Vietnam's Development Strategies

Pietro P. Masina

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Taking a developmental approach, this book provides a critical analysis of Vietnam's reform process and shows how the country's reform agenda is still dominated by a 'developmental orthodoxy' inspired by a post-Washington consensus. Masina argues that a wider debate is needed to allow national policy-makers the full spectrum of alternatives with which to make well-informed policy decisions. In particular, the book indicates that two elements central to any analysis of the Vietnamese development reform process are substantially underdeveloped in the current debate: the experience of the East Asian developmental state and the question of socialism within a future market economy.

Vietnam's Development Strategies opens up the debate, to challenge the prevailing orthodoxy and to test possible alternatives for Vietnam. It is a welcome addition to the literature and will appeal to both practitioners working in the field and the academic community in Southeast Asian studies, economics and development.

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Introduction

The research topic

This work is about Vietnam and its future. It is about the prospects for economic development of a large[1] and poor country of Southeast Asia. And it is about the new reality of a region for many years considered as blessed by 'miraculous' economic success and for which the experience of the regional economic crisis in 1997–8 implied a profound rethinking of its development models.

The aim of this study is to review the more controversial issues in the debate about the development strategies for Vietnam and eventually attempt a critical assessment of the *doi moi* (renovation) process. In the following pages we will claim that the function of agenda setting for the reform process is dominated by the international financial institutions along lines inspired by 'development orthodoxy'. The crack in the Washington consensus after the East Asian crisis has compelled a revision of the neoliberal discourse, which is now repackaged in a new version that could be termed a post-Washington consensus. Some policy reviews and an overall amendment to the language may convey the impression that the international financial institutions have now abandoned the development orthodoxy insisted upon in the last 20 years. This study will put in evidence the major issues in policy revision, but will suggest that the basic tenets of the post-Washington consensus are still substantially coherent with those of the previous consensus.

While the revised development orthodoxy occupies centre stage in the public policy debate, there are other two lines of enquiry that are of primary concern for an analysis of the Vietnamese reform process. The first line is represented by the development experience of other Asian countries. After the collapse of the Soviet Union, not only did Vietnam become more economically integrated with the rest of East Asia, but it was also more exposed to the interpretations of the 'East Asian miracle' promoted by Japan (and South Korea). These interpretations argued that economic growth had been achieved through state strategic guidance (the so-called 'East Asian developmental state') and, therefore, suggested a path to industrialization that was at odds with development orthodoxy. However, these strategies were still within the frame of a capitalist logic. There is, therefore, a second line of enquiry that is necessarily important for understanding the economic reforms in a socialist country like Vietnam, especially having in mind the high price that this nation paid for achieving decolonization and implementing a radical programme of political and economic socialist transformation. The question regards the possibility of furthering the socialist transition while embracing market-friendly reforms. Here, the experience from Japan, South Korea and Taiwan has little to offer to Vietnam, given the different purposes that development strategies were serving: economic growth as a modality of capitalist stabilization in Northeast Asia; economic growth as an attempt to consolidate a socialist transition in Vietnam. The main issues where potential contradictions with the proclaimed socialist ideals may emerge regard, on the one hand, how the 'open door' policy will affect the economic sovereignty and which kind of position the country will assume in the international system; on the other hand, they regard the changes within the country in terms of social (class) differentiation.

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

This need for a more open debate is confirmed by a certain ideological uniformity in the studies on the Vietnamese reform process. A large part of the international literature has been produced – with some notable exceptions, as we will see further – by a few agencies and a restricted number of scholars, broadly within the cultural paradigm of neoliberal thinking. The dominance of 'orthodoxy' in the studies on contemporary Vietnam would be *per se* an interesting topic to investigate. This is probably a result of the disappointment of many critical scholars with the events subsequent to the Vietnamese victory in the resistance war against the USA (i.e. the invasion of Cambodia, the hard line adopted in managing the reunification, and eventually a perceived betrayal of the socialist ideals through *doi moi*). Disaffection led many scholars to distance themselves from their previous engagement with Vietnam, or even to raise their criticisms openly [as in the well-known case of Gabriel Kolko (1997)]. In general, many of those who had supported Vietnam in the war period remain undecided in their assessment of the reform process inaugurated as *doi moi*: positively impressed by the important economic results achieved, but worried about the possible social implications. A number of scholars continued to produce non-orthodox studies, and a new wave of critical research is emerging as we write these lines. However, it is fair to admit that the scene has been largely occupied by a new generation of Western economists, who (often as consultants for international agencies) took a decisive stance in favour of furthering the transformation of the country into a fully fledged market economy. Thus, much of the literature – including that produced by 'Westernizing' Vietnamese – has the tendency to reproduce the same discourse constantly. At the same time, the Vietnamese authorities have seldom expressed views that were an open challenge to the new established orthodoxy; rather, it has been the implementation of policies to show the extent of dissent in some strategic areas.

Apart from the need not to challenge the views held by the international donors,[2] the Vietnamese leadership has faced two major obstacles in delineating a well-defined national development strategy, as we will discuss further in the following chapters. On the one hand, the reform process has been rather imposed by the events than being freely chosen. The complexity of maintaining a 'socialist orientation' while *de facto* being forced to embark on a transition towards a market economy is evident. The national tradition of reaching decisions by consensus has further complicated the task of the leadership and often led to rather hazy policy declarations. On the other hand, the international organizations [especially the World Bank and the United Nations Development Programme (UNDP)] and a small number of mainstream economists have occupied centre stage in policy research. By virtue of their overwhelming economic and intellectual resources, the international agencies and their advisers have apparently succeeded in exerting a hegemonic guidance even over those Vietnamese institutions charged with strategic planning. National independent research has lost much of its influence and local scholars have been either subsumed in internationally supported research or substantially marginalized.[3]

The national leadership seems to be trapped between the Western and Westernizing modernizers and the representatives of declining economic interests inherited from the central planning era (like many state-owned enterprises (SOEs)). The space for manoeuvre for 'alternative' economic strategies (i.e. the ability to lead the reform process on a path in line with the proclaimed socialist ideals) appears to be rather small.

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

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

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

The analysis of concrete policy implementation, however, requires a frame for analysis, a frame that allows selection of the data to be collected and to organize the findings in a meaningful way. A frame for analysis able to depart significantly from the conventional wisdom requires that it be grounded in a different paradigm, as will be argued hereafter. We will suggest that the neoliberal paradigm has lost much of its authority owing to its failure in promoting development and economic growth. This failure is now widely recognized as a consequence of theoretical inconsistency. The debate on the East Asian economic crisis has been a major blow to the so-called Washington consensus, i.e. the strategy for economic development based on the neoliberal orthodoxy. From that debate it became evident to many that the neoliberal doctrine had been unable to explain both the long period of economic growth in East Asia and the abrupt crisis of 1997–8. Notwithstanding the hegemonic decline of the neoliberal discourse, its (adjusted) prescriptions still dominate the policy advice enforced by the international financial institutions on developing countries – as we will indicate in the case of Vietnam. A new, alternative, paradigm, able persuasively to replace the failing one, has not yet emerged. We will claim that the 'East Asian developmental state' model has contributed to the crisis of the dominant paradigm by producing evidence that could not be integrated within the existing theoretical foundations. However, that development model is strongly embedded in a particular historical and geographical context and it could not be extended to different contexts without a high level of simplification. Such simplification could lead either to implement import-substitution strategies, like those (not very successfully) applied in Latin America on the advice of structuralist economists, or to be reabsorbed into the existing paradigm (like the so-called 'new growth theory'). An alternative paradigm requires a more radical departure from the prevailing one. A major contender to development orthodoxy has been the neo-Marxist theoretical tradition connected to the 'dependency school'. This contender has been hit and marginalized by the neoliberal counter-revolution of the late 1970s, and further challenged by the collapse of the Soviet Union and the market-friendly reform process in China (and Vietnam). However, the cracking of the Washington consensus is pointing once again at the same issues that the dependency school had identified as an obstacle to economic growth. The widespread criticism of the World Trade Organization, for example, is denouncing the unequal exchange and the risks for developing countries deriving from free trade. Although international trade is widely recognized as an important stimulus for the economy, the impact of rapid trade liberalization on growth and poverty reduction is now a topic at the centre of a wide and heated debate.

Vietnam after the regional crisis

Vietnam was less hit by the regional financial meltdown of 1997–8 than many of its neighbours; but, after 1998 it faced an important deceleration of economic growth. Mainstream (neo-classical) analysts indicated that, after the recovery began in the region, Vietnam risked losing the opportunity for further growth if it did not implement bold and rapid economic reforms: privatizing SOEs, restructuring the financial sector, adopting a 'neutral' trade regime and sustaining the development of the private sector. The 'lesson' from the region was used to support this reform agenda. However, what lessons are to be learned from the regional crisis remains a controversial question. The debate on the crisis did not result in any kind of consensus in interpreting the East Asian development models [see Masina (2002a)].

Vietnam suffered an economic slowdown 1 year before the onset of the regional crisis. This was interpreted by the international financial institutions as a sign that the reform process had lost momentum and, particularly, that the trust from international investors was fading. Therefore, Hanoi was compelled to make the country more attractive to foreign investments in order to benefit from the comparative advantage of a cheap and well-educated labour force. The need for specific reforms was, and still is, undeniable, since Vietnam (like most of its neighbours) is suffering from bureaucratic inefficiencies, red tape, corruption, a faltering legal system, etc. Even more importantly, Vietnam needs reforms to address key issues in terms of policy planning: e.g. identification of priorities in industrial development, growth of a sound financial system able to support strategic investments, etc. But the criticisms directed at Vietnam tend not to give enough attention to the regional dimension. When Vietnam started to suffer from a reduction in the flow of foreign direct investments (FDIs) this was part of a wider regional trend. To place the blame exclusively on national deficiencies risks missing a crucial point. The interpretation presented in this work is that the economic slowdown in Vietnam on the eve of the East Asian crisis had roots in a regional malaise. This interpretation (presented in Chapter 3) has important implications for future development strategies.

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

However, there are at least three major questions to take into consideration in analysing the Vietnamese case against the backdrop of Northeast Asia. First, the 'success stories' of economies like South Korea and Taiwan – with a selective combination of import substitution and export orientation – were supported by a favourable international regime (with the USA interested in promoting economic growth in non-communist East Asia). The recent financial crisis in East Asia was a result of increasing tensions in the international system about the trade regime. Therefore, it will not be easy for a 'new entry' like Vietnam to move in this increasingly hostile environment. An example of these problems is given by the negotiations between Vietnam and the USA on a trade agreement, discussed in Chapter 4.

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

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

This work makes use of the 'developmental state' model to argue that, even within the prevailing international order, dominated by capitalist forces, alternatives do exist to the development orthodoxy. However, the Vietnamese 'transition' incorporates another fundamental element: an attempt to maintain a socialist aspiration while embarking on market-economy practices. The Vietnamese leadership has been wary of any sophisticated theoretical explanation to delineate how the country can avoid a *de facto* transition towards a fully-fledged capitalist market economy – something that is normally denounced in Vietnam as the danger of a 'peaceful evolution'. An analysis of the reform process must take into account this specific question in the Vietnamese development experience. This work claims that, in order to understand the possible outcomes of this complex transition, we should broaden up the analysis to a set of debates related to Marxist theories, which is officially also the theoretical background of the Vietnamese leadership. The Communist Party of Vietnam (CPV) legitimacy to lead the country rests in its key role in the national liberation movement and in the resistance against foreign aggressions. The success of economic reforms has reduced the risk that younger generations – who do not carry a direct memory of the war period – will challenge the political system until it continues to guarantee a visible improvement in living conditions. Political tension is further defused by a significant transformation in social control, especially in urban areas, giving the new affluent bourgeoisie an increasing freedom to make business, travel, purchase imported goods, consume, and in sum engage in all those activities which are not directly threatening the government and the party. The very success of these economic and social reforms, however, is due to result in new contradictions that the Communist Party will need to address. On the one hand, the new affluent bourgeoisie will eventually ask for more radical changes, including political liberalization. On the other hand, economic inequality will result in class tensions that will challenge the corporatist structure of the Vietnamese political system. These tensions are already emerging, although so far the economic reforms have benefited most of the population, even if some have benefited much more and others have only seen the opening of a window of opportunity rather than a real improvement. Eventually, these tensions will require that the political system becomes more able to handle class-related conflicts and this will require a difficult reform of the Communist Party, if it wants to remain faithful to its ideological roots.

Methodological considerations

Beliefs and valuations

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

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

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

In contesting the logic promoted by the neoliberal forces, this text will not try to oppose a different 'objective' truth. On the contrary, following the lesson of the Swedish economist Gunnar Myrdal, this study rests on the assumption that each scholar (like any other person) is necessarily influenced by 'beliefs' and 'valuations' (Myrdal 1968, 1970). These 'beliefs' and 'valuations'[8] are not only the results of personal choices, but are also influenced by the cultural and social environment in which one is embedded and the interests that one (consciously or not) tends to represent. A scholar should be aware of the ideological and cultural background that will unavoidably affect his/her own research and should not try to conceal his/her own 'beliefs' and 'valuations' in search for an objective scientific investigation. Only an honest reflection on these premises can help the scholar to reduce the risk of being involuntarily biased. Every scientific work is inevitably subjective and partisan; therefore, it is important to make the reader aware of the premises, values and purposes that have guided the scholar in his/her research. For these reasons the following pages will be used to make explicit the beliefs and valuations that are at the root of this work.

My research interest for Vietnam began in the mid 1990s. By that time, the first phase of *doi moi* was completed. Vietnam had already irreversibly moved towards a market-based economy, although the country's leadership proclaimed that this did not imply a desertion of the socialist project. The country was on a path of increasing integration into the world economy, and the political relations at regional and international level had been thoroughly reorganized. My research interest was connected (and still is) to political concerns. Was the Vietnamese transition bound to produce a reversal of the socialist finalities that had inspired its long and costly struggle for liberation and social change? The question was not (is not) 'ideological', i.e. it is not motivated by abstract motivations. On the contrary, this question was (is) very concrete: after the devastating experiences of the 'transition' in the former Soviet Union and in many of its European satellite countries, the possible costs of a similar process in Vietnam could not be ignored. Vietnam, notwithstanding over 30 years of war (and also mistakes in economic management), while still one of the poorest countries in the world, had achieved impressive results in terms of human development: life expectancy, school enrolment, literacy, healthcare services, etc. Were these achievements going to be reversed, as had happened in the former Soviet Union? The case of China indicated a more successful transition to a market economy: economic growth, poverty reduction, generalized improvement in living conditions. As is now evident after many years since the beginning of the reform process, the Vietnamese transition is more closely related to the experience of China than to that of the former Soviet Union. However, the cases of China and Vietnam do also present disquieting questions. Poverty reduction has been coupled with increased economic disparity. Economic restructuring has resulted in redundancy in SOEs at the same time when modernization of agriculture has implied a labour surplus in rural areas. Public services (like schools and healthcare), once free for all, now require the payment of fees (and, often, of even more substantial 'fees' under the table). While the transition process in Vietnam and China is still progressing and open to different possible outcomes, one can even wonder whether these countries will opt for an American *workfare* model rather than a more inclusive Western European-style welfare system. Such an outcome could, after all, be dictated by the increasing economic gaps (even more so in China than in Vietnam) between rich and poor regions and between urban and rural areas. European welfare systems face serious difficulties in managing wealth redistribution within a population whose economic level is extremely homogeneous when compared with that of China and Vietnam.

Gunnar Myrdal did not emphasize the need to clarify 'beliefs' and 'valuations' to suggest that the outcomes of a scientific research are necessarily predetermined by their premises. On the contrary, a critical reflection on these premises is essential for reducing (though obviously not completely removing) involuntary biases. Through this critical self-analysis, a student may even change his/her original beliefs and valuations.

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

From the perspective of a European scholar, the long-term implications of the reform process are the major concerns. At stake is the sustainability of the undeniable results in terms of poverty reduction that Vietnam has experienced since the late 1980s. An increase in economic inequality represents a major problem, as it may lead to a transformation in interests' representation in the country and to a departure from the current poverty-reduction drive. From the perspective of the Vietnamese poor, however, short-term achievements have a paramount importance because they represent (often literally) a matter of life or death. A peasant I interviewed in a village of Hung Yen province (Red River Delta) in July 2002 told me that he had accumulated huge debts with moneylenders in order to pay for the treatment of his heart disease. At the time of my interview, his wife was in a hospital in Hanoi to undertake an eye operation, and this was bound to increase the debt burden on the family (which had already forced two of the three children to search for informal jobs in the capital). When I asked if he did not prefer the time when healthcare was free, his answer confused me. He said that at that time healthcare standards were very low and he would have probably died. Better be impoverished by debts than to die. A similar perspective was presented by a widow with three teenage children in the same village. Poverty had forced the two youngest daughters to leave the school and one had become a fruit seller in Hanoi. The work of the two daughters allowed the oldest son to continue education until higher secondary school, and this was regarded by all the family as an investment for the future. The widow explained that, in the past, when schools were free of charge, the quality was low and school enrolment did not guarantee the possibility of finding a good job afterwards. There may be a number of reasons to explain these answers. In any case, they express a point of view that should be taken on board. According to an opinion poll conducted in the winter of 2002, Vietnam is the country in the world in which the population is the most optimistic about the future. My direct investigation has confirmed what is reported by a number of studies (discussed in Chapter 5): that poverty reduction has also been beneficial for many among the poorest and the most vulnerable. For example, I have had it confirmed by a large number of interviews that the living conditions of street children in Hanoi improved substantially during the 1990s (Gallina and Masina 2002).

The fact that the vast majority of the Vietnamese population seems to consider the *doi moi* favourably does not eliminate risks and reasons for concern. There are two major issues that are fundamental for Vietnam and for any other developing country. The first is the social structures and class-related interest composition within that country. A radical process of economic reform like the Vietnamese *doi moi* will obviously affect the national social structures, and this will eventually determine the direction for the furthering of the reform process. The second, related, issue regards the position of the country in the international economic system. These two issues are discussed throughout this research.

Reconnecting to a long tradition of studies inspired by Marx, this work is based on the assumption that the inclusion of developing countries into a global 'world system' (a process in which the current 'globalization' represents only a new phase) has a double (and often contradictory) nature. On the one hand, it tends to destroy traditional productive systems and to enforce a modern (capitalist) mode of production; on the other hand, it tends to establish unequal relations through which the core (the industrialized countries) exploit the periphery (Third World countries) and perpetuate a condition of dependency that can also inhibit the creation of modern capitalist forces. This issue will be discussed further in Chapter 1. Here, it is useful to underline that the integration into the wider economy may imply a significant reduction in Vietnam's economic and political autonomy. This remains a key concern for its national leadership. After the end of the Cold War, Vietnam had no alternative to the furthering of economic and political relations with its Asian neighbours and with the West. But this made more imperative the question of how the country could at the same time exploit the benefits of a wider integration into the world market economy and defend its national interests. This is not a new question, as it has been a paramount concern for economists and political leaders for centuries. This work suggests the need to look at the policies implemented by a number of East Asian countries for analysing this issue. The following chapters will discuss the specific conditions that lead to the adoption of that set of policies that has characterized the so-called East Asian developmental state and the lessons that Vietnam could learn from those experiences. This work holds that the East Asian developmental state has been an instrument of capitalist stabilization in the region and, therefore, could/should not be replicated by Vietnam. However, the 'strategic planning' underpinning that model of economic development represented a successful strategy for breaking the condition of 'dependency' imposed on developing countries and has allowed an impressive catching up. While the East Asian developmental state was successful also because it was coherent with specific geopolitical conditions, it is fair to argue that Vietnam may still benefit from studying those experiences carefully.

Research approach and choice of theories

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

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

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

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

The applicability of Kuhn's theories of scientific discovery to social sciences has been widely discussed and often rejected. On the one hand, society seems to escape from any attempt to constrain its vitality within the straitjackets of universal propositions. On the other hand, differently from natural sciences, in social sciences there is not a marked distinction between the object and the subject of the study, and any investigation of society necessarily also has an impact on the society itself, thus contributing to transform the object of the investigation [see Easlea (1973: 149–154)].

To be sure, an attempt to apply to social sciences a scientific method (inspired by neo-classical economics) has been visible in different fields ranging from sociology to international relations (under the banners of *behaviouralism*). But this attempt has only partially succeeded.

Owing to the differences between social sciences and natural sciences, the rise and the fall of scientific paradigm also tends to operate in a different way. Albert O. Hirschman, for example, pointed out a major difference:

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

This excerpt from Hirschman also draws attention to another major difference between natural and social sciences. In natural sciences, the diffusion of a new paradigm implies the dismissal of the previous one. This is not normally the case in social sciences: here, contending paradigms can coexist, although one may maintain for a period of time a hegemonic position. Thus, while the paradigm crisis in natural sciences is the sign of the ascendance of a competing paradigm, in social science the process of formation of new paradigms is less linear.

In a number of studies, however, the emphasis on the difference between social sciences and natural sciences seem to be related to a possible misconception of what a paradigm is, or at least what a paradigm is for Kuhn. A paradigm is neither a theory nor simply a coordinated set of theories. It rests on a *scientific ideal*, a *representation of reality*, and a *research ethic* (Andersen 1994: 21) that are above particular theories. Thus, the dismissal of one theory does not represent necessarily a paradigm crisis.

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

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

The second paradigm has its roots in mercantilism and political realism. International economy as an arena of conflict dominates its representation of reality. Its scientific ideal is theories that promote state power and economic development. Its research ethic is political activism to support state-led industrialization.

The set of theories stemming from this paradigm presented in this study belong to a particular subgroup: they are designed by scholars who consider necessary a strong role of the (capitalist) state in promoting industrialization as a condition for escaping underdevelopment. However, these scholars have, in general, no sympathy for the authoritarian regimes that have characterized the application of these economic strategies in East Asia, i.e. the region of more successful application of these strategies. If these scholars can be accused of political ambiguity (a criticism that can be moved also to this work), this reflects the old dilemma between revolutionaries and reformists in the assessment, for example, of the Western European welfare states and Keynesian economic policies. Although a revolutionary can be critical to the role of capitalist stabilization (an intent explicit in Keynes) that these policies obtained, they cannot neglect the improvements in the working classes' living conditions.

The third paradigm is based on Marx and on the scholarly tradition he has inspired. Here, the scientific ideal is theories that can help transforming the world, not only to studying it. Its representation of reality holds that history is shaped by the class struggles determined by the mode of production. When applied to international development studies, a Marxist approach is concerned both with conflicts within the country and between the core and the periphery. The research ethic is critical, based on the analysis of objective and subjective factors, and aiming at transforming reality.

This work mostly deals with those Marxist theories that have analysed the dependent relations existing between so-called developing countries and industrialized countries. Since in the case of East Asia – and, so far, also in the case of the Vietnamese *doi moi* – the result of integration into the world economy has been an impressive catching up rather than underdevelopment, these theories are faced with a formidable challenge. However, this apparent contradiction may be explained as an exception confirming rather than confuting the rule. These theories are important for understanding what the future can hold for the Vietnamese transition.

This work will claim that the Vietnamese reform process has been the result of two factors. One was external: the end of the Cold War compelled a reorganization of economic and political relations and eventually resulted in the 'open door' policy. The other was internal: bottom-up, 'fence-breaking' activities that in the end made the Vietnamese economy 'growing out of the plan' [as in the expression used by Naughton (1995) in his famous study on China]. Like in the case of China, the political sanctioning of the reform process came after a failed attempt of recentralization and revitalization of central planning. Although we found no convincing evidence that the launch of *doi moi* was the result of the ascendance of a national bourgeoisie or the betrayal of socialist idealities by sectors of the party leadership, the reform is bound to produce (as is already happening) a rearticulation of class-relevant dynamics. Marxist theories remain the best tools for investigating this social transformation that, although still at rather an embryonic stage, represents the most important query for the future of Vietnam.

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

Research strategy

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

The topic of this research regards the transition from a centrally planned to a market-based economy. Contrary to the experience of other 'transitional' countries, Vietnam (like China) allegedly embarked on this reform process as a way of consolidating the socialist finalities and not departing from them. The first phase of the reform process was substantially completed by the early 1990s and had as its most distinctive feature the redistribution of land from the communes to the private households. From the mid 1990s, a new phase in the Vietnamese transition began and was soon confronted with the problems related to the regional economic crisis. This second phase of *doi moi* is, in many regards, more complex than the previous one because it may lead to a complete systemic change of the socio-economic institutions. At the same time, the geopolitical and geoeconomic context has become more unstable and hardly supportive of the Vietnamese economic development drive. This work is thus dealing with an open process, whose future outcomes cannot be deterministically anticipated, but where it is becoming increasingly visible how key policy decisions may lay the foundation for a radical transformation of the economic, political and social structures. As has been claimed above, this study rests on the assumption that critical knowledge has the task not only to investigate reality *ex post*, but also to create the conditions for a change. While the responsibility for taking policy decisions about the future of Vietnam must rest in the hands of the Vietnamese themselves, a critical study can help in elucidating the different options available. This work tries to contribute to this task by using a comparative approach and presenting how other countries (especially other East Asian countries) have responded to problems similar to those that Vietnam is facing in the second phase of *doi moi*. The major references for this comparison will be: three economies from Northeast Asia (Japan, South Korea and Taiwan), where (capitalist) developmental state strategies were more systematically applied; China, which shares with Vietnam a peculiar transition towards a 'market-oriented economy with socialist characteristics'; and the rest of Southeast Asia (particularly Thailand, Indonesia and Malaysia), where, in comparison with Northeast Asia, the catching-up drive began later and developmental state practices were less systematic.

The first component of the empirical investigation centred on the analysis of official documents approved by the CPV and the Vietnamese Government, reports by the international financial institutions and other major agencies, and statistics. From these official sources it is possible to delineate the questions at the centre of the policy debate within the country and the issues on which the reform agenda promoted by the international financial institutions implies more controversial reforms. This analysis indicates that there is a rather substantial consensus in assessing the past achievements in the reform process, at least until the mid 1990s. Visible differences do exist, instead, on the path and the timing for the following steps. In particular, the international agencies have taken the lead in promoting bold measures towards a reform of the financial sector, privatization of SOEs, trade liberalization, and more space for the private sector in the national economy. From the official sources and the available statistical data it is possible to see how the international financial institutions have used a variety of tools for pushing the country towards the adoption of the measures they supported (alternatively praising and threatening, withholding loans, establishing conditionalities, directing aid to their own targets). In particular, we will show that after the regional crisis the pressure on Vietnam increased through – inconsistent and eventually contested by the events – warnings: Vietnam was going to face a financial crisis within 5 years; Vietnam was not going to recover after the regional crisis; investors were going to abandon Vietnam; etc. In Chapter 3 we will also argue that, on a very sensitive issue (i.e. FDI flows), data were presented in a way that can only be understood as serving specific political purposes.

The reading of official documents and published reports would scarcely allow understanding of the complex policy negotiation within the Vietnamese leadership and between the national leadership and the international agencies. Therefore, the investigation had to rely on a large number of interviews and private conversations with Vietnamese policymakers, officers of international agencies, scholars and colleagues, both Vietnamese and foreigners, that helped in reconstructing some of the different pieces of a difficult jigsaw. This guidance is only occasionally acknowledged in the text; in most cases, formal interviews contributed to an incremental effort in the analysis of information already available through other sources rather than unveiling unknown facts or events. They were, however, crucial in maintaining the chart route of this perilous navigation.

The attempt to put things into a meaningful perspective was also supported by continuous exchanges with Vietnamese and foreign friends, sometimes over a beer or a meal, and often through conversations that were supposedly not related to the themes of this investigation. Through several years of frequent travels to Vietnam, I have been blessed by the friendship of many Vietnamese who gave me the opportunity to see how the reform process was affecting their lives and the lives of the people around them. This contributed to making me keep my feet on the floor while trying to explore the apparently abstract macroeconomic reforms and forced me to reflect on the implications of the different measures for the concrete material life of the Vietnamese people.

Besides the analysis of official documents and formal and informal interviews, the empirical part of this research was also supported by investigations conducted in urban and rural areas, occasional consultancies that gave me access to high echelons of the Vietnamese administration and the donor community, and through my work as coordinator of an EU-financed research project on 'sustainable livelihoods in Southeast Asia'. This research project was based on comparative field studies in Laos, Thailand and Vietnam. In Vietnam, the field study involved communities in Son La (northwest), Hung Yen (Red River Delta), Soc Tran (Mekong Delta) and Tan Trieu (suburban Hanoi). The specific experience of this investigation is discussed in Chapter 5 of this work, which is dedicated to the analysis of poverty dynamics.

The empirical foundation of this work is further supported by a rather large number of secondary sources, both on Vietnam and on the regional economies. In particular, the comparative undertaking is grounded on a bulk of literature concerning the East Asian developmental state. The effort made in feeding the comparative analysis of other countries in the region into the analysis of the Vietnamese reform is quite central to this work and hopefully represents an original contribution.

In presenting this work to the public it is fair to reflect critically on the work done and particularly on the sources used to substantiate the theses supported in the text. With *ex post* wisdom, it is easy to see that many parts of this work could be changed and improved, a couple of chapters added, several parts thoroughly revised – and, of course, even more changes will appear necessary at the time of publication, once new data and analysis will probably have been made available by other authors and institutions. Yet the most serious concern remains the question of the sources. Contrary to the case of other countries, the Vietnamese reform process has scarcely produced an open and public debate, in which the positions of the different national and international agencies would become more easily understandable. Even interviews with policymakers only occasionally revealed a competition between alternative strategies; more often they pointed out questions of timing rather than direction in the reform process, although one could sense that in some areas the magic formula of 'step by step' suggested by the Vietnamese officers implied also a dissent on the path of these steps. A more open debate on the options potentially available for the furthering of the reform process would have certainly made this work easier and probably more accurate. However, the challenge of manoeuvring in these turbid waters also hints at the specific modalities in which policy negotiations are conducted in Vietnam and between this country and the international financial institutions, and it is, as such, an issue to reflect upon.

