

Public Administration Reform in a Transitional Economy: Case of Vietnam

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INTRODUCTION

Vietnam (VN) is a transitional economy and one of a small number of nations which is successfully managing its transition from a centrally planned command economy to a socialist-based market one. The reform towards a market economy began with the 6th Congress of the Party in December 1986. Since the Doi Moi (renovation process), VN has implemented an economic reform program together with a step-by-step reform of state machinery which stretched over a decade.

The economic reforms focusing on removing price controls, improving macroeconomic management, encouraging foreign investment, renovating the legal system, etc., have brought positive results. These efforts brought impressive gains: inflation fell from 400 percent in the mid-1980s to 4.5 percent in 1996¹ and GDP grew to an average of 8.2 percent for the past five years. VN is now a member of the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) and is hoping to join ASEAN Free Trade Area (AFTA) and World Trade Organization (WTO).

However, Vietnam is still a difficult place for private businesses because there is confusion between local and central authorities, and there are many unclear administrative hurdles as well as undefined legal framework. Vietnam had been promised US\$8.5 billion in official development assistance (ODA) in various consultative group meetings, but had been able to absorb only 28 percent. Foreign direct investment (FDI)

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¹SRV, Office of Statistics, Hanoi, 1997

commitment stood at more than US\$29 billion in December 1997 but only 35 percent has been invested. The present situation is brought about by the lack of "absorptive capacity and managerial skills" in the public service.

The first decade (1987-1997) of Doi Moi may be seen as a period when the main macroeconomic and institutional components were put in place. This growth has brought better living standards but is unevenly distributed as shown by Vietnam's latest Living Standard Survey (LSS).² This in turn is brought about by major impediments to the economic transformation which include: macroeconomic imbalances, incomplete legal and institutional frameworks for economic activities, imperfect financial system and a public administration geared to execute "political matters" rather than economic and managerial tasks.

Despite noble goals for the general populace, the transition process to the market in VN can only flourish in a conducive institutional setting that can deliver support and solve problems and disputes. VN faces the task of public administration reform (PAR), which is becoming an imperative requirement to sustain growth, especially in the new environment created by the Asian crisis.

This paper examines VN's institutional debates and reforms during the decade 1987-1997. It maintains that VN started its "renovation process" due to the collapse of the Soviet bloc in the late 1980s and early 1990s, but which was however marred by "internal strife" between "reformers" and "conservatives." Thus, the sustainability of the transition to market economy will now just depend greatly on a clear division of labor and a proper balance between the Party and the government. With the Asian crisis still paralyzing most economies in the region, there is an urgency to carry out further reforms.

The first section gives a brief overview of VN's institutional reforms, their context and the approaches done during the past decade. The second section identifies and analyzes problems and challenges. Evidence suggests that the prescription for economic reforms cannot be effectively carried out without an efficient administrative capacity to manage the change.

²SRV, "Living Standard Survey 1992-1993," Office of Statistics, Hanoi, 1994

OVERVIEW OF THE PUBLIC ADMINISTRATION REFORM IN VIETNAM

Vietnam's renovation process was influenced by the crisis context of the mid-1980s. There are two waves of institutional (economic, political and administrative) reforms. The first wave focused on research for legitimacy and rejuvenation of the Party's cadre through the legal-rational approach. It reflected the adjustment of institutions and procedures to economic development, the opening to the outside world and the building of basic legal regulatory infrastructure framework.

The second wave aims at perfecting the functioning and staffing of state institutions. This second and ongoing wave of reforms encounter difficulties and is stalled.

Context

Vietnam was unified in 1975. Legitimacy of the regime was based on socialism and the struggle for independence. Yet, the economic results of the period 1975-1985 were disappointing: slow growth, massive scale of migration of boat people, sharp decline in living standards, high inflation and famines that struck some regions of North VN. This was aggravated by the mounting disbelief in socialism as an instrument for development.

While VN was also isolated because of its invasion of Cambodia, it was the collapse of the Soviet bloc that forced the party to end decades of isolation and embark on an array of economic and social reforms. Considerable internal discussion and economic concerns led to the Doi Moi process during the 6th Congress of the Party. Back then, there were no theories, materials, books and experiences on "the transition process to the market system" to learn from except the crises in Eastern Europe, Perestroika in the Soviet Union and the positive results of the Chinese economic reforms. At that time, there were 47 ministerial bodies, with exclusive reliance on the bureaucracy to manage all aspects of socioeconomic life. (During the war, economic and institutional organizations were decentralized.) Partial reforms were launched in the late 1970s and early 1980s but were counterproductive.

