Developmental lessons of the Vietnamese transitional economy

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Abstract: The emergence of the transitional economies (TEs) in Eastern Europe and Pacific Asia have brought a new dimension to the development debate. Initially, events in Eastern Europe were depicted as confirming that there was no viable alternative to the market economy and the neoliberal perspective on development. However, the transition in Eastern Europe has proved to be a complex and problematic process, with recurrent economic and political crises and a wide range of situations and trajectories. More significantly, in Pacific Asia the Asian transitional economies (ATEs) of Vietnam and the People’s Republic of China (PRC) have experienced high rates of economic growth and large-scale inflows of investment with programmes of limited and gradual reform. These have taken place in the context of the continuation of single party rule, high levels of state intervention and significant direct control of production through the State Owned Enterprises (SOEs). Economic growth has been heavily concentrated in and around the state sectors. It is argued that a significant proportion of the growth has resulted from the party-states’ promotion of growth, establishment of incentives and encouragement of more localized activity. However, the changes set in motion by rapid growth and reform have started to undermine the developmental effectiveness of the party-state systems.

Key words: Asian transitional economies, developmental state, local state, neoliberalism, party-state, PRC, state sector, Vietnam

1 Introduction

During the 1990s the emergence of the transitional economies (TEs) in Eastern Europe and Pacific Asia brought a new dimension to the development debate. In general the increasing economic difficulties faced by the centrally planned economies from the early 1980s and the implementation of reforms was depicted as confirmation that there
was no desirable or, indeed, viable, alternative to the market economy. For development theory and practice this gave further strength to the neoliberal perspective on development (see for example Jancar-Webster, 1998). Under this the centrally planned states of both Eastern Europe and the Third World could be presented as extreme examples of the distortions to the market and the overgrowth of the state that were becoming recognized as inimical to development in the Western market economies and the global system as a whole. It is very much this position that has coloured the approaches to the TEs adopted by the international agencies, major trading partners, investors and aid donors. For these groupings the progress of reforms has been gauged in terms of indices of economic and political freedom (see, for example, European Bank for Reconstruction and Development, 2000). Central to these have been the reduction in centralized direction of the economy and direct state involvement in production and the ending of single party rule. Within the countries concerned the apparent failure of central planning and direct control over production coupled with international opinion and conditionalities led to a general rush to dismantle the apparatus of the central state and privatize its assets. For most observers there was a general assumption that the transition from a centrally planned to a market economy was a simple process of establishing western-style institutions and regulatory frameworks in the vacuum left by the demise of the centralized single party system (Grabher and Stark, 1996: 1). Indeed, since 1989 the majority of Eastern European states have made explicit commitments to the development of full western-style market economies. However, this has proved to be a complex, problematic and extremely uneven process and a wide range of situations and transitional trajectories have emerged (see, for example, Dunford, 1998). In addition, there have been tendencies towards recurrent economic and political crises and a general failure to establish consistent patterns of growth or maintain attraction for international capital (Le Dang Doanh, 1996: 8–9; Katz, 1996: 15–16; World Bank, 1996a: 173). In these respects the Eastern European experiences contrast sharply with two of the Asian Transitional Economies (ATEs) of the People’s Republic of China (PRC) and Vietnam (Rana, 1993: 1–6; Le Dang Doanh, 1996: 8–9; World Bank, 1996a: 173). As Griffen (1998a: x) has stressed:

Vietnam, along with China, stands out as a success story among the transitional economies. All the other transitional economies have run into severe problems, often some combination of falling output, decline in average incomes, sharp increases in poverty, rising mortality and falling birthrates, rapid inflation and so on.

Since the late 1980s the PRC and Vietnam have experienced rapid expansion of their economies, high levels of growth of international trade and large-scale inflows of foreign investment. While Vietnam experienced reductions in growth rates and investment inflow as a result of the 1997–98 Pacific Asian crisis and some doubts have been expressed over the measurement of growth rates, particularly for the PRC since 1997 (Kokko, 1998; Lin, 2000; Masina, 2001, Rawski, 2001; Kilgour and Drakakis-Smith, 2001), it is difficult to escape the conclusion that in global and regional terms the achievements of these states have been remarkable. In both cases growth has taken place from levels of per capita GDP that at the beginning of the reform process placed them amongst the poorest in the world. In terms of the wider development debate the experience of Vietnam is perhaps the more important because of its small economy,
more limited resource base, greater dependence on trade and heavier dependence on external funding. Also, unlike the PRC, Vietnam had to deal with serious macro-economic problems as a result of the collapse of the Soviet Union. Dollar (1999: 44) concluded that: ‘Among the economies closely linked to the Soviet Union, Vietnam is unique for its swift adjustment’. In addition, Vietnam achieved high rates of economic growth during the 1990s despite the continuation of the American trade embargo until 1994 and a series of major flood- and typhoon-related disasters.