This work will claim repeatedly that the Vietnamese authorities have chosen to avoid confronting the international financial institutions with strong policy declarations and that their line of resistance could only be detected by looking at how the various measures were implemented. Vietnam, like other developing countries, was not in a position to challenge openly the powerful institutions whose loans were so important. There is, however, something more to it. Historically, the Vietnamese cultural tradition has never been particularly interested in theoretical speculation. Contrary to China, the Vietnamese intellectuals – from Confucianism up to the revolutionary leaders – have been much more concerned with the concrete praxis than with abstract theory. This fundamental pragmatism has also been a significant feature of the Vietnamese revolutionary process [see Chesneaux (1971) and also Masina (1999a)]. The Vietnamese intellectuals have made important contributions to the practical adaptation of theories to the concrete needs of the country, but have avoided engaging in highly theoretical work, both in the Confucian period and later on (Nguyen Khac Vien 1971). This essential pragmatism is something that the same Vietnamese have not only acknowledged, but also emphasized as a positive attitude (also marking their diversity from the Chinese). It is renowned that Ho Chi Minh used to say sarcastically that he had no need for writing much, because Mao Zedong had already written everything that had to be written.

In the articulated Vietnamese decision-making system, national policies are always adjusted and interpreted by the different echelons in the chain of command. Policy decisions have less authority than a foreign observer would be led to believe. In this context, theoretical policy research has a rather low status. Until the 1990s, university lecturers were only meant to teach and not to make research. The research that really matters is conducted by research centres whose prestige is proportional to their proximity to powerful ministers. The substantial policy debate is generally secluded from public scrutiny. Even when one of these scholars/policymakers accepts and gives an interview to a foreign colleague, the outcomes are normally very modest. Scholars who are more remote from the 'sun' may be more open to talk, but not particularly informed. The same difficulty also applies to scientific articles, which are normally written to present a decision already taken rather than to discuss open issues. The real discussions are conducted behind closed doors. And until the late 1990s even the state budget was regarded as a national secret. Paradoxically (or maybe not), I found that there was a more open and interesting debate in local business magazines published in English than in scientific journals published in Vietnamese.

One could mistakenly take the seclusion of the policy debate and the subordinated role of the intellectuals as a result of an authoritarian political regime. Certainly, the political structures of Vietnam are not particularly conducive to open and wide-ranging policy debate (although the role of the parliament has increased substantially since the late 1990s). But, more fundamentally, these conditions reflect centuries of cultural traditions, which have also shaped the forms of modern political structures.

The structure of the work

The interpretations on the rise and the fall of the East Asian miracle offer the opportunity to revise and update a classical debate in the study of political economy. In many regards the present discussion is rooted in the historical opposition between Adam Smith and David Ricardo versus Friedrich List, i.e. the different perspective between economists coming from the first industrial country and economists from a (nineteenth century) 'late developer' like Germany. While the English classical economists could emphasize the virtues of the 'invisible hand' and free trade, the German economist would emphasize the role of the state as the *primum mobile* of socio-economic progress (White and Wade 1988: 1). The famous work of Alexander Gerschenkron (1962) has confirmed that the process of industrialization in Western Europe actually relied on an important role of the state in promoting the development of national industry, including protection of infant industry through import tariffs. Once industrialization had been achieved, however, Western countries returned to the classical theory of free trade. Particularly, it was the USA at the end of World War II that assumed free trade as the cornerstone of its foreign policy and imposed this doctrine on its reluctant allies (Kolko and Kolko 1972).[11] The Bretton Woods agreements, and later on the Marshall Plan, linked American aid for post-war reconstruction to the acceptance of free trade and the close integration of Western European and American economies. Eventually, the same free-trade ideology came to be presented to developing countries as the only path towards industrialization and economic prosperity. Chapter 1 will discuss how, since the late 1970s, the development orthodoxy has been constantly revising and adjusting its discourse constructed around the doctrines of free trade and self-regulated markets – a constant revision that never departed from these ideological tenets.

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

Chapter 1 recalls the key features of the East Asian 'developmental state'. The literature on the East Asian 'developmental state' (the classical studies by Robert Wade, Gordon White, Alice Amsden, Linda Weiss, etc.) offers an important heuristic methodology, which allows analysing not only how a specific country adheres to an abstract model, but also what the country's characteristics and peculiarities are.

The same chapter also introduces the terms of the Vietnamese 'transition' by indicating that the reform process in Vietnam has been rather original – important similarities, though, do exist with the Chinese case, while the path has been substantially different from the experience of Eastern Europe.

Finally, Chapter 1 presents a critical assessment of the key concepts and theories used in this work from a Marxist standpoint.

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

Chapter 3 looks at the impact of the regional economic crisis on Vietnam and suggests that the crisis has been used by orthodox scholars and the international financial institutions to increase their leverage on the reform process. A review of the empirical data indicates that such major indicators as the flows of FDI have been interpreted in a rather arbitrary way with the quite evident intent to push Vietnam towards bolder market-oriented reform in a moment in which *doi moi* seemed to have lost its initial thrust.

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

Chapter 5 tries to address a key question in the assessment of *doi moi*, i.e. the impact in terms of poverty reduction and social differentiation. Here, we will see that the picture is necessarily composite. While the country has achieved major results in terms of poverty reduction, the benefits have not been equally redistributed. Social differentiation is emerging as a major concern for a successful furthering of the economic reforms and potentially even for political stability.

Chapter 6 focuses on the debate on governance – one of the most controversial issues not only in the Vietnamese debate, but also more generally in the post-Washington consensus – and suggests that the East Asian ‘developmental states’ have relied on a specific fix of government guidance due to particular political contexts. This chapter argues that the question of governance and institutional reform cannot (should not) be separated from an analysis of class-relevant interests and political objectives – contrary to the current attempt to look at governance as a technicality.

1 Reflection on the analytical tools

The purpose of this chapter is to present the main theories and concepts upon which the research has been built. We have already argued that mainstream studies are seldom explicit about their own theoretical foundations – by definition, mainstream views are perceived as based on common sense. A critical research instead must begin with a clarification of the analytical tools in order to make it possible for the reader to understand (and eventually criticize) the logic behind the research process.

We should underline that, in presenting different views regarding the nature of economic development, we should not expect to see a linear process for which new theories incrementally adjust and correct older ones. Recalling again the lesson of Thomas Kuhn, a cumulative process of theory revision and adjustment can only occur within the same paradigm. Theories embedded in different paradigms cannot be confronted or confuted, and not even empirical evidence allows one to ascertain an indisputable truth, because no consensus can be established on the choice of the evidences and on their interpretation. As Kuhn reminded, the transition from a paradigm to another is 'a transition between incommensurables' (Easlea 1973: 15). The effect of trade liberalization on industrialization and economic growth is a classical example of how economists relying on contrasting scientific paradigms cannot find a conclusive agreement, notwithstanding the empirical evidence accumulated in over two centuries.

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

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

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

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

Orthodoxy and economic development in East Asia

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

> they are united in opposition to Keynes and neo-Keynesianism, 'structuralist' theories of development and the use of economic planning for development purposes. On the positive side, they are united by the belief that the problems of economic development can only be solved by an economic system with freely operating markets and a government that undertakes a minimum of functions [Toye 1993 (1987): vii].

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

The paradigm 'shift' was symbolically represented by a change at the helm of the World Bank, the organization which – because of its 'unrivalled budget for research and policy-formulation capacity in comparison to any other development organisation' (Berger and Beeson 1998: 492) – had the largest influence in setting the agenda in the development debate. Berger and Beeson (1998: 490–491) document how the transition from the presidency of McNamara to the presidency of Tom Clausen in 1981 represented a clear shift in the bank's priorities and a 'devout commitment to neoliberalism', which was particularly strong in the new head of the research department, Anne Krueger.[1] This change had immediate implications for the developing world:

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

The early 1980s was the period when the neoliberal propositions were expressed in the most straightforward manner. Already by the second part of the 1980s the discourse was readjusted in order to reinforce the consensus around the core elements of the orthodoxy. The accent shifted to the need for 'market-friendly' policies, rather than complete *laissez faire.*[2] This shift also implied a reassessment of the role of government in development. The concept of *good governance* was introduced, to replace the less defendable idea of minimum government intervention; however, 'governance', as was confirmed in a 1997 report, was conceived as a technical feature, which concealed the political dimension of state initiatives (Dixon 2002).

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

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

> the demise of the Soviet Union Bloc had led to ‘the broad convergence of development thinking which has replaced ideological conflict’, while a consensus based on the free-market, a balance between the private sector and government and sustainable economic growth was spreading around the globe (Berger and Beeson 1998: 492).

This long experience in remaking the official development narrative, adapting to the changing conditions, also explains the World Bank policy (and the views of some previously ‘orthodox’ scholars, like Jeffrey Sachs) during and after the East Asian economic crisis. The dramatic events of this crisis exposed, like never before, the ‘Washington consensus’ to the critical scrutiny of a wide international audience. The failure of the IMF in anticipating the financial meltdown and in responding adequately to the crisis after its outbreak became the symbol of a ‘cracking of the Washington consensus’ (Bullard 2002). However, the public criticism of the ‘Washington consensus’ from the same core of its orthodoxy does confirm the traditional attitude to attempt to renovate the neoliberal discourse without a consistent change of paradigm (Masina 2002a).[3] The resignation of the IMF Acting Manager Michel Camdessus – whose unfortunate posture during the signature of a bailout package with the Indonesian President Suharto was interpreted by many Asians as the very symbol of Western arrogance – further supported the idea of an attempt to move towards a new ‘consensus’ (the so-called ‘post-Washington consensus) in development. Probably, the fault of Camdessus had been to have remained the prisoner of superseded doctrinaire positions, thus making his and the IMF position indefensible.

At the core of the neoliberal effort to maintain the orthodoxy in development theory in the midst of the Asian crisis, one central element can be recognized: the attempt to discredit the so-called East Asian ‘developmental state’ as a viable model for economic growth. Somehow, the ‘orthodoxy’ has tried to vindicate the failure in incorporating the development experience of countries such as Taiwan and South Korea within the neoliberal explanatory paradigm.[4] Thus, the accusation of ‘crony capitalism’ was deployed against these countries to indicate that their economic success was impaired by distortions, eventually causing the financial crisis.

The interpretation of economic growth in East Asia had probably already been the most complex battlefield for the development orthodoxy during the 1990s. Since the late 1980s, for example, the World Bank was increasingly under pressure both from Japan and from a group of ‘statist’[5] scholars, whose alternative explanation of the development trajectories in East Asian countries had received wide attention. The famous 1993 World Bank study on the ‘East Asian Miracle’ was requested (and financed) by Japan, which was increasingly assertive in trying to see recognized its own development model as a strategy for the region. This report reached a line of compromise in declaring that a group of high-performing Asian economies had achieved economic growth by ‘getting the basics right’, i.e. by recognizing the role of government in broader terms while avoiding market distortions by ‘getting the price right’ (Masina 2002a).

The 1993 World Bank report could not compromise too much with the views articulated by the 'statist' scholars. In fact, these scholars (who were inspired by Keynes, although in a broad sense[6]) presented an explanation of economic growth in East Asia which was an irreducible threat to the neoliberal orthodoxy. In a number of well-documented studies on Japan (Johnson 1982), South Korea (Amsden 1989), Taiwan (Wade 1990), and more widely (White 1988), they emphasized the role of the state in promoting development and governing the market.

The orthodoxy represented by the World Bank had either supported the view that these countries were free from 'distortions' represented by state interventions, or even that state interventions had been used to remove 'distortions', i.e. in order to let the market 'get the prices right' (Berger and Beeson 1998; Dixon 2002). On the other side of the debate, the 'statist' scholars claimed that these countries had achieved industrialization and high growth *because* of selective state interventions, e.g. by channelling financial resources through public banks to strategic industrial sectors.[7] Not only had growth been achieved without 'free-market' policies, but also growth was achieved through policies that intentionally altered the market allocation of resources and supported long-term industrial strategies. To use the famous expression of Alice Amsden (1989: 139–155; 1994: 630–631), these countries succeeded because they 'got the prices wrong' in agency terms (i.e. the World Bank terms).

As is quite clear, this interpretation of economic development in East Asia could not be integrated within any readjustment of the neoliberal orthodoxy. Therefore, the validity of a state-led development model had to be denied. The attempt to confute the 'developmental state' was also visible in Vietnam, where the key international agencies (i.e. the World Bank, IMF, Asian Development Bank and UNDP) carefully presented the experience from the region in terms coherent with the orthodoxy. For instance, in October 1997 (when the region was already in the midst of financial crisis) a World Bank report pointed out to Vietnam good examples from other Southeast Asian countries, which had 'particular relevance given some of the initial similarities between their economies and the Vietnamese economy.' These countries – among which the success story of Indonesia (*sic*!) – were praised because of their emphasis on labour-intensive industry and significant investment in agriculture and rural development:

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

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

The East Asian developmental state model

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

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

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

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

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

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

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

Developmental state versus self-regulated market

Research about the East Asian developmental state has its roots grounded in a wider and older scholarly tradition focusing on the role of the state in promoting economic growth (and, hence, also national power). Owing to these explicit linkages, 'statist' scholars (i.e. scholars that put the emphasis on the role of the state) have been defined as 'neo-mercantilist' (or even 'realist', in the language of international relations theorists). For these scholars, international economic relations are essentially a zero-sum game, where national states must guard and defend their interests. Economic power is intended as a condition for state survival, and economic development is a key element in the process of state building.[8] The historical lineage can be traced from contemporary research on Asia to scholars of the nineteenth century whose work was inspired by the need to promote economic development and state power in 'late-comers' such as Germany and the USA. The work of Friedrich List, in particular (with its distinction between 'cosmopolitical political economy' – i.e. based on free trade and reflecting the interests of Great Britain as the first industrial power – versus 'national political economy' – i.e. defending a national economic space where 'late developers' can nurture their infant industry), still exerts a great deal of influence.

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

At the same time, the growth of a rather autonomous debate on the 'East Asian developmental state' has also reflected a tendency in social sciences to move from a search for universal laws to more contextual analysis. Therefore, the research on the East Asian developmental state has taken into account country- and region-specific conditions in terms of history, international relations, social structures, culture, etc.[9] This attention to the local specific context also advises against any easy generalization on a *regional* 'East Asian' development model.

To a large extent, the study of the so-called East Asian developmental state remains an attempt to analyse how other countries have measured up to the Japanese model. The very special position of Japan in the region should be kept in mind when discussing how the East Asian countries have come to forge their development strategies. First of all, Japan is the only non-Western country so far to succeed in reaching the same economic standing of the most advanced industrial nations.[10] This success has obviously invited emulation by neighbouring countries. Second, as a colonial power, Japan has had a very strong influence in shaping the economic institutions of its former colonies, i.e. South Korea and Taiwan – the two economies which are most similar to the Japanese developmental experience.[11] Third, the economic dominance of Japan on the region has had a major impact on the other countries. The tendency of Japan to organize its productive system in a regional dimension is something that was not halted after the notorious war-period's attempt to establish a so-called 'co-prosperity area'. Rather, in the post-war era the integration of the region within the frame of the characteristic Japanese subcontracting system has increased steadily, with major implications for the industrial development of many Asian countries. FDIs and development aid have been powerful channels for promoting the Japanese developmental model.[12]

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

The volume by Chalmers Johnson had a significant impact, especially in the Anglo-Saxon scientific community: on the one hand, stimulating a new line of research; on the other hand, provoking rejections and attempts to rebuff its core thesis.[13] The fact that many scholars would try to deny that economic success can derive from industrial policy and economic planning is not surprising. Economic 'orthodoxy' has constantly opposed such propositions and even tried to vindicate its shattering wisdom about the Asian experience during the regional crisis (Masina 2002a). Other scholars, however, have built upon Johnson's work, trying to reach a deeper understanding of the developmental model adopted by Japan, and later by South Korea and Taiwan. Among these scholars, probably the most influential has been Robert Wade (1990), with his *Governing the Market*.

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

> Its specification of institutional arrangements is descriptive rather than comparative–analytic, so what the developmental state is contrasted with is not clear. It also says little about the nature of policies and their impact on industrial performance. Indeed, Johnson's institutional arrangements are for the most part as consistent with simulated free market policies as with more directive ones (Wade 1990: 27).

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

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

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

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

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

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

- by stimulating very high levels of productive investments, making for fast transfer of newer technology into actual production;
- by directing more investment in certain key industries than would have occurred without state intervention;
- by spreading and socializing investment risks;
- by taming the international market forces to domestic needs;
- by stimulating the 'animal spirits' of investors through 'state created rents';
- by imposing discipline on the private business sector through specified performance requirements;
- and by exposing many industries to international competition in foreign markets if not at home (Lauridsen 1995: 26).[14]

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

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

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

> A control mechanism is a set of institutions that imposes discipline on economic behaviour. The control mechanism of 'the rest' revolved around the principle of *reciprocity*. Subsidies ('intermediate assets') were allocated to make manufacturing profitable – to facilitate the flow of resources from primary product assets to knowledge-based assets – but did not become giveaways. Recipients of intermediate assets were subjected to *monitorable performance standards that were redistributive in nature and results-oriented*. The reciprocal control mechanism of 'the rest' thus transformed the inefficiency and venality associated with government intervention into collective good, just as the 'invisible hand' of the North Atlantic's market-driven control mechanism transformed the chaos and selfishness of market forces into general well-being [Mandeville 1714 (reprint 1924)]. The reciprocal control mechanism of the North Atlantic minimized market failure. The

> reciprocal control mechanism of 'the rest' minimized government failure (Amsden 2001).[15]

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

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

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

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

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

The interest regarding these studies in the framework of the present research is twofold:

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

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

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

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

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

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

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

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

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

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

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

Developmental state in the post-Cold War era

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

The first argument is that the scope for state interventions in guiding the development of a national economy is constrained by the growing internationalization of the world economy and by the rules characterizing this process (deregulation, privatization, liberalization, etc.). Explained in different terms, the Cold War regime had been supportive to those state interventions which were functional to

Western geopolitical interests (e.g. the USA supported Taiwan and South Korea building up through economic practices that were at odds with the free-market principles enforced on other, less strategic developing countries). But in the era of globalization there is no space for initiatives that contradict the neoliberal order.

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

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

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

While not embarking on a detailed examination of how this strategic clash came about and its concrete implications for Asian countries, we should look here at the theoretical implications of the problem. That is, does the change in the international system mean that the space of action for the 'developmental state' has dissolved? Clearly, this is a question that, if addressed in its general terms, concerns one of the most debated issues in economics and political sciences, i.e. the national state's capacity in the age of globalization. Neoliberal scholars such as Keinichi Ohmae (1990, 1995) have claimed that states have lost power and that this is a positive outcome. At the other end of the spectrum, however, there are a number of people who claim that national institutions still play a strategic role. And this strategic role is not limited to defending national economic space: states intervene by actively internationalizing their economic activities in support of the economic interests they represent. On the resilience of states' strategic functions, authors as diverse as Robert Gilpin (1987, 2001), Susan Strange (1998), Leo Panitch (2000), Jim Glassman (1999), Linda Weiss (1998) and Robert Wade (1996) agree. For these authors, states matter so much that the imperial domain exerted by the institutions of the USA (or those international institutions it controls, like the IMF and the World Bank) is an essential support for the power of American corporations. But state power is not only limited to the rich and powerful nations like the USA: it remains important even in poor and marginal developing countries. In the words of Linda Weiss (1998), the notion of a 'powerless state' is a myth that serves ideological and political purposes. Although the international system does exert constraints over nation states, these international conditions are often exploited by national elites to serve their own agendas. State capacity is limited not so much by external constrictions, but by the will of its own elites, which are often part of international networks that benefit from exploiting the resources of the territory that these elites should represent.[16] National formations characterized by stronger cohesion (as is normally the case in East Asia) do maintain a degree of power in implementing developmental state policies even when they are exposed to strong pressure from outside. For example, Frederic Deyo (2002) suggests that the Thai state may have moved towards a 'developmental state' type of close government–business relationship in support of the national small- and medium-sized enterprises (SMEs) sector after the regional economic crisis, notwithstanding the pressure from the international financial institutions.

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

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

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

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

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

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

The Vietnamese 'transition' in comparative perspective

Vietnam at the turn of the millennium is a poor and largely agricultural country in search of a path to rapid industrialization and economic growth. We have suggested that, in the search for this path, Vietnam is somehow inspired by the experience of its neighbouring countries and by the model denominated as the 'East Asian developmental state'. However, Vietnamese economic reform also incorporates another dimension, i.e. a transition from a centrally planned economy to a 'socialist market economy', which makes this country different from most of its neighbours, with the notable exception of China (and Laos). In the terminology developed to delineate the transformations that occurred in Central and Eastern Europe, Vietnam is a 'transitional' economy. A systematic comparison with the historical experience of the European former socialist countries would indicate a number of common features, deriving from the Soviet Union's influence in the setting up of a socialist state in Vietnam (as discussed in Chapter 2). Interesting similarities could also be traced in the attempts of reform towards a so-called 'market socialism' in Central Europe (particularly in Hungary after 1968) and the current reform in Vietnam. However, differences would prove bigger than the similarities, thus making such comparison problematic and complex (and far outside the limits of the present research).[17] The Soviet Union and the socialist European countries were developed industrial countries with a mechanized agriculture. The large majority of the population, both in urban and in rural areas, was employed directly by the state, with a minimal space for 'informal' activities (e.g. petty trade). Vietnam, instead, was and still is essentially a rural-based economy, with a very low percentage of the working force employed by the state.[18] Even in the relatively brief period during which collectivization of agriculture was attempted, families maintained small 'private' lots and the possibility of trading their products. Moreover, both the historical experience which led to the construction of a socialist state in Vietnam and the national and international conditions motivating the beginning of a reform process affected this country in very specific ways, which are rather different from the Eastern European case. In other words, the specific national and international context in which *doi moi* evolved (issues at stake, modalities, timing, external constraints, etc.) brought forth a unique process that does not match up with the explanatory paradigms adopted for the European 'transitional economies'.

Instead, a comparison with the Chinese case proves more useful. Not only has the long-term historical experience of the two countries been closely connected, but important similarities (and important differences) have also characterized the two parallel revolutions and the two parallel processes of economic reform.[19] Both countries have undergone a long revolutionary process where national liberation and socialist transformation have been closely related and interconnected, and where poor peasants have been the leading forces in the revolutionary movement. Both countries embarked on a parallel process of economic reform, with the ruling Communist Parties attempting a transition from central planning to a market economy with 'socialist characteristics'. And while the initial phase of the economic reform was conducted in a condition of hostility between the two countries, relations improved substantially at party and state levels after the collapse of the Soviet Union, thus making the similarities in the two reform processes more openly recognized and in some cases even a result of consultation between the two countries.

The relevant similarities in the historical experience make the study of the differences even more interesting. Two of these differences have a particular importance in the context of this work. The first regards the strengths and political control exerted by the state. Historically, the Chinese State has been stronger than the Vietnamese one. Since the early 1950s the Chinese central authorities have maintained a firm control over the local administrations.[20] Although the economic reform has further enhanced the differences among the various provinces (and the risks of political instability were particularly visible in the mid 1990s), the central government has been able to maintain a firm grip. This was done both by increasing the political representation of the richest regions in the central government and by increasing national control on tax revenues. It should be underlined that the need to find a viable compromise between centrifugal forces existing in several provinces and the attempts to restore a strong national government was paramount in the reform process launched by Deng Xiaoping in the late 1970s. The Chinese leadership accepted the new reform strategy only after a failed attempt to reorganize centralized national planning at the end of the Cultural Revolution (1966–76). The innovative solution promoted by Deng was to use the increased decentralized power as an engine for economic transformation, while reinforcing the modalities of central government coordination and control.

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

From this difference in the power of the central state may also derive another key difference in the two parallel processes of economic reform in China and Vietnam: reform in China was started when a political faction within the national leadership (i.e. the one led by Deng Xiaoping) gained power indicating the need to improve the economic standing of the country as a necessary means for consolidating the political authority of the party (White 1993). The outset of Chinese economic reform was, to a large extent, a top-down process, and the central government remained the key actor in determining the path of the process (including transient slowdown when the economy was overheated). In the Vietnamese case, instead (as discussed in Chapter 2) bottom-up processes played a more pervasive role. National authorities not only promoted reform strategies to cope with a changing international environment and national economic impasse, but also ratified a posteriori dynamics that had already developed at grassroots level. Both in China and in Vietnam, elements of the ‘market’ have always coexisted with the plan on a scale incomparable with the experience of Central and Eastern Europe. But in Vietnam the coexistence of market and plan has been more pervasive than in China – especially in the South, where the collectivization of the land was a very short-lived experiment.

The impact of evolving international events was important in shaping the reform process in both countries. Vietnam, however, was clearly more vulnerable and was forced to react fast to the decline, and then to the collapse, of the Soviet Union. This explains why the Vietnamese reform process gained momentum between 1989 and 1991, when it realized a programme of macroeconomic stabilization that has been likened to IMF-induced structural adjustment (see the discussion in Chapter 2). However (and here is a key element and a marked difference with the case of the Soviet Union and Eastern Europe), this macroeconomic stabilization was successful because it did not *start* but rather *concluded* the Vietnamese 'transition'. In the caustic expression coined by Fforde and de Vylder (1996), by that time Vietnam had managed to make 'price matter', even if important distortions in the economy did exist.

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

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

Criticism of the analytical tools

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

The post-war economic development of East Asia represents in many regards a special case within the Third World. We have already indicated some of its distinctive characteristics. Many of the countries in the region faced national and international conditions that eventually converged in supporting a rapid process of industrialization. This was a region where the process of decolonization was strongly influenced, when not openly directed, by communist forces. China, North Korea and Vietnam (plus Laos since 1975 and Cambodia for a short-lived and tragic phase) indicated the construction of a socialist state as a way to break the colonial dominance. All the other countries of Southeast Asia (Malaysia, Indonesia, Philippines, Thailand and Burma) had at some stage a strong Communist Party and even faced revolutionary insurgency. Although Roosevelt and Truman had given priority to Europe in the post-war reconstruction and they had tried to avoid being caught up in Asian conflicts,[21] it was in this region that the first major military conflict of the Cold War erupted. The Korean War was soon followed by a direct American involvement in Vietnam. The Korean War changed the American perception of Asia. The reliance on ideological motivations (anti-Communist containment) to win isolationist tendency at home and to support an American world leadership (including the Marshall Plan), had made it impossible for the Truman administration to exploit the harsh relations that existed between Moscow and Beijing since the establishment of the People's Republic of China. Until the Korean War, Washington indulged in a rather inconclusive policy: not willing to risk a military involvement in order to prevent the invasion of Taiwan, but unable to come to terms with the new government in Beijing. As soon as the Korean War started, however, the American policy changed and in the American public opinion there emerged the view that China had been 'lost'. This was later a major motivation to justify the intervention in Vietnam: after the loss of China, the USA could not afford losing Asia through a 'domino effect' that would have spread from Vietnam.[22]

Given the specific geopolitical context of East Asia, the USA perceived that the economic development of its regional allies was a necessary instrument of capitalist stabilization (Hersh 1993, 1998). This became the political and economic frame in which Japan was allowed to re-establish a regional productive order, with a triangular relation between the USA, Japan and developing East Asia. The reorganization of a regional system of division of labour was achieved through the extension to the region of the Japanese multilayered subcontracting system, which also activated productive resources available in loco (Arrighi *et al.* 1993), i.e. operating in a way markedly different from the relocation of production to Latin America by American and European companies (Masina 1996).

The specific geopolitical conditions of East Asia can, therefore, explain why this region was in a better condition than others to escape the exploitative nature of the unequal exchange: a condition for which the terms of trade are biased in favour of a country exporting industrially advanced products and against countries exporting raw materials and low value-added products. For many years the USA was willing to maintain a negative trade balance with these countries, whose economic stability was considered strategic. The East Asian US allies were even allowed to manipulate the exchange rates and to introduce selective import tariffs, without facing an American retaliation (e.g. Wade 1990). Obviously, this special relation was bound to come to an end once the East Asian countries had become dangerous competitors for American companies. Eventually, the Japanese-led regional productive order came to conflict with Western geoeconomic interests, and here lay the foundation of the regional economic crisis that unfolded in 1997 (Masina 2002a).

Geopolitical considerations and the inclusion in the Japanese multilayered subcontracting system were decisive factors, but they would not have allowed an impressive catching up if national conditions had not been supportive of a rapid industrialization drive. The East Asian developmental state was the specific device that allowed a selected group of countries to seize the opportunity of industrialization 'by invitation'. We argue here, therefore, that the developmental state played a fundamental role in breaking the dependency and preventing that economic integration with the North would result in underdevelopment.

But why did a small group of East Asian countries succeed in creating conditions for which the state was granted authority over the national capitalist forces in enforcing strategic planning? We will return to this important question in more detail in Chapter 6, where we will also discuss the applicability of a developmental state model to Vietnam. In a few words, we can say that the motivations for this special role of the state bureaucracy were related to the same geopolitical considerations discussed above. East Asia was a region where the conditions for a socialist revolution were very concrete. In the two countries that more systematically implemented a (Japanese inspired) developmental state, i.e. South Korea and Taiwan, the risk of being overthrown by their rivals, i.e. North Korea and China, was extremely high. In such a condition of political risk, similar to the risk that Japan had faced of becoming a colony, the most dynamic sectors of the national capital perceived the need to enforce a process of economic modernization that would serve their aims of political stabilization. Backward capitalist sectors were forced to adjust to this strategy in the name of state survival and capitalist stabilization.