Started in 1987, the Doi Moi reform aimed at stabilizing the economy. The tempo of change was accelerated after 1989 with more economic and

financial reforms that helped to free the economy from state control and to establish policies that aimed at encouraging market economy. The Foreign Investment Law was prepared and was revised many times, the last being in 1996. The Land Law was enacted in 1988 and revised in 1993. During the Doi Moi decade, about 100 laws covering a broad range of areas such as banking, commercial contracts, business, etc., including the promulgation of the Civil Code in 1996, were passed to support the transition to the market economy.

During 1987 - 1991, all subsidies were abolished and the state-owned enterprises (SOEs) sector was encouraged to reorganize and reform itself. Many small-scale enterprises in trade, retail, catering and other services were sold, forced to close, or lay off their workers. The retrenchment in the state sector between 1988-1993 affected over 800,000 people and reduced the number of SOEs from 12,000 to around 6,000.³

First Wave of Public Administration Reform (PAR)

The institutional Doi Moi covers both administrative and political changes. The first wave of public administration reform (PAR) focused on emphasizing the role of the Party through the legal-rational approach, i.e., the role and composition of the National Assembly (NA), the holding of elections and the preparation of a national PAR program.

Party and the Rule of Law

The first reform in 1990 aimed at preparing a new justification for a "market economy with socialist orientation." As there were no successful experiences to learn from, the intense debate was "on how to emphasize the role of the Party within the Rule of Law." To justify the move from socialist to rational-legal values, several formulas were used, such as "a state of the people, by the people and for the people," "a state governed by the rule-of-law," and the definition of market system with socialist orientation as a state in which "the people are rich, the country is strong and a society is civilized." Law is seen more and more as a channel to resolve conflicts and the bureaucracy's arbitrariness and to redress grievances.

³World Bank, "Economic Report on Industrialization and Industrial Policy," Washington, D.C. Report No 14645, Oct. 1995, page 105.

The justification of VN's strategy for legitimacy was based on a public administration (PA) report which:⁴

1. Exists to serve the people (a state of the people, by the people and for the people)
2. Functions in a state governed by the rule of law
3. Is able, as the executive arm of government, to implement government policies and priorities effectively, on the basis of division of responsibility and of coordination
4. Is established on the basis of "democratic centralism" manifested through such approaches as centralization, decentralization, deconcentration, devolution, delegation and other related approaches
5. Is placed within a political system where people exercise their ownership rights

The new Constitution, put in place in 1992, was the first step to support the transition which emphasizes the rule of law. The Party obtained legitimacy through Art. 4 of the new Constitution. The new role of the National Assembly was another step. A limited number of elections were conducted to include nonparty member, thereby allowing "screened elite" to express their opinion and likewise showing that the party was considering wide range of opinions and interests. It was a channel for some independent voices to be heard.

The first 7 percent of nonparty members were included during the NA election in 1992. This was increased to 20 percent in the 1997 election which fielded 663 candidates for 450 positions and where women and minorities represented over 30 percent. Thus, a new generation of leaders emerged from the parliamentary ranks.

Today, the NA, the highest body of the people vested with constitutional and legislative authority, plays a growing role as seen during the 10th NA meeting in November 1996 which approved only 8 out of 12 ministers presented by the government.

⁴SRV, "National Public Administration Reform Program," GCOP, Hanoi, May 1993.

The National PAR program

In 1993, after two years of discussions, the Government of Vietnam (GOV) published a national program on Public Administration Reform⁵ (NPAR). According to this document, the guidelines on administrative reforms are the following:

- "... To establish a unified institutional system for State administrative organization, defining the role and operational mechanism for the three powers: legislative, executive and judiciary within a unitary State model. The machinery of the central public administration ... will rationally address relationships amongst central-level organizations, and the distribution of authority amongst government agencies, ...;
- "To establish the relationship between the political leadership of the Communist Party of Vietnam and the State machinery;
- "Identification of principles and directions for addressing the relationships between the central Government and local authorities;
- "Identification of the role of the local authorities: People's Council, People's committee, and clarification of its responsibilities, functions, and authority..."