While there are very significant differences between the PRC and Vietnam in terms of the pre-reform situation, the progress, consequences and evenness of reform, it is suggested here that there are also some very important parallels. In both cases growth has been closely linked to programmes of gradual economic reform and opening to international capital – changes that have taken place under the auspices of single party rule, centralized planning systems and the state continuing to control a major proportion of national production. Unlike most of Eastern Europe the economic transition has not been associated with changes towards more plural political systems. Similarly, in Vietnam and the PRC there has been no sweeping away of the pre-reform economic institutions and structures, rather these have been adapted and reoriented in order to facilitate and cope with economic change. Compared with the other TEs, Vietnam and the PRC have experienced very limited ‘adjustment shock’ (Litvack and Rondinelli, 1999: 3). Their general approach has been gradualist and ‘bottom-up’ with, for example, reform of industrial enterprises preceding macroeconomic change (Nolan, 1995: 317; Dollar, 1996). This runs counter to both the general Eastern European pattern and the recommendations of the IMF and the World Bank (Rana, 1993: vii). Perhaps not surprisingly the positions adopted by Vietnam and the PRC over the role of the state, protection of major parts of the domestic economy, reluctance to privatize the State Owned Enterprises (SOEs) and the continuation of central party rule, have attracted increasing levels of criticism from the international agencies, principal trading partners, investors and commentators. Despite their impressive economic performance, the failure to subscribe to western neoliberal and democratic models and undertake radical macroeconomic and political reforms is depicted as placing limits on long-term economic growth (Rana, 1993: ix; Lingle, 1998: 108; Quan Xuan Dinh, 2000: 382–83). However, it is also the case that reform and development in Vietnam and the PRC provides a significant challenge to the neoliberal position. This at a time when the consensus has weakened, particularly with respect to the role of the state (Wade, 1996; Kiely, 1998; Dixon, 1998, 2001; Berger, and Beeson, 1998). Significantly, the World Bank (2002a: xxi) has suggested that in terms of economic growth, investment and the generation of new enterprise the countries of Eastern Europe could learn much from the PRC. Similarly, as is discussed below (Section III), there has been some recognition of success of the SOEs in both the PRC and Vietnam. However, these comments have not been accompanied by any softening of the general criticisms of the policies that perhaps lie behind the successes that the World Bank has come to recognize.

It is the purpose of this paper to explore the distinctive nature and wider lessons of development in Vietnam, drawing some parallels with the PRC. These issues are examined under three main headings: state and market; reform and incentives; and developmental weaknesses, contradictions and challenges.
II State and market

The implementation of economic reforms in Vietnam appears to have been a considered response to economic problems, signs of pressure from below for change and concerns over the erosion of the party-state’s political legitimacy (Beresford, 1987, 1989, 1993: 218; Vo Nhan Tri, 1992; Dang Phong and Beresford, 1998: 176; Vu Tuan Anh, 1995; Kerkvliet and Porter, 1995: 26; Kolko, 1997). This situation should be seen in the context of a very poor and isolated country, with major problems of national integration and reconstruction and related limited ability to develop and exploit its comparatively rich national resources, notably oil, gas, coal and fish. Similar arguments can be advanced for the PRC where, despite the size of the economy and a much more substantial resource-base, there was by the late 1970s a recognition that limits were being reached to development under a policy of national self-sufficiency. In both the PRC and Vietnam the implementation of economic reforms and opening to the international system were the result of highly pragmatic decisions taken within still effectively functioning systems. This situation permitted and perhaps even necessitated a gradual and cautious approach to reform and economic change.

Critics of the gradualist approach to reforms in Vietnam have depicted it as a reflection of limited understanding of the market, reinforced by inefficiency, corruption, internal opposition, lack of human resources and the ‘trial and error’ or ‘groping’ approach followed by the government (Quan Xuan Dinh, 2000: 361, 373; see also World Bank, 1998, 1999b and the comments on these in Masina, 2003: 86–87, 100–101, 113. Similar views have been expressed with respect to the PRC (Lingle, 1998: 108; Jefferson and Singh, 1999: 9). It would be difficult to deny that the reform programmes have been slowed and adversely affected by these factors. However, given that the reform programmes reflected dominant rather than unanimous opinion within the party-state systems and uncertainty over the impact of measures, a gradualist approach is not only prudent but perhaps the only practical way of proceeding. Where major opposition resulted or the measure proved ineffective or even counterproductive, it was possible to rescind or modify without compromising the whole reform programme. In addition, Nolan (1995: 317) has suggested that “incremental reform creates the conditions for effective transition, whereas a “big bang” destroys the institutions needed for transition with growth”.

In both the PRC and Vietnam the gradualist approach to reform has resulted in substantial, if uneven, development of elements of the market economy. However, while the commitment to this ongoing process has been repeatedly confirmed, the official position is that the end result will not be the establishment of full market economies. Systems, labelled with variations of such terms as ‘market-socialism’ or ‘socialist market-oriented economy’ are officially depicted as being placed under state management with the key means of production remaining publicly owned (see for example Communist Party of Vietnam (CPV), 2001: 33). In Vietnam it is claimed that the state:

utilizes the market mechanism and applies economic forms and managerial methods of the market economy to activate production and release productive forces, promoting the positive aspects of the market mechanism while limiting and overcoming its negative aspects, and protecting the interests of the working people and the population as a whole. (CPV, 2001: 33–34).
It is possible to dismiss this type of official statement as face-saving ‘socialist rhetoric’. However, the official statements do appear to reflect the manner in which the Vietnamese system has attempted to operate with respect to the market in general, the interests of labour, the SOEs and the forces of economic globalization as a whole (Dixon, 2000; Dixon and Kilgour, 2002, 2003). Lin (2000) has advanced similar arguments with respect to the PRC. In both countries official policy towards international capital has contained elements of sampling, experiment and filtering, in an attempt to participate in economic globalization to an extent and at a speed dictated by national development objectives and conditions rather than international forces (on the PRC see material cited by Potter, 1995: 167; Yu-Wing Sung et al., 1995: 22–23; Lin, 2000; and on Vietnam, Gates, 1996; Truong and Gates, 1996: 164; Dixon, 2000: 283–84).

