Politics and Economics of Transition to an Open Market Economy in Vietnam.* OECD Development Centre, Technical Papers No. 152.

Rigg, Jonathan (1997) *Southeast Asia: The Human Landscape of Modernization and Developmen*t. London: Routledge.

Rigg, Jonathan (2002) ‘Rural Areas, Rural People and the Asian Crisis: Ordinary People in a Globalizing World’, in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Ronnås, Per – Örijan, Sjöberg (eds) (1989) *Doi Moi: Economic Reforms and Developmental Policies in Vietnam.* Stockholm: Sida.

Ronnås, Per – Örijan, Sjöberg (eds) (1991a) *Socio-economic Development in Vietnam*. Stockholm: Sida.

Ronnås, Per – Örijan, Sjöberg (1991b) ‘Dismantling the Centrally Planned Economy’, *The Journal of Communist Studies*, 7 (1), pp–7–19.

Ronnås, Per – Ramamurthy, Bhargavi (eds) (2000) *Entrepreneurship in Vietnam: Transformation and Dynamics*. Copenhagen: NIAS Press.

Sachs, J. (1997) ‘The IMF and the Asian flu’, *The American Perspective’*, March–April: 16–21.

Sachs, Wolfgang (ed.) (1992) *The Development Dictionary: a Guide to Knowledge as Power*. London: Zed Books.

Schmidt, J. D. – Hersh, J – Fold, N. (1998) *Social Change in Southeast Asia*. Harlow: Longman.

Schuurman, Frans J. (1993) (ed.), *Beyond the Impasse: New Directions in Developing Theory*. London: Zed Books.

Socialist Republic of Vietnam (SRV) (2002) *The Comprehensive Poverty Reduction and Growth Strategy (CPRGS)*, Hanoi.

Stiglitz, Joseph E. (1996) 'Some Lessons from the East Asian Miracle', *World Bank Research Observer*, 11 (2), August: 151–178.

Stiglitz, Joseph E. (2001) 'From Miracle to Crisis to Recovery: Lessons from Four Decades of East Asian Experience', in J. E. Stiglitz and S. Yusuf (eds.), *Rethinking the East Asian Miracle*. Washington: World Bank.

Strange, Susan (1988) *States and Markets*. London: Pinter Publishers.

Sum, Ngai-Ling (2002) 'The Material, Strategic and Discoursive Dimensions of the "Asian Crisis" and Subsequent Developments, in P. P. Masina (ed.), *Rethinking Development in East Asia: from Illusory Miracle to Economic Crisis*. Richmond: Curzon Press.

Tombes, Jonathan (1999) 'Market Access. The Question is, "When"', *Vietnam Business Journal*, 8 (4) October.

Toye, John (1987) *Dilemmas in Development: Reflections on the Counter Revolution in Development Theory and Policy*. Oxford: Basil Blackwell, 1993 [1987].

Tran Van Tung (1952) *Le Viêt-Nam et sa civilisation*. Paris: Édition de la Bella Page.

Tsiang, S. and Wu, R. (1985) 'Foreign trade and investment as boosters of take off: the experience of the four Asian NICs', in Galenson, W. (ed), *Foreign trade and investment*. Madson: University of Winsconsin Press: pp. 320–43.

Tønnesson, Stein (1991) *The Vietnamese Revolution of 1945: Roosevelt, Ho Chi Minh and de Gaulle in a World ar War*. London: Sage.

Törnquist, Olle (1999) *Politics and Development: a Critical Introduction*. London: Sage.

UNDP (1995) *Vietnam: Report on Poverty*. Hanoi: UNDP.

UNDP (1998) 'East Asia: from Miracle to Crisis. Lessons f or Vietnam', UNDP Staff Paper. Hanoi: UNDP.

UNDP (2000) 'Socio-Economic Bulletin (Vietnam)' (2000). Web site of the UNDP in Vietnam.

Unger, Jonathan – Chan, Anita (1996) 'Corporatism in China: A Developmental State in an East Asian Context', in B. L. McCormick – J. Unger (eds.), *China After Socialism: in the Footsteps of Eastern Europe or East Asia.* New York: M.E. Sharp.

UNICEF (1994) *Vietnam: Children and Women – A Situation Analysis*. Hanoi: Unicef.

United Nation Centre on Transnational Corporations (1991) *World Investment Report 1991: The Triad in Foreign Direct Investment.*

UNCTAD (1999) *World Investment Report*. Geneva: UNCTAD.

USTR Webside (1998) 'Testimony of the Ambassador Charlene Barsheflsky, United States Trade Representative before the House Ways & Means Trade Subcommittee', 24 February.

Vasavakul, Thaveeporn (1997) ‘Sectoral Politics and Strategies for State and Party Building from VII and VIII Congress of the Vietnamese Communist Party (1991 – 1996), in A. Fforde (ed.) *Doi Moi: Ten Years after the 1986 Party Congress*, Political and Social Change Monograph No. 24, Australian National University.