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

The East Asian developmental state was based on a corporatist system that in Chapter 6 we will argue relates to the fascist experience. As with Italian Fascism, the developmental state served purposes of modernization and social transformation, i.e. it was neither a regressive movement nor a movement aiming at maintaining the *status quo*.[23] But the East Asian corporatist state, like the fascist state, conducted the process of modernization with the aim to defend the strategic needs of the capital and to consolidate the prevailing political order. The state guaranteed a certain level of income redistribution, because this was vital to prevent a socialist revolution. But welfare provisions were generally at a low level. Large industrial companies granted some health insurances and pensions to their employees through paternalistic schemes. The economic development of the rural world was partially sustained (e.g. technical and extension services), although in general the national economic policy was biased towards the extraction of resources from agriculture to support industrialization. The precise modalities in which the East Asian developmental state operated obviously varied from country to country, and only in Northeast Asia was the system implemented in a thorough and systematic way. However, the class nature of the developmental state was a common feature across the region. This model was implemented by dictatorships until the late 1980s in Korea and Taiwan; and, notwithstanding the economic success and the partial redistribution of wealth operated through the system, this developmental model has been criticized as a form of ‘compressed modernization’ (Chang 2002). In Southeast Asia, elements borrowed from the ‘developmental state’ model were combined with more-traditional forms of capitalist exploitation and also in this case authoritarian political forms prevailed in most countries. A number of authors have underlined the ‘uneven’ nature of the modernization process in Southeast Asia (e.g. Dixon and Drakakis-Smith 1997; Parnwell 1996; Schmidt *et al.* 1998), indicating how in a context of generalized economic growth that high prices were paid by different sectors of society, not to mention the environment.

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

The experience of the East Asian best economic performers does represent a point of reference in the region. The wish to emulate the prosperity of its richer neighbours is very visible in Vietnam; for example, in the last few years there has been a noticeable admiration for South Korean fashion, cosmetics, mobile telephones and electronics (also due to the images channelled via popular South Korean soap operas).[24] Like it or not, the developmental experience of the region is something that Vietnam needs to come to terms with.

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

The importance of strategic planning in managing the Vietnamese integration into the world economy is mainly in reducing the risks of dependency. As we will discuss in Chapter 4, for example, the bilateral trade agreement with the USA and entrance into the World Trade Organization (WTO) risks confining Vietnam to the export of raw materials, agricultural commodities, garments and footwear. China, which is experiencing a parallel transition, has the advantage of a much larger internal market and, therefore, is able to impose conditions even on the largest transnational corporations. Vietnam has 80 million people, but it is still a rather small market and it is, therefore, much more vulnerable – we will discuss below that this vulnerability is further enhanced by an industrialization strategy that is highly dependent on FDI.

China has not only succeeded in escaping dependency while re-engaging integration into the world economy, but according to many analysts it is also on course to emerge as the new world hegemonic centre as the USA accentuates its tendency to decline, relying on coercion and military power and proving to be no longer able to guarantee international political and economic stability.

Vietnam has benefited from a number of positive conjunctures in the first phase of *doi moi*, but the post-regional economic crisis is now presenting significant difficulties for the next steps in the reform process.

Vietnam, like China, may succeed in its goals in exploiting a deeper integration into the world economy. Both countries can rely on strong nationalism as a mobilizing factor. This nationalism may significantly influence the national elites and avoid these elites from entering into strategic alliances with other international elites in a joint exploitation of the national resources (this point is developed further in Chapter 6). But nationalism may also lead to a sort of corporatist state, where the national development ideology serves to cover up class-relevant conflicts within the country.

The process of economic reform in Vietnam (like in China) has already produced profound social transformations and a rearticulation of class dynamics. These social changes have so far been mediated by the Communist Party (more in Vietnam than in China), thus preventing a drastic alteration of the political structures. The role of the party in maintaining a guidance role in the midst of such a radical change has been made possible by two factors. First, only 12 per cent of the workforce is employed in industry, while the large majority is engaged in agriculture or in the informal sector (and often in both, with seasonal or temporary fluctuations). Although a rearticulation of class relations is also visible in rural areas, this is not a very pronounced phenomenon yet, especially in the north of the country. The party and some 'mass organizations' operating at grassroots level, like the Women's Union and the Farmers' Association, remain central for the livelihoods of rural communities, and their functions have been scarcely encroached upon by the emergence of a new rural 'gentry'. Second, a rise in inequality (among regions, and especially between rural and urban areas, more than within regions) has been accompanied by such a dramatic poverty reduction to maintain quite a low level of social tension. Compared with China, where poverty has also declined and inequality increased, the Vietnamese case presents less visible signs of distress.[25] In particular, in several industrial areas of China (like the Rusty Belt in the northeast) redundancies have hit workers and exposed them to the loss of social security provisions normally granted by the state companies. In Vietnam, industrial redundancy is a relatively minor problem, while (like in China) the main concern is for the lack of jobs for over 1 million young people that enter the labour market every year. At the current stage, therefore, it is possible to see that a radical transformation is taking place both in terms of production systems and social relations, but it is not possible to draw ultimate conclusions about the impact of these transformations. It is possible to wonder, for example, whether the party will be able (or willing) to intervene for reducing inequality and rebalancing social structures once specific economic targets have been achieved. While it seems reasonable to assume that the Communist Party will remain in control of the political system for many years in the future, it remains to be seen how the party will be able to mediate among different social and economic interests and whether the party will become the political tool of an ascending national bourgeoisie.

Since the judgement on the rearticulation of class-relevant relations is suspended, a precise understanding of the functions of the state (in the present and for the future) is also problematic. In fact, as rightly argued by Schmidt *et al.* (1998: 9), the state cannot be 'fetishized as an autonomous entity'. The state 'should be understood as a social form, that is a form of social relations'. This is true for the 'East Asian developmental state', whose transformative purposes responded to specific political interests. And this is also true for a socialist state like Vietnam in a process of economic transition. Through our investigation we have not found decisive evidence to conclude that the process of economic reform has already involved a transformation of the political agenda for which state apparatuses are now serving finalities in contradiction with the proclaimed socialist aspiration. But we have not found a clear indication of how the national leadership intends to deal with the complex conundrum of promoting a capitalist-style market economy while maintaining a socialist perspective either. The fact that the state sector should maintain a leading role in the economy does not imply *per se* anything about socialism: state-led industrialization with a strong reliance on SOEs was carried out by several capitalist countries. State guidance may lead to socialism only if the interests represented by the state structures are constructed in a way to prevent the tendency of states to respond to the needs of the forces that dominate in the productive process.

While the project of socialist construction in Vietnam appears rather indefinite, the Vietnamese state should be acknowledged for the capable management of the transition in such a way as to reduce the impact of the systemic shock and to shelter the most vulnerable. In particular, a remarkable and positive feature of the Vietnamese transition has been the great attention given to the rural world. Agricultural diversification has been the major contribution to poverty reduction during the 1990s. This has been possible due to a number of state interventions (infrastructure, extension services, stabilization of commodity prices, etc.), which have accompanied the return of market dynamics in agriculture. This is also a crucial area in which the Vietnamese reform has been parallel with the Chinese one. The attempt to reinforce the rural world as a condition for creating a socially broad-based growth, i.e. creating a virtuous and cumulative circle of reciprocally reinforcing causations, reflects the lesson of Gunnar Myrdal and other scholars concerned with the vulnerability of industrialization processes in developing countries [see Fan (1997)].[26]

In this text, agricultural development is rather neglected, because this is an issue on which there is a substantial agreement in the policy debate. But the importance of this sector should not be absolutely overlooked. We should also underline that, for a country that has suffered food shortages as late as in the 1980s, and where a part of the population is still facing malnourishment, if not undernourishment,[27] self-reliance in food production is considered as a key concern. Reinforcing agriculture and the rural world was the first priority established by the Vietnamese Communist Party when the regional economic crisis unfolded in 1997.

The extension of the Vietnamese welfare system is still very limited. Until the Communes were in control of agricultural production they also took responsibility for the provision of basic education and basic health-care system. Today, user fees are charged for most services, and additional payments (under the table) are often requested. The state is able to provide free health-care insurances only to (some of) the poorest. Pensions cover only former state employees. Unemployment benefits exist as temporary measures for workers who have lost the job in SOEs. The creation of a viable system of redistribution should be an indicator to assessing the socialist nature of a state. But also in this case the judgment must be suspended. The state budget cannot really allow a more extended welfare system. There is evidence that a targeted state regional redistribution during the 1990s has played a significant role in supporting poverty reduction in the poorest regions (Beresford 2003). However, the most decisive factor in reducing poverty was the ability of large sectors of the Vietnamese population to seize opportunities created by the reform process and high economic growth – in other words, the benefits of economic growth 'trickled down', to put it in the terms used by mainstream economists. However, poverty reduction apparently proceeded at a less impressive speed in the late 1990s and early 2000s, and concerns do remain for the future. Mainstream economists argue for a further liberalization of the economy, while critical scholars may argue for the reinforcement of formal safety nets so as to create the conditions for a more inclusive growth with equity. While in the short run the scope of action for the Vietnamese state is highly constrained by budget limitations, it remains unclear which kind of welfare model will emerge as the country (hopefully) moves towards higher levels of economic prosperity.

2 The historical background: Vietnam between revolution and economic reform

As is often the case, it is impossible to study the Vietnamese reform process without at least some understanding of the country's recent history. The Vietnamese *doi moi* was launched in a concrete context shaped by decades of war, attempts to create a socialist state in the North and after 1976 in the unified country, and trial-and-error reforms and 'fence-breaking' activities that had already characterized the Vietnamese economy in the 1960s. While this chapter does not have the ambition to present an original and systematic reconstruction of Vietnamese recent history, it will try at least to present key events and issues to help the reader to put the analysis of the recent phases of the reform process into a meaningful perspective.

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

At the conclusion of World War II it was evident that in Vietnam, like in other parts of Asia, the colonial era was over. After the 'August Revolution' of 1945, the anticolonial movement, led by Ho Chi Minh and the Communist Party, proclaimed independence. France, however, was not ready to accept this *fait accompli*. The attempt to restate colonial rule on Vietnam (and on the rest of Indochina) resulted in a war, which was terminated only by the French military defeat at Dien Bien Phu (April 1954). The country was temporarily divided into two parts along the seventeenth parallel after the Geneva agreements (July 1954). In theory, the two administrations were supposed to organize elections within 2 years and to prepare for the peaceful reunification of the country. In reality, the conditions for peaceful reunification were very remote, especially for the international constraints.[1] The Democratic Republic of Vietnam (DRV) was established in the North under the leadership of the Communist Party. The Republic of Vietnam, an authoritarian regime increasingly dependent on American support for its very survival, was established in the South. Only in April 1975, after a long and terrible war concluded with the withdrawal of the American army (1973) and the complete collapse of the southern regime, was the country finally reunified.

The next section presents a synthetic introduction to the major policies adopted in North Vietnam for the construction of a socialist state. The following section analyses the process of reunification and the attempt to transfer to the South the economic model adopted in the North. The last section of this part discusses the transitional period, i.e. the period immediately preceding the official adoption of the reform process, and during which a number of policies are anticipated.

From 1954 to the national reunification

The Vietnamese liberation movement against French colonialism eventually succeeded thanks to the support it received from the poor peasants. Thus, land reform was one of the first initiatives that the new DRV government was committed to assume. In many regards the land reform was a success: more than 800,000 ha (2 million acres) of land were distributed and more than 2 million farm families – well over half the total number in the DRV – received at least some land. The reform also had the effect of undermining the historical domination of the landed gentry and supporting the rise of a new village leadership composed of poor and middle peasants (Duiker 1995: 136). Its implementation, however, resulted in abuses and excesses. In order to break the hierarchical structure of the traditional rural world, which could easily have led to a reversion of the reform's results, peasants were invited to criticize the landlords (whose land was confiscated) and lists of 'enemies' were made. The excessive zeal of local officers, combined with the exploitation of the political campaign to regulate private conflicts, led to severe abuses. This reality was acknowledged by the Communist Party in 1956, recognizing that many innocents had been wrongly classified as enemies and thereby deprived of their land. The assumption of responsibility for the errors committed was sanctioned with the removal from office of the party's General Secretary Truong Chinh and several other senior officials who were responsible for carrying out the programme (Duiker 1995: 137).

The next step in the transformation of the rural world was the process of collectivization, which started in 1958. The decision to move towards the collective ownership of land was decided on the basis of the assumption that it would have permitted a more effective use of the land through the consolidation of small farm plots and the introduction of widespread mechanization. The choice to promote collectivization at this early stage of economic development was based more on the contemporary Chinese example than on the Leninist tradition. While Lenin prescribed 'mechanization before collectivization', in 1955 Mao Zedong had reversed this order because he was convinced that industrialization could not be achieved on the foundation of a backward agricultural sector.[2]

The motivation behind collectivization was not merely ideological, but also responded to the need to increase capital accumulation in agriculture while reducing the social costs. In North Vietnam, farm sizes were normally too small to support an efficient production and create surpluses. The price of letting market forces obtain land consolidation would have meant many peasants losing their land and descending into dire poverty due to the lack of alternative job opportunities. Collectivization was, therefore, a meaningful option for giving all farmers (both rich and poor) 'the chance to benefit from capital accumulation in agriculture and to prevent the possibility of peasants losing their land through the bankruptcies which would be the inevitable result of allowing private accumulation and a free market' (Beresford 1988: 59).

The formation of the cooperatives in the North was substantially well received by the peasants. Peasants' support was motivated by the fact that the cooperatives were seen as a way to adapting the traditional forms of corporate solidarity. The cooperatives could fulfil welfare roles, reinforcing the social cohesion between individuals and within the local community. 'They could help families in difficulties, for example, if a parent was dead; they could help the families of men in the army; and they could help finance valuable services such as the rapidly expanding medical and school systems' (Fforde and de Vylder 1996: 57).

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

To understand the frame in which the Vietnamese leadership made plans for the edification of a socialist state, the particular conditions of the country after the Geneva agreements should be borne in mind. First, North Vietnam was impoverished by years of war and colonial exploitation,[3] and its rudimentary industry and infrastructures were in urgent need of rehabilitation. A well-known Vietnamese scholar reminds, for example, that:

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

The other essential factor to remember is that Vietnam was a country at war; therefore, its economy had to be organized in consequence. Huge subsidies to industrial sectors essential for the military needs, for instance, are the rule in each state at war, although they can produce distortions in the economy (Kolko 1997: 20).[4]

The central planning system applied by the Soviet Union and China offered Vietnam a model that seemed to respond to the needs of the country under its particular conditions. This system[5] had a strong emphasis on the need to promote a rapid industrialization through the leading role of SOEs. Like in other socialist countries, the collectivization of agriculture was functional to the accumulation of the capital needed to finance the development of heavy industry. However, the 'DRV model' was also the result of a compromise, adapting the Soviet model to the local conditions existing in the country. The Vietnamese practice differed from the Soviet model in two crucial respects. First, as in China, a large number of state enterprises were managed by provincial or local authorities, with a tendency to decentralization that was greatly accelerated after 1965 in response to US strategic bombing. Second, a large informal economy continued to exist alongside the state-run sector (Irvin 1995: 728).

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

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

The first Five-Years Plan (1961 to 1965) was successful in developing a modern state industry, showing remarkable rates of growth. This result was also achieved through large supplies of aid coming from China and the Soviet Union. However, as the Five-Years Plan progressed, macroeconomic tension mounted. The tax base did not expand fast enough to cover the expenditure needs and the foreign trade position deteriorated. But the more serious threat to the stability of the system was the poor result in agriculture, leading to an increase in food costs. State employees' real wages fell by around 25 per cent during the first Five-Years Plan and food supplies for non-agricultural workers became more expensive. According to Fforde and de Vylder (1996: 59–60), there were three main reasons to make food supply grow too slowly to meet the increasing demand: '1. Inefficiencies in the cooperatives; 2. Agriculture remained poor of resources; 3. As free market prices rose, cooperators increasingly preferred to work on their so-called private lots'.[6]

From 1965, the paramount concern for North Vietnam became the military effort to support the liberation movement in the South and to resist the intense American bombing in the North. The second Five-Years Plan was postponed and more flexible 1-year programmes were adopted. The country was only able to survive in this emergency situation through substantial foreign aid and credit for otherwise unsustainable imports [see Beresford and Dang (2000)].

Remarkably, North Vietnam not only succeeded in carrying out the military effort, but also achieved important results in socio-economic development (especially healthcare and education). The North Vietnamese performance was notable when compared with the parallel decay of South Vietnam, where the large American military and economic aid could not prevent the progressive collapse of socio-economic institutions. The government of South Vietnam was unable to control large parts of its own territory and to run a viable administration even with the direct support of hundreds of thousands of American soldiers and military and civilian advisers. After the Paris agreements in 1973, and the withdrawal of the American troops, the South Vietnamese regime was clearly not able to survive for long (notwithstanding the ongoing abundant American economic support). Two years after, in April 1975, the North Vietnamese army entered Saigon, putting to an end the war and realizing the reunification of the country. However, the reunification opened a new difficult period in Vietnamese history.

The reunification of the country

When the 'Vietnam war' (or the 'American war' for the Vietnamese) came to an end, the country was finally reunified under a national government for the first time in over a century. The process of reunification and construction of a new state was characterized by severe drawbacks. Many of the problems derived from the way in which the reunification process was handled: the South was integrated into the northern institutions, without an adequate understanding of its social and economic conditions. Party officers from Hanoi, which assumed control of the administration in the South, had often only a limited knowledge of the local situation. The need to rely on cadres from the North was a result of the weak basis available for a new administration. The long clandestine war and specific American covert actions[7] hit the South's intelligentsia very severely. Large numbers of the remaining intelligentsia (including the Chinese ethnic minority) were considered insufficiently trustworthy, because of real or alleged connections with the former regime.[8]

At the time of reunification, the social structures of North and South Vietnam had developed in quite different ways.[9] These differences were the result of the long period of separation after 1954, but also because of longer-term factors connected to the historical heritage of French colonial rule. The clearing and cultivation of new lands in the South had been conducted under French control, and relied more on a system of modern capitalist exploitation than on the traditional organization of the Vietnamese village. As a result, 'private property was established on a more widespread basis in the southern region, whereas in the North and Centre it co-existed with more traditional forms of land ownership' (Beresford 1988: 55). Land ownership in the South at the end of the French colonial period was more polarized than in the North. A process of land reform took place also in the South, although this process was gradual and extended over three decades. The redistribution of land was the combined result of the reforms imposed by the Communist forces on the liberated areas and the several reforms attempted by the regime in the South to consolidate its power. By the time of reunification, the changes that had occurred in land ownership were remarkable:

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

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

In the South, as in the North, the war had an all-encompassing impact in shaping the socio-economic structures. The devastation produced by the war in the rural areas of the South – either because of American bombing or because of Saigon's attempts to cut the connections between the 'Viet Cong' and the peasants – was a major cause behind the rapid urbanization. Large numbers of dislocated villagers were forced to seek shelter in the shantytowns of Saigon and of other major cities. This also led to a number of social problems, such as the spread of drug abuse and prostitution, which were left to the new socialist administration. The urbanization in the South contrasted with the situation in the North, where people sought repair from the American bombing in the countryside (and also some of the industrial plants were relocated in rural areas). In 1975, around 35 per cent of the South Vietnamese population lived in urban areas, while the figure for North Vietnam was only 11 per cent (Beresford 1988: 57). These differences were also visible in the organization of the economy, which in both parts of the country was a 'war economy'. While the 'war economy' in the North emphasized the development of a heavy industry, the industrial basis of the South remained weak (with only 3 per cent of the population employed in the sector, including mining, construction, transport and public utilities). In the South, the service sector, including commerce and administration, accounted for the largest share of GDP (Beresford 1988: 57), and was largely dependent on the circulation of American aid.

The integration of two parts of the country that had experienced such different conditions for decades was not an easy task. The strategy adopted by the national leadership was to accelerate the socialist transformation of the country, through a rapid and radical change in the economic institutions. This decision was announced in December 1976 at the Fourth CPV Congress, and adopted by the party leadership in late 1977. Plans were made to begin the process of socialist transformation in the southern provinces early the following year (Duiker 1995: 146). As in the North, this strategy was based on the creation of joint state–private enterprises in modern industry, the collectivization of agriculture and handicraft industries, and the attempt to bring domestic circulation of goods under state control through the creation of a state trading network and administrative pricing system (Beresford 1988: 63). The decision to abolish private trade and manufacturing was put into practice in March 1978, when all major industrial and commercial enterprises remaining in private hands were suddenly placed under state control and their goods confiscated. Only small firms under family ownership were permitted to remain in private hands. This reform also involved the remaining small private sector in the North, which predominantly consisted of ethnic Chinese merchants and manufacturers (Duiker 1995: 146). The timing and the radicalism of these initiatives were not well received by a large part of the population, especially in the South. The economic outcomes of these changes were rather dismaying.

The collectivization of agriculture achieved different results in the different areas previously controlled by the Saigon regime. Collectivization was successful in the impoverished central regions, and the output recovered and grew rapidly. But in the Mekong Delta the collectivization campaign was a failure: by the mid-1980s only 50 per cent of peasants belonged to cooperatives, and only 36 per cent of the land had been incorporated (Beresford 1988: 63).

The economic and political reforms introduced in the country after reunification had been decided on the basis of optimistic plans concerning the possibility of moving rapidly ahead towards the complete socialist transformation. But this optimism should be understood as 'optimism of will' covering a 'pessimism of reason', i.e. an attempt to inject new energies for coping with a very difficult economic situation.

The war, together with national deficiencies in economic policies, had made North Vietnam exceptionally aid-dependent: 'from 1966 to 1975, foreign grants and loans averaged 63.2 per cent of the non military budget' (Riedel and Turley 1999: 13).

High levels of economic aid were made available to both North and South Vietnam until the war was on. The situation changed dramatically after 1975: the shrinkage of foreign aid and the removal of preferential trade conditions was eventually one of the major factors to force Vietnam to search for a new development strategy. Once the country was unified, the substantial aid that the USA had made available to the South evaporated. As we will see, the relations between China and the unified Vietnam became immediately strained and an increase of foreign aid from the Soviet Union and its satellite European countries could not compensate for the loss of American and Chinese economic support. [For a detailed discussion on this point, see Beresford and Dang (2000).]

By late 1979 the economic difficulties related to the reunification and a severe deterioration of the Vietnamese international relations converged in making the Vietnamese position unsustainable. The event that made Vietnam become an outcast in the international community was the invasion of Cambodia (December 1978), which also produced a Chinese military retaliation (February 1979). At the same time, the poor results of the economic and political measures adopted after the reunification exacerbated the tensions in the country. This, in turn, generated a tragic reaction that further compromised the international standing of Vietnam: several hundred thousand people (mostly ethnic Chinese) flew the country, either moving to China or escaping by sea (thus becoming known to the world as 'boat people'). The drama of the 'boat people', together with the invasion of Cambodia, greatly influenced international public opinion, which had previously expressed sympathy to Vietnam as a victim of American imperialism. This change in its international image had concrete implications for the drying up of economic aid from many countries and movements that had supported Vietnam during the war. Furthermore, poor harvests resulting from bad weather, and also from peasants dragging their feet against the forced collectivization in the South, caused the country to suffer from a severe food shortage, particularly affecting the population of urban areas.

The combination of these negative conditions resulted in 'a systemic crisis' (Fforde and de Vylder 1996: 12). Apart from its transient motivations, and the major challenges created by the international isolation, the crisis also indicated a fundamental weakness in the national economic management. The planning system appeared to be unable to control the allocation of resources adequately. These severe economic difficulties generated a spontaneous process of change, which can be considered as the real starting point of the process then officially adopted as *doi moi*. The 'systemic crisis' deriving from the poor functioning of the centrally planned economy – also a result of higher costs of imported inputs for production (Beresford and Dang 2000; Dang 2004) – led many, including local authorities, to operate outside the plan through a variety of flexible solutions:

> [The 'systemic crisis'] forced economic agents – individuals as well as agricultural cooperatives and state enterprises – to engage in a process of 'reform from below'. 'Fence breaking' […] became increasingly common, and the authorities had to admit tacitly that the DRV model had (perhaps temporarily) become unsustainable (Fforde and de Vylder 1996: 12–13).

The spontaneous process of 'reform from below' converged with external threats in motivating the Vietnamese leadership in exploring new paths for economic development. As interestingly documented by Dang Phong (2004), in a number of cases it was the local authorities and party leaders experimenting with unorthodox solutions to concrete problems, testing to the limits – and even openly violating – official regulations. 'Fence breaking' from below and from above often also converged in preparing the ground for new policies at the national level. In the words of Dang Phong (2004):

> Fence breaking was not simply a conflict between those who erected the fences and those destroying them. Perhaps initially it was like that, but later on it was often those who had built the fences that began to clear them away… Moreover, once the need for reform was sensed by middle-level leaders…, or directors of key enterprises…, they could use their connections with higher-level leaders who likewise had become open to such ideas, to push reforms through.

It was against this complex background that the Sixth Plenum of the Central Committee in the autumn of 1979 inaugurated a phase of transition in the country.

The transition: from 1979 to 1990

From the Sixth Plenum to the Sixth Congress

The Sixth Plenum was openly confronted with severe economic problems and with the spread of fence-breaking activities across the country. The decisions adopted did not imply a demise of central planning, but they conceded a flexible use of non-orthodox measures in order to reverse the critical economic conditions. Although this flexibility had to be used with the aim of revitalizing the central planning, *de facto* it allowed the development of what Fforde and de Vylder (1996: 126) call the 'transitional model'. In the new environment, farmers were once again authorized to sell their products on open markets, and a limited degree of private commerce and manufacturing was tolerated (Duiker 1995: 148).

In January 1981, Directive 100, popularly known as the 'contract system', was approved, introducing some elements of rural decollectivization. Under this system, tasks (ploughing, irrigating the land, transplanting, etc.) were 'subcontracted' to households. This was a hybrid system, for which peasants were paid by the number of workdays for some activities, while for other activities or for some land they had full responsibility as subcontractors. On the land 'subcontracted', each household was required to provide the state a quota of grain in the form of rent, but any grain produced on the land beyond the established quota could be consumed or sold on the free market (Duiker 1995: 148–149). The cooperative maintained control over supply of inputs and marketing.

State industry was the other main area in which embryonic reforms were experimented, partially in response to 'unplanned' activities, as an attempt to regulate them, and partially in response to economic constraints deriving from changes in the international position of the country and declining foreign aid. The halt of Chinese and Western aid and the higher cost of import from Comecon countries[10] had sharply reduced the volume of supplies coming through the state monopolies. Enterprises were pushed to find alternative sources for obtaining inputs to fulfil their plan obligations. The central planning system created a sub-optimal allocation of productive assets. In particular, the system led to misuse of agricultural resources and to the accumulation of wasteful industrial stocks. Encouraged by the Sixth Plenum, a number of enterprises started to move outside the official rules in order to procure those underutilized resources existing in the economy that could be employed to increase output. Diversification of production was pursued in order to procure cash for acquiring new resources through the market. Goods started to be swapped through direct connections with agricultural collectives or other industries. The availability of more resources gave enterprises the means to increase workers' incentives (bonuses), and so to expand production further.

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

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

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

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

The contradictions existing in the system – with part of the economy based on market principles and characterized by staggering prices and the other part of the economy based on a command economy and depending on subsidies – created economic distortions and political tensions. Not only was the national leadership divided on the direction to adopt, but also some forces at the grassroots level pushed for a further liberalization while others (around SOEs dependent on state subsidies) contrasted the diffusion of market-oriented reforms. These contradictions eventually led to a reversal of the positive results achieved in the early 1980s. Output growth started to decline and prices increased from 1983, leading to spiralling inflation. This led to the adoption of the so-called 'Price–Wage–Money–Currency Reform' in 1985, which tried to re-establish macroeconomic stability, through a combination of currency reform, increased state prices and higher wages. However, this reform gave poor results. The rationing of key products did not succeed in arresting the price increases on the free market. With the failure of the 1985 measures, political support for 'hard reform socialism' (i.e. the combination of reforms and re-centralization attempted after the Sixth Plenum) evaporated. This opened the way to new political change, which was also represented by a change in the CPV leadership: after the death of the General Secretary Le Duan (and the temporary replacement by Truong Chinh),[11] the somewhat younger and more liberal Nguyen Van Linh was elected to the helm of the party.

The Sixth CPV Congress and the launch of doi moi

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

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

The emergence of a reformist agenda in 1986 was a direct consequence of the failed re-centralization of controls attempted in 1985. A heterogeneous coalition of local governments and enterprises that had developed a stake in market and off-plan activities converged in pressuring for a new policy.[12] In December 1986, under the slogan of *doi moi* (renovation), the Sixth Party Congress introduced a new strategy of reforms, which reflected the shift in the composition of interest groups dominating the political discourse. The reforms adopted increased autonomy for SOEs, eliminated the state monopoly of foreign trade, and allowed for small-scale private commercial activities. The function of the state came to be described as that of an orchestra director rather than that of a controller of the economic machine (Fforde and de Vylder 1996: 145). The new strategy, however, emphasizing a 'socialist market economy', confirmed the central role of the state in leading the national economy, and ruled out significant reduction of government control over SOEs, dismantling the planning apparatus, or abolition of the dual price system. The adoption of a 'compromising agenda' in the initial phase of *doi moi* leads Riedel and Turley (1999: 20) to interpret the reform as dominated by 'a path of least resistance: rewarding groups that had or could be expected to support a partial marketization and postponing measures that might inflict real pain'.

Notwithstanding, the limitations imposed by this 'compromising agenda', the period following the Sixth Party Congress was characterized by important changes. Reforms were decided and implemented in key areas, including the reorganization (and downsizing) of state bureaucracy and the development of the legal system. Two decrees were approved in 1988 to regulate the 'family economy' (i.e. activities by state or cooperatives' employees undertaken in addition to their main occupation) and the 'private and individual sectors'. The decrees ratified the freedom for any citizen that was not a state employee or a cooperative member to engage in private economic activities. These activities were not regulated by planning, and were understood to be self-managed. Private enterprises had the property of their means of production and were allowed to hire labour and to form joint ventures with state units or cooperatives. Enterprises had to be registered and pay taxes, but local authorities were not allowed to interfere with production or to levy special taxes. Further, private enterprises could receive foreign investments (which were regulated by a specific law), while their exports and imports were to be channelled through state trading organizations.