The efforts to limit the impact of economic globalization and the role of the market have been accompanied by continued support for the state sector. In Vietnam there have been repeated official confirmations that the state will maintain its leading economic role (see, for example: Beresford, 1993: 226; CPV, 2001: 163). Thus, the state sector has continued to be favoured with large parts of the economy remaining heavily protected and reserved for its activities (St John, 1997; Scholtes, 1998). Overall, the state sector has grown faster than the domestic private production. As a result, between 1990 and 1999, according to official data, the SOEs increased their share of GDP from 29.4% to 43.0% (at constant prices) and contributed over 50% of export earnings and 39.3% of government revenue (General Statistical Office, 1994, 2002; World Bank, 2000a). While some doubts have been raised over the official figures by Griffen (1998b: 11–12, 1998c: 43–44) and Kolko (1997: 55) they both accept that the SOEs have increased their share of GDP. However, the state sector’s share of industrial output declined from 56.3% in 1986 to 44.0% in 1999 (General Statistical Office, 1994, 2002). This was a reflection of the rapid growth of the foreign sector, which increased its share from near 0% to 34.1%, rather than the expansion of private domestic production. However, much of the foreign sector is directly connected with the state through joint ventures (JVs; Griffen, 1998a: xii; Nguyen Tuan Dung, 1996: 79). By the end of 2000 over 65% of foreign investment was in JVs and the almost all the major ones involved SOEs.

It is important to stress that in pre-reform Vietnam the SOEs did not dominate the economy to the extent that they did in most of Eastern Europe and the PRC (Noerlund, 1998a: 161–62; Probert and Young, 1995: 516). In the latter, according to official figures, the state sector accounted for 99.5% of industrial output in 1980, declining to 46.7% in 1999 (World Bank, 1999a, 2000b). This, despite the annual real growth of the state sector averaging 7.7% between 1980 and 1996 (Jefferson and Rawski, 1999: 25–28). However, in the PRC a variety of ownership forms have emerged that confound the conventional public–private dichotomy. Oi (1995: 1135) has suggested that in rural areas much of the new activity labelled as private is actually controlled by the local state. On the other hand there is evidence that some fully privately owned undertakings find it advantageous to wear a ‘red hat’, masquerading as collectives. On balance Jefferson and Rawski (1999: 29) concluded that in the PRC the state sector contributed some 70% of industrial output, the private sector 15% and joint private–public ownership 15%. In Vietnam there are similar, but perhaps less serious problems of classifying ownership (Ronnas, 1992; Probert and Young, 1995: 516). Certainly there is evidence of new activity within the state sector that could be regarded as either private or joint private–public,
and private sector undertakings that have developed in such close association with the state sector that they could be regarded as joint private–public or even public sector activity. It may be that on balance the role of the private sector is under-recorded in Vietnam (Fforde, 2001a; Fforde and Goldstone, 1995: 26, 136; Griffen, 1998b: 12; Nguyen Van Minh, 2001). However, even allowing for the problems of definition a major part of the growth that Vietnam and the PRC have experienced since the beginning of the reform period has taken place either within, or closely associated with, the state sector.

The form that development has taken in Vietnam and the PRC since the beginning of the reform period clearly sets them apart from most of Eastern Europe and does not conform to the neoliberal view that rapid economic growth necessitates the replacement of state planning, privatization and domination of production by approximations to western market structures. Given this, the critical question is what led to the rapid growth of Vietnam and the PRC?

III Reform and incentives

Schraner (2001: 23) has stressed that the Vietnamese transition did not come out of a static ‘neo-Stalinist’ party-state structure. For, despite the problems, failures and changes of direction in the pre-reform period, the Vietnamese party-state system was in many areas surprisingly dynamic and effective in policy formulation and implementation – attributes that continued into the reform period (Forsyth, 1997: 257–58; Mol and Frijns, 1997; Adger, 2000; Dixon and Kilgour, 2002a: 602). The continuing effectiveness of the central system is reflected, certainly in the early stages, in the manner in which reforms were implemented.

The pre-reform period party-state bureaucracies of Vietnam and the PRC were complex systems that connected the central state to all elements of society, extending through large numbers of layers to the workplace and small community groupings. These systems enabled decrees, quotas and policy to be transmitted through the systems and were extremely effective in mobilizing people and organizations at all levels. In addition, the structures enabled a degree of consultation and, more significantly, information gathering by the central system. These functions were prone to distortions because the primary incentive for most officials was to prove their support for official policy by reporting its success.

This was a major ingredient in the inefficiencies that plagued both systems and inhibited the implementation of policy, its formulation and evaluation. Despite this weakness, it is apparent that at all levels considerable administrative and organizational capacity existed, this involved significant decentralized power. In the case of the PRC the Leninist ‘democratic centralist’ structure was reinforced by sheer distance and the drive for national, regional and local self-sufficiency (Oi, 1995: 1147; Yu-Wing Sung et al., 1995: 15). In Vietnam, where the level of local autonomy appears to have been rather greater (Rana, 1993: 8), it was closely related to the need for self-sufficiency during the war and the lack of communications (Thrift and Forbes, 1985; Beresford and McFarlane, 1995; Forsyth, 1997: 251). The importance of local autonomy in the pre-reform period and the operation of complex hierarchical linkages to the centre sets Vietnam and the PRC apart from the such states as the Soviet Union, where the central ministerial system tended to bypass the administrative layers between the centre and
production units. This tended to leave local officials with few resources or managerial skills (Oi, 1995: 1147).