In May 1994, the GOV issued Resolution No.38/CP directing all agencies to simplify and adjust administrative procedures pertaining to various services. The responsibility to coordinate all the activities related to PAR was given to the Government Committee for Organization and Personnel (GCOP).

Likewise, the GOV tested the rejuvenation of leaders in the first multi-candidates election for provincial People's Council (provincial assembly) in December 1994. Since the provincial assembly selected the head of People's Committee (province government), the election which has been instrumental in the emergence of a younger and more educated generation of communist leaders at local level boosted the legitimacy of provincial leaders.

The School of Public Administration and its annexes were established and provincial schools were consolidated.

⁵See *ibid* 5.

Furthermore, the number of government bodies was reduced from 76 to 49 by merging ministries and state corporations. Similar reductions were done at the provincial level.

The first wave of PAR reform adjusted procedures under the “command” system to the “market” system. It required changes in the legal and institutional framework, which were carried out with no opposition whatever.

Second / Ongoing Wave of PAR

The second wave of reform aims at improving the function of and further reducing state institutions. While the first wave went smoothly, this wave of reform was besieged by difficulties and is presently stalled.

Party Plenum

In January 1995, the 8th Plenum of the Central Committee of the Communist Party supported the drive for institutional changes and resulted in a resolution on “Continuing to build and perfect the State of the Socialist Republic of Vietnam - Taking a Step toward Reforming the State Administrative System.” This document marked the start of the second wave of the institutional reform and laid out the most current state strategy in respect of public administration reform, for which there are five major thrusts:

- To continue renewal of the organization and work of the National Assembly;
- To continue the step-by-step reforms in the state administrative system;
- To renew the work and organization of the judiciary bodies;
- To promote the people’s role as master of the State; and
- To strengthen the Party’s leadership in the State.

Subsequently, an action plan dated March 20, 1995 was prepared to combat structural weaknesses. It encompassed all levels of government and civil service and aimed at reforming state organizations, reducing waste, combating corruption, upgrading the effectiveness of the bureaucracy, etc.

Organizational/institutional reforms

This second wave of reform that started in 1995 focuses on changing the function of and reducing the size of the state apparatus, on streamlining administrative procedures, including the reduction of but strengthening key ministries and organisations.

First, ministerial functions shifted toward a policy-oriented role instead of direct involvement in economic activities. An important aspect of this economic restructuring was to redefine the role and functions of government in the economy⁶ which included:

- Managing the macroeconomic environment, fiscal balance and monetary policies;
- Coordinating central, regional and local government activities;
- Creating the legal, financial, administrative and regulatory infrastructure for the market;
- Managing and creating a framework for investment, innovation and structural change; and
- Creating a governmental capacity to administer a market economy including the creation of a capable and honest civil service.

The management of SOEs changed consequently, free them from their "parent ministry." New measures aiming at SOEs included: (1) registration of companies; (2) equitization of a number of state-owned companies; (3) enterprise management reform; and (4) abolishment of "parent ministry." Presently, SOEs are classified into public and commercial ventures. With decision 91/TT of March 1994, 16 "enterprise groupings" have been created along 47 other SOEs. Those in the commercial sector will be "equitized."

However, there is conflict between the conservative faction of the Party which wants to retain control over the economy through SOEs and the progressive faction which believes in higher speed of renovation and the shedding of commercial enterprises. Adding to the conflicts are bureaucrats and managers who have a vested interest in slowing down the

⁶Le Dang Doanh in "International Colloquium on Public Administration," Hanoi, Sept. 24-26, 1996.

reform for their own advantage as seen by recent corruption scandals. And so⁷ because of resistance, few enterprises were equitized.

At present, the SOE's reform is stalled.

Second, many ministries were merged and their functions were evolved. In each ministry, each province and each public organization, a PAR committee was formed to review procedures and streamline organizations. During this period, the number of ministries was further reduced from 27 to 22 and the division of provinces from 57 to 61.

Third, the government introduced more modern public administration through the Budget Law of 1996, the information technology (IT) program in 1994 and management methodologies and systems. The creation of an administrative tribunal system was an additional step toward relying on the rule of law to solve administrative conflicts and to redress grievances.

Over 20 drafts of the Civil Service Statute were prepared and discussed during a three-year period and finally enacted at the end of 1997. Another priority was the need to train civil servants for new tasks. The training and upgrading of civil and public servants including administrative judges through a 3-month course, seminars, etc., helped to strengthen the role of the state in establishing the rule of law and in supporting the transition to the market economy.