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

Agriculture was the target of another major reform with the aim of increasing output and mobilizing agricultural surpluses through material incentives.

The need to undertake a thorough reform of agriculture had been made visible by a poor harvest in 1987, which resulted in a severe crisis with pockets of famine that lasted into the spring of 1988 (Riedel and Turley 1999: 20)

In April 1988, the party approved a decree, commonly known as the Contract 10 system, which made individual households the base of agricultural production in exchange for the payment of an agricultural tax. Households were awarded land rights for 15 years. At the same time, the decree still restricted the sale, renting and exchange of land except in certain limited situations. The cooperatives retained some duties to support traditional safety nets (e.g. for families of war dead). The decree changed the managerial structure of cooperatives by emphasizing internal democracy and leading to the sacking of incompetent and/or corrupt cadres (eventually this led to the dismissal of 50 per cent of rural cadres). Eventually, the role of the cooperatives was significantly reduced. Cooperatives maintained some administrative functions like tax collection and some residual property rights, but only in some cases did they manage to shift to profitable service functions (Van Arkadie and Mallon 2003: 80).

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

Together with this decree, the government decided to increase investment in agriculture, to reduce the number of intermediaries between the state and producers in supplying agriculture and purchasing from it, and to set up a new Agricultural Development Bank in order to facilitate farmers' access to credit. New measures in 1989 also reduced state involvement in allocation of inputs and in the procurement of outputs at prices below market values. All these reforms contributed to bringing to an end the extraction of surplus from agriculture as a source of capital accumulation for financing the national industrial development. This radical change (also made possible by the end of the armed conflict that had so far absorbed much of the Vietnamese resources) implied a significant reversal of the development strategy. These measures (and further actions through the 1990s, e.g. increased role of extension services and agricultural diversification) contributed to reinforce the livelihoods of the rural areas and brought a remarkable poverty reduction. From provider of subsidized food to urban areas, the rural world evolved into a market for industrial products, thus supporting the industrial production not in terms of low-cost inputs, but in terms of increased demand.

In 1988–9, grain prices doubled in real terms, representing a 'large swing in the domestic terms of trade in agriculture's favour' (Irvin 1995: 730). These measures succeeded in boosting agricultural production, and especially rice output. A record harvest in the 1989–90 crop allowed Vietnam to become the world's third largest rice exporter after Thailand and the USA, reversing a long historical dependency on rice imports.

The policy of *doi moi* had been launched as a strategy for enhancing economic growth. However, the economic results of the first 2 years were dismaying: instability accelerated and the state budget deficit became critical. The pressure of an increasing private sector competition reduced the income of SOEs, which were the main source of support to the state budget. The end of state monopoly on foreign trade and an overvalued exchange rate caused losses to exporters, while undervalued imports increased competition for domestic producers, adding pressure to the state to grant subsidies. Given the difficulty of introducing new forms of taxation, payments of subsidies implied a burgeoning deficit and continuing triple-digit inflation.

Like the poor harvest of 1987 had contributed to promote a more radical reform of agriculture, the critical economic situation of 1987–8 also reinforced the pressure for further steps in the reform process. When the CPV Central Committee met in March 1989 to assess the first 2 years of the implementation of *doi moi*, the commitment to the reform agenda was not only confirmed, but also translated into a bolder plan for macroeconomic stabilization.

Macroeconomic stabilization 1989–90

Counter-inflationary measures were adopted by the government in early 1989 (Table 2.1). Bank interest rates on savings were brought clearly above current inflation, restoring people's trust in the national currency. Positive interest rates motivated people to deposit *dong* with banks and put a sudden halt to the

Table 2.1 Real GDP growth and inflation, 1985–96

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

Source: General Statistical Office 1997

hoarding of food and goods. Within a few months the country moved from a shortage economy to a situation where households and enterprises were encouraged to sell their stocks on the market. According to the Vietnamese economist Vo Dai Luoc, the exceptional surplus in rice production of 1989 should also be understood against the background of the situation created by the counter-inflationary measures. In fact, per capita output did not increase sufficiently to justify the abundance of rice on the market (Vo Dai Luoc 1995: 73).

The high interest rates placed strong financial pressure on the SOEs, which found it increasingly difficult to service their debt and were forced to liquidate their inventories in search of liquidity. Eventually the high interest rates and a restrictive money supply policy threatened to lead the country into a severe recession, and consequently these measures were partially relaxed by May 1989. However, these measures were not reversed. At the same time, banks started to lend money to SOEs (charging interest rates higher than inflation), thereby reducing state subsidies to SOEs (Vo Dai Luoc 1995: 75).

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

Overall, these anti-inflationary measures were quite successful in achieving stabilization, although they did not remove the causes of inflationary tendency and structural instability of the system. On the contrary, these measures made more evident the contradiction represented by the introduction of a market economy without the existence of an effective market for the factors of production: land, labour and capital. Therefore, the reforms of the late 1980s set the agenda for a new phase of the reform process in the early 1990s. At the turn of the decade, however, the Vietnamese 'transition' was substantially over:

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

The adoption by the party of such a bold reform strategy in early 1989 remains one of the most complex puzzles to solve when trying to analyse *doi moi*. The policy of macroeconomic stabilization adopted and implemented between 1989 and 1990 was so severe to be often related to IMF-style structural adjustment. The radicalism of the reforms implemented implies two questions. First, how was it possible to reach a consensus on such a bold reform package? Second, why did Vietnam substantially succeed where most other developing countries adopting IMF-inspired structural adjustment failed? A certain level of consensus exists among scholars in connecting the positive result of the macroeconomic stabilization of the late 1980s in Vietnam – contrary to the case of 'big bang' reforms in other 'transition economies' – to a longer-term process, which had already started to make 'price matter' from the late 1970s. This is the view held by Fforde and de Vylder (1996), now largely accepted in the scholarly community (we will return to this soon). More controversial is the identification of the *primum mobile* behind the reform package adopted in 1989. In particular, it remains unclear what role was played by the IMF and other external actors. Gabriel Kolko (1997), a critic of the *doi moi* process, argued that by that time the Vietnamese leadership was strongly influenced by the IMF, whose line was represented in the country by the influential government adviser Nguyen Xuan Oanh. Mr Oanh was a former IMF officer and a former Acting Premier of South Vietnam. At the conclusion of the war, after a brief house arrest, he became an associate of Vo Van Kiet[13] and from 1983 a government adviser. Although the IMF did not resume lending to Vietnam until the removal of the American embargo in 1994, contacts were also kept between the two sides through regular IMF staff missions, several of which were conducted in the first half of 1989. However, most scholars seem to exclude the possibility that the IMF played a direct role in influencing Vietnamese decision-making. For instance Riedel and Turley (1999: 22), although maintaining that the policy adopted by Hanoi in 1989 resembled 'pure IMF orthodoxy', stress that the IMF had no material leverage over Vietnamese policy, and that the adoption of the macroeconomic stabilization was an autonomous decision by the national leadership. The same conclusion is reached by Ronnås and Sjöberg (1991a,b). These scholars tend to consider the adoption of a bold reform policy as a national decision taken by the Vietnamese leadership in order to cope with a very critical situation.

Reorganizing international relations[14]

The structural transformation of the Vietnamese economy was also a result of a major change in the external relations of the country. Vietnam had to cope with the decline and then the collapse of the Soviet Union, which implied a drying-up of economic aid, the loss of the traditional export market, and a dangerous isolation in political and military terms. Hanoi succeeded in responding to these threats by undertaking an overall reorganization of its international relations, and eventually even improving its international position.

The first contentious area in which Vietnam acted, removing a major obstacle to its international standing, was the question of Cambodia. In September 1989 it withdrew its troops from the neighbouring country and in October 1991 the conflict was definitely concluded with the signature of the Paris agreements. In the few months following the Paris agreements, Hanoi was able to reach a full normalization of diplomatic relations with most Asian countries, including China, with whom Vietnam had a brief but intense armed clash in 1979.

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

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

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

Second, the enhanced international position of Vietnam proved to be a key resource for receiving financial support for economic reforms within the country. From the moment it started to receive official development assistance (ODA) until a few months before the onset of the regional economic crisis, Vietnam seemed to benefit from a kind of preferential treatment that some considered to be connected with its strategic position and its careful foreign policy.[15]

From 1991 to the regional crisis 1997–8[16]

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

At the same time, the enhanced fiscal position and the elimination of domestic bank financing allowed greater monetary control and a significant reduction in inflation: after years of hyperinflation, inflation has remained within a single digit range since 1993.

Most importantly, macroeconomic stabilization was achieved together with fast economic growth and poverty reduction (Table 2.2). In the decade 1987–96,

Table 2.2 Selected economic data, 1992–7

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

Source: UNDP Hanoi office homepage

GDP growth was on average 7.3 per cent, increasing to over 9 per cent in 1995 and 1996. Over the decade, this result translated into an annual average per capita real income growth of about 5 per cent, increasing GDP per capita from $100 in 1987 to about $300 in 1996 (World Bank 1997a: 17).

Dialogue with multilateral financial institutions was instrumental to a settlement of Vietnamese external debt, which took place at the end of 1993. Hard-currency debt with bilateral and multilateral creditors was renegotiated through a mixture of rescheduling and an estimated $3.8 billion write-off. In 1998, Vietnam signed an agreement for debt and debt-service reduction with the London Club, which allowed the settlement of all its outstanding private uninsured commercial debt in arrears. Agreements were also reached with former Soviet Union states, allowing Vietnam to convert debt denominated in roubles into hard currency at favourable rates. The last of these agreements was signed with Russia, Vietnam's largest non-convertible creditor, in September 2000.[17]

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

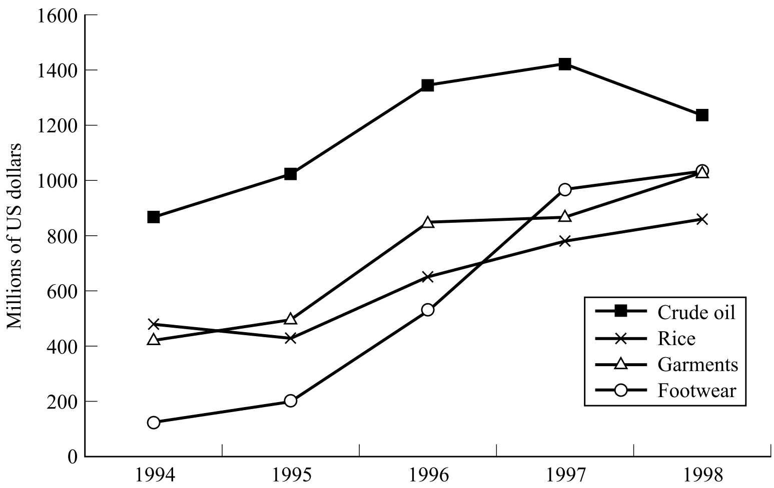
In the years before the regional economic crisis, the virtuous circle between macroeconomic stabilization and growth was also a result and a cause of an improved role of the external sector. Foreign trade increased from 46 per cent of GDP in 1989 to 97 per cent in 1996, though imports grew faster than exports, leading to a deterioration of current account balance (Table 2.3). However, export composition improved. Rice and crude oil (the two largest export products) saw their share of total exports declining from 40 per cent in 1990 to 30 per cent in 1996, while there was a rise in manufactured products from barely 2 per cent in 1990 to almost 30 per cent in 1996 (Figure 2.1).

From the early 1990s, FDIs became an important stimulus to growth, accounting for up to 28 per cent of total investment expenditure in the country in 1996. FDI was particularly important in reducing a balance of payments deficit produced by a level of national saving reportedly lower than the rate of national investment (see Chapter 3 for a discussion of FDI flows). It should be noted, however, that the official data on national investments do not properly reflect the real dynamics. Although the data report a remarkable increase in gross investment formation

Table 2.3 External trade, 1992–7

	1992	*1993*	*1994*	*1995*	*1996*	*1997*
Export (million $)	2,581	2,985	4,054	5,449	7,256	9,145
Import (million $)	2,541	3,924	5,826	8,155	11,144	11,622
Current account balance (% of GDP)	−1.3	−10.9	−12.5	−13.1	−10.4	−6.5

Source: UNDP Hanoi office homepage



Based on: IMF (1999b)

Figure 2.1 Exports: selected commodities

from 14.3 per cent of GDP in 1991 to 25.1 per cent of GDP in 1995, this figure still represents a rather modest rate compared with many other developing countries and well below the investment rates achieved in rapidly growing economies such as China, Thailand, Malaysia and Indonesia (Griffin 1998a: 9). This modest rate of capital accumulation should not have been able to support such rapid economic growth. Therefore, the more likely conclusion is that the level of national investment was actually underestimated (Fforde and de Vylder 1996: 306–307; Griffin 1998a: 9):

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

Table 2.4 ODA 1991–7 (millions of US dollars)

	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Pledges			1,990	1,860	2,000	2,300	2,400
Disbursement	338	356	274	624	611	984	944

UNDP computation, Hanoi office homepage

Table 2.5 Balance of payments (millions of US dollars)

	1993	*1994*	*1995*	*1996*	*1997*
Export	2,985	4,054	5,198	7,330	9,145
Import	–3,532	–5,250	–7,543	–10,483	–10,460
Trade balance	–547	–1,196	–2,345	–3,153	–1,358
Services and transfers	–220	11	417	704	–327
Current account balance	–767	–1,185	–1,928	–2,449	–1,642
Disbursements	54	272	443	772	1,022
Scheduled amortization	–652	–547	–733	–729	–804
Short term loans (net)	–313	124	–184	224	–534
DFI	832	1,048	2,236	1,838	2,003
Capital account balance	–78	897	1,762	2,105	1,688
Errors and omissions	–210	–121	–32	65	–50
Overall balance	–1,056	–409	–199	–278	–4
Financing	1,056	409	199	278	4
Change in NFA (excl. IMF)	477	–292	–439	–441	–265
IMF credit (net)	–39	175	92	178	–54
Debt rescheduling	883	0	0	0	0
Change in arrears	–266	526	546	541	323
Memo item: current account balance/GDP (%)					
Excluding grants	–	–	–10.2	–11.3	–9.7
Including grants	–	–	–9.6	–8.9	–9.9

Based on World Bank (1997a, 1999a)

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

A large trade deficit (over 10 per cent of GDP since 1993) was balanced by increasing disbursement of FDI and ODA (Table 2.5). However, the trend after 1996 raised concern among national authorities and international organizations.

A decline in FDI commitment posed the risk that the increase in ODA disbursement could not cover the high deficit in the current account, and the government could have been forced to depend on non-concessionary loans for financing the balance of payment. This led Vietnamese authorities to intervene before the regional crisis to curtail the trade deficit with measures directed to curb imports (World Bank 1997a).

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

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

The declining share in SOE contributions to the state revenues reflected both a structural change in the economy and a weakening of their financial performance (Table 2.6; see in the following). Stability was also maintained after the start of the regional crisis, with budget deficits of 1.4 per cent in 1997 and 1.1 per cent in 1998. However, the shrinkage of state revenues (as a percentage of GDP) due to the economic slowdown affected social expenditure, which, after having reached 8.0 per cent of GDP in 1996 (from 4.4 per cent in 1990), declined to 6.3 per cent of GDP in 1999 (World Bank 1999a).

In the years before the onset of the regional crisis, agriculture remained a key sector in the Vietnamese economy, although it represented a declining share of GDP (below 30 per cent from 1993 onwards; Table 2.7). About 70 per cent of Vietnamese workers continued to be employed in agriculture, and about 50 per cent of Vietnamese exports (including forestry and aquatic products) derived from agriculture (Figure 2.2). Between 1991 and 1996 the sector had an average growth of 4.9 per cent (Economist Intelligence Unit 1997: 39).

Table 2.6 Fiscal balance

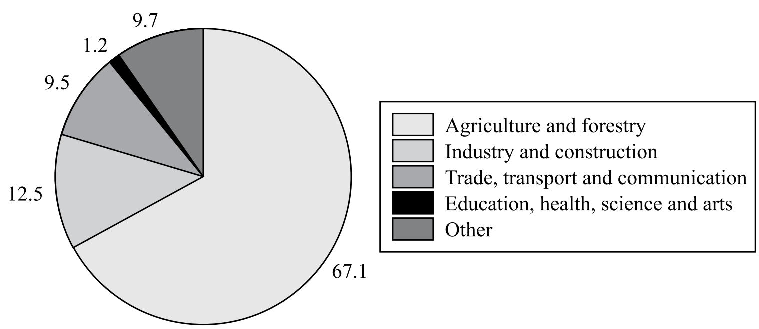
	1992	*1993*	*1994*	*1995*	*1996*	*1997*
Total Revenues and Grants	19.0	22.5	24.7	23.9	22.9	21.1
Tax revenues	5.0	8.3	9.9	10.5	10.3	9.0
Transfers from SOEs	10.8	11.2	12.1	9.8	9.5	8.8
Other non-tax revenues	2.5	2.2	2.1	2.9	2.5	2.6
Grants	0.8	0.7	0.7	0.7	0.6	0.8
Current expenditure	14.0	18.8	18.3	17.8	16.4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

Source: World Bank (1999a)

Table 2.7 GDP composition (percentage) by economic sector, 1991–7

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

Based on: World Bank (1997a, 1999a)



Based on International Monetary Fund (1999b)

Figure 2.2 Employment by sector, 1997

The reforms of agriculture in 1981 and 1988 were further enhanced by a new law approved in July 1993. Households acquired the right to exchange, transfer, rent, inherit, and mortgage land-use rights. The state maintained land ownership, but farmers had long-term contracts, which increased their propensity to invest. After having achieved food self-sufficiency, and actually having reached the status of major rice exporter, Vietnam moved successfully towards product diversification and a larger output of cash crops in the early 1990s. This agricultural diversification resulted in an important contribution to poverty reduction. However, the creation of a decentralized food-processing industry in rural areas, able to employ the labour force laid off as a result of agricultural mechanization, remained a development target that was difficult to achieve because of lack of investments.

Interpretative remarks on the first phase of economic reform

The formative phase of DRV institutions was a crucial period in the shaping of the country's socio-economic dynamics, also preparing the ground and setting the frame for the future economic reforms. In fact, the reaction to the economic problems experienced from the early 1960s onward in North Vietnam was the development of unplanned activities 'from below', often intertwined with experiments and unorthodox *ad hoc* measures 'from above'. This adaptation process included the development of a parallel free-market, which partially eroded the power of state monopolies. Activities outside the plan were even carried out by SOEs, sometimes in order to procure the resources to perform tasks foreseen by the plan. After 1965, with the starting of the American strategic bombing on North Vietnam, and the consequent decentralization of industry, this tendency was further enhanced. The control by central authorities on many areas of the country often became impossible (Kolko 1997).

Fforde and de Vylder (1996) identify these 'fence-breaking' activities of the early 1960s (outside the plan and sometimes in contrast with it) as the first foundation of the Vietnamese reform process. The central thesis of their study is that the reforms inaugurated in the 1980s as *doi moi* were the result of changes already made by society and ratified a posteriori by the national authorities. Thus, they describe the economic and political history of the country as a process in which the Vietnamese leadership tried to accommodate, regulate, or contrast pressures from below, sometimes by supporting a reformist agenda and sometimes by reintroducing a more 'orthodox' strategy.

While not necessarily in contrast with this interpretation, other authors like Melanie Beresford and Dang Phong remind that 'fence-breaking' activities were often promoted by local authorities and SOEs. Rather than implying a 'weakness' of the socialist state, these initiatives indicated a synergic relation between people and political representatives. The reform process was neither 'top down' nor 'bottom up':

> There was a symbiotic relationship between citizens and leaders in which both played an important role (Dang 2004: 20).

Looking at the reform process as the product of forces that from 'above' and from 'below' experimented with new solutions and responded in flexible ways to the economic problems deriving from the war, the changing international environment and shortcomings in the central planning allow one to reach a more nuanced understanding of the Vietnamese experience. On the one hand, these interpretations allow a different measure of the reform by establishing its roots in the early 1960s (and by considering the 'transition' from plan to market already concluded at the end of the 1980s). On the other hand, they offer an explanation of the reform as a 'process'. The definition of the reform as a 'process' means to put in evidence the modality of interaction between the society and the state by confuting a description of the reform as a series of top-down policy decisions and by highlighting the very specific characteristics of the Vietnamese experience.

An issue often debated regards the nature of Vietnam as a 'weak' or a 'strong' state, both in comparison with other socialist states and with other Asian countries. The most common interpretation is the one promoted by Fforde and de Vylder (1996), for which the Vietnamese state was substantially a 'weak state', unable to implement a coherent policy and to implement a full-fledged so-called 'neo-Stalinist' model. This view of Vietnam as a 'weak state' lacking the institutional resources to operate a planning system is confirmed by other authors (e.g. Riedel and Turley 1999: 13). As we have just seen, this view is contrasted by authors like Beresford and Dang Phon, who put the emphasis on the symbiotic relation between state and people. A number of factors may explain the behaviour of the Vietnamese central authorities in responding to pressure from below through fence breaking. First, the different views existing within the Vietnamese leadership, maintained open space for debate and for eclectic experiments.[18] Second, especially under war conditions, the central leadership could not maintain a close control over the activities carried out in the different parts of the country. Local authorities often had a rather free hand in adapting national policies to the local conditions, and at times this adaptation resulted in something very far from the official line. Third, the eclecticism and the pragmatism of the CPV could be understood as a positive resource deriving from the long historical experience of the Vietnamese civilization [see Masina (1999a)]. Pragmatism and ability in learning by doing have certainly characterized the current economic reform process (Griffin 1998a: 13). Finally, the inclination to accommodate pressures coming from outside the state apparatus and its own organization can be understood as a functional specificity of the Vietnamese state (Kerkvliet 1995: 67), and it should be understood as a resource in maintaining a close relation with society rather than as a weakness.

The following chapters will discuss how the reform strategy has been taking shape after the regional economic crisis. Here, we can already formulate some preliminary considerations on the first phase of *doi moi*. The synthetic historical background presented in the previous pages has supported the view that the Vietnamese 'transition', i.e. the transition from a system dominated by central planning to a system where market forces played a decisive role, was already accomplished by the late 1980s. The transition was concluded by the macroeconomic stabilization of the early 1990s, which partially incorporated elements typical of structural adjustment programmes. Using the famous expression coined by Fforde and de Vylder, the rationale of this reform was not much that of 'getting the price right', but rather a question of *making the prices matter* (Fforde and de Vylder 1996: 18).

The achievements of Vietnam during this process of systemic change clearly contrast with the tragic results of many other so-called 'transitional economies', which were inspired by a 'big bang' approach. The gradualist model adopted by Vietnam could rather be compared with the Chinese case, where a longer-term transition allowed the autonomous development of productive forces and capital able to compensate the displacements produced by the reform. Again in the words of Fforde and de Vylder:

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

The Vietnamese and Chinese cases also differ from the Eastern European and former Soviet Union 'transitions' on another essential point. By promoting a gradual reform, which did not imply the dismantling of key socio-economic institutions, Vietnam and China could make the best use of positive socialist heritage in terms of equality, human capital formation, and good educational and health-care systems. In both China and Vietnam the social institutions were threatened by the 'transition' to an economic system increasingly dominated by market logic, and paid a price in terms of effectiveness of their educational and health-care systems;[19] but neither of the two countries faced a drama comparable to that of the former Soviet Union.

An equitable distribution of land (through land reform, collectivization and de-collectivization) proved to be an important endowment for Vietnam, and a key resource for avoiding increased poverty. In addition:

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

It should be remembered that, notwithstanding its achievements, the process of economic transition in Vietnam was also a painful and dramatic period for a large part of the population. Various sectors of society found ways to cope with the new situation, and often managed to take advantage of the new opportunities. For others, who could not or would not participate in the new 'gold fever' climate, living conditions deteriorated in a period from the late 1980s to the mid 1990s. In particular, state employees, teachers, health-care operators, etc., saw not only their economic conditions, but also their social status undermined. An author very critical of the overall reform process, such as Gabriel Kolko, sees in this mixture of demoralization and economic necessity the dramatic increasing of corruption in the public administration.

> The real income of civil servants dropped by about two-thirds from 1985 to 1991, by which point cadres were compelled to choose between corruption, leaving the state sector, or going hungry, and many chose or were compelled to cheat. In 1993 most civil servants earned between $15 and $20 a month, less than half the wages for skilled workers, and their real incomes have continued to deteriorate since then (Kolko 1997: 75).

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

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

3 Vietnam and the regional economic crisis

Relations between Vietnam and the international financial institutions became critical before the onset of the regional economic crisis. The tension reflected a mood change about Vietnam: the national authorities were blamed for a slowdown in the reform process and the international pressure increased towards bolder steps (as we will see in the following chapter). Before we start discussing the new reform agenda promoted by the international financial institutions, it is useful to examine the arguments used to justify the need and, indeed, the urgency for a change of route. The main claim was that Vietnam, after achieving important results during the first phase of *doi moi*, had entered a period of slower economic growth and was losing the confidence of foreign investors, as witnessed by a shrinkage of FDI flows to the country, which began *before the Asian financial meltdown*. While a limited contraction in the outstanding Vietnamese growth rates was actually true, the change of mood among foreign operators had, in reality, much to do with excessive expectations among foreign operators in the previous years, self-fulfilling predictions (once investors started to foresee an investment shrinkage, they influenced each other to that outcome), and even more with a visible attempt by the international financial institutions to step in with their own reform proposals. Since the 'common wisdom' converged in representing the economic trend as negative and perilous (due to Vietnam's own responsibilities), foreign advice was represented as the only possible salvation.

In the following pages we will argue that this 'common wisdom' was, in reality, not very substantiated. First, the key indicator to prove a future decline of the Vietnamese economy (a contraction in FDI flows) was quite minimal before the regional crisis. Second, the reasons behind the Vietnamese difficulties had at least as much to do with regional and international contingencies as with national problems. With hindsight from the post-crisis period it is easy to see that many of the gloomiest predictions had little substance and probably served only to push Vietnam to abide to the recipes put forward by the international financial institutions.

In the wake of the regional crisis

This section starts by discussing the 'common wisdom' about the lesson that Vietnam should learn from the regional crisis. This common wisdom was based on the mainstream interpretations of the regional crisis: i.e. 'crony capitalism' in East Asia and unstable international financial markets, which eventually made the mixture of unchecked globalization and ill-regulated local institutions collapse into confidence tricks, speculation, and panic.[1] After the crisis, many of the worst hit countries (including Thailand and South Korea) started to implement systemic reforms and, by doing so, succeeded in restoring growth. Therefore, if Vietnam wanted to take advantage of the new regional economic trend, it had to address basic issues which were a hindrance to growth. Vietnam (continuing the mainstream interpretation[2]) had its own form of 'crony capitalism', a 'cosy' relationship between the state and SOEs that resulted in distortions and a sub-optimal allocation of resources (e.g. credit from state banks). The deceleration of economic growth in 1997 (from 9.3 per cent to 8.2 per cent of GDP)[3] had already been considered a result of a slower pace in the reform process by the mid 1990s (World Bank 1997a). The evidence that something was starting to go wrong in the Vietnamese economy was the shrinkage in FDI commitment and disbursement *before the onset of the regional crisi*s. A World Bank report indicated that this slowdown was 'unusual, as the pattern in other developing countries is that disbursement continued to grow even after approvals begin to decline, due to a 2–3 years implementation lag'. And this could be linked to the 'cumbersome procedures that still exist for the approval, registration and implementation of foreign-invested projects, and to the perception that the "costs of doing business" in Vietnam are too high' (World Bank 1997a: 3).

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

It is interesting to note the insistence of the international financial institutions in this explanation of FDI decline. The issue is a very sensitive one in the Vietnamese economic reform debate, given the country's need for investment. This chapter (in contradiction to the wisdom presented above) argues that the supposed causal nexus between a slowing pace in the reform process and shrinkage in FDI flows has probably been largely overestimated. In fact, the empirical analysis of FDI composition can support an interpretation quite different from the one normally accepted.[4]

The first point in our analysis concerns the dynamics of FDI commitments (Table 3.1). The data indicate that FDI commitments to Vietnam increased rapidly during the early 1990s and reached their peak in 1995. As was widely reported, the data for 1996 were inflated by two large real-estate projects approved in December, one of which (it alone accounting for about US$1 billion) was subsequently cancelled in November 1998 (see Freeman and Nestor (2004)).[5] A decline

Table 3.1 Commitments of FDI, 1995–7 (millions of US dollars)

	1995	*1996*	*1997*
Industry	2,467	2,735	1,658
Heavy industry	1,479	1,283	985
Economic processing zone	246	0	218
Light industry	510	862	318
Food	232	590	137
Oil and gas	0	52	51
Construction	686	630	711
Transport and communications	439	688	784
Real estate	2,698	3,300	338
Hotels and tourism	810	–65	112
Office property and apartments	1,888	3,366	225
Agriculture, forestry and fisheries	318	113	589
Services	114	184	324
Total	6,722	7,702	4,456

Source: IMF (1999b)

Table 3.2 FDI commitment, 1995–7 (millions of US dollars)

	1995	*1996*	*1997*
Total	6,722	7,702	4,456
Real estate	2,698	3,300	338
Total *minus* real estate	4,024	4,402	4,118

Source: re-elaborated from IMF (1999b)

in FDI commitments became evident in 1997, marking a worrying change of direction. This decline, however, should be considered while also taking into account the sector composition of commitments. The major factor in the decline was actually real estate, which dropped from 40.1 per cent of the total in 1995 and 42.8 per cent in 1996 to only 7.6 per cent in 1997. Thus, by subtracting the real-estate commitment from the total, one finds that in 1997 there was practically no shrinkage in FDI outside this specific sector. This is especially interesting considering that the regional crisis had already unfolded in the second half of the year (Table 3.2).

Commitment in agriculture, services, construction, transport and telecommunications actually increased. Investment in industry, however, declined in all the sub-sectors.