The effectiveness of the Vietnamese party-state systems in promoting development in the pre-reform period was constrained by the lack of funding, technology, expertise and incentives and, in international terms, the limited priority given to economic growth (Vo Nhan Tri, 1992; Kolko, 1997; Dollar et al., 1998; Dixon and Kilgour, 2002: 602 – see Oi, 1995: 1133 for similar arguments with respect to the PRC). However, the achievements were remarkable in terms of such measures as literacy rates, life expectancy and infant mortality rates. By the 1980s the prioritization of these areas rather than growth of GDP per se and the effectiveness of the state system had produced conditions associated with countries with much higher per capita GDP. The success of the systems in such areas is not to discount other, and far less desirable policies of control over the population; nor, particularly in the PRC prior to 1978, ideological struggles within the system and significant and often disastrous changes in direction. Despite this, there appears to have been sufficient autonomy and ability to focus on, or at least return to, key national goals – a situation that offers comparisons with such Asian developmental states as Singapore, South Korea and Taiwan, and contrasts markedly with much of the rest of the Third World.

Vietnam entered the reform period with the ability to focus on long-term national goals (see however comments in Section IV), considerable administrative and managerial capacity and the potential for rapid economic growth (see Oi, 1995: 1133 for similar views on the PRC). However, the critical question is the extent to which growth resulted almost spontaneously from limited liberalization and how much it was directly engendered by the party-state system. Emphasis on the former fits much more comfortably with the neoliberal view of the TEAs as a whole.

Fforde and de Vylder (1996) and Pike (2000: 286), among others have suggested that post-1990 growth in Vietnam owed little to the state. Schraner (2001: 23, 35–36) has been particularly critical of this approach, which treats the transition as an inevitable ‘historical process’ that once set in motion leads to a ‘free market’ and the state and party losing to the market. Undoubtedly there has been some significant expansion of private activity in Vietnam and, perhaps even more than in the PRC, merely because it was no longer discouraged or tightly controlled. Additionally, it can be argued that the ‘spontaneous’ growth of the private sector would have been even greater if it were not for continuing discrimination (Le Dang Doanh, 1996) and unclear and inefficient protection of private property (Maitland, 1996; Nguyen Tuan Dung, 1996). However, while this may account for the limited contribution of the domestic private sector to Vietnamese growth it does not explain the rapid expansion of activity in and around the state sector. It is difficult to avoid the conclusion that this must reflect the direct impact of reform and policy changes. Jefferson and Singh (1999: 13) reached a similar conclusion in a World Bank-sponsored study of the PRC.

If it is accepted that the party-state systems have played a significant role in the rapid growth and economic change that Vietnam and the PRC have experienced since the implementation of reforms, then the critical question is how was this done? Most simply, once the key decisions to implement reforms, promote elements of the market economy, the private sector and foreign capital, were taken by the central party system, instructions were passed down through the established structures. To a degree, as in the past, this mobilized people and institutions at all levels along the new policy lines. Such
a process suffered from the inherent problems of the system and considerable lack of understanding and opposition at many levels. There is no doubt that many within the party-state system were in a position to benefit from the opportunities offered by the rapid expansion of the private and foreign sectors. However, there were also significant changes that increased the incentives for effective promotion and participation in the new policy.

As was noted in the introduction, reform in Vietnam and the PRC, certain in its early stages, was ‘bottom-up’, focusing heavily on productive units. Central to this and the promotion of economic growth has been the reform of agriculture and the SOEs. In the agricultural sector, rapid growth and a major contribution to national economic expansion and export earnings, have to be seen in the context of decollectivization and reduction in the role of co-operatives, but also in terms of effective price reform and incentives (Aziur Rahman Khan, 1998: 83–86).

In Vietnam since 1981, and more especially 1986, a variety of measures have been aimed at increasing the autonomy, efficiency and productivity of the SOEs (Beresford, 1988: 193; Mallon, 1993). From 1989 efforts concentrated on reducing the number of loss-making concerns and the drain on the state budget (Griffen, 1998c: 42; World Bank, 1999b: 36). A programme of closure and merger reduced the number of SOEs from 12,084 in 1989 to some 6,000 in 1992, this principally involved small, inefficient concerns. In 1992 a more radical approach was adopted, this ended the system of direct subsidies, revised the incentive structures for workers and managers and further increased the level of autonomy. These measures were aimed at increasing the efficiency, profitability and market-oriented behaviour of the SOEs (Grabher and Stark, 1996: 1; Griffen, 1998c: 42). For most concerns this has given managers a high degree of autonomy and limited direct state intervention. Financial targets, other than contributions to the state budget, are no longer set centrally, profits and cash holding can be retained rather than deposited with the state bank, and up to 50% of the retained surplus can be distributed as bonuses for workers and managers (Beresford, 1993: 226; World Bank, 1994, 1996b). In addition, enterprises have been empowered to acquire funding outside the state sector, employ and sack labour and determine wage levels and conditions subject to the government regulations (Beresford, 1993: 226; World Bank, 1996b; see Xu, 1997 for similar comments on SOEs in the PRC). While the SOEs have been given considerable autonomy this has not meant that the functions of the State Planning Commission (SPC) have been completely eliminated. Managers of state concerns continue to draw up overall plans in consultation with the SPC (Grabher and Stark, 1996: 1). Thus, the central state has continued to attempt to keep some overall co-ordination of the activities of SOEs. This combines with controls over the establishment of JVs with foreign capital and credit,7 to direct activity towards national goals, and limit duplication and neglect of key areas. However, the effectiveness of centralized control over the SOEs has been reduced by inexperience, inefficient, corruption, self-interest and the political influence exercised through the system (see Section IV).