There was more openness in dealing with PAR. Discussions on PA were frequent and public. VN was now willing to seek advice and funding from international organizations such as the United Nations Development Programme (UNDP), SIDA, etc. Study tours were organized for senior civil servants. These initiatives culminated with the organization of the International Colloquium on PA organized in Hanoi in September 1996⁸ with the participation of more than 22 countries and organizations. Exchanges created a more conducive environment for further exchanges and learning. A pilot project encompassing ministries and provinces and cities to develop a methodology for the institutionalization of PAR⁹ was prepared.

⁷ See *ibid* 4/ page 107

⁸ GCOP, "International Colloquium on Public Administration," Hanoi, Sept. 24-26 1996.

⁹ GCOP, "PAR Framework for Donors," Hanoi, August 1995.

Since 1991, a collective leadership system has governed VN. The maneuvering of those competing forces behind the scene that impacted the PAR called for a shrewd and incremental strategy. A UNDP paper¹⁰ summarized well the PAR strategy to reform: incrementalism and pragmatism as an effective strategy to maintain stability.

PROBLEMS AND CHALLENGES

VN follows the “market system with socialist orientation” and as reforms deepen and widen, ideological and technical problems arise. The communist party of VN (CPV) is split into conservative and progressive factions. For the conservative leaders, the reform has undermined the role of the Party. On the other hand, economic difficulties point out the need for wider reforms and the creation of a professional civil service (CS) to manage the change.

Ideological Debates and Problems

VN wants funds and technology from the outside but fears that alien ideas such as democracy, human rights, etc., will infiltrate the country coming in with the needed funds and technology. Justifiably, indeed, because after a lifetime of Marxism, many leaders are queasy about a market economy.

For its “Doi Moi” program, Vietnam, like many other countries of Asia, has been learning from and using Japan’s model of high savings, close cooperation of government and business, and export-oriented growth. VN government pushed investment toward specific, targeted state-owned enterprises, making decisions that often poured money into nonprofitable sectors. As there are conservatives or ideologists who believe in socialist orthodoxy and think that socialism is only “temporary” during recession, there is still the strong belief in a “market economy with socialist orientation,” i.e., along socialist ideology lines and practices such as in the case of China. Conservatives belong to the security and party apparatus with minimal

¹⁰J. Ryan and J. Wandel, “Vietnam’s Reform Experience – the quest for stability during Transition,” UNDP, Hanoi, May 1996.

exposure to the outside world and the running of an economy in a peaceful but competitive environment.

Progressives or liberals, on the other hand, are those who think that in order to sustain development, VN needs faster change to “catch-up” with the neighboring countries. These are the elements that have worked with and have been exposed to the outside world. They belong, in majority, to the executive branch. For them, ideology is less important, more important is that VN develops.

Unfortunately, conservatives and liberals are deeply split over the extent and pace of reform – one that is much needed by the country.

8th Congress Debates

When the economy has been stabilized, the Party wanted to return to old ways. The draft political report prepared for this Congress rejected political pluralism and forbade party members to engage in business. The draft economic report targeted SOEs to represent 60 percent of GDP in year 2010. The tone was strongly in favor of orthodoxy, thus sending conflicting signals to the private sector: that the Party still considered profit as “exploitation” since it forbade its members to own businesses. Another conflicting signal is the promotion of SOEs.

The feeling is that implementation of the economic/institutional changes has undermined the dominant role of the Party. The government, on the other hand, resents Party efforts to micro-manage and interfere with the functioning of the government. This ideological resistance is exacerbated by the feeling of losing political control, thus, the fear of “peaceful evolution” (code word for the negative U.S. imperialist influence). “Social evils,” frequently exposed by the party-controlled media, are excuses to slow down the renovation process.

It is worth remembering that VN introduced its Doi Moi reforms in 1986 not out of altruism, but because its hands were forced. Then, as now, the party’s legitimacy is eroding. The people were put off by the government’s expensive foreign adventures (Cambodia and China), its dictatorial style and mishandling of the economy. There are the political rumblings of which the most obvious manifestation is the sporadic uprisings in the countryside

in 1997, when, in the northern coastal province of Thai Binh and Nam Dinh, traditionally a cradle of Communist Party support, peasants and workers, tired of venal local party bureaucrats, took several hostages.