A drop in real estate in 1997 is consistent with a description of the pre-crisis East Asian economy as being dominated by elements of ‘bubble economy’ (see Sum (2002) and Chandrasekhar and Ghosh (2002)). The real-estate market in Vietnam was largely speculative in the mid 1990s, as in the rest of the region, and it was dominated by the same East Asian financial groups which defaulted in 1997, thus promptly cancelling former FDI commitments in Vietnam and

Table 3.3 Disbursement of FDI, 1992–8 (millions of US dollars)

	1992	*1995*	*1996*	*1997*	*1998*
Industry	49	737	843	969	330
Heavy industry	20	296	331	422	102
Economic processing zone	3	39	123	75	25
Light industry	10	232	324	365	123
Food	15	171	65	108	80
Oil and gas	73	582	301	1	50
Construction	6	113	274	151	250
Transport and communications	19	159	81	77	15
Real estate	53	433	366	423	113
Hotels and tourism	43	254	219	297	73
Office property and apartments	10	180	146	126	40
Agriculture, forestry and fisheries	12	121	75	285	41
Services	104	115	23	167	2
Total	316	2,260	1,963	2,074	800

Source: IMF (1999b)

elsewhere. The contraction in FDI commitments in industry is something more complex. It could be the result of at least three different factors, or combinations of these. It could derive from a decline in the attractiveness of Vietnam as a productive location – this is the 'official wisdom'. It could derive from a (temporary) decreased propensity to expand production abroad by countries which had traditionally represented a major source of FDI in Vietnam. It could derive from overinvestment in the Vietnamese productive system, beyond the absorption capability of this small economy. In the following pages, this work will claim that all of these three elements played a role, and that it would be erroneous to focus on a single explanation. It is also important to note that a sectoral analysis of FDI commitment reveals that the shrinkage in industry was compensated for by investment in other sectors (notably agriculture), thus redressing a negative tendency rightly criticized by the international donors and the international financial institutions.

The data regarding FDI disbursements too show a picture slightly different from the one described by the international financial institutions (Table 3.3). First of all, the negative trend reported in 1996 was already partially reversed in 1997. But, again, it is the sectoral distribution of FDI that provides the most useful information. The historical series of FDI disbursement is strongly affected by the instability of the oil sector, where (considering the high costs of projects in the field) a single initiative can alter the total significantly for one year. Thus, to study the consistency of trends it could be useful to subtract the disbursement for oil and real-estate projects from the total (Table 3.4).

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

Table 3.4 Disbursement of FDI, 1992–8 (millions of US dollars)

	1992	*1995*	*1996*	*1997*	*1998*
Total	316	2,260	1,963	2,074	800
Real estate	53	433	366	423	113
Oil and gas	73	582	301	1	50
Total *minus* real estate & oil	190	1,245	1,296	1,650	637

Source: re-elaborated from IMF (1999b)

Table 3.5 FDI inflows, by selected Asian economies, 1993–8 (billions of US dollars)

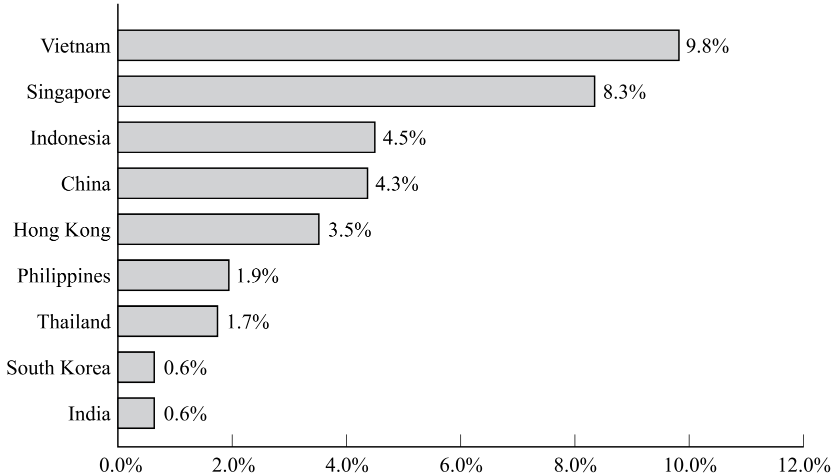
	1993	*1994*	*1995*	*1996*	*1997*	*1998*
Hong Kong	3.66	4.13	3.28	5.52	6.00	1.60
India	0.55	0.97	2.14	2.43	3.35	2.26
Indonesia	2.00	2.11	4.35	6.19	4.67	–0.36
South Korea	0.59	0.81	1.78	2.33	2.84	5.14
Philippines	1.24	1.59	1.48	1.52	1.22	1.71
Taiwan	0.92	1.38	1.56	1.86	2.25	0.22
Thailand	1.81	1.36	2.07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

Source: UNCTAD (1999)

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

Although the data provided by the UNCTAD *World Investment Report* do not concord exactly with the Vietnamese statistics, they enable a rough comparison to be made. Thus, it appears that FDI inflows to Vietnam in 1996 were higher than those to the much larger economies of, for example, India, South Korea, Taiwan and Thailand. This consideration raises the legitimate suspicion that, in the mid 1990s, Vietnam might have been involved in a rush for investments, which might have been above the realistic economic conditions of the country [see Dixon (2000: 284–285) and Freeman and Nestor (2004: 188–190)]. Figure 3.1 shows that FDI inflow to Vietnam in 1996 was higher than the regional average as a percentage of GNP.

A sharp drop in FDI disbursement was visible in 1998. The negative trend was confirmed in 1999, with a further contraction to US$500 million. These data will be discussed in the next section, dealing with the impact of the regional crisis on Vietnam. However, some observations can be added along the same lines. Once again, the reported 'wisdom' that investments were not returning to Vietnam simply because the national authorities were not sending the right signals about



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

Figure 3.1 FDI as percentage of GNP

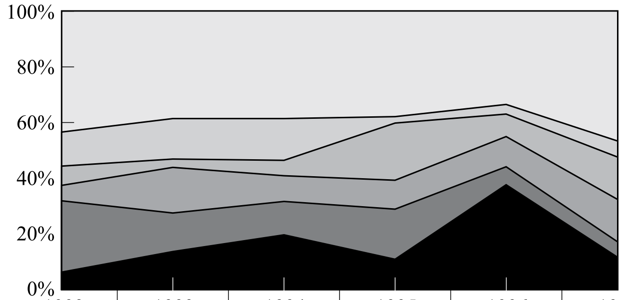
their commitment towards enhanced reform requires some qualification. In fact, it can be easily shown that the shrinkage of FDI flows to Vietnam was also connected to a parallel decrease in outward investment from those countries which had represented the dominant source of FDI to Vietnam.

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

In most of these countries the contraction in FDI outflows between 1997 and 1998 was remarkable. South Korea stands out as being the only exception: in this case there was a slight increase in the global outflow of FDI. However, closer investigation reveals a relocation of investment towards Europe and North America, and a reduction in flows towards Southeast Asia (Table 3.7).

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

The arguments presented above seem to indicate that the 'official wisdom' had produced an oversimplified explanation of investment flows to Vietnam by neglecting the wider regional economic dynamics. This chapter, however, does not deny that national deficiencies and shortcomings had played a major role in



	1992	1993	1994	1995	1996	1997
Other	43.3%.	38.5%.	38.9%.	37.7%.	33.8%.	47.5%.
Hong Kong	12.3%	14.7%	15.1%	2.4%	3.5%	5.3%
Japan	7.0%	3.5%	5.6%	20.8%	8.2%	15.4%
South Korea	5.7%	15.8%	8.9%	10.4%	10.3%	15.0%
Taiwan	25.4%	13.9%	13.2%	18.6%	6.7%	5.3%
Singapore	6.2%	13.5%	18.4%	10.1%	37.5%	11.4%

Source: IMF (1999b)

Figure 3.2 Distribution of FDI commitments by country of origin, 1992–7

Table 3.6 FDI outflows, by selected economies, 1993–8 (millions of US dollars)

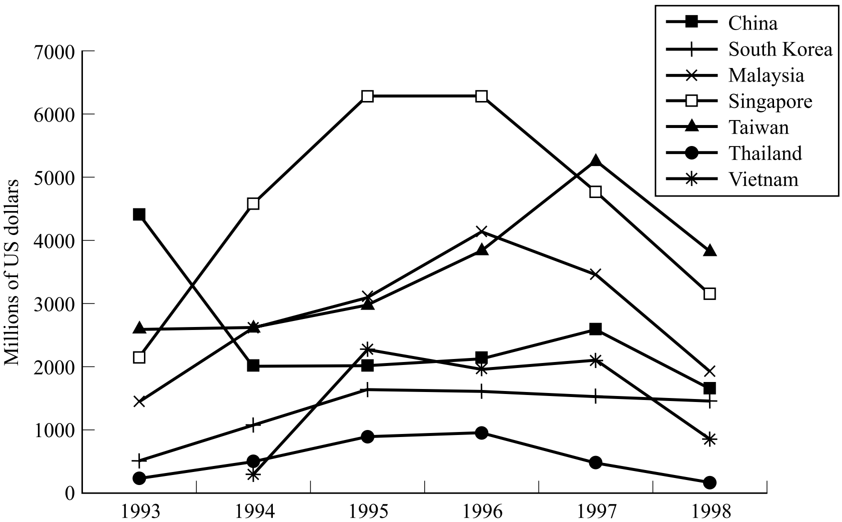
	1993	*1994*	*1995*	*1996*	*1997*	*1998*
China	4,400	2,000	2,000	2,114	2,563	1,600
Hong Kong	17,713	21,437	25,000	26,531	24,407	18,762
Japan	13,834	18,521	22,630	23,428	25,993	24,152
South Korea	1,340	2,461	3,552	4,670	4,449	4,756
Malaysia	1,464	2,591	3,091	4,133	3,425	1,921
Singapore	2,152	4,577	6,281	6,274	4,722	3,108
Taiwan	2,611	2,640	2,983	3,843	5,222	3,794
Thailand	232	492	887	931	447	122

Source: UNCTAD (1999)

Table 3.7 FDI outflows from South Korea to Southeast Asia, 1993–8

	1993	*1994*	*1995*	*1996*	*1997*	*1998*
Southeast Asia	486	1,080	1,652	1,625	1,497	1,441
Total	1,262	2,299	3,070	4,233	3,217	3,777

Source: National Statistic Office, Republic of Korea (1999)



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

Figure 3.3 FDI flows

producing discontent among investors at a critical juncture, i.e. in the wake of a regional economic crisis, when gloomy economic indicators led investors to reassess the rationale for their presence in the region. Once the regional perspectives had become less encouraging, the difficulties of doing business in Vietnam also assumed more visibility as a reason for discontent among foreign investors and entrepreneurs. The Vietnamese authorities came to be blamed for unclear administrative regulations, excessive red tape and corruption. While not contradicting the need to address these national shortcomings adequately (a need that was also recognized by the Vietnamese authorities, as witnessed by a number of reforms introduced during 1999 and 2000), this chapter tries to draw attention to the regional dimension of the crisis, which had been largely neglected.

Our evidence suggests that Vietnam might have been more closely integrated into the regional economic dynamics before the East Asian crisis than previously accepted. This might have resulted in a large flow of FDI to the country – a flow probably exceeding the absorption capability of an as yet small economy with significant infrastructural bottlenecks. In other words, Vietnam might have been affected by the same overinvestment tendencies existing in the region.[6] Part of the FDI flow represented by real estate had a speculative nature, as in the rest of the region. This speculative nature was further suggested by an abnormal share of investment commitments (17.8 per cent of the 1996 total) from an offshore location such as the British Virgin Islands. The contraction in FDI disbursement

Table 3.8 Real GDP growth, percentage

	1996	*1997*	*1998*
China	9.6	8.8	7.8
Indonesia	8.0	4.5	–13.1
South Korea	6.8	5.0	–6.7
Malaysia	10.0	7.3	–7.4
Philippines	5.8	5.2	–0.6
Thailand	5.9	–1.5	–10.8
Vietnam	9.3	8.2	3.5

Source: IMF (2001)

after the onset of the crisis in East Asia was correlated to a regional trend. Further, the fact that investors returned to South Korea and Thailand soon after the crisis is a consideration of no real significance for Vietnam; this trend was clearly connected to the acquisition of local corporations after these countries had been forced to liberalize their markets as a condition for receiving IMF bail-out loans. Nor did Malaysia provide a strong case to support the indications of the international financial institutions; as is well known, Kuala Lumpur actually moved in a rather different direction from the one suggested by Washington (by imposing controls on short-term capital flows) and was, therefore, repeatedly criticized.

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

The impact of the regional crisis

The interpretation of the data presented above indicates that the association of Vietnam with the regional economy was more pronounced than normally reported. Correctly, two considerations have often been presented to explain why the impact of the crisis on Vietnam had been less severe than on other countries. First, the non-convertibility of the *dong* and the regulation of trade and exchange transactions had partially insulated the country from the vagaries of the financial market and averted speculative attacks. Second, Vietnam was a country where a large part of the economy was still 'informal' and family based. Thus, the protection of traditional safety nets in rural areas and the flexible urban 'informal sector' was able to reduce the negative impact of the crisis on the living conditions of the poorest. This consideration brings us back to one of the key questions in the crisis and post-crisis debate and will be discussed further in Chapter 5.

The first question, i.e. the relative insulation from the regional financial meltdown, is discussed here. The focus we intend to adopt is not an assessment of the short-term impact of the crisis, but an analysis of the medium- and long-term development implications. The questions at stake are the conditions for Vietnam's future economic development and the policies to be implemented in order to achieve the goal of accelerated industrialization. Before the crisis, Vietnam was moving fast along the path taken by other regional 'success stories'. The basic assumption (of national authorities and of foreign investors) was that Vietnam could integrate further into the regional economy and benefit from new rounds of investment from countries whose comparative advantage was shifting towards more technology-intensive and labour-intensive production. Therefore, discussing the impact of the crisis means discussing the way in which this long-term plan has been affected. This chapter will make three basic points:

1 In the short to medium term, the impact on the Vietnamese economy was severe. The crisis implied not only a halt to further productive relocations, but also a reverse trend, with companies retrenching to their original productive bases. The appreciation of the *dong* against most regional currencies partially reduced the attractiveness of the cheap Vietnamese labour force.
2 In the longer term, Vietnam will succeed again in becoming an attractive location for labour-intensive production, especially because of its large population and its well-educated labour force. However, Vietnam faces and will face strong competition from China and other Southeast Asian countries.
3 The broad implications of the crisis should be considered against the background of an increasing political confrontation between Asian economies and Western capital, represented also by multilateral organizations (such as the WTO) and the international financial institutions. Vietnam will come under increasing pressure and will be requested to adopt a 'liberal' economic policy. A number of elements signal that this confrontation between Vietnam and the West has already begun.

The regional crisis and Vietnam's macroeconomic standing

In autumn 1997, when the financial contagion was spreading through the region, Vietnam (which was partially insulated by the fact that its currency was not freely convertible) seemed more concerned with two other internal problems. The first was Typhoon Linda, the worst tropical storm to hit the country in five decades. The second was the tense political situation (with peasant demonstrations and riots against corrupt local officers) in the northern coastal province of Thai Binh. Typhoon Linda devastated central and southern provinces. A few months later, the typhoon was followed by an extended drought that further jeopardized the economy of those areas, affecting cash crops such as coffee in particular. The other 'typhoon', the peasant uprising in Thai Binh, represented a very worrying signal of potential political instability, forcing the leadership to react. The peasant demonstrations received support not only from war veterans and from retired party officers, but also from the army, who clearly resisted the use of force to repress disturbances. Eventually the party leadership intervened, removing controversial local officers, and put a great deal of effort into reopening a political dialogue within the province – the effort included several visits to Thai Binh by top party and government leaders.[7]

During 1998, however, the effects of the regional crisis on the Vietnamese economy became increasingly evident: at the end of the year, all major macroeconomic indicators suggested that the situation was becoming critical. Currency devaluation in many neighbouring countries exposed Vietnam to increased competition at the same time as export markets for its national products, two-thirds of which consisted of East Asian countries, were shrinking. Export growth in 1998 slowed to 0.3 per cent, compared with about 22 per cent in 1997. After a further decline in the first 4 months of 1999, with a 7.5 per cent year-on-year drop, exports recovered appreciably in the second part of the year. The higher price of oil in the international markets and the increased volume of exports in agriculture, garments and footwear resulted in a 23.6 per cent export growth rate in 1999 (UNDP 2000).

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

Vietnam did not enter a recession, unlike many other countries in the region, but GDP growth declined sharply. During 1998 the government was forced to readjust its expectations downward from the planned 9 per cent to about 6 per cent. The official data indicate that real GDP growth was at 5.8 per cent in 1998 and at 4.7 per cent in 1999.[8] In 1998, in order to regain some competitiveness for its exports, Vietnam devalued the *dong* by about 20 per cent against the US dollar. Notwithstanding this devaluation, in the midst of the regional crisis the Vietnamese currency appreciated consistently against most regional currencies. By the end of 1999 the Vietnamese *dong* had risen by about 20 per cent against the currencies of Thailand, Malaysia and the Philippines and by about 60 per cent against the Indonesian *rupiah*, compared with pre-crisis exchange rates. The Chinese *renminbi* and the Hong Kong dollar remained stable against the US dollar, thus resulting in a *dong* devaluation of about 20 per cent against these two currencies (Table 3.9).

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

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

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

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

Source: UNDP (2000)

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

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

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

The attempt by the Vietnamese authorities to attract more ODA in order to compensate for the drop in FDI and relieve the balance of payments deficit did not succeed. The regional economic crisis unfolded at the moment in which the dialogue between the Vietnamese government and the international financial institutions was characterized by deep disagreements on the reform agenda and on the timing of its implementation. In 1997, the IMF withheld the sum of roughly US$176 million, which had been agreed in 1994 as the third instalment of a 3-year enhanced structural adjustment facility (ESAF) amounting to US$530 million.

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

While structural adjustment facilities were withheld, ODA to Vietnam was discussed in Paris in December 1998 by the Consultative Group for Vietnam (CG), the coordination meeting of international donors. The CG pledged US$2.2 billion of development aid to the country, less than the US$2.4 billion committed in 1997. However, the CG offered a further $500 million package during the year in the event of an acceleration of the reform process. In December 1999, the annual CG meeting, held in Hanoi, further increased the share of ODA conditional on acceleration in the reform process. Donors pledged US$2.1 billion, and promised a further US$700 million if the government proceeded in the direction prescribed by the 1999 World Bank-coordinated report *Preparing for Take-off?* In other words, it is quite evident the attempt by the international financial institutions and other Western donors to exploit the economic difficulties of Vietnam during the regional crisis in order to impose their own (neoliberal) prescriptions.

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

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

The economic slowdown also had an impact on people's living conditions, though a precise account is limited by the scarcity of data. The official data indicate that urban unemployment rose from 6.85 per cent in 1998 to 7.4 per cent in 1999 (Reuters, 6 October 1999). However, a calculation of unemployment or underemployment in rural areas or in the non-official sectors in urban areas is not available.

Vietnam and the 'flying geese' pattern in the post-crisis environment

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

Notwithstanding the conflicts that were inherent to the regional division of labour, there is a large consensus in suggesting that the 'flying geese' dynamics have played a key role in promoting economic growth in East Asia since the 1960s. The appreciation of the Japanese yen after the Plaza Accord (1985) forced a new round of FDI to the region, which in turn moved the comparative advantages of economies such as Taiwan and South Korea towards more technological and capital-intensive productions. This compelled a further reorganization of the regional system of division of labour that created new opportunities for a new tier of countries – especially China and Vietnam (Masina 1996; Jomo 2001a). Vietnam tried to benefit from these productive relocations, particularly from South Korea, Taiwan and Singapore, with positive results from 1990 to 1997.

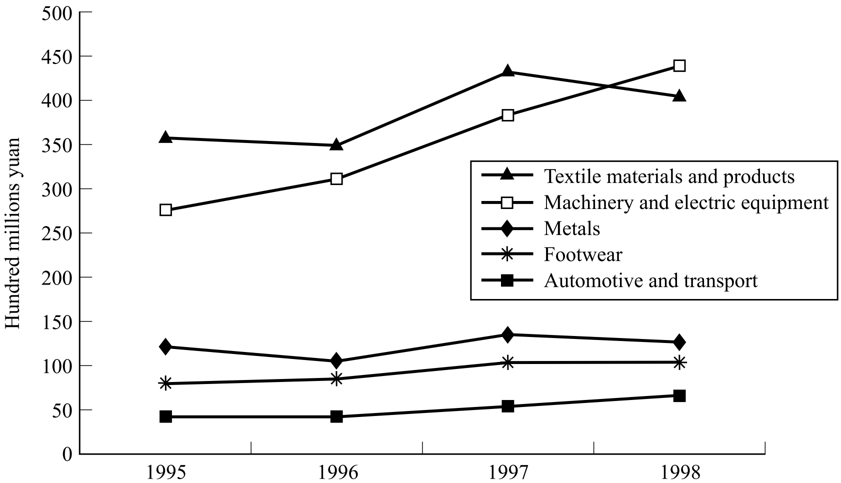
As already anticipated in Chapter 1 and discussed further in Chapters 4 and 6, the first group of Asian industrializers were able to seize the opportunities created by the favourable regional contexts through effective national planning. Probably inspired by the experience of other Asian countries, Vietnam also tried to manage the integration of the country into the regional productive system with state guidance measures that, however, were more closely related to the traditional central planning than to the market governance of Northeast Asian economies (see discussion in Chapter 4).

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

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

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

During the regional crisis, China visibly strengthened its position as a leading force in East Asia. Not only did the country succeed in maintaining growth of over 7 per cent, but it also played a significant role in supporting regional economic stability. China, which had devalued the *renminbi* in 1993, made it very clear during the regional financial meltdown that it would defend the exchange rate of its currency (and that of the Hong Kong dollar) with its large foreign reserves. The stability of the Chinese currency averted a new round of currency depreciation that would have certainly resulted from any *renminbi* devaluation. China's stance was further reinforced by a comparison with the economic and political impasse visible in the other East Asian giant, Japan. In June of 1998, for instance, at a time when the low value of the Japanese yen was putting great pressure on the exports of other Asian nations, China played a major role (behind the scenes) to reverse the trend. The Chinese threat to devalue its currency induced the US administration to dispatch the (then) deputy secretary at the US Treasury, Larry Summers, to Tokyo in order to convince Japan to intervene in defence of the yen.



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

Figure 3.4 Chinese exports: selected commodities

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

An analysis of export composition in the midst of the East Asian crisis indicates that textiles and garments (typical labour-intensive production) suffered the most from currency appreciation. Exports of machinery and electrical equipment, on the other hand, continued to grow, indicating that China is increasingly becoming a big player in a sector long dominated by other East Asian countries. Growth in the export of automotive and transportation equipment was also remarkable, suggesting a successful diversification into more advanced industrial production. Notwithstanding the important diversification in export composition, China did pay a price for the devaluation of other regional currencies: export growth was only 0.5 per cent in 1998 and turned negative in 1999, with a recovery only in 2000 (Figure 3.4).

Thailand is the next country to look at in order to understand how the reorganization of the regional productive system during the regional crisis affected the Vietnamese growth perspectives. In recent years, Thailand has been a competitor to Vietnam, but also a source of foreign investment. Before being hit hard by the

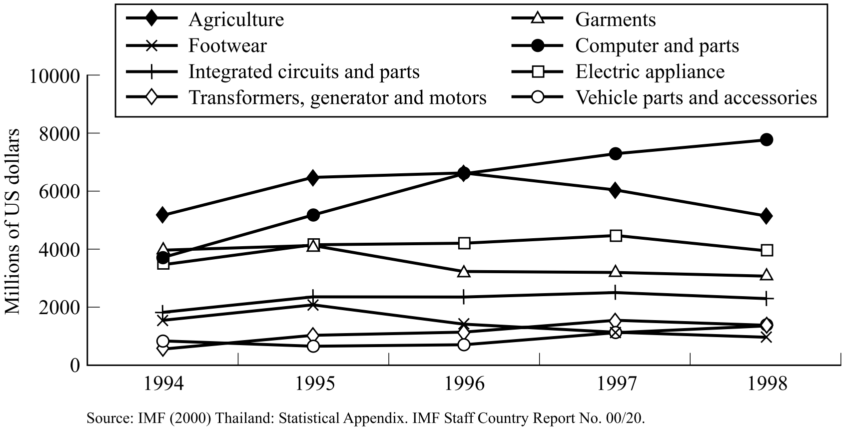


Figure 3.5 Thai exports: selected commodities

regional crisis, Thailand was known as a 'second tier' country (together with Malaysia and Indonesia), one following a path of accelerated industrialization led by the other Asian newly industrializing economies. According to the 'flying geese' model of the regional productive order, Thailand was just one step ahead of Vietnam and China. Thus, the upgrading of Thai production towards more technology-intensive production would leave room for Vietnam in the labour-intensive sector. At the end of 1998, notwithstanding wide currency devaluation, Thai exports were still below pre-crisis levels in US dollar terms. Imports had decreased appreciably, thus allowing a readjustment of the trade balance, but exports apparently failed to take advantage of increased competitiveness in terms of labour costs.[9] A rapid overview of the composition of Thai exports, however, seems to indicate that currency devaluation boosted exports less than might have been expected, because *Thailand did not re-engage in labour-intensive production but carried out further industrial upgrading* (Figure 3.5).

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

As with China, the compositional pattern of Thai exports seems to indicate that the crisis did not undermine and actually probably even extended Vietnam's potential for increasing its market share in the export of labour-intensive production.[10] The data do confirm that this potential was exploited successfully: in 1999 the growth in Vietnam's exports in the garment sector was over 103 per cent, and in footwear it was over 34 per cent (Table 3.10).

The data are also confirmed by a qualitative investigation conducted on behalf of the Norwegian trade unions in the summer of 1999. Using a survey carried out in Ho Chi Minh City and Danang on enterprises engaged in textile, garment and

Table 3.10 Vietnamese export growth, 1995–9

	1995	*1996*	*1997*	*1998*	*1999*
Garments (%)	–9.45	51.04	19.82	10.00	103.61
Footwear (%)	63.93	165.50	81.73	6.94	34.88

Sources: IMF (1999b) and UNDP (2000)

footwear production, the research showed that the crisis did not have a very severe impact on these companies. In particular, foreign-affiliated companies, whose production was mainly directed abroad, could rely on foreign partners in finding new markets. The wage augmentation in dollar terms compared with neighbouring countries was not considered by the managers interviewed as a factor important enough to motivate production relocation out of Vietnam. Although foreign investment in these labour-intensive sectors tended to originate in other East Asian countries, foreign entrepreneurs were acting as middlemen in an international production chain controlled by large Western multinational corporations (e.g. Nike), whose markets were largely located in OECD nations (Nørlund 1999).

The data on Vietnamese export growth in 1999 seem to indicate a favourable trend in the reorganization of regional production systems. This may imply that Vietnam could succeed in further extending its market share in labour-intensive production, benefiting from industrial upgrading in other East Asian countries.

The potential of the Vietnamese economy was indeed soon confirmed not only by a continuing high growth rate (which made Vietnam one of the strongest performers in the region in the late 1990s, contradicting the gloomy predictions of many international financial institutions' economists), but also by a return of a high level of FDI inflows.

Analytical remarks

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

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

4 The agenda for economic reform

Even before the onset of the regional economic crisis the 'official wisdom' had already converged in identifying four main issues as cornerstones for the enhancement of the economic reform: (1) privatization of SOEs, (2) reform of the financial sector, (3) trade liberalization and (4) development of the private sector. This agenda was confirmed after the crisis by the major international agencies (e.g. World Bank 1999a; IMF 1999a; UNDP 1998). Officially, the Vietnamese authorities subscribed to this agenda; in reality, significant resistance on key aspects of this package did exist. In the words of Tran Xuan Gia, at the time Minister of Planning and Investment at the donors Consultative Group Meeting in December 1999:

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

The role of 'agenda setting' played by the international financial institutions was implicitly justified against the background of relative impasse within the Vietnamese leadership in promoting a clear-cut reform strategy. Although the state and party leaders maintained a broad commitment to *doi moi*, by the mid 1990s most foreign observers had a sense that the reform process was losing momentum and that the path was becoming uncertain.

There is a wide consensus among analysts in suggesting that the implementation of bold reform measures in the period from 1989 to 1991 was the consequence of the emergency situation deriving from fading Soviet and Eastern European aid. The positive results of these reforms, accompanied after 1992 by increased development assistance from bilateral and multilateral donors and large flows of FDI, decreased the pressure for a furthering of *doi moi* and reduced the leadership's sense of urgency in implementing sensitive measures. By 1994, the positive economic achievements made the Vietnamese government conclude that the systemic crisis was over. This perception led to an attempt to regain control over the foreign-invested sector and to put higher emphasis on self-reliance (Dixon 2000: 284; Dixon and Kilgour 2002: 604–605).

The change of attitude by the national leadership was interpreted by many foreign economists as a risky departure from a sound reform path. Adam Fforde (1998b), for instance, voiced openly the view that too large aid flows to Vietnam would maintain the status quo and delay needed reforms. Ari Kokko described the situation in the following terms:

> Even before the advent of the Asian crisis in July 1997, it had become apparent that it might not be possible to sustain the high growth rate without further reforms. The reason was that serious structural weaknesses had begun to endanger the stability of the economy. The problems included inefficient SOEs and banks, growing current account deficits, and a trade policy bias in favour of import substitution. The development of the private sector was also obstructed by unclear rules, often favouring SOEs, excessive red tape, and corruption (Kokko 1998b: 3).

With the benefit of insight from subsequent events, it is possible to argue that the tone of this quotation proved excessively pessimistic: the problems were real, but Vietnam succeeded in maintaining high growth rates in the aftermath of the regional crisis. It is also possible to argue that the Western scholars and international agencies had been too hard in criticizing the Vietnamese slow implementation of the reform process, which could have been understood as a need to take stock of the results achieved until then before undertaking new controversial measures. While Vietnam was criticized for moving too slowly, it is fair to recall that Vietnam did much better than most other 'transitional economies' exactly because the reform process was gradualist and avoided the uncreative destruction of shock therapies.