The effectiveness of reforms has been tempered, particularly for major concerns, by central government concerns over the impact on employment and the welfare of the workforce, and opposing political influences within the party-state system (see Section IV). This has contributed to continued operation of large numbers of highly inefficient concerns, that are far from internationally competitive. Much has been made of the losses and debts of individual concerns (Beresford, 1993: 226; St John, 1997: 180; World
Bank, 1998; Quan Xuan Dinh, 2000: 375). However, the continued protection and favouring of the SOEs has also reinforced the impact of the reforms. This is particularly evident with respect to bank credit, tax concessions, state contracts and the channelling of foreign investment through joint ventures (Quan Xuan Dinh, 2000: 363). The joint ventures with foreign investors have given SOEs access to technology and expertise not readily available to the private sector (St John, 1997: 180). As a direct result of reform and favoured treatment there have been substantial improvements in many areas, with SOEs out-performing the private sector (St John, 1997: 180). Griffen (1998c: 44) goes further, concluding that the reforms have transformed the state sector into the national ‘engine of growth’. Perhaps more significantly the World Bank has come to accept that while further reform of the SOEs is required, the state sector will remain the ‘lead sector’ for the Vietnamese economy (World Bank, 2000c: 32). Similarly, in the PRC, while the World Bank has continued to be critical of the continued favouring of the public sector, by 1999 it was reporting on the substantial increases in the overall profitability of a sector that previously had difficulty breaking even (World Bank, 2000b: 7–9). In addition, a World Bank-sponsored study of industry in the PRC concluded that the performance of state enterprises and collectives that resulted from reforms was such that it confounded the ‘conventional wisdom, which holds that the efficiency at state enterprises cannot increase unless ownership is changed’ (Jefferson and Singh, 1999: 12–13). Griffen (1998c: xiii-xiv) has suggested that the experience of Vietnam reinforces the lesson of the PRC that the privatization of the SOEs is not a priority, and undermines the World Bank (1996a: 85) view that privatization is intrinsic to the transition process.

In total, developments in Vietnam since 1992 have given considerable incentives to the managers of SOEs and support for the sector as whole. The resultant concentration of growth in and around the state sector has been furthered by reforms that have reduced central control and promoted local development initiatives. This has been particularly significant given that a large proportion, particularly of the small and medium sized SOEs were under local control (Probert and Young, 1995: 501). In 1999 locally controlled SOEs accounted for 43.9% of state sector industrial production (General Statistical Office, 2002). Similarly, 40% of SOE capacity was locally controlled in the PRC (Jefferson and Rawski, 1999: 29). In both Vietnam and the PRC, changes in the fiscal regime granted a degree of local rights over surplus revenue and responsibility for deficits (on the PRC see: Oi, 1995: 1137 and Xu, 1997; Jefferson and Singh, 1999: 8; Jefferson et al., 1999 ; on Vietnam see: World Bank 1994, 1996b; Watts, 1998; Rao et al., 1999). This was accompanied by a series of moves which delegated progressively more authority to local administration and increased local control over investment and resource allocation (Oi, 1995: 1137; Wank, 1995; Ascher and Rondinelli, 1999: 143; CPV, 2001: 71). As in the pre-reform period, local officials were able to exert influence higher up the system in order to facilitate more favourable allocation of resources. However, given local responsibility for surpluses and deficits there was a clear incentive to only lobby for resources that could be applied to productive activities.

The reform process has involved the implementation of new goals, powerful incentives for the SOEs, local administrations and other sub-sections of the party-state systems such as the army to promote and engage in a wide range of economic activity. These changes were accompanied by the facilitating of foreign investment and the encouragement, or at the very least recognition and tolerance, of a variety of domestic
private sector activities. In total, it appears that the party-state systems have, certainly in the short-run, proved remarkably effective in transforming isolated and stagnant economies into dynamic, international investment ‘hot-spots’. However, as is discussed in the next section, the processes of change that have been set in motion by the reforms have also exposed and created significant divisions and developmental weaknesses within the party-state systems.