All factions agreed that the "second best" option was the continuation of the Doi Moi, thus, the reiteration of commitment for PAR reforms. A fragile compromise was found with the maintenance of the triumvirate leadership combining various factions in the party. The result was that the decisionmaking process concerning the PAR would likely slow down as it was hard to regenerate a unified leadership in a very divided environment. Presently, central committee members are, on the average, younger and more educated. However, the result of the 8th Congress is an unsettling official policy toward building a market system. Although some PAR problems enunciated in the national programme for PAR¹¹ have found solutions such as the reduction in the size of the government, etc., the crucial relationship between the Party and the state machinery has yet to be addressed. As PAR deepens and widens, Party and State relationship moves to the center of the stage, but manifesting that the fear of the Party must be alleviated to be able to deepen and consequently sustain administrative and institutional reforms.

Following the 8th Congress, VN was struck by two major problems: rural disturbances in various regions and the Asian financial crisis.

Rural disturbances

In 1996 and early 1997, there were violent clashes between peasants and local authorities over farmland because of lack of compensation for their land.

Between April and August 1997, the province of Thai Binh was rocked by protests by peasants over corruption, tax issues and exaction of illegal fees by local authorities,¹² triggered by the imposition of numerous taxes and fees, requests for 'voluntary labor' and widespread abuse of power by local authorities. However, complaints and petitions were not addressed

¹¹See *ibid* 5/.

¹²Tien phong newspaper, October 2 to 9 1997.

although protests at the district and provincial levels were legal and organized¹³ in a peaceful manner. This unrest spread to 130 out of 235 villages in the province and six out of 7 districts of the province.

Many incidents likewise occurred in Ha Tay province. Local authorities were charged with disregarding regulations on land management and land rights. In Dong Nai province, at the end of 1997, several hundred villagers staged protest over land rights.¹⁴

The Asian crisis

In July 1997, Thailand was forced by speculative attacks to let its currency float freely, causing panic and financial havoc in several neighboring countries. The financial crisis meant a huge outflow of foreign capital from Asian stock markets, a liquidity crisis and increasing social problems.

In December, South Korea agreed to a \$57 billion rescue package and Indonesia negotiated for a \$43 billion bailout. The uncertainty in the region continued as Indonesian President Suharto had to step down in May 1998. Several Asian countries began to push Japan to stabilize its economy as the weakening of the yen put increased pressure on the region's battered economies.

The impact of the crisis is far more profound and painful in VN than in other crisis-ridden countries as VN is much poorer and with less capability to absorb adjustments.¹⁵ Indirect effects of the region's economic crisis have already been felt with a drop in foreign investment and trade as Vietnam relies on Asian countries for 70 percent of foreign investment and 60 percent of export sales. World Bank estimates suggest that the US\$2.6 billion in foreign investment pledged in 1997 would shrink to \$1.5 billion this year as investors headed home. The rate of growth in exports in the first five months of this year was 13 percent, about half what it was a year earlier. Furthermore, in 1997 the International Monetary Fund cancelled the last \$176-million installment of a \$530-million loan to help reforms,

¹³Nhan Dan newspaper, Feb. 5, 1998.

¹⁴Nhan Dan newspaper, March 14, 1998.

¹⁵"East Asia: From Miracle to Crisis," UNDP, Hanoi, June 1998.

after Vietnam failed to take concrete steps to enact previously promised changes.

Vietnam's economy remains one of the most information-starved in the world. Basic economic indicators such as national budget, overseas indebtedness and foreign currency reserves are state secrets. With Asia in a state of economic crisis, Vietnam must act swiftly to bring greater transparency in financial dealings, cut off cash aid to ailing state enterprises and let its currency move to a more competitive exchange rate, in order to avoid the worst effects of the region's economic crisis.¹⁶ VN's recent devaluation of the dong was the latest in a series of moves that suggest that the party and the government know they have no option but to try to somehow deepen long-stalled reforms.

Institutional Problems

The central-provincial administrative relationship is tenuous because of lack of administrative procedures. Aside from this, there are also numerous organisational problems as well as low pay, in the range of only US\$20 - 50 per month. Furthermore, there is a lack of a professional civil service to prepare a long-term strategy for change.