As we argued in Chapter 3, foreign enthusiasm in the early 1990s was probably excessive, with investors having unrealistic expectations in terms of short-term profits. This excessive optimism was bound to transform to disillusion within a very few years, as indeed did happen in 1996.[1] Rightly, Gainsborough (2004) argues that this rapid change of mood about the Vietnamese economy was very much a Western construction rather than reflecting concrete facts. The Vietnamese authorities, in reality, never did intend to embark on a wholesale liberalization of the economy in the early 1990s, and while by the mid 1990s *doi moi* may have lost some of its steam, there was no concrete indication that the reform process would be reversed or halted. Rather, the Vietnamese authorities continued on their course of step-by-step reforms, charting their route by trying to maintain a consensus within the party and avoiding an open disagreement with foreign donors.[2]

While it seems undeserved to read the outcomes of the Eighth Party Congress of May 1996 as 'reform immobilism' (Womack 1997), it is fair to argue that the skirmishes between so-called (by Western analysts) 'reformists' and 'conservatives' did not allow the emergence of a clear reform agenda for furthering the *doi moi* (Riedel and Turley 1999: 36–40).[3] As argued by Vasavakul (1997), the party remained split along lines reflecting the representation of different sectoral interests.

No more precise strategy decisions were assumed by the following Ninth Congress of April 2001. The congress was marked by the dramatic dismissal of Secretary-General Le Kha Phieu. This outcome was connected to the accusation that Phieu had abused his power and was not the result of a change in the political balance.[4] The congress appointed as the new party leader Nong Duc Manh, who had emerged as a popular political figure also thanks to his ability in giving a more prominent role to the National Assembly (where he served as chairman) – an institution that had previously been described as a mere rubber-stamp of decisions already taken by the party and the government.[5] The rise to power of Nong Duc Manh was made possible by his talent in mediating among the different interest groups and factions within the party. Although he belonged to a younger generation and was often described as a reformer, his election was not the sign that the party was willing to undertake radical changes.

An attempt to understand the political debate within the Communist Party on the basis of categories like 'reformer' or 'conservative', however, risks oversimplifying reality and even to produce serious misconceptions. As has already been recalled, the Vietnamese leadership tends to act by searching for consensus rather than operating abrupt shifts. This *modus operandi* reflects two essential characteristics of the Vietnamese decision-making process. On the one hand, there is a broad consensus within the core leadership that the reform process is irreversible, but that this should not lead to the dismantling of the core tenet of the Vietnamese revolution. The definition of 'market economy with socialist characteristics' may be scarcely supported by a strong theoretical foundation, but it is in any case rich in political implications, able to coalesce a large part of the current leadership. On the other hand, the interest representation within the various echelons and sectors of the party is much richer than any representation in terms that two competing factions (conservative and reformers) could explain. We will return to the question of interest representation in the last chapter.

The remaining pages of this chapter will try to explore some of the crucial elements of the economic reform process looking at the most contentious issues in the current debate.

After the Asian crisis: the development strategy to 2010

An important set of strategy documents was prepared ahead of the Ninth Party Congress of April 2001. These documents were based on a number of sector studies prepared by the relevant ministries and agencies and involved a rather lengthy and open debate. Eventually, the Ninth Congress approved two key documents: a 10-year *Strategy for Socio-Economic Development, 2001–2010* and a *5-Year Plan for Socio-Economic Development, 2001–2005*. In the process that led to the drafting of these documents, international agencies and Western consultants played an important role; in particular, a joint UNDP–Ministry of Planning and Investment (MPI) exercise for the drafting of background papers for the 10-year strategy was the channel for the involvement of a number of Western scholars. Although the strategy documents approved by the party should obviously be regarded as 'national', it is wise to consider that they also reflect a sort of compromise with the international financial institutions. Once again, the compromise was reached by approving documents that set goals and targets, but fell short of indicating in a precise manner the policies to be implemented for reaching those targets. Only in a few cases did these documents express significant strategy formulations (see the following) – most of the rest consists of a rather boring litany of past achievements and future expectations.

Some light is shed on the more contentious issues by a report coordinated by the World Bank (and prepared in cooperation with the ADB and the UNDP) ahead of the Consultative Group Meeting of December 2000 – *Vietnam 2010*, *Pillars of Development*. This report was specifically prepared as a commentary on the early drafts of the 10-year strategy papers.

Pillars of Development is also relevant for another important reason: it marks the shift from a superseded structural adjustment approach to a broader-based poverty reduction strategy. In the late 1990s (also thanks to the debate following the Asian crisis),[6] structural adjustment strategies came to be widely acknowledged by public opinion and by the scientific community as a failure, if not a cause of further impoverishment for Third World countries. Although it is open to question whether this debate produced a substantial change in the core tenets of orthodox development practice, the expression 'structural adjustment' was replaced by 'poverty reduction strategies' and the negotiations between the Bretton Woods institutions and local governments were made more open and transparent, also involving representatives of non-governmental organizations (NGOs) and the civil society.

The need of a deeper understanding of poverty dynamics was acknowledged by the World Bank, which in 1999 dedicated its World Development Report to a study of poverty dynamics known as *Attacking Poverty*. This study, however, did not overcome the divide between the World Bank and its critics. In the end, this timid attempt by the World Bank to address one of the issues on which it had been more openly criticized resulted in a major public relations fiasco. Ravi Kanbur, the scholar appointed to direct the drafting of *Attacking Poverty*, resigned because the bank would oppose any significant shift from its development orthodoxy.[7]

An interesting aspect in the preparation of *Attacking Poverty* was a wide investigation on poverty based on participatory and grassroots-informed methodologies. This investigation was inspired by Robert Chambers and his colleagues at the Institute of Development Studies in Brighton, and was financially supported by the British DfID. The wide-ranging exercise had the aim of complementing the traditional quantitative data normally used by governments and international financial institutions in measuring poverty. The results of the investigation were published in three volumes as *Voices of the Poor*. While the findings of *Voices of the Poor* were scarcely reflected in the global *Attacking Poverty*, some of the country studies which formed part of this exercise had a larger impact at national level. Among the countries that benefited the most from this participatory investigation was Vietnam.[8] We will discuss in more detail in the next chapter the findings of the two Vietnam-based studies, *Voices of the Poor* and *Attacking Poverty*, which were released by the World Bank in Hanoi in late 1999. For the moment, it suffices to say that these studies contributed to the understanding that poverty is a complex issue and that poverty reduction strategies must be broad based. New notions (new for the international financial institutions) were finally acknowledged: economic growth is not *per se* a guarantee of poverty reduction if this growth does not translate into more employment and better redistribution of resources; and the poor can be particularly vulnerable if macroeconomic change is not accompanied by measures supportive of their livelihoods.

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

Both *Pillars of Development* (World Bank 2000) and the *Comprehensive Poverty Reduction and Growth Strategy (CPRGS)* (Socialist Republic of Vietnam 2002) were built in a way to make poverty reduction emerge as the cornerstone of development strategy. *Pillars of Development* was presented as a set of technical advices aiming at supporting the implementation of the macroeconomic policies decided by the national authorities. The CPRGS was a national document, the drafting of which had been supported by extensive consultations with donors, NGOs, different ministries and agencies, and ultimately approved by the government. However, there is more than one reason to dispute that the content of the CPRGS, although it was 'owned' by the government, necessarily reflected a conceptual frame developed by the international agencies.

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

The general pattern in the power relations between the World Bank and developing countries assumes a specific dimension in Vietnam in two contrasting ways.

On the one hand, as we have already suggested, the Vietnamese authorities have constantly avoided proclaiming any long-term strategy that may be at odds with the prescriptions of the international institutions or let emerge in a visible way the nature of disagreements on specific issues. It is no surprise that the documents approved by the Ninth Congress remained vague in indicating the policies to be adopted for reaching the approved economic targets. It is no surprise, either, that the World Bank occupied centre stage with its own prescriptions (*Pillars of Development*) and that this role of guidance also extended to the drafting of the *Comprehensive Poverty Reduction and Growth Strategy (CPRGS)*. Quite clearly the World Bank in Vietnam has means for conducting policy research that no other research institution in the country can match.

On the other hand, it should be recalled that, in Vietnam, maybe even more so than elsewhere, the World Bank is not the coherent and orthodox monolith that may appear from many accounts (including this one, which for the sake of brevity may oversimplify the complex interplay between the different actors). Although orthodox economists still play the key role in major decisions, the agency now employs a number of officers and researchers in new fields, ranging from participatory poverty assessment to governance, who tend to be more critical and eclectic in their approach. It should also be recalled that, particularly in Vietnam, the World Bank has been promoting a much softer version of development orthodoxy than the IMF. We have already seen that divergences between the two sister organizations emerged in the late 1990s, when the IMF stopped concessional lending to the country (1997). The same pattern was repeated in the early 2000s. In 2001, the two agencies agreed with Vietnam to resume concessional lending in the frame of the CPRGS, but the IMF had *de facto* already interrupted its lending in 2002, and in April 2004 announced the cancellation of the deal signed in 2001 due to a lack of transparency in the foreign reserves held by the State Bank of Vietnam.[9]

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

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

The Vietnamese leadership (in the practical implementation of reforms, if not in policy statements) appears to be scarcely convinced by this interpretation. Rather, Hanoi seems to be looking at the experience of other Asian countries where the state has been the *primus motor* in the economy. Such an interest in practices that we could inscribe within the frame of the 'East Asian developmental state' also justifies the support of Japanese experts for an attitude that is defiant of neoliberal recipes for poverty reduction – Japan is obviously keen on having a new important Asian country following its own path.[10] We argue, however, that while the East Asian developmental experience is regarded as a source of inspiration in resisting the neoliberal prescriptions, the measures adopted so far in the reform process scarcely resemble a coherent developmental state model. At the same time, it is important to underline that the Vietnamese authorities may hold that there is no contradiction between an East Asian developmental-state-type of economic policy and poverty reduction. Successful poverty reduction and low levels of economic inequality have been essential features of the so-called East Asian Miracle, as the 1993 World Bank study recognized. Support to the rural world and corporative systems of economic redistribution have been functional to the implementation of authoritarian developmental states models in Asia [e.g. as illustrated by Wade (1990) and Putzel (2002)]. Corporatist income redistribution was part of a hegemonic discourse that made it possible for the Asian developmental state to mobilize the entire nation through a modernization effort that was perceived as beneficial for all and not only the capitalist groups.

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

> The high performing economies of East Asia (i.e. South Korea, Taiwan–China, Malaysia, Thailand, Indonesia) have demonstrated convincingly the sort of policies that must be implemented to sustain annual per capita growth rates of 5–7 percent over several decades and generate large reductions in poverty. Greater openness to the world, more freedom for the private sector, an effective banking system and macroeconomic and fiscal stability – complemented by superb access to primary education and to infrastructure services – helped these economies to generate high rates of investment, savings, exports, employment and productivity growth (World Bank 2000: 22).[11]

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

Foreign trade

Establishment of a 'neutral' trade regime

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

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

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

> if truth-in-advertising were to apply to policy advice, each prescription for trade liberalisation should be accompanied by a disclaimer: 'Warning! Trade liberalisation cannot be shown on theoretical grounds to enhance technical efficiency; nor has it been empirically demonstrated to do so' (Wade 1990: 20).

It is also important to remember that the current debate about trade liberalization is in many ways paradoxical. While free trade has become a pervasive ideology, the world economy is actually characterized by a revival of protectionism and trade blocs. And this is even more paradoxical, because protectionism is adopted by the same industrialized nations that search to enforce trade liberalization on developing countries. Besides, changes in international trade regulations in the last 20 years have increasingly reflected the interests of industrialized countries and transnational corporations rather than the needs of developing countries. For instance, K.S. Jomo (while suggesting that Southeast Asian nations can still succeed in seizing opportunities offered by the international markets) notes that

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

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

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

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

On the basis of this bleak description the IMF and the World Bank present their normal recipe: *trade liberalization*.[12] Before discussing the current trade regime in Vietnam, it may be useful to restate the goal that this section aims to reach. Although this work does not deny that Vietnam suffers from an inefficient import substitution policy, it tries to illustrate that the *free trade* is only one of the options available for Vietnamese policymakers. Away from the prescriptions provided by the orthodoxy, there are at least two other strategies that have been presented in the debate either on Vietnamese or East Asian development. The first strategy involves export promotion to compensate exporters for the disadvantages produced by the import substitution bias (theory of simulated free market). The second involves a fully-fledged strategic trade policy, with a selective adoption of import substitution and export orientation (as suggested by different authors promoting 'developmental state' policies). While free-trade theory considers state intervention as always counterproductive, the other two theories justify the need (under specific circumstances) for trade policy involving the use of restrictions to imports.

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

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

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

> The structure of imports [of Vietnam] is largely what one would expect in a country with an ambitious development program. The bulk of imports is made up of capital goods and raw materials used for investment and production. The most important individual import items are fuel, steel, and fertilisers, but the imports of semi-finished products, such as electronic components and textiles, have also grown rapidly in recent years. Consumer good imports have been remarkably small, representing only around 10 percent of imports in 1996. However, it should be noted that the structure of imports is determined by trade policy rather than pure market forces: import tariffs are higher and license requirements more stringent for consumer goods than for machinery, equipment, and intermediates. In fact, Vietnamese trade policy has explicitly aimed to restrict consumer good imports in order to provide a captive market for local producers (Kokko 1998a: 12).

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

Vietnam is currently moving towards a less distorted trade regime. With a number of measures adopted since the late 1980s, export quotas have been removed for most export and many import commodities, export duties have been abolished for most products, import duties have been generally reduced and rationalized, and the foreign exchange rate has been unified and substantially led to depend on market forces (Khan 1998; Kokko 1998a; Kokko and Zejan 1996; World Bank 1997, 1999a; IMF 1999a).

The reforms implemented so far, however, have not completely eliminated the distortions existing in the current trade regime. The World Bank indicates that tariffs and quantitative restrictions discourage production in sectors in which the country would have comparative advantages and support production (and attract FDI) in sectors in which Vietnam cannot be competitive (World Bank 2000: 26).

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

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

The concrete implications of the agreements subscribed to by Vietnam cannot be easily anticipated. The experience of countries like Japan (but even the USA and the European Union) suggests that it is possible to maintain some discretionary power (e.g. through disguised non-tariff barriers) in protecting national producers even in an officially open trade regime. This may also be done by countries like China and Vietnam, which have a long tradition in resisting external impositions (Perkins 2001: 254).

On the basis of the signed commitments, the Vietnamese authorities agree with the neoclassical recipes; but, on the basis of what concretely has been done until now, this agreement is much less obvious. It is legitimate to assume that there is some line of resistance to complete trade liberalization. Although there is no definite evidence that Vietnam is concretely trying to repeat the lesson coming from high-performing Asian economies (a lesson that is, however, promoted by Japan, the largest source of development aid to the country), it is useful to reiterate here some key aspects of this lesson as interpreted by important 'statist' scholars. The regional experience may help in putting the Vietnamese case into perspective and allow a better appreciation of the issues in the current debate and what are the options open to Vietnam.

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

> The evidence suggests that, overall, the policies of import substitution in the 1950s [in Taiwan and South Korea] had a very important role in preparing

> the way for later success. They did so both by channelling resources from agriculture to industry through the exchange rate and domestic terms of trade, and by more direct promotion in certain sectors (Wade 1990: 85).

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

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

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

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

The evidence collected by Wade and by the other 'statist' economists is acknowledged by the scholarly community, although with various nuances.[13] Many scholars recognize the importance of selective trade policy (including import substitution) at least in the early stage of the industrialization drive. For instance, one of the most influential economists working on Vietnam, the already mentioned Ari Kokko, who is in general critical of the Vietnamese import-substitution policy, concedes that these policies may have played a positive role in the 1950s and 1960s in Taiwan:

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

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

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

The trade agreement with the USA

It may be useful to recall here the contrasted dealings that led to the signature of the bilateral trade agreement between Vietnam and the USA. The story indicates that while the official declarations encourage a rapid liberalization of trade, strong resistance does exist among key political leaders. At the same time, the eventual signature of the deal shows the limited space of manoeuvre for Vietnam, like for other developing countries, in dealing with those countries dominating the international system.

On 25 July 1999, American and Vietnamese negotiators, after 3 years of talks, announced that they had reached an 'agreement in principle' for a trade pact. At stake for Vietnam was the possibility of reaching Normal Trading Relations (formerly Most-Favoured Nation status) with the USA, implying substantial tax reduction for Vietnamese exports (i.e. garments, textiles, shoes and other light industrial products) to the American market.[14] The implications for the Clinton administration, although less dramatic than for the Vietnamese side, were important both in economic and political terms. On the one hand, it included easier economic access to the second most populated Southeast Asian country (and thirteenth worldwide). On the other hand, symbolically, it involved the possibility to heal the wounds of the past, showing that Washington was able to dictate the rules for economic relations with the former enemy and even to acquire leverage on the Vietnamese national economy. As the then US trade representative explained, this agreement was more than a simple trade agreement:

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

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

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

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

Rumours in Hanoi suggest that an incident may have also provoked a Vietnamese reaction. Allegedly, a group of American negotiators made non-respectful comments on the Vietnamese naivety during a private dinner at a restaurant in Hanoi. Their conversation was overheard and reported to the authorities, which formally complained to their American counterpart.[15]

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

A World Bank research report based on an econometric study, released in November 1999, explained that Vietnam was going to gain important advantages by signing the deal. The findings from this report, authored by Fukase and Martin (1999b), were then often repeated by various sources to highlight the irrationality of the Vietnamese behaviour in withdrawing from such an opportunity. However, two considerations could be made in trying to understand the preoccupation of the Vietnamese side.

The first consideration regards the methodology applied in that study and, therefore, the results achieved. The two authors explained that their study was based on a 'Global Trade Analyses (GTAP) model' which 'is a relatively static multi-sector multi-region Applied General Equilibrium (AGE) model' (Fukase and Martin 1999b: 10). That means that their study was not particularly concerned with the long-term developmental implications of the trade agreement. However, on the basis of their own estimates, Vietnamese output in textiles and clothing would have sensibly increased (respectively by 7 per cent and 31 per cent) as a result of expanded export to the American market, but *output in other more advanced sectors would have decreased* (Fukase and Martin 1999b: 15). Moreover, the trade agreement required Vietnam to liberalize imports and to concede American companies national treatment in such strategic areas as insurance, finance and telecommunications.

A second consideration about the impact of the trade agreement was included as a caveat in the same World Bank study. The export advantages in the key sectors for Vietnam, i.e. textiles and garments, would have been more visible in the first year of implementation; after that period the American administration would have regulated imports through a system of quotas which would have strongly curtailed the Vietnamese export potential. To illustrate the advantages of signing a trade agreement with the USA, the two authors quoted the Cambodian case and concluded with a surprisingly naive remark:

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

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

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

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

After a new round of negotiations, the bilateral trade agreement was eventually signed. The pact was then ratified by the two parliaments and came into force in December 2001. It is difficult to know which kind of progress made the Vietnamese government decide to accept the deal. Possibly, they got some concession in the telecommunications sector. The Vietnamese side insisted on maintaining a national majority ownership on foreign-invested enterprises, both in the production of goods and in the provision of services. However, the deal did not impose regulation on the provision of services across the border, thus creating an opening for foreign companies to sell their services from abroad (e.g. via the Internet) and, therefore, introducing a major factor of liberalization in the economy. The tortuous negotiations and diplomatic accident of the failed signature revealed anxiety about trade liberalization and provided an unusual glimpse of the internal policy discussion within the high echelons of Vietnamese policymaking. Eventually the Vietnamese authorities decided to sign the deal, because probably they felt that the costs for not signing were even higher. While the US government insists on economic liberalization in the developing countries to create a level playing field for both national and foreign companies, the international trade system is certainly not a level playing field: the big players tend to be at the same time those who also decide the rules of the game and those who hire the referees.

The opening of the American market for the Vietnamese export was not the free meal depicted by the *free traders*. During the first 2 years of implementation, Vietnamese exports increased substantially (Table 4.1). Then, as was to be expected, the US government reacted by trying to curb its trade deficit with Vietnam. Using a safeguard clause in the agreement, the American authorities

Table 4.1 Merchandise export to the USA

	1997	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
US$	388,189	553,408	608,953	821,658	1,052,626	2,394,746	4,554,859	5,275,810
Yearly variation (%)		143	110	135	128	228	190	116

Source: US national trade data

accused Vietnam of dumping and imposed trade restrictions. In the well-known case of the catfish quarrel, the American authorities went so far as to declare that the Vietnamese catfish could not be labelled as such, because the only real 'catfish' was the species existing in the USA itself. As a consequence of the American obstructions, export increase to the USA decelerated substantially. This bilateral trade agreement, however, had a lasting influence: it created a precedent for the WTO negotiations. All the concessions made by Vietnam to the USA through the bilateral agreement had now to be extended to all the other trading partners in order to access the WTO on the basis of the Most Favoured Nation rule.

After the enthusiasm of the period immediately preceding the entry into force of the bilateral agreement with the USA (when many companies expected a boom in their exports), the mood in Vietnam became soon quite sober:

> A report from the Trade Policy Department for Americas (TPDA), under the Ministry of Trade (MoT), claimed that the effect from the Bilateral Trade Agreement's tariff reductions, which have been in place for more than three years, has diminished.... 'Two-way trade growth is moving towards a standstill,' said an official from the TPDA... The Vietnam Trade Office (VTO) in the US predicted that garment export revenue is likely to be flat this year at around $2.7 billion, while agricultural export growth will inch ahead at between 0–2 per cent. Export of seafood products to the US decreased substantially by 23 per cent last year to more than $520 million. Likewise, frozen shrimp exports felt dramatically by 43 per cent last year following the anti-dumping penalties imposed on Vietnamese shrimp and catfish producers by the US Government (Vietnam Investment Review, 28 March 2005).

The WTO accession

At the time of writing, the Vietnamese government was in the final phases of negotiations for WTO access. The country had hoped to be admitted in the trade organization by the end of 2004, and it then hoped to achieve this goal by 2005. As we saw from the discussion on the trade agreement with the USA, the Vietnamese government was quite critical about the role played by the WTO. However, joining it was a choice that could not be avoided. Out of the WTO, Vietnamese exports are subjected to discrimination on foreign markets through high import tariffs and quotas. One of the reasons for the difficulties faced by

Vietnamese companies in exporting to the American market, notwithstanding the bilateral trade agreement, was that Vietnam was still competing with exports from other countries that could take advantage of better trade conditions. There were even reported cases in which foreign companies would buy from Vietnam and then re-export to new destinations (e.g. Thailand re-exporting Vietnamese fruit to the USA), making a profit out of the Vietnamese international discrimination. While quotas for exports in garments and textiles had been phased out by 2004 on the basis of WTO regulations, Vietnam would still face these kinds of export restriction for being an outsider. Entry into the WTO was deemed as a needed condition for exploiting Vietnamese export potential.

Accession into the WTO is, however, a delicate and risky matter. Two aspects should be considered here. First, WTO membership implies a commitment to liberalize trade and to reduce protection for national productions. Second, the WTO is not, as often understood, a kind of global free-trade area. The WTO is based on a system of uneven power relations that forces accession countries (typically, developing countries) to accept tougher conditions than the countries that are already members.

We have already discussed in the first part of this section that trade liberalization may have positive and negative effects for a developing country. The positive aspects are represented by easier export to foreign markets and by the removal of distortions in the national economy. While the advantages from easier export are evident to all, *free traders* argue that a country has an advantage to reduce import restrictions even if the other countries do not reciprocate. Reducing import tariffs allows lower prices for imported goods on the national market (thus making cheaper goods available to the poor) and forces the productive system to operate more efficiently in the sectors in which it has comparative advantages. This point is obviously not new: it is based on Ricardo and the tradition of studies that after him had updated and adjusted the theories on comparative advantages. We have already discussed that a simplistic use of these theories to the concrete reality of a world economy dominated by asymmetries in terms of power, access to information, economic development, technological capability, market size, etc., has been contested by a large number of economists, including in recent years the Nobel laureate Joseph Stiglitz and the rising star of international political economy Dani Rodrik. We have also recalled that a tradition of studies reflecting on the East Asia developmental state have indicated that a number of countries succeeded because they were able to defend and promote their infant industry through selective import restrictions. While orthodox scholars claimed that the Asian crisis was the result of distortions produced by the developmental state, we share the view of those arguing that the crisis was rather the result of distortions produced by the financial liberalization during the 1990s, which reduced the leverage of Asian governments in regulating the economy (Masina 2002a).

The experience from the region indicates that trade policy had been a key tool for long-term catching-up strategies. Also, from a shorter-term perspective, however, rapid trade liberalization can present severe risks, especially for the most vulnerable sectors of society. Even assuming that the law of comparative advantages can operate in spite of the many imbalances affecting the existing international markets, the human and social costs can be very severe. Workers in non-competitive sectors cannot always find jobs in competitive sectors, as their age, knowledge, gender or even expectations may not fit with the new job opportunities created in the competitive sectors. For instance, industrial workers cannot easily re-engage agriculture and men cannot find jobs in industries typically employing a female labour force. In neo-classical textbooks these imbalances will eventually be solved through the law of demand and supply, with a perfect allocation of all productive factors. In real life, this 'eventually' involves (at least in the short or medium term) quite a lot of people losing their jobs and diminishing income for families.[16] A similar reasoning can be made when it comes to production. Although their products may not be competitive on a liberalized market, farmers cannot shift to new cultivations or simply abandon agriculture to seek employment in industry from one day to the next. This argument is well known to rich countries (from the USA to Western Europe and Japan) that support their local farmers in many ways by protecting non-competitive production. In a poor developing country like Vietnam, these questions are even more daunting when considering the risks in joining WTO.

Despite all these threats, Vietnam was seeking accession into the WTO in 2005. Like most developing countries, Vietnam was not really free to choose, because being an outsider means being exposed to arbitrary treatment and discrimination by trading partners. But here comes the second issue to examine. The question is not simply whether Vietnam should join the WTO or not. The question is also *under which conditions*. The international financial institutions push Vietnam to implement reforms that create a level playing field and rule of law so as to make competition really fair and effective. The WTO is not enforcing a level playing field or a fair and effective competition. To access the WTO a candidate country must not only accept all the existing agreements, but must also be subjected to lengthy negotiations during which current members can demand extra concessions, with clauses that are more binding and painful than those valid for the countries already members of the organization. If the candidate country does not accept conceding to these 'WTO Plus' requirements, then powerful countries may put a veto on the accession indefinitely.

SOEs

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

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

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

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

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

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

The line of compromise between the Vietnamese authorities and the international financial institutions consists of two elements: divesture and *de facto* privatization of small and non-strategic SOEs, and restructuring of the strategic SOEs. This line of compromise is, however, not easy to implement. Between 1989 and 1991 the number of SOEs was reduced from about 12,000 to about 6,000 through liquidation and mergers of small companies operating under the control of local authorities. These measures were possible because, on the one hand, they were justified by the urgency of macroeconomic stabilization and, on the other hand, they regarded enterprises of relatively low importance in the overall industrial strategy. By the mid 1990s a substantial impasse became apparent. SOEs lost direct subsidies from the state, but they maintained preferential access to credit by state-owned banks and a great deal of leverage in influencing government decisions regarding trade regulation. The attempt to promote the 'equitization' (a more politically correct expression for privatization, with equities sold to employees and managers) of small and medium enterprises fell well behind targets announced by the national authorities and then postponed again and again (World Bank, *Macroeconomic Update*, January 2000: 7; World Bank, *Vietnam Economic Monitor*, Spring 2002: 16–17). A new round of equitization was conducted in 2003 and 2004, with respectively 436 and 657 enterprises transformed (World Bank, *East Asian Update*, April 2005). These changes, however, did not involve large companies, whose transformation was scheduled for the following years. Delays and resistances in the 'equitization' process related to difficulties in raising capital for the purchase of equities and to the managers' and workers' fears of losing the support granted to state enterprises. And an even more substantial obstacle was probably represented by the lack of enthusiasm of government (and local authorities) in giving up control over entities that were perceived as pivotal in maintaining a state-led process of economic development [see Painter (2003)]. In early 2005, a conference held under the chairmanship of the Prime Minister Phan Van Khai posed a new target for equitization during that year (*Asia Pulse*, 25 February 2005). However, international observers remained sceptical about a significant breakthrough in the short run.[17]

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

The limited equitization of non-strategic enterprises and the consolidation of the strategic ones into large conglomerates did not solve the problems of inefficiency and rent-seeking behaviour, and the poor performance of large SOEs continued to represent a major challenge for the financial sector reform. Further, the high level of indebtedness of SOEs (in the region of 20 per cent of the aggregate turnover) not only was a threat to the stability of the banking system, but also was a hindrance to the work of those efficient companies in the state sector:

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

Although the situation improved during the early 2000s, reforming of the state sector continued to pose a major challenge for the furthering of *doi moi*. However, the foundations for a successful reform strategy continued to be vaguely defined. The figures given year after year about the number of SOEs to be equitized, merged or liquidated altogether responded to the development orthodoxy preached by the international financial institutions and foreign donors. However, the government remained adamant on the need to maintain a strong state control on the economy. The national resistance to privatization *tout court* led the World Bank to try to endorse its recipes in a rather conciliatory way.[18] Apparently accepting that Vietnam was determined to maintain a relevant state sector, the accent was put on the conditions for making such a sector viable:

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

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

> [In Taiwan] in many sectors public enterprises have been used as the chosen instrument for a big push. This is true for the early years of fuels, chemicals,

> mining, metals, fertilisers, and food processing; but even in sectors where public enterprises did not dominate, such as textiles and plastics, the state aggressively led private producers in the early years. Later, during the late 1950s and 1960s, public enterprises accounted for a large part of total investment in synthetic fibres, metals, shipbuilding, and other industries… In advanced electronics, public research organizations and public enterprise spin-offs have been used to acquire and commercialise new technology; and even in the software part of the industry a public enterprise has had a large presence over the 1980s (Wade 1990: 110–111).