IV Developmental weaknesses, contradictions and challenges

Until the end of 1993 the Vietnamese party-state system generally managed to maintain a unified front over reform. While progress was uneven, there appeared to be a clear direction and unity of policy which suggested a significant degree of central state autonomy. However, from January 1994 divisions began to appear, coming very firmly into the open at the Eighth Congress of the CPV in January 1995 (Quan Xuan Dinh, 2000: 366–67). Subsequently, while a variety of often far from clear compromise statements have been produced at party congresses and plenums the relationship between the various factions have remained uneasy.8

The emergence of divisions during 1994–95 rests very firmly on the consequences of reforms. By 1994 rapid economic growth, expansion of exports and the influx of foreign capital and technology had dramatically transformed the Vietnamese economy. While this gave some vindication to the reformers and won the support of those that gained from the changes, it also reduced the pressure on those opposed to the reforms to compromise their position in the interest of party unity and the restoration of political legitimacy (Probert and Young, 1995: 509; Dixon, 2003). Increasing concerns were being expressed over the speed, direction and consequences of reforms (see, for example, CPV, 1995). Rapid economic growth and increasing foreign influences were depicted as promoting ‘social evils’ – drug dealing, prostitution, smuggling and other criminal activities (see Government of Vietnam, 1994, Decision Decree ND36/CP and comments in Koh, 2001a). There were also increasing signs of popular concern over the treatment of workers in foreign plants, corruption, the environment, increasing income differentials, particularly between urban and rural areas, access to health and education facilities, and general ‘betrayal of socialist principles’ (Forsyth, 1997: 258–59; Mol and Frijns, 1997; Noerlund, 1998b; Tini Tran, 2000; CPV, 2001: 23, 220). Such protests were echoed (and perhaps in some cases prompted) by functionaries of the party-state system and given voice through the increasingly free and diversified media. Those opposed to the reform process, or at least its speed and consequences, were given further grounds for their concerns by the 1997 Pacific Asia crisis (Dixon, 2000: 293 – see Lin, 2000: 468, for a similar comment on the PRC).

The activities of elements opposed to much of the reform programme and the emergence of the new economy have become clearly evident at all levels in the system. Some of these are believed to engage in ‘guerrilla activity’, making use of the increased local autonomy to ‘ambush’ developments (Quan Xuan Dinh, 2000: 377). The extent and impact of such activity is impossible to gauge, however, it may be a significant element in the difficulties that the private and foreign sectors encounter in dealing with the Vietnamese system (Quelch, 1998; Scholtes, 1998; Dixon, 2000). More clearly the strength of the anti-reform interests was revealed in the approval at the Eighth
Congress of the CPV in 1995 of bans on Party members owning businesses and their relatives engaging in business activity was approved (cited in Quan Xuan Dinh, 2000: 367), the National Assembly’s refusal to endorse the Central Committee’s land reform measures, and the protracted delay in ratifying the Bilateral Trade Agreement (BTA) with the USA (Thayer, 2001). Despite these episodes, it is important to stress that reform has continued, the ban on business activity proved unenforceable and the BTA was eventually ratified. In general the anti-reform interests have been more successful in delaying and modifying reforms rather than halting or significantly reversing the overall process.

The increasingly open conflicts between reformers and conservatives has been complicated by the proliferation of interests that have influence within the party system. These include such broad sections as the military, police, trades unions, women, regional and local administrations, SOEs, and the various ministries and departments. There have also been some significant shifts in the importance of these groupings, notably the increased representation and influence of local administrations and technocrats (Fforde and Goldstone, 1995: 105). The major divisions are also variously reinforced and divided by the proliferation of the new economic interests. Many of these have come to have either direct representation in decision making and policy formulation, or have sufficient influence for their interest to be taken into serious consideration. The result is that there are fewer fixed positions, with, for many individuals and groupings, the attitude to reform reflecting particular measures rather than the process as a whole (Koh, 2001b: 537–38; Dixon, 2003).

Perhaps more significant than the vested interest and ideological struggles over reform in general or particular measures, is the manner in which the proliferation of interest groups and related rapid economic change have affected the functioning of the party-state system. This has to be understood in the context of both the structure of the system and the nature of the Vietnamese legal and regulatory systems (see Bui Kim Chi, 1995). The latter operate on the basis of what is permitted rather than what is not. Under the reform programme and related rapid economic change this has resulted in the production of an enormous volume of decrees, regulations and legislation. There are also considerable uncertainty and delays, because if something is not covered by existing regulations it might at some point be ruled ‘illegal’. The operation of the system is further hindered by the tendency for the party-state to still recruit and promote on political grounds rather than merit. Many members of the party system, particularly at lower and middle levels, are poorly trained and have poor grasp of the reform and the requirements of the market (Quan Xuan Dinh, 2000: 377). In addition, at higher levels, the type of technocrats that provided the cores of the bureaucracies in such Asian developmental states as Singapore, South Korea and Taiwan, remain thin on the ground.

The effectiveness of the party-state system has been further compromised by the manner in which much of the new economy has developed under a degree of independence from the central system (Probert and Young, 1995: 520). This constitutes a major contradiction, for if localized economic and political power continue to grow, it may well be that the centre loses the ability to direct activity towards national developmental goals and the means to establish the necessary institutional and regulatory framework for the sustained growth. However, the centre is likely to be constrained in its ability to restrict local activity by the operation of vested interest within the system, the need to maintain growth levels and the prospect that if members of the localized
system are not allowed to pursue their own agendas they may become foci of demand for political change. Against these prospects have to be placed the need to establish clear uniform regulatory and operating environments for domestic, and much more significantly, foreign, capital and the increasing level of popular and media concern over localized activity that is viewed as corrupt, anti-social and betraying socialist principles. Thus the central party-state is faced with major dilemmas and constraints on its ability to act. The localization of development and control in Vietnam and the PRC contrasts strongly with the highly centralized systems that characterized such economies as Taiwan and South Korea.  