Vasavakul, Thaveeporn (2002) ‘Rebuilding Authority Relations: Public Administration Reform in the Era of *Doi Moi*’. Report commissioned by the Asian Development Bank. Ho Chi Minh City: Adam Fforde and Associates.

Vo Nhan Tri – Booth, Anne (1992) ‘Recent Economic Developments in Vietnam’, *Asian Pacific Economic Literature*, May 1992.

Wade, Robert (1990) *Governing the Market. Economic Theory and the Role of Government in East Asian Industrialization.* Princeton (NJ): Princeton University Press, 1990.

Wade, Robert (1992) ‘East Asia’s Economic Success: Conflicting Paradigms, Partial Insights, Shaky Evidence’, *World Politics*, 44 (2), January, pp. 270–320.

Wade, Robert (1996) ‘Japan. The World Bank, and the art of paradigm maintenance*: The East Asian Miracle* in political perspective’, *New Left Review*, No. 217, pp. 3–36.

Wade, Robert (2001) ‘Showdown at the World Bank’, *New Left Review*, 2001/7, January–February.

Wade, Robert – Veneroso, Frank (1998) ‘The Asian Crisis: the High Debt Model Versus the Wall Street – Treasury – IMF Complex’, *New Left Review*, no. 228, pp. 3–23.

Wallerstein, Immanuel [1983] ‘The Three Instances of Hegemony in the History of the Capitalist World-Economy’, in G. T. Crane and A. Amawi (eds.) (1997), *The Theoretical Evolution of International Political Economy: A Reader*. Oxford: Oxford University Press, pp. 244–252.

Weiss, Linda (1995) ‘Governed Interdependence: Rethinking the Government–Business Relationship in East Asia’, *Pacific Review*, 8 (4), 589–616.

Weiss, Linda (1998) *The Myth of the Powerless State: Governing the Economy in a Global Era*. Cambridge: Polity Press.

Weiss, Linda (2000) ‘Developmental State in Transition: adapting, dismantling, innovating, not “normalising”’, *Pacific Review,* 13 (1): 21–55.

White, Gordon (1993) *Riding the Tiger: The Politics of Reform in Post–Mao China*. Basingstoke: Macmillan.

White, G. and Wade, R. (1988) ‘Developmental states and markets in East Asia: an introduction’, in White, G. (ed), *The developmental state*, Basingstoke: Macmillan, p. 1–29.

Wilks, Alex – Lefrançois, Fabien (2002) *Blinding with Science or Encouraging Debate ? How World Bank Analysis Determines PRSP Policies*. Bretton Woods Project and World Vision.

Womack, B. (1997) ‘Vietnam in 1996: Reform Immobilism’, *Asian Survey*, 37 (2).

Woo-Cumings, Meredith (1999) 'Introduction: Chalmers Johnson and the Politics of Nationalism and Development', in M. Woo-Cumings (ed.), *The Developmental State*. Ithaca, NY: Cornell University Press.

Woodside, Alexander (1999) 'Exalting the Latecomer State: Intellectuals and the State during the Chinese and Vietnamese Reforms', in A. Chan – B. J. T. Kerkvliet – J. Unger (eds) *Transforming Asian Socialism: China and Vietnam Compared*. St Leonard (Australia): Allen & Unwin

World Bank (1993) *The East Asian Miracle: Economic Growth and Public Policy*, Oxford: Oxford University Press.

World Bank (1995) *Vietnam: Poverty Assessment and Strategy*. Washington, DC: World Bank.

World Bank (1997a) *Vietnam: Deepening Reforms for Growth*. Hanoi: World Bank.

World Bank (1997b) *World development report: the state in a changing world*. New York: Oxford University Press.

World Bank (1998a) 'Social consequences of the East Asian financial crisis', http://www.worldbank.org/poverty/eacrisis/partners/library/socconsq/index.html

World Bank (1998b) 'Responding to the crisis: backing East Asia's social and economic reforms', http://www.worldbank.org/html/extdr/asian_crisis/backingreform.html

World Bank (1998c) *Poverty, Social Sevices, and Safety Nets in Vietnam*. Washington, DC: World Bank.

World Bank (1999a) *Vietnam: Preparing for Take-off?*. Hanoi: World Bank.

World Bank (1999b) *Vietnam Development Report 2000: Attacking Poverty*. Hanoi: World Bank.

World Bank (2000) *Vietnam Development Report 2001: Vietnam 2010 – Pillars of Development*. Hanoi: World Bank.

World Bank (2001) *Vietnam Development Report 2002: Implementing Reforms for Faster Growth and Poverty Reduction*. Hanoi: World Bank.

Yeung, Henry Wai-Chung (2002) 'Business as Usual? Changing Business Networks in Pacific Asia in a Globalizing Era', in Yue-Man Yeung (ed.), *New Challenges for Development and Modernization*. Hong Kong: The Chinese University Press.