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

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

The Vietnamese consolidation of SOEs into large industrial conglomerates could be understood as an attempt to replicate the developmental experience in the region. It should be underlined that although South Korea is known for its large private *chaebols* and the Taiwanese economy is dominated by small and medium private enterprises, in both cases the post-war industrialization also relied upon large state conglomerates. In Taiwan, for instance, as late as in 1980, the six biggest public enterprises had sales equal to the 50 biggest private industrial concerns (Wade 1990: 178). Similar proportions also existed in South Korea. Large state enterprises played a leading role in a number of heavy industry and chemical sectors, apart from the provision of public utilities. Again, in the words of Robert Wade:

> [State enterprises are important] in sectors where the efficient scale of production is capital-intensive and large relative to both product markets and factor markets, and where linkages to downstream industries are high... The public enterprise sector is also used, whether for military or civilian production, as a substitute for attempts to induce private firms to enter new fields with high entry barriers. The main import-substituting projects of the

> 1970s – petroleum and petrochemicals, steel and other basic metals, ship-building, and nuclear power – were carried out by public enterprises; and major expansion projects in heavy machinery, heavy electrical machinery, trucks, and integrated circuit production have been undertaken by public enterprises (Wade 1990: 178–179).

In the interpretation presented by Robert Wade and other 'statist' scholars, an SOE's leading role in guiding the industrialization process may well be a positive factor. However, the impact of a large state sector in the economy depends on the system of checks and balances established in order to avoid rent-seeking behaviour and to force companies to stick to their targets.

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

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

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

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

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

But even conceding that the Vietnamese political leadership converges in adopting a strategy that emulates the developmental practices of Northeast Asia, does the country have the resources for implementing this kind of industrial model? One of the very few studies that have tried to give an answer to this question has been published by Dwight Perkins as a chapter in a volume edited by Stiglitz and

Yusuf and published by the World Bank (Jomo 2001b). This study is based on an analysis of the Chinese and the Vietnamese cases in comparison with other East Asian states. In the case of China, Perkins considers that state guidance cannot be conducted on a comparable scale with South Korea and Taiwan due to the size of the Chinese economy and the number of companies operating in its territory. In South Korea in the early 1970s, the largest 47 conglomerates accounted for 37 per cent of industrial production – and, therefore, it was possible for the government to control them. If China tried to create a few hundred conglomerates producing one-third of industrial output, these conglomerates would be 10 to 20 times larger than the South Korean *chaebols* in the 1970s (Perkins 2001: 258). Compared with China, the task to coordinate Vietnamese conglomerates would be a much easier endeavour:

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

Political will is, however, another proposition over and above having the capacity to carry out complex and delicate functions of industrial coordination. We will return to this issue in more precise terms in Chapter 6. However, we should underline here that the historical development of Vietnamese institutions and an industrial culture still rooted in a centrally planned economy mindset might be a formidable obstacle.

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

> The economic bureaucracy in both countries was built and trained to carry out a Soviet-style system of central planning, not the kind of strategic planning that existed in Korea and Japan… The latter system relied on guidance while the Soviet-style system relies on orders… It is likely that the decision to create a Korean or Japanese-style strategic planning system would become

> an excuse to retain as much of the old planning bureaucracy as possible. Some of these people could be retrained for the new approach, but many would stick as well as they could to the old ways they know best (Perkins 2001: 260).

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

A further issue should be considered in order to verify the replicability of the developmental state-type of industrial policy in Vietnam. The Asian countries that adopted a state-led model of industrial development did so through a political compromise between the state apparatus and the national bourgeoisie. For these countries, significant results in economic development was a *conditio sine qua non* for state survival against powerful threats – in Japan from colonial dominance and in Taiwan and South Korea from Communist contenders. A strong role of the state in promoting industrialization, even against the will of particularistic and backward factions among capitalist forces, was imposed on the basis of an ideology and an institutional practice that is closely reminiscent of European fascist regimes. A corporatist state was functional to a historical function of modernization, which went well ahead of the most regressive aspects of political repression and class exploitation (we will return to this interpretation inspired by Antonio Gramsci in Chapter 6). The existence of powerful threats made the local capitalist forces willing to accept limitations to their autonomy and allow the state to perform strong guidance functions [see Masina (2002a)]. This special linkage between state apparatuses and capitalist forces was a result (but also a condition for a further development) of a cohesive national bourgeoisie, which maintained its national roots during successive waves of economic internationalization. The existence of a rather cohesive national bourgeoisie can be understood as a powerful resource in the development of East Asia – note, incidentally, that nationalism has become the main leverage that China is using to mobilize its national forces and the Chinese communities overseas.

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

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

> Nominally, SOEs produce around 1/3 of GDP and possess a very high share of Vietnam's modern economic assets. They employ around 2 million people in a population of around 75 million. Yet, what are they? What are Vietnamese SOEs and how does this reality fit with the policy dialogue and real political processes? The basic argument made is that they are, in practice, sites of de facto joint ventures between various 'insiders' groups. It is the complexity and incoherence of these alliances that gives the political economy its stability, as it permits for adjustments as and when resources availability shifts: insiders can co-opt outsiders (such as sources of FDI), when they wish (Fforde 1998a: 6).

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

Financial sector

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

A major reform in the financial sector was undertaken in the late 1980s with the shift from a mono-bank system to a two-tier system. The functions of the central bank, i.e. the State Bank of Vietnam, came to be separated from those of four state-owned commercial banks (SOCBs). Through the 1990s the commercial leg of the two-tier system was further extended with the advent of new actors: joint-stock banks, joint venture banks and representative offices and branches of foreign banks. Although the banking system became more articulated after the early 1990s, the four SOCBs maintained a clear dominance. By 1998 these four SOCBs accounted for 82 per cent of total bank assets and 80 per cent of loans and deposits (IMF 1999a: 27). In early 2005, the largest four state-owned banks still controlled 70 per cent of mobilized funds and outstanding loans of the national banking system (Le Xuan Nghia 2005: 3).

The need to cope with a faltering supervisory framework, unclear regulatory standards and imprudent lending motivated a number of reforms in the late 1990s and early 2000s, and in particular compelled the merger or liquidation of a number of joint-stock banks that were undercapitalized and suffered from serious governance problems. However, the high level of non-performing loans was not only the result of unskilled or imprudent behaviour by bank managers, but was also the result of political interference. Lending to SOEs was often conducted on the basis of political decisions, with which even the four large SOCBs were forced to comply. At the same time, banks had limited tools for evaluating the feasibility of projects presented by small and medium enterprises, which often maintained only rudimentary accounting systems, or to assess effectively the collateral offered as a guarantee for loans. Overall, in the early 2000s the banking system remained strained and in a fragile condition, although it became increasingly able to support the expansion of the private sector, whose development was boosted by the approval of a new Enterprise Law in 2000 (see next paragraph).

In 2000, when Le Duc Thuy was appointed as the new Governor of State Bank of Vietnam, the central bank made public an estimate for which the non-performing loans (NPLs) represented 14.5 per cent of total lending. In the same period, another state publication reported an estimate for which NPLs could be as high as 28 per cent (World Bank, *Macroeconomic Update*, January 2000: 4). The fragility of the system was denounced in January 2000 by the international credit rating agency Standard and Poor stating that, owing to poor disclosure and underdeveloped risk management, systems ‘the Vietnamese system is likely to remain at the highest end of the global industry [risk] spectrum’ (*Agence France Press*, 24 January 2000). The concerns related to the excessive exposure to NPLs that motivated a state intervention through an injection of fresh capital, which by 2003 allowed the resolving of nearly 60 per cent of NPLs identified in 2000 (World Bank, *Country Updates*, 20 April 2004). This state intervention did not resolve completely the underlying issues in the banking system’s fragility, and NPLs from state-owned banks to SOEs remained difficult to assess. However, from the early 2000s the banking system became able to mobilize increasing amounts of credit. This credit expansion was largely directed to the needs of the fast-growing private sector, which by 2003 accounted for over 60 per cent of all bank credit extended (World Bank, *Country Updates*, 20 April 2004).

The improvements in the banking system operation did not remove the need for a radical reform of the financial sector. The shortcomings existing in the system were openly recognized in the strategy documents approved by the government and by the Communist Party ahead of the Ninth Party Congress. Like in the case of the reform of the trade system and the restructuring of SOEs, the long-term perspective and the ultimate aims of the financial sector reform also remained unclear. Once again, contrasting models can be examined to understand the alternatives available for the Vietnamese reform process.

In the post-regional-crisis environment there is little doubt about the need to enhance the governance of the financial sector. Improving the regulatory and surveillance systems is rightly the objective of a number of projects supported by bilateral and multilateral agencies. Nonetheless, it should be kept in mind that the so-called economic *miracle* attained by other Asian countries was the result of credit practices that clearly departed from Western orthodoxy (e.g. Wade and Veneroso 1998). One of the key tenets of the East Asian developmental state practices was the ability to channel investment to strategic sectors, where market forces would not have supported new initiatives without a strong guidance from the state. Not only were the state-controlled financial institutions able to mobilize national savings, but the state also intervened in directing credit to activities that would accelerate economic development.

> [The North East Asia developmental states] played an active role in creating market institutions such as long-term development banks and capital markets to trade bonds and equities, and in establishing an institutional infrastructure that enabled markets to work more effectively. These institutions and markets helped insure that the high volume of savings was invested efficiently. Governments also used their control of financial markets to help direct resources in ways that stimulated economic growth… [Stiglitz 1996: 173, quoted from Booth (2001: 35)].

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

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

However, 2 years later, in the Ten-Year strategy, the Communist Party felt the need to reiterate the need to separate policy lending from commercial lending, hinting that not so much has been achieved in this direction. The long list of objectives stated in the Ten-Year strategy is too vague and inclusive to give any sense of priorities or political commitment. Most of the prescriptions are reasonable whatever development model is selected. Only a few lines of this document could be interpreted as a hint of an attempt to move towards forms of strategic planning, although these prescriptions could also be coherent with more orthodox strategies:

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

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

Role of the private sector

Trade, SOEs and the financial sector have been key issues in the negotiations between the Vietnamese government and the international financial institutions for a long time. In the post-Washington consensus a new theme assumed increasing prominence: the role of the private sector as a resource for poverty reduction. The reasons for this increased attention have already been anticipated earlier in this chapter. Agriculture cannot provide jobs for the around one million young people that every year enter the labour market. The agricultural sector is actually already overcrowded, with high levels of underemployment, and incipient mechanization is due to increase redundancy drastically.[19] Nor are SOEs able to absorb more labour. Through the 1990s, SOEs also struggled to increase their competitiveness by increasing efficiency and by curtailing prior overstaffing. An attempt to accelerate the industrialization process and to make the country present in new strategic sectors made SOEs prioritize foreign investments in areas that were capital intensive and labour saving. This trend raises concerns about the possibility of generating new employment opportunities. For example, between 1990 and 1995 the manufacturing state sector almost doubled production at constant prices, but employment declined by about 13 per cent (Ronnås and Ramamurthy 2000: 16). Given the limited ability for agriculture and state enterprises to generate new jobs, it is quite understandable that the private sector is considered as the only viable alternative.

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

The economic slowdown produced by the regional economic crisis was the final push for making the government decide on more decisive action in support of the private sector. A new Enterprise Law was eventually approved, with validity from 1 January 2000. The immediate effect of this law was impressive: in 2 years, 36,000 new private SMEs were licensed, against 6,000 in the 2 years ahead of the new law (World Bank, *Vietnam Economic Monitor*, Spring 2002: 16). Part of this imposing result may be tentatively explained by the fact that a number of SMEs had previously operated without official approval – once again, it might have been the emergence of ‘fence-breaking’ activities (as discussed in Chapter 2) which motivated the government to recognize *ex post* a change already undertaken in society. In any case, it is apparent that the approval of the new law, and a number of related policy decisions in the following period (among which was the removal of the incompatibility between membership in the Communist Party and ownership of private enterprises), created a climate more favourable to the development of this sector. By the mid 2000s the private sector emerged as a major force in the Vietnamese economy, with large numbers of companies created every year. For example, 35,000 private enterprises were registered in 2004, representing a year-on-year increase of 26 per cent in number and 24 per cent in registered capital (World Bank, *East Asia Update*, April 2005).

Despite all these changes since the early 2000s, the international financial institutions argued that more had to be done to make the private sector develop its potentiality as a driving force in the Vietnamese economy and to generate more employment. This view was officially recognized by the Communist Party, which in effect seemed to have moved towards a more conciliatory position with regard to private economic activities. The Ten-Year strategy approved by the Ninth Congress in 2001 stated as an important objective:

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

Notwithstanding this official sanction, we saw already that, in crucial areas like access to credit, private SMEs faced a *de facto* discrimination in that the country's scarce financial resources were more easily available for SOEs. However, by the mid 2000s, private enterprises accounted for about 60 per cent of capital lent through the banking system. In other words, the conditions in which the private sector operated had improved substantially, but the situation was far from an 'equal competition' among the different sectors of the economy, as stated in the official documents.

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

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

Vietnam is an economy in which not only foreign trade represents a very high proportion of GDP, but also where FDI is expected to play a much greater role in promoting industrialization than was historically the case in other East Asian countries at the same level of economic development. Given the overwhelming control on FDI by SOEs, the perception that the private sector may become a vehicle of foreign dominance may be misplaced: there is no reason to guarantee that SOEs will not become the real Trojan horse for foreign corporations. In theory, state control over SOEs may provide a stringent adherence to national objectives. In reality, large SOEs tend to act quite independently, and the availability of large economic resources may even result in a strong influence over the state apparatus. The role performed by managers of large enterprises does not depend so much on the fact that these enterprises are private or state owned. Their position in relation to national and foreign forces depends on the question of whether these managers have developed a sense of national rooting and loyalty to national development objectives or they have been socialized to the logic of international capitalist elites. The power of attraction (money, connections, status, power) of international capitalist forces is not only limited to national representatives of foreign corporations, but also can easily extend over state managers and even administrative and political elites.

The modalities in which the elites and even the upper strata of the bourgeoisie in Third World countries are normally engulfed into the logics and interests of international capital are well-known phenomena. East Asian countries have often been pointed out as notable exceptions to this general trend. However, the resilience of the East Asian national bourgeoisie against the inducements coming from foreign capitalist forces was not (or not only) the result of strong SOEs, but of a wider socialization of national leaderships towards national development objectives. Thanks to this strong consensus, the state was able to extend its functions of strategic planning over the private sector.

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

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

The experience of Northeast Asian countries indicates that the question for a country that wants to achieve rapid industrialization is not so much public versus private, but which kind of state guidance over both the state and the private sectors. Of course (as we will discuss in Chapter 6) guidance requires particular administrative structures and particular skills. Vietnam in this sense is a *weak* state, i.e. it has limited capacity in performing complex guidance functions. This should not be confused with the strength to impose, through coercion, rules and regulations that can prevent the development of the private sector but cannot use its resources for achieving national development objectives.

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

Social diversification is undoubtedly due to emerge as a major challenge to a political system officially inspired by socialist finalities. On the one hand, there is the risk that the national bourgeoisie (alone or in alliance with international elites) may exploit the authoritarian state forms to serve its class purposes. That is, the national bourgeoisies may hijack the socialist state apparatus for anti-socialist purposes. On the other hand, there is the possibility of what the party leadership calls the 'peaceful evolution', i.e. social changes leading to a Western-style capitalist democracy. In this case also the national bourgeoisie (in close association with international elites) would seize power, leading to a reversal of the socialist national ideals.

Embarking on a process of radical reforms, including the transition towards a market-oriented economy, as Vietnam has done with the adoption of *doi moi*, is something that necessarily compels a change in the class-related structures. This is something that cannot be overlooked by a national leadership that is officially inspired by a Marxist dialectic. The development of an industrial private sector is part of this process of social transformation, but it is only one aspect of this process, together with other major changes such as the *de facto* privatization of land and a free labour market. The development of the private sector may lead to the creation of a competing leadership, challenging the Communist Party – but this is not the only contradiction that the Vietnamese political system is confronted with. To cope with a more fragmented society in terms of class structures the Communist Party may be forced to allow a more dialectic representation of class interests, e.g. like allowing a more independent role for trade unions. This is already partially happening, and in a more consistent way than in China – the

Vietnamese official trade unions have apparently found new vitality in dealing with private entrepreneurs, both national and foreigners (Chan and Nørlund 1999). Signs of an increasing awareness of the importance to create channels for interest representation are also visible in the dynamism of the National Assembly, where the debate about new laws is now open and meaningful and where ministers are confronted by assertive deputies in televised public hearings.

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

Readjusting the common wisdom: the myth of Taiwan

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

The taste of irony is also due to the fact that only a few years after it was the turn of Taiwan in facing severe problems, due to a global economy deceleration that curtailed opportunities for the Taiwanese companies in exporting to Western markets. Taiwan and Singapore had appeared to be insulated by the crisis of 1997–8, but their dependence on exports to the USA made them face economic disarray at a time when the rest of the region (including South Korea) was starting to recover from the regional crisis.

Notwithstanding the impasse in the early 2000s, Taiwan represents an outstanding example of successful industrialization and its experience remains an important case study for Vietnamese analysts. Thus, it may be useful to dedicate a few lines to discuss how the Taiwanese and the South Korean models have been presented to Vietnam; these interpretations are still circulating in the country, although they may have lost much of their vim and vigour.

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

> The resilience of the Taiwanese economy to the financial crisis in the region, and the vulnerability of the Korean economy, attests to the superiority of

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

> The fundamental issues are crystallised most vividly in the contest between the 'Korean model' and the 'Taiwan model' of export-oriented industrialisation. The Korean model, whose most prominent features are a high degree of economic concentration in the family-run *chaebol* (business conglomerates) and a heavy-handed industrial policy of picking and promoting 'winners', was a natural favourite of many in the Vietnamese government. Certainly it offers an approach with more of a socialist orientation than the Taiwan model, which features intricate networks of small and medium-sized private companies, and thus a low level of economic concentration and much less government guidance or support for industrial development. The Korean model was therefore seen as a way to have it both ways: a capitalist system, but with government in command (Riedel 1999: 26).

Riedel's remark that the Korean model was considered as appealing by the Vietnamese policymakers because it allowed the government to remain in command even in a market-based economy is certainly correct. We have already insisted on the need to make a clear distinction between a command economy and strategic planning. The Vietnamese policymakers would be deceived if they misunderstood this essential difference. However, the fact that the 'Taiwanese model' was substantially different from the 'South Korean' model when it comes to the importance of the state in leading the industrialization process can be contested.

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

> The state centred on Taipei has held fast to a transformative project (… the strong push for industrial upgrading) and institutionalised that project in dedicated agencies and programmes. In short, its regime goals and institutional arrangements were largely intact when it set about regulatory reform in the late 1980s and 1990s. Because of this, the Taiwanese approached liberalisation quite differently from Korean authorities. Korea perceived and

> used liberalisation in a way that complemented the larger goal of *dismantling* the structure of credit activism and industrial policy. In Taiwan, however, the process of liberalising capital inflows involved reregulation to *enhance* existing capabilities (Weiss 2000: 31).

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

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

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

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

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

5 Poverty reduction, inequality and social differentiation

After 15 years of very successful poverty reduction, Vietnam remains a very poor country. However, living conditions have improved substantially for the largest part of the population, both in urban and rural areas. By the mid 2000s there was a widespread optimism (shared by the government and the donors' community that Vietnam would be able to 'graduate' from the status of LDC by 2010 and would be able to meet the UN Millennium Development Goals (MDG) ahead of schedule in several areas. The impressive results achieved since the late 1980s were due to a sustained period of economic growth, which (contrary to the experience of many other developing countries) effectively managed to 'trickle down'. The Vietnamese experience was so remarkable that the country came to be considered a model for other developing countries in the region and beyond. The interpretation of this success, however, was open to alternative readings. Until the late 1990s the international financial institutions continued to warn on the need for bolder measures in liberalizing the economy if growth and poverty reduction targets had to be met. The government did continue to reform the economy, but the steps were certainly less daring and less rapid than those suggested by the international agencies. Was the Vietnamese success a result of the advice received from the international financial institutions? Or was success the result of the Vietnamese careful and gradual implementation of the reform process?

Notwithstanding the important achievements, continuing on a path of poverty reduction remains a daunting objective for the Vietnamese leadership. Even a temporary setback in the efforts to improve people's livelihoods could have a devastating impact in political terms. After the regional crisis, the ghost of Suharto's Indonesia is hanging over Vietnam. Discontent of people who feel excluded from the benefits produced by the reform process is a matter of major concern, especially considering that the Vietnamese leadership bases its legitimacy on socialist ideals of justice and shared prosperity.[1] This concern is neither remote nor abstract. There is no doubt that the Vietnamese virtuous circle of economic growth and poverty reduction had a dark side: inequality increased, leading to new forms of exclusion and vulnerability. Starting from a rather equalitarian structure, Vietnam at the turn of the century emerged as a country with significant social differentiation. The general perception, though, is that as long as the majority of the population experiences a substantial improvement in living conditions inequality will be accepted as a transitory evil. However, the signals that inequality is creating new tensions at the grassroots level are already visible.

Social differentiation also implies an increased diversification of class interests and, therefore, a need to revise the instruments for interests' representation through the political system. On the one hand, the political system needs to represent and support the poor and marginal, and of those who face modern forms of exploitation in the liberalized labour market. On the other hand, the government does not want to create straitjackets for those who are gaining the most from the reform process and whose increasing wealth is considered as a resource for the country's further development. Although there is a clear understanding of the potential conflicts that too large an inequality can ignite, it is not easy to balance the different interests.

Conventional economic theory suggests that, in the early stages of economic growth, a developing country will see a worsening in income distribution. The so-called 'inverted U' Kuznet curve shows that, in a first phase, an increase in average GDP per capita corresponds to a more unequal distribution of wealth, while in a second phase inequality is reversed. This theory, based on statistical evidence from Western countries that have achieved industrialization in the past, indicates that the transition from a traditional and rural-based economy to a modern and industrial-based economy involves a costly structural change. This structural change will see people moving from a traditional and backward sector to a modern industrial sector. This will create two kinds of economic gap: one between the modern sector and the traditional sector; the other within the modern sector, in which inequality will initially be higher than in the traditional sector. This theory seems to describe well the current trends in Vietnam, where some parts of the population, especially those living close to the two growth poles of Ho Chi Minh City and Hanoi, can exploit new opportunities created by the market economy. Others, those living in marginal areas (like the mountainous regions) and especially the members of ethnic minorities, remain confined in a poor traditional sector, while being exposed to the challenges produced by the modern economy. The Vietnamese trend, however, is not necessarily set to confirm a Kuznet curve prediction. Notwithstanding an increase in inequality since the socialist past, Vietnam maintains a rather equal distribution of income when compared with other developing countries in Asia and (much more so) in Africa and Latin America (see Table 5.2). Possibly, the Vietnamese development could repeat the experience of other East Asian countries in which poverty reduction became a resource for economic growth rather than an outcome of growth (World Bank 1993). The catching-up drive of the high-performing East Asian economies integrated strategic planning in the industrial sector with policies directed to support the rural population so as to expand the national market. The East Asian case seems to confirm the model promoted by Gunnar Myrdal, who suggested that the creation of a national virtuous circle through the creation of a national market for local producers was a necessary condition for escaping dependency and succeeding in economic development.[2] While many developing countries in other regions have empirically demonstrated the dynamics described by the first part of the Kuznet curve, i.e. increased inequality through integration into a modern market economy, very few have been able to climb on the second part of the curve through a successive better income redistribution. The international experience, therefore, signifies that 'growth with equity' and 'through equity' is the best strategy to achieve long-term and sustainable results in terms of growth and poverty reduction.

Economic growth, poverty reduction and inequality

At the end of 1999 two major studies about poverty were presented to the Consultative Group Meeting for Vietnam. These studies were part of the global reassessment of poverty dynamics discussed above, which culminated in the troubled publication of the World Bank's *World Development Report 2000: Attacking Poverty*. While the resignation of Ravi Kanbur indicated a lack of international consensus on poverty-reduction strategies, in the case of Vietnam these two reports did represent a bold step forward for the understanding of the multidimensional aspects of poverty.

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

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

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

> It is estimated that in the mid-1980's, seven out of every ten Vietnamese were living in poverty. A little more than a decade later – a decade of rapid

> economic growth – the incidence of poverty has halved. There have been very striking reductions of poverty in Vietnam… (World Bank 1999b: ii).

Data from the two living-standards surveys showed that the number of people living below the national poverty line had declined from 58% in 1993 to 37% in 1998. All the indicators presented in the two studies converged in confirming a substantial reduction in poverty. Even those living below the poverty line improved their condition during the 1990s because the depth of poverty decreased.

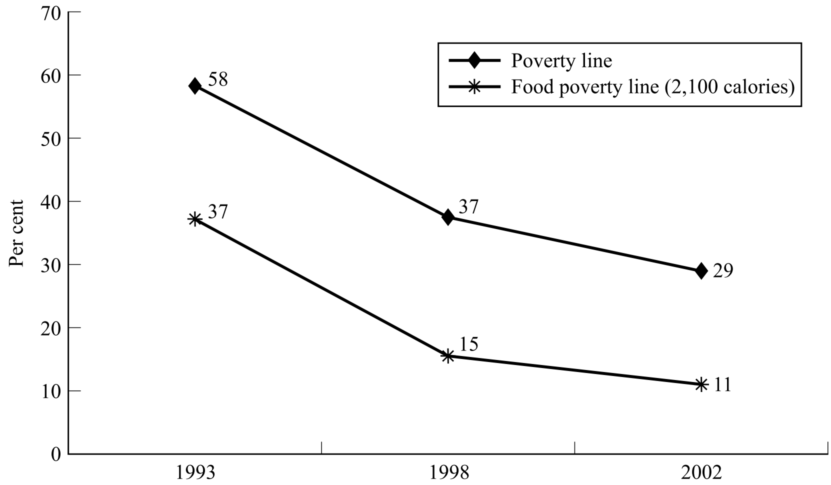
Importantly, the improvement was established not only by statistical data, but also by people's perceptions of increased wellbeing reported in the participatory exercises. However, vulnerability remained very high not only for the many who live slightly above the poverty line, but even for the more well-off strata of the population. The weakness of formal safety nets made households very vulnerable to shocks, e.g. the illness of a family member could rapidly drive a household with sustainable incomes into poverty traps (e.g. through debts).

Another investigation conducted by a team of European and Vietnamese researchers[3] indicated that informal safety nets were not able to compensate for the loss of the 'iron pot' that, at the time of socialist cooperatives, sheltered orphans, widows or other vulnerable groups. In many communities the coverage of informal safety nets (especially in the North) became stronger when more resources became available in the late 1990s. However, these safety nets were most effective for extended family or clan members and, in some cases, neighbours, while members of different ethnic groups and migrants tended to be much less integrated, if not totally excluded.

Notwithstanding the weakness of formal and informal safety nets, the investigation confirmed an improvement of living conditions even for many vulnerable groups, sometimes benefiting from new services provided by the market. For instance, migrants and marginal people (like street children) could find shelter in Hanoi by renting a room for 2,000 dong per night, thus at least escaping the hardship of sleeping rough – something that would have been impossible until the early 1990s (Gallina and Masina 2002). Seasonal or temporary migration to a major city (in our investigation from Hung Yen in the Red River Delta to Hanoi) could allow households to survive in their village, and in some cases to accumulate savings to invest in agricultural diversification or in off-farming activities.[4]

Two new living-standards surveys were conducted in 2002 and 2004 (Figure 5.1). Data from 2002 indicated that poverty reduction had progressed further during the period 1998–2002, although at a slower pace than in the previous 5 years.

Preliminary analysis of data from 2004 survey, however, suggested that the progress had been wider than the one reported by the 2002 survey, possibly because the panel selected in 2002 was not consistent with those of 1993 and 1998. While statistical calculations remain very complex in a country where a large part of the economy is informal and both income and consumption are only partially reflected in monetary transactions, the general consensus is that Vietnam also continued to succeed in a fast poverty reduction after 1998.



Source: GSO and World Bank estimates based on Vietnam Living Standard Surveys (1993, 1998 and 2002)

Figure 5.1 Poverty incidence, 1993–2002

> The resulting improvement in living conditions has been widespread, and preliminary figures from the Vietnam Household Living Standards Survey (VHLSS) 2004 indicate a substantial decline in the poverty headcount since 2002, the year of the last survey. While it is still too early to report a poverty rate with confidence, there is a clear expectation to see sustained progress towards the attainment of the Vietnam Development Goals (VDGs) and other key development outcomes (World Bank, *East Asian Update*, April 2005).

The set of living standard surveys, participatory poverty assessments conducted in the frame of the CPRGS, and an increasing number of studies by independent researchers on poverty, vulnerability and inequality have created a good basis for a nuanced analysis of the relations between economic growth and poverty reduction in Vietnam.

Agricultural diversification was identified by *Attacking Poverty Vietnam* (World Bank 1999a) as the driving force in poverty reduction. Table 5.1 shows that agricultural incomes have increased by 60.6 per cent over the period 1993–8, raising the importance of agriculture as a share of income for rural households.

Attacking Poverty also reported that inequality had slightly increased over the same period. For example, the ratio of the richest to the poorest quintile went up from 4.9 in 1993 to 5.5. However, by international standards Vietnam remained a moderately equal society and the levels of inequality were comparable to those of South Asian countries and were lower than those of other Southeast Asian countries (World Bank 1999b: 69). In Table 5.2, based on comparative data provided by the UNDP *Human Development Report 2004*, we selected a number of Asian

Table 5.1 Sources of agricultural incomes in rural Vietnam, 1993–8

	Average household income (Constant 1998 '000 VND)		*Growth over 5 years, 1993–8 (%)*	*Share of household income*	
Source of income	*1993*	*1998*		*1993*	*1998*
Agriculture	2,867	4,606	60.6	37.2	46.8
Non-farm enterprises	1,443	1,884	30.5	18.7	19.2
Wage income	1,687	1,685	–0.1	21.9	17.1
Other income	1,710	1,663	–2.8	22.2	16.9
Total	7,707	9,838	27.6	100.0	100.0

Source: World Bank (1999b: 51)

and Latin American countries to compare with the Vietnamese data, while we kept out of the table African countries that normally have a very high level of income polarization. As was to be expected, Vietnam performed much better than Latin American countries. But Vietnamese data also show less inequality than most Asian countries – particularly relevant and worrying is the comparison with China, whose high level of inequality appears as a serious warning for Vietnam given the similarity in the two reform processes. In the selected panel, only South Korea and Indonesia in East Asia and Bangladesh and Sri Lanka in South Asia demonstrate a more egalitarian social structure than Vietnam.