In combination, the reforms and associated reduction in centralized control have promoted development within and closely connected to the SOEs, the local administrations and subsections of the centralized system. New forms of economic activity have emerged which involve alliances with elements of local and international capital. The resultant networks and localized ‘corporatism’ have become major factors in economic change (Smart, 1998; Grabher and Stark, 1998 – see Oi, 1995; Potter 1995: 182–84 for comments on similar developments in the PRC). In consequence, much of the new economy in Vietnam is controlled by elements of the party-state system. Thus, lower echelons of the state, such as local governments in the provinces, parts of the army, people’s committees, SOEs and other elements of the party and bureaucracy, ‘are emerging as a form of new business elite’ (Forsyth, 1997: 245, 257). There is as yet no indication that this new grouping is either sufficiently unified in its aspirations, strong enough or even interested in challenging the centralised party system (van Brabant, 1992a, b; Roniger, 1994; see Breslin, 1999: 696 for a similar argument for the PRC).

While the majority of the new economic elite may neither wish, nor be in a position to demand political change they have had a significant impact on decision making and policy. This, both through influence within the party-state system and because the central state is aware of the need to be seen to respond because of the role of the new grouping in the generation of economic growth. Similarly, the party-state has had to respond to the signs of discontent amongst large numbers of people over increasing disparities in society, the neglect of the needs of the people, the environment and betrayal of socialist principles and corruption on the part of members of the state (Forsyth, 1997: 257, 259–60; Mol and Frijns, 1997).

The central state has responded to the increasingly diverse and often highly incompatible views and demands by a far from consistent blend of acknowledging, accommodating, censoring and repressing. To a considerable extent these responses reflect the diversity and fluidity of interest within the decision-making structure and related declining autonomy. However, the party-state has in a number of instances shown itself to be conscious of the demands of the people and reluctant to impose policies in the face of resistance and complaint (Beresford, 1993: 218). In addition, there have been attempts to accommodate or divert the increasing plurality through the expansion and diversification of party activity, consultative exercise and the promotion of a range of new or revitalised mass organizations (Yeonsik Jeong, 1997). Similarly, the party-state system appears to be becoming more responsive and open (Quan Xuan Dinh, 2000: 369, 378–79), with some promotion of internal party democracy (Tonneson, 1993: 41; Fforde and Goldstone, 1995: 109, 111; Dang Phong and Beresford, 1998: 89–96, 104; Dixon, 2003). While it appears that such measures have helped in maintaining a high level of
social control and conformity, they have also tended to reduce the autonomy and developmental effectiveness of the system.

Overall, since 1994 policy formulation and implementation have become less effective and there have been increasingly frequent changes in regulations and their interpretation. The uncertainty of the regulatory environment has been increased by differential interpretation by local administration and sub-sections of the bureaucratic system. In consequence, the operation of the domestic economy and, more especially, the foreign sector have become significantly more difficult (Tran Dinh Thien, 1995; Truong and Gates, 1996: 163; Quelch, 1998; Scholtes, 1998: 194; Dixon, 2000: 290; Dixon and Kilgour, 2002, 2003). This reduced ‘friendliness’ to capital may prove a major contradiction by discouraging investment and market activity. There is here a further and perhaps fatal contradiction that again contrasts with the capital-friendly policies of such states as Taiwan, South Korea and Singapore.

V Conclusion

The Vietnamese system, despite some significant operating problems, appears to have been effective in the initial implementation of reforms, establishing new incentive structures and the reorientation of national development goals. Similar conclusions have been drawn from studies of the PRC (Oi, 1995; Potter, 1995). In both cases there has been some abandonment of central planning and moves towards the market economy. However, this has not been accompanied by political reform, a rush to privatize or commitment to private property. Thus, hybrid developmental systems have emerged which combine capacities and strategies inherited from the pre-reform period with elements of the market economy. The resultant structures and modes of operation perhaps have more in common with the Asian developmental states than was envisaged by such writers as Johnson (1982) and White and Wade (1988: 4). Indeed, it is possible to depict the strong, autonomous states that were able to govern the market that characterized such economies as Japan, South Korea and Taiwan (Wade, 1990; Rodrik, 1992) as being replicated in Vietnam and the PRC under very different circumstances. Indeed, the Vietnamese leadership has openly acknowledged these preliminary models for their blend of Leninist and capitalist structures (Watts, 1998: 450). Rather more uncomfortable is the observation that in all the Asian developmental states plural political systems were of limited significance, heavily constrained or emerging very late in the growth process. Strong, highly centralized, autonomous states, with little open debate or permitted opposition, were characteristic and perhaps critical to the development of the Asian NIEs (amongst an enormous literature see for example Evans, 1995). Overall, Potter (1995: 157) has suggested that the approaches of the Vietnam and the PRC can be depicted as state-led with a commitment to growth and the market and directly comparable with Japan and the NIEs under whose ‘bureaucratic market economies . . . the state agencies . . . used the market mechanism to promote development’. On this basis it could be argued that Vietnam and the PRC are ‘developmental party-states’, a term first applied to the PRC by Oi (1995: 1133).