Central-local government

During the war, every district had to live in autarky, thus, there was the compelling need to create a modern local administration. The implementation of the 1992 Constitution and the "cloning" of central institutions at provincial level raised many problems. The responsibilities of the People's Council (provincial assembly), the unclear vertical and horizontal relationship between the People's Council, the People's Committee (provincial government) and central authorities created many administrative hurdles. War legacy of regional self-sufficiency and parochial behavior of provincial governments exacerbated this problem and have become a bottleneck to development. The Prime Minister (PM), the head of the executive branch, cannot sanction and replace immediately the head of a provincial

¹⁶Ibid 12/

administration. The GOV is reviewing these problems but any improvement in the functions of the provincial administration or its modernization will require a change in the Constitution.

Organizational problems

The Government Committee for Organization and Personnel (GCOP) in charge of public service created in the early 1990s is a staff agency. Yet, it is entrusted with operational responsibilities for the management of senior staff executives on one hand, the task of strengthening human resources in the Civil Service estimated at 1.3 million on the other hand and recently, with PA reform responsibilities without changing its overall stature within the GOV' structures. However, GCOP faces many constraints:¹⁷

- Lack of adequate facilities, equipment and methods;
- Lack of capacity to design, prepare and negotiate projects for the public administration; and
- Insufficient opportunities for professional development of the staff in a market environment and in foreign countries.

With fewer than 150 staff, GCOP finds it difficult to plan and implement GOV's PAR reform efforts, and to manage and train the civil service personnel. The lack of a modern civil service statute (although a revised version has been passed as this paper was being drafted) and the legacy of strong ideology resulted in an administration that is still basically ruled by men instead of by law. Thus, many administrations, both at central and local levels, do things in unpredictable ways. Even if GCOP is equipped with human and material resources, it will not be effective because the current "structure" does not give it enough authority to carry out its responsibilities, already incompatible as they are.

Another constraint is the lack of a professional civil service and an inadequate understanding of reforms and the role of government in a market-based economy. Civil service entrance exams are new. The training and

¹⁷GCOP, "Strengthening of the capacity of GCOP," SIDA, Hanoi, May 1997

upgrading of civil and public servants including administrative judges, etc., are basic.¹⁸ Yet, personnel selection in the public sector is more dependent on ideology than on competency. Over 20 drafts of the Civil Service Statute (CSS) have been prepared but none has been accepted, due mainly to the lack of a scheme for Party personnel. Finally, there is a lack of a long-term strategy on PAR.

Public sector wages have not kept up with inflation. Most of the teachers and civil servants have to “moonlight” and hold a second job, probably a factor behind many widely publicized allegations of bribery and corruption. This is a manifestation that even after half a century of armed struggle, the administration has still little concept of law. Corruption trials¹⁹ uncover connections between SOEs, banking and Party officials, and above all, the lack of clear rules and regulations governing the management of these institutions. As a result, the GOV has to introduce new laws on corruption. Unless civil servants secure a stake in the success of reforms, the bureaucracy can be expected to position itself to delay or distort various policy reform efforts.

These examples illustrate the various technical difficulties that arise from the implementation of PAR in a transitional economy. It requires time, manpower, knowhow and resources to overcome administrative and legal hurdles. Presently, both ideological and technical difficulties are constraints to the deepening and widening of PAR changes.

Challenges

Amid all the difficulties of recriminations of investors and farmers, the financial crisis and the slow down of the economy, etc., needs are escalating for public administration reforms. The challenge is the creation of a professional civil service, which will manage the change within the rule of law.

¹⁸ UNDP, “Catching up - Capacity Development for Poverty Elimination in Vietnam,” UNDP, and UNICEF, Hanoi, Oct. 1996, page 108.

¹⁹ Tamexco, Epco, Minh Phung, etc. corruption trials.

Need for a professional civil service

There is a discrepancy between the objectives and the means. VN's economy is marred by lack of capital for investment and its backward technology.²⁰ Its objective to double its GDP per capita requires external funding estimated at US\$21 billion.²¹ For this, the public sector must identify and prepare projects, manage international investments according to international financial and economic standards. As witnessed by the low absorptive capacity for investments, there are signs that the public administration does not have the necessary staff and competencies to implement the reform process pursuant to government policies. For example, only 6 percent of the Asian Development Bank's (ADB) commitment was disbursed in 1996.