An important aspect of the moderate increase in income inequality in Vietnam is that this was the result of a growing gap between urban and rural areas, but there were 'almost no changes in inequality within rural areas' (World Bank 1999b: 70). While the increasing gap between rural and urban areas (as visible in Figure 5.2) compels serious concern, the low level of inequality within rural areas (where most of the population still lives) is somehow a positive factor, as we will discuss further in the next section.

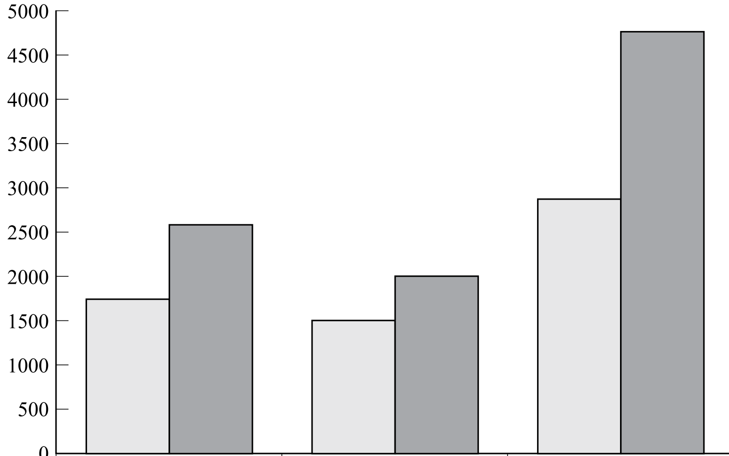
While there is a unanimous consensus in acknowledging the Vietnamese success, the debate is open about the future strategies. This debate presents aspects that are apparently paradoxical – but document well the ongoing shift in development wisdom worldwide. A non-orthodox reader from the 1980s would have hardly believed that the following quotation could ever appear in an official World Bank publication.

> Although rapid growth will be central to reducing poverty in the coming decade, the *quality and pattern* of growth will also be important. This is because better quality of growth, in the sense of more evenly distributed growth across the population, will reduce poverty more even with a lower growth rate. A lower growth rate that is accompanied by sufficient higher employment-creation with a larger share of manufacturing jobs created in rural areas, where most of the poor live, is likely to be more poverty-reducing

Table 5.2 Comparative perspective of Vietnamese inequality

			Share of income or consumption (%)				*Inequality measures*		
HDI rank	*Country*	*Survey year*	*Poorest 10%*	*Poorest 20%*	*Richest 20%*	*Richest 10%*	*Richest 10% to poorest 10%*	*Richest 20% to poorest 20%*	*GINI index*
28	Korea, Republic of	1998	2.9	7.9	37.5	22.5	7.8	4.7	31.6
138	Bangladesh	2000	3.9	9	41.3	26.7	6.8	4.6	31.8
111	Indonesia	2002	3.6	8.4	43.3	28.5	7.8	5.2	34.3
96	Sri Lanka	1995	3.5	8	42.8	28	7.9	5.3	34.4
112	Vietnam	1998	3.6	8	44.5	29.9	8.4	5.6	36.1
130	Cambodia	1997	2.9	6.9	47.6	33.8	11.6	6.9	40.4
25	Singapore	1998	1.9	5	49	32.8	17.7	9.7	42.5
76	Thailand	2000	2.5	6.1	50	33.8	13.4	8.3	43.2
23	Hong Kong	1996	2	5.3	50.7	34.9	17.8	9.7	43.4
94	China	2001	1.8	4.7	50	33.1	18.4	10.7	44.7
83	Philippines	2000	2.2	5.4	52.3	36.3	16.5	9.7	46.1
45	Costa Rica	2000	1.4	4.2	51.5	34.8	25.1	12.3	46.5
59	Malaysia	1997	1.7	4.4	54.3	38.4	22.1	12.4	49.2
43	Chile	2000	1.2	3.3	62.2	47	40.6	18.7	57.1
72	Brazil	1998	0.5	2	64.4	46.7	85	31.5	59.1

Source: UNDP, *Human Development Report 2004*. Table reorganized by author



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

Source: World Bank (1999b: 71)

Figure 5.2 Growth in real GDP per capita expenditure by rural–urban, 1993–8

> than a higher growth rate that is less employment-creating or more urban-biased. It is therefore important for Vietnam not only to ensure a high rate of growth but also to promote a better quality and pattern of growth (World Bank 2000: 2).

For years the World Bank, together with her sister institution the IMF and a large part of development orthodoxy, had been criticized for supporting an approach for which the benefits of growth would naturally ‘trickle down’ to the population. After the Asian regional crisis and the demise of the Washington consensus the tone of the debate has changed substantially. Although we challenge the view that the agency embarked on a significant paradigm shift, certainly the World Bank in Vietnam has been at the front line in exploring new directions. However, reading between the lines of the World Bank documents it becomes clear that the emphasis on the quality of growth serves the aim to justify the continuation of traditional approaches to development. Quality of growth is to be obtained through a more significant role of the private sector in the economy, which can be achieved by liberalizing, privatizing, etc. That is, the key tenets of the old orthodoxy are justified with an apparent change in perspectives that, in reality, conceals a substantial continuity of purposes.

Relying on the positive correlation between economic growth and poverty reduction experienced by the country since the early 1990s, the Vietnamese authorities seem to be scarcely convinced by the argument of ‘quality of growth’ versus 'quantity of growth'. Rather, the 'quality of growth' they are interested in is the possibility for Vietnam to achieve an equal footing in international economic relations by developing a modern industry in strategic sectors. The experience of many years of war should be taken into account for understanding this attitude. The controversial examples from the region also point in the same direction – although Vietnam should not neglect that the successful poverty reduction in East Asia was accompanied by regressive and authoritarian political practices aimed at consolidating the capitalist regime. In the East Asian fast developers the role of the state in promoting poverty reduction was not much in redistribution, but in creating the preconditions and enabling opportunities to allow a large part of the population to lift itself out of poverty.

Although since the launch of *doi moi* the Vietnamese policymakers have been more concerned with growth than with redistribution, the country has been able to take advantage of the positive legacy of the socialist period. This legacy has been a decisive factor in enabling a large part of the population in seizing the new opportunities created by the reform. The comparatively well developed educational and health-care systems (considering the country GDP per capita), the relatively equal redistribution of land, and large investments in modern infrastructures have been the building blocks for successful poverty reduction. Although challenges in terms of equality and vulnerability remain immense, by the mid 2000s Vietnam had achieved very remarkable results. It had enabled a virtuous circle in the economy for which the different regions of the country (with the exception of the mountainous regions inhabited by ethnic minorities) moved in the same direction, if at a different speed, and where the national economy became more integrated through the creation of a national market for both agricultural and industrial products. At the same time, the country integrated with the international market, with a realistic perspective to escape the damnation of static comparative advantages and to climb to more value-adding productions.

Social differentiation, inequality and vulnerability: challenges to poverty reduction achievements

While poverty reduction must be acknowledged as successful overall, and indeed remarkable by international standards, social differentiation has emerged as a significant dark side and potentially as a major threat for the future. Social differentiation is largely related to differences in the ability and conditions for seizing the opportunities created by economic liberalization, and these differences account for the increasing economic gap between urban and rural areas, and among the various rural regions. When market-oriented reforms were unleashed, key urban areas, special economic zones and rural areas in the two deltas were in a better position to benefit from it. People living in more marginal areas had fewer opportunities, while facing new threats related to the dismantling of the socialist redistributive system.[5]

One could argue that the regional variation in the impact of economic reform had repeated in Vietnam what had already been experienced by many other developing countries. Therefore, one could wonder why the Vietnamese authorities did not do more to mitigate the tendency towards social differentiation. Like for the Chinese reform process, during the implementation of *doi moi* it was accepted that some regions and some sectors of the economy would grow faster than others. The hope was that, once the economy was set in motion the richest regions would act as engines of growth, pulling the rest of the country towards prosperity. Given the results of similar strategies in other developing countries, the Vietnamese choice to move along this path could appear surprising, especially considering that, for the government in Hanoi, economic inequality remains an evil to be contrasted.

Three factors should be kept in mind in trying to interpret the Vietnamese policymaking, explaining at least in part the conditions behind the adoption of critical measures in the *doi moi* process. First, the decision to dismantle many features of the command economy, including agricultural cooperatives and the free and universal access to public health care and primary education was not as much a government choice as a need imposed by severe economic constraints. Second, the government maintained a strong commitment to redistributive policies, although the resources at its disposal were obviously not adequate to the aim. Third, and related, as the economic conditions in the country began to improve sensibly, the government became more confident that, with a strong commitment, it could succeed in reducing the gap among regions through state interventions in terms of infrastructures, safety nets for the poorest, and support to economic initiatives (i.e. SOEs) across the country.

We have already discussed in previous chapters how the launch of *doi moi* was largely the result of a systemic crisis due to a variety of international and national causes, which eventually motivated the adoption of a new course in economic policy (building upon experiments conducted since the 1970s). After reunification, the party and government indicated universal and free access to basic education and health services as rights of citizenship. Each commune was meant to host not only a primary school but also a commune health centre (CHC) to handle basic health-care needs. Financing of this extended network of schools and health centres depended on the state central budget and on the communes themselves through resources generated by the production cooperatives. As documented by Jonathan London (2004), the increasing economic shortage during the 1980s made the central government unable to meet its commitment, leading to a decline in the quality of services. The situation became even more critical with the dismissal of agricultural cooperatives: basic education and community health centres 'become increasingly dependent on local finance precisely as the state's local capabilities began to collapse' (London 2004: 130). The introduction of 'cost recovery' schemes, i.e. user fees, was a way to guarantee a resumption of services in a situation of severe limitations in the state budget. The reliance on 'cost recovery' schemes, however, was also maintained after the economic situation had substantially improved and the state was, therefore, able to channel more resources to education and health-care services. A combination of larger state investments in the social sector and household contributions through user fees allowed a major improvement in the quality of services through the 1990s.

Enrolment in primary and secondary education increased dramatically (London 2004: 135). Although the cost for user fees became a major burden for many households, the improvement in quality made the investment worth the cost; this explains why school enrolment expanded at the same time in which the cost of education increased faster than household incomes.[6] In the same way, the decline of the commune health centre, which had played a paramount role in the provision of health-care services in the past, should be considered against the backdrop of a major change in the quality of demand. In the case of problems more serious than flu, families tend now to go directly to district or provincial hospitals, if not private health-care centres, because commune-level structures are not (and cannot be) staffed with fully trained medical doctors nor are they equipped with modern technologies.

The increased demand in terms of quality creates a new pressure on state finance and explains the continued reliance on user fees. Even more substantial user fees are required 'under the table' by health and educational officers to compensate for low wages. Only a limited number of poor households are covered by free health insurances (which, however, are associated with a negative bias because they are discriminated against compared with patients able to pay cash). Primary education is officially exempted from user fees, but local authorities normally charge construction fees or other contributions from parents, and also in this case informal contributions are often paid to ensure that pupils are properly taken care of by underpaid teachers. Thus, if the quality of service provision has improved substantially since the early 1990s, in line with the general increase in the country's wealth, then health care and education have become sensitive areas for enhanced inequality (Gabriele *forthcoming*; London 2004). In the case of health care there is a growing amount of evidence that the poor have been negatively affected by the cost of user fees and by the spread of private health-care institutions. Although the problem has been identified by the government and is at the centre of policy dialogue with donors, the state budget for health care remains low as a percentage of GDP by international standards (Gabriele *forthcoming*). By the late 1990s, inequality in the access to social services had also become a major obstacle in further extending the poverty reduction effort.

As we noted above, state policies are inspired by the idea that the key answer to poverty remains the effort to enable the conditions that allow people to support themselves. The state budget allocation contains important redistributive mechanisms, transferring resources from richer to poorer provinces, continuing practices inherited from the socialist planning period (Beresford 2003). These redistributive policies also include rudimentary safety nets, like the mentioned health insurances for the poorest and exemption from (formal) school fees for poor children. However, the real core of redistribution is in infrastructures and income-generating initiatives, including land allocation. Successful poverty reduction initiatives like 'Programme 135' and the 'Hunger Eradication and Poverty Reduction' have at their core this kind of perspective, whether they target ethnic minorities or Kinh people. However, after many years of impressive results in poverty reduction, there is a growing concern that the next targets will be difficult to reach even if the country should continue to sustain strong economic growth for a number of years. Ethnic minorities (living in mountainous regions) and other marginal groups are less likely to be able to benefit from new opportunities exactly because of their marginality. As the World Bank representative Klaus Rohland commented in a press conference presenting a report monitoring the MDG progress:

> There are … sub-groups of the population that growth will not automatically lift out of poverty: ethnic minorities, people dependent on fragile forest lands for a living and, possibly, the growing numbers of rural landless households in certain parts of the country. [And some groups] see their vulnerabilities increase as the growth process intensifies. These vulnerable groups include migrants to urban areas, employees of private firms without trade unions, farmers losing land to developers and young people infected by HIV/AIDS (*Agence France Press*, 13 April 2005).

Inequality and vulnerability are themes that are bound to become more central in the Vietnamese policy debate once the fulfilment for remarkable results in poverty reduction leaves space for new demands from society. While in the current political debate poverty is associated with backwardness, there are aspects of poverty and vulnerability that are in fact a result of modernization and integration into the wider economy.

6 Interests representation, role of bureaucracy and governance

Previous chapters suggested that the rationale behind the reform agenda supported by the international financial institutions is inspired by neoliberal orthodoxy, although repackaged as a post-Washington consensus that blends the old paradigm with poverty-oriented measures and more open debate on policies. In order to challenge the neoliberal discourse, Chapter 4 relied on the experience of the region interpreted along the lines of a ‘statist’ tradition. By contrasting competing approaches with development, this work tries to contribute to a wider framework for analysis of the current debate in Vietnam at a very critical stage in the reform process. Chapter 6 will proceed in the same direction. Chapter 4 claimed that, behind the appearance of general consensus on the direction of the reform process, the Vietnamese administration is looking at different experiences for inspiration and a conspicuous interest in the models adopted by other East Asian nations is visible. At the same time, Vietnam is under a strong pressure to implement governance models that are more compatible with liberal market mechanisms than with state-led industrialization attempts. While there are significant hints that Vietnam is adopting some of the institutional arrangements of a ‘statist’ tradition, the official debate is, as usual, largely dominated by the discourse promoted by the international agencies. The aim of this chapter is to look at how these competing models are influencing Vietnamese policymaking and to delineate the inherent incompatibility among governance models based on contrasting views on the role that the state and economic institutions should play in order to promote sustainable economic development.

This chapter will only touch upon selected aspects of governance, and particularly economic governance, as relevant for our purposes. We are aware that this selective approach will leave out from the discussion a number of key issues that are very important for Vietnam, but which would force us to depart from the line of argumentation we have adopted.[1]

State functions and the role of bureaucracy

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

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

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

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

> The ideological hypothesis could be presented in these terms: a passive revolution would be expressed by the fact that, through legislative intervention by the state and through corporatist organization, more or less deep modifications in the country's economic structure would be introduced in order

> to reinforce the element of the 'production plan'; that is, socialization of and cooperation of production would be reinforced without affecting (or only regulating and controlling) profit appropriation by individuals and groups. In the concrete frame of Italian social relations, this could be the only viable solution for developing the industrial productive forces under the direction of the traditional ruling classes, in competition with the most advanced industrial formations of countries that monopolize raw materials and have accumulated immense capital (Gramsci 1977: 1228, my translation).[2]

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

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

The very strong political mandate to state institutions in Northeast Asian countries allows an understanding of the unique nature of the institutional arrangements. We may agree that, in some regards, even in Northeast Asia the dichotomy between politics and bureaucracy was often more theoretical than real, with money politics always playing an important role. However, three considerations can be advanced. First, politics became more corrupted and seized by particularistic demands when the threat of state survival became less urgent. For a long time, corruption was integrated into a framework of state guidance and was not in contradiction to it. Second, powerful and competent agencies within the state bureaucracy did exist and were able to operate with an autonomy that has no equal in other regions. Third, if it is true that the bureaucracy (even the most insulated agencies) had strong linkages with capital, then the mandate the bureaucrats received was to make these agencies provide services to the advanced capitalist sector as a whole more than to a specific interest group.

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

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

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

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

> In contrast to existing approaches, GI [Governed Interdependence] theory rejects the notion that the state's ability to 'impose' its decision is central to its

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

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

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

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

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

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

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

> Their governments [Thailand, Malaysia and Indonesia] are not hopelessly captured and corrupt but, on the other hand, they are frequently beholden to sectional interest groups, and tainted by nepotism and cronyism. Nevertheless, the Malaysian, Thai and Indonesian governments have been capable of coherent policy formulation and implementation in the face of external shocks, and have thus been able to maintain the momentum of growth over several decades. In this, they resemble Taiwan and South Korea to a greater extent than regimes in other parts of the developing world (Booth 2001: 45).

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

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

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

How does Vietnam fit into this model of state–business relations? Behind the appearance of a top-down dirigisme reminiscent of the past command economy, in reality, institutional settings and forms of policy negotiation since the early 1990s have become quite convergent with the East Asian experience. In a recent study on business association and policymaking Jonathan Stromseth (2003) reveals that, through the 1990s, Vietnamese authorities have supported the transformation of a number of business associations into bodies able to offer both to channel reliable information to state agencies and to facilitate a coordinated implementation of policies. The nature and the role of these business associations are taking a shape akin to those of Northeast Asian developmental states.

> As the political leadership in Vietnam has sought to pull officially-sponsored business associations into corporatist forms of policy-making and interest representation, some of these associations have responded by articulating strong demands on their constituents' behalf. The intensity of this response appears to suggest that bottom-up pressures are reinforcing the evolving pattern of increased representation, with the associations being pushed to assume stronger advocacy roles by their constituencies in Vietnamese society (Stromseth 2003: 64).

The important role of these business associations in facilitating coordination between government agencies and enterprises was officially acknowledged and also supported in strategic government documents in the early 2000s. The CPRGS indicates as one of the government priorities the strengthening of representative business associations:

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

Among these business associations, a paramount role is played by the Vietnam Chamber of Commerce and Industry (VCCI). This association was created in North Vietnam in 1963 in a centrally planned economy context as a *de facto* government agency. With *doi moi* the function of this association changed: on the one hand, becoming more representative of its own constituency and much less an instrument of top-down directives; on the other hand, by virtue of its ability to represent the business world, it came to be associated with government policymaking with important consultative functions (Stromseth 2003). The consultative function of the VCCI and other major business associations seems to be a clear indication of a policymaking system that, in moving out from a command economy tradition, is taking the direction of government coordination with modalities reminiscent of those of other Asian countries. The evolution in the role of these business associations in their function of corporatist representation and their growing importance in the coordination with state agencies is confirmed by the expansion of their voluntary membership. Again, the most significant is the case of the VCCI, which grew from 93 members in 1963, to 700 in 1992, 1,600 in 1995, and 6,700 in 2002. Notably, as noted by Stromseth (2003: 66), more than half of these member enterprises are private companies. The representative role of the VCCI is further enhanced, as 'membership also includes other Vietnamese business associations – 101 at present count – many of which possess substantial memberships themselves' (Stromseth 2003: 66).

As we can see, since the early stages of the reform process, Vietnam has tried to create corporatist forms of state–business relations, which are quite reminiscent of the relations existing between other East Asian countries and their business world. Although Vietnam certainly has several channels to exert guidance over the business sector, the question that remains to be answered is whether Vietnam has or can achieve the *capacity* to implement such complex and sophisticated functions as are needed for successful strategic planning. As we discussed in Chapter 4 in the section on SOEs, in a comparative study on China and Vietnam, Perkins (2001) suggests that, in principle, Vietnam could be able to exert coordination over its state sector – current state-owned conglomerates control a large share of the Vietnamese industrial production, but their dimensions are still manageable for state apparatuses. Strategic planning requires a clear departure from the consolidated practice of the command economy, but this would require a change in the mindset of many state officers. The question, therefore, is how to reach the kind of capacity building and institutional change that could enable the Vietnamese bureaucracy to support a modern form of state-led industrialization. As we will see in the next section, this is not the direction in which the Western tradition of *governance* is leading Vietnam.

State capacity and modern governance

Institutional change and capacity building are not new concepts for Vietnam (nor for other developing countries). Programmes supporting modern *governance* are currently implemented in Vietnam with the support of a large number of donors and with the UNDP, the World Bank and the Asian Development Bank in the frontline. While aspects of this governance debate are rather uncontroversial, we would like to discuss here the rationale of these programmes and the kinds of capacity building and institutional reforms that they promote from our perspective inspired by the regional experience.

The reading of the reports drafted by the various international agencies indicates that there is a concrete effort to help Vietnam improve the work of the state administration in a number of key areas. Increasing transparency and fighting corruption are obviously important aims. *Governance* is presented in Vietnam along the same lines as the international agencies have recently done throughout the developing world: transparency, accountability, human development and salary reforms, rule of law, etc. The recipes include strengthening the quality of administrative staff. The state should be encouraged to focus on more-capable and better-paid civil servants, and this notion is normally associated with the recommendation to reduce the number of employees in the public administration. As usual, in the case of Vietnam the recommendations are packaged in a clever and careful way. For instance, in the *Vietnam Development Report 2002*, the World Bank is suggesting that the 'downsizing' of public administration (needed to allow better wages) should be implemented carefully, considering the negative experiences in many other countries (World Bank 2001: 58). A more recent report published by the World Bank (2005) is even more cautious in supporting downsizing. Much would seem to have changed from the time when the hard-core development orthodoxy of the first period of the Washington consensus identified the state as an obstacle for the optimal operation of market forces and economic development. Thus, do the governance reforms suggested to Vietnam represent neutral and benevolent proposals?

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

> One of the key differences between the governance programs advocated within the framework of the Washington consensus and the Post Washington consensus [is that] in the former, governance connoted the effective implementation of policies of economic liberalisation while in the latter, there is greater emphasis on governance as an instrument to promote the regulative capacity of the state… Indeed, the recent emphasis on governance is reflected in the increasing attention given to the provision of regulatory frameworks in previously deregulated sectors of the economy. And this is where the PWC can be clearly distinguished from the Washington consensus: it envisages a strong state – albeit restructured – in a more regulatory direction as a precondition for liberal markets (Jayasuriya 2001: 2–3).

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

Rightly, Painter (2005: 263–264) suggests that the post-Washington consensus approach to governance is not unwelcome for many Vietnamese policymakers, as they see it as compatible with managerial functions of the state, through a selective mix of a 'statist' and neoliberal recipes, in pursuing industrialization strategies typical of a latecomer economy. Also referring to Jayasuriya (2002), Painter (2005) sees a line of convergence between the statist approach and the neoliberal vision of governance contained in the post-Washington consensus in a technocratic and managerial conception of society. This analysis touches upon a central feature of modern neoliberal governance. In reinventing the role of the state, the post-Washington consensus (notwithstanding its claim to wider consultation with stakeholders and participatory processes) promotes the development of technocratic institutions that mediate social and economic interests not on the basis of an open democratic process, but through decision-making justified on the basis of technical expertise and managerial capacity. In this inherent corporatist and indeed authoritarian form (even if in velvet gloves), the statist tradition and modern neoliberalism have a point of convergence that may be of interest for sectors of the Vietnamese leadership as a possible fix for maintaining a state control on the economic development process. Here, however, we want to emphasize the differences between modern neoliberal governance and statism, which are even more important than the similarities. These differences are deep in terms of both policy functions and institutional arrangements.

In a modern governance approach, policy aims are implicit and not part of an open political negotiation. At the very bottom of this neoliberal governance vision there is the belief that viable institutions are needed conditions for allowing the free market to operate on the basis of an optimal allocation of resources. Institutions have the role of creating a level playing field for economic development by removing possible causes of market failures. The functions of a state institution in a statist tradition are instead very different. The basic assumption is that catching up cannot be achieved through a normal allocation of resources on the basis of a self-regulated market. The state has the function of creating selective distortions so as to maximize results. Institutions are not simply charged with technical regulatory functions, but with a clear and open policy mandate. Thus, the institutional settings in these two approaches are quite divergent. In a post-Washington consensus modality, the emphasis is on a central bank independent from government, on a ministry of finance promoting financial restraint (keeping inflation low) rather than looking to policy outcomes (employment, growth, etc.), and on an overarching rule of law (including legal requirements from international treaties, like those deriving from WTO membership) which predominates over the rule of the parliaments. In a statist tradition, the emphasis is on institutions able to carry out strategic planning, with catching-up outcomes as keystone and the rule of law as dependent variable. In the case of Vietnam, one view sees progressive liberalization and the creation of skilled technocratic elites as the condition for making the national economic forces fully able to exploit existing resources. The other view sees a transformation of planning institutions (e.g. the MPI) into an agency for strategic planning as the condition needed to enable a successful industrialization process, removing the constraints posed by a condition of dependency and taking advantage of opportunities available for latecomers.

State functions and interests representation

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

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

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

For a market-oriented economy 'with socialist characteristics' the experience of the region is rather problematic. Although Vietnam may be tempted to emulate the successful economic trajectory of other Asian countries, the Communist Party may obviously want to avoid moving towards a situation in which strategic planning responds to the needs of a national capitalist bourgeoisie.

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

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

The concrete dimension of class-relevant dynamics remains barely explored by the current literature on the Vietnamese reform process. In rural areas (where most Vietnamese live and work), *doi moi* has implied a redistribution of land to households, including the rights to rent, mortgage or inheritance. Officially, land cannot be sold, because it remains the property of the communes. In reality, use rights are understood as property and a market for land has developed. In particular, in the South there are increasing indications that poor peasants may be forced to sell their land because of debts, and in some cases they may migrate to urban areas in search of new opportunities. However, as indicated in the previous chapter, inequality within rural areas remains rather low by international standards. Migration from and within rural areas is mainly the result of a very limited amount of land available to each household and a lack of off-farm activities able to absorb the redundant labour force. Although inequality is increasing, there is only limited evidence of the emergence of a new landed gentry, with distinct or opposite interests compared with those of the average peasant. The grassroots representative system is normally able to reflect the needs of the majority of the population and is only occasionally being encroached upon by the local bourgeoisie to serve its own particularistic interests.

A national bourgeoisie is clearly emerging in cities and in major rural centres. In part, this new affluent bourgeoisie is taking advantage of the opportunities created by opening of the market through a myriad of very small and household enterprises. At the same time, this new bourgeoisie is benefiting from a rent derived by its strategic position in the intermediation between the state administration, SOEs, market forces, and also a growing foreign sector. This role of intermediation (and particularly the leverage represented by SOEs in the system) has been explored by a number of studies (e.g. Fforde 1998a; Gainsborough 2004; Painter 2005). The liberalization measures introduced with *doi moi*, and in particular the ability of SOEs to eat into financing opportunities represented by FDI, allowed the creation of a 'state–business bloc', i.e. the intertwining of public and private interests along blurred lines between legitimate and less-legitimate business relations.

> Many factions emerged within this broad 'state–business bloc': local governments and branches of central ministries used their new freedoms as SOE owners to generate 'off-budget' income, and managers of SOEs used them to accumulate profits and appropriate wealth. Among these 'bureaucrat businessmen', varying interests and circumstances created conflicting perspectives on the daily practices of party control and administrative enforcement. A set of state–business relations evolved that was closely inter-connected with existing party and state patronage systems (Painter 2005: 268).

The creation of a 'state–business bloc' can have either a regressive or a progressive nature, and current evidence from Vietnam points in both directions. The regressive nature is represented by the possibility that strong economic groups (clustered around powerful SOEs in the Vietnamese case) may choose to use the rent provided by their political connections to prevent a genuine development of national economic forces. Integration into the wider economy may even reinforce the ability of powerful groups to benefit from their rent position through the creation of strategic alliances with foreign partners to the aim of a joint exploitation of national resources.[3] The progressive role, instead, may be guaranteed by a strong national commitment of dominant groups, which may derive not only from ideological motivations, but also from the perception that the independent modernization of economic forces may result in wider advantages. In this second case, a 'business–state bloc' may play a decisive role in underpinning strategic planning functions by the state, as long as these planning functions are coherent with its economic interests.

At the turn of the century Vietnam presented hints of both tendencies. Rent-seeking behaviours are widespread not only among state officers with linkages to powerful SOEs, but also among those who are in a position to benefit from the insecure regulatory frame in which the private sector operates.

> Where business comes into direct contact with state organs (regulation, taxation, registration and licensing, loans from state banks and so on), the gaps in administrative infrastructure (for example in the tax collection bureaucracy) not only make it difficult to achieve consistency and regularity of enforcement, but also at the same time encourage 'rent-seeking' behaviour (Painter 2005: 269).

These regressive tendencies are undeniable, and they represent a major threat for Vietnamese political stability. In particular, there is a concrete risk that economic interests crystallized around major SOEs may erode from within the political system, undermining the ability of the Communist Party to mediate among different interests and to promote a development strategy that conjugates economic growth with equity. These risks are well understood by the Vietnamese leadership, and it seems that by the mid 2000s a certain ability to balance the different interests prevailed.

Two major factors play a role in preventing the state from falling into the hands of regressive economic elites. First, the party maintains strong roots in Vietnamese society, and also through the vital role played by mass organizations such as the Women's Union or the Farmers' Association. These roots give the