The form and apparent developmental success of Vietnam and the PRC, particularly in contrast with Eastern Europe, may be depicted as building on the challenge to neoliberalism mounted by the earlier generations of Pacific Asian growth economies. This at
Development lessons of the Vietnamese transitional economy

a time when, perhaps paradoxically, that challenge has been weakened by the 1997–98 crisis and, as was noted in the Introduction, cracks have begun to appear in the neoliberal consensus. To the earlier challenge such agencies as the World Bank responded by some recognition of the role of the state, but warned that this should not be used as an reason for avoiding reform (World Bank, 1993, 1997; Berger and Beeson, 1998; Dixon, 2001). In Vietnam and the PRC the World Bank and the IMF have acknowledged some of the developmental achievements and success of institutional reforms, while hardening their view that growth will be compromised because far-reaching macroeconomic and political reforms are now overdue (Rana, 1993: ix; Quan Xuan Din, 2000: 282–83; World Bank, 2001, 2002a: xxi, 2002b).

The developmental party-states as currently constituted do contain serious contradictions that may well undermine their developmental effectiveness and produce significant social and political conflict. It has been argued in this paper that changes in the Vietnamese system resulting from reform and associated rapid economic change have reduced the effectiveness, autonomy and power of the central state. Breslin (1999) goes further with respect to the PRC, suggesting that the rise of local corporatism and proliferation of interests is making the party-state increasingly dysfunctional in developmental terms. However, against these tendencies towards such dysfunctionality have to be set the sustaining of high levels of economic growth (particularly in the PRC), continuing evidence of effective operation in many parts of both systems (Oi, 1995: Potter, 1995; Lin, 2000) and awareness of the operating problems and contradiction of the system (CPV, 2001: 23–24, 123, 141). In addition, Vietnam and the PRC have shown themselves to be remarkably adaptable, and have, in developmental terms, made some remarkable progress under extremely difficult conditions. Thus, it may be that the reduced effectiveness of both central systems proves to be a limited and temporary consequence of rapid and still far from even economic change. Ultimately the sustained and effective operation of localized economies and state rests on the centralized provision of a stable and regulated operational environment. Currently in Vietnam and the PRC the decline in the established forms of control and the rapid emergence of activities that the systems are either unaccustomed to or ineffective at regulating have not been matched by the development of new regulatory mechanisms. Indeed, in many respects there are tensions between the old and new forms of control. However, this does not mean that effective new forms of regulation cannot be established nor should it be assumed that they cannot be meshed with elements of the established system. It may be that a regulatory form emerges that is closer to that associated with the developmental state view. This may also involve less autonomy and more localized development. The latter a reflection of the broad tendency towards the emergence of local–global forms within the world system as a whole.

It seems that both Vietnam and the PRC are at critical stage. Given Vietnam’s smaller, weaker and more externally dependent economy it may well be that the contradictions are much sharper. While the systems appeared to adapt very well to changes in national goals and incentive systems, it might be that the structures are too inflexible to effectively serve the increasingly dynamic situation. It is possible that here there is another critical difference between the developmental state and the developmental party-state forms, for the former were generally able to respond rapidly and effectively to changing internal and external circumstances. In addition, the developmental party-states are facing a radically different international economic and political environment.
One of the major features of South Korea and Taiwan was the ability to protect their domestic economy and within that to respond rapidly to changing external circumstance. While both the PRC and Vietnam can be seen as hitherto protecting significant domestic interests and restricting the interaction with the forces of economic globalization, the continuation of such policies would seem to be incompatible with the PRC’s membership of the WTO and Vietnam’s membership of ASEAN and signing of the BTA with the USA (Dollar, 1999: 41; Supachai Panitchpakdi and Clifford, 2002). It may be that both states are forced by a combination of internal and external pressures to move to an increasingly less distinctive form which provides much less of a continuing challenge to neoliberalism.

Notes

1. The term ATE is also sometimes applied to Cambodia, Laos, Mongolia and Myanmar (Burma). See for example Rana (1993), Naya and Tan (1996) and Rigg (1997: 10–22). These are extremely varied groups from which very different developmental lessons could be drawn from those outlined here with respect to Vietnam and the PRC.


3. While single party rule has been rigorously maintained, there has been significant political change in Vietnam (see, for example, Thayer, 1992; Tonneson, 1993; Quan Xuan Dinh, 2000: 369, 378–79; Dixon and Kilgour, 2002; Dixon, 2003).


5. Some commentators consider that Vietnam became predominantly a market economy during the 1990s, if one with still significant state involvement (see for example Fforde, 1993; Noerlund, 1998a: 156). However, much of the debate over the appropriate label for Vietnam centres on the definitions of ‘market economy’.

6. The term ‘local state’ is used here as ‘shorthand’ for the complex of local administrations and subsections of the central bureaucracy that has come to exert considerable control over production and policy in the Vietnam party-state (see Haveeporn Vasavakul, 1999; Dixon and Kilgour, 2002; Dixon, 2003).

7. While SOEs have continued to have privileged access to bank loans, centralized control is still exerted over the allocation of funds (Azitur Rahman Khan, 1999: 87).

8. The opening speeches of the National Assembly in July 2002 appeared to be attempting to appeal to as wide a range of interests as possible.

9. In South Korea there was some decentralization of rural services and infrastructural development as part of ‘nation building and community development’ (Ascher and Rondinelli, 1999: 147). This included the Saemaul Undong village development programme (Douglas, 1983). However, these policies did not result in significant decentralization of decision making or the growth of localized state power.

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