The urgent need for a more professional civil service is clear in imbalances that exist between North and South, especially between urban and rural areas. Poverty has been reduced by 35 percent since the Doi Moi.²² nevertheless, poverty remains widespread and VN is still a very poor country by all standards. This need is likewise manifested in the recent rural protest against corrupt bureaucrats in Thai Binh, Ha Tay, and Dong Nai provinces.²³

The lack of professional civil service, the environment for private sector development becomes risky. Alliances between line ministries, large state enterprises, state banks and foreign investors are impediments to development. The recent binge of trade- and investment-related borrowing by state enterprise has brought financial crisis. The initial optimism of foreign investors is being tempered by bureaucratic inefficiency and unsettled official policy, thus, the euphoria has worn off. Signs of economic slow-down due to red tape, lack of absorptive capacity and lack of trained personnel make things worse.

²⁰Tran van Tuc, "Von va Tai san Doanh nghiep nha nuoc," (Capital and assets of SOEs) *Thoi Bao Kinh Te*, Hanoi, 28 Sept. 1996. Quy Hao, "Ganh nang Tren duong Cong Nghiep Hoa," (Liabilities on the road to Industrialization), *Thoi Bao Kinh Te*, Hanoi, 26 Oct. 1996.

²¹"Public Investment Programme 1996-2000," Ministry of Plan and Investment, Hanoi, June 1996, page 14.

²²See *ibid* 13 page 1.

²³Protest against corruption and local government in Thai Binh Province in May 1997.

VN has adopted the “gradual, step-by-step approach” for policy reform. However, this approach without the benefit of a long-term strategy for change is no longer appropriate in a fast-changing world. VN cannot afford to continue with this “learning-by-doing” approach without a long-term plan. Without a professional and competent civil service, under the aegis of the rule-of-law, the country may not benefit fully from accelerated and sustainable growth and development.

CONCLUDING REMARKS

The transformation undergone by VN with the Doi Moi process during the last decade has been significant. The initial wave of reforms (macroeconomic, monetary, budget, fiscal, etc., and the establishment of a legal infrastructure) has brought inflation down without causing a recession.

The Constitution, the new role of the NA and reliance on limited elections are signs of the growing emphasis on legal legitimacy. The public administration reform has followed a transformational pattern, thus, avoiding disruptions. It followed an incremental and pragmatic reform strategy due to the fractured political leadership and competing interests. It started with the search for legitimacy based on the rule of law, the establishment of the 1992 Constitution and sequential adjustment of institutions and procedures to the economic development.

The ongoing wave of reform aimed at improving the functioning and change of state institutions’ functions, especially the government’s role in economic development has been redefined. However, this was stalled because of ideological disagreement between various factions within the Party. There is more openness in the Vietnamese society and a trend toward using the rule of law as a legitimate channel for addressing social grievances.

However, when stabilization has been successful, crises were overcome and foreign investment began to flow in, ideology returned to hamper the PAR process. Vietnam’s leaders sought to develop a socialist market economy. As a matter of ideological faith, they believed they would lose political power if they loosened their grip on the economy. Evidences suggested that fear from party members to lose control was a major impediment to reforms. The leadership was split over the extent and pace of reform and was divided

on next PAR steps to be taken. One of the main problems was the nonsynchronization between economic reform on one hand and administrative reform on the other.

Economic reform has outpaced administrative reform. Until a strong leadership emerges or an "external shock" dampens VN's economy, there may be some slowdown in the PAR process. The strong interplay of political forces with competing interests has divided the leadership and has reduced chances for higher economic growth at the time when VN needed additional, deeper and wider reforms in its drive for "catching-up" with neighboring countries in the ASEAN.

The sustainability of the reform process will require that various groups (farmers, businesses, civil servants, party members, etc.) have a stake. The consensus is that there is no backpedaling on reforms. VN is in a position of a cyclist²⁴ who will fall if he does not continue to pedal.

The Party should not fear the creation of a professional civil service, which will help design a long-term plan for change. The definition of a relationship between the Party and the state apparatus, and the division of labor between the two should be the next priority of the PAR reform.

Amid the Asian crisis, there are signs that the government is now more prepared to tackle Vietnam's mostly loss-making 6,000 state firms. The political nature of reforming SOEs is highlighted by the tensions between politics and economics. Amid the recent rural disturbances, Party ideologues are also warming to the idea that urgent action is needed to improve the living and farming standards of Vietnam's peasant landholders. Hope is rising in government that a "second wave" of concrete reforms could soon begin. But without a proper role between the party and state machinery, the continuation of the Doi Moi will be difficult at best.

²⁴R. Morey in "International Colloquium on Public Administration," Hanoi, Sept. 24-26, 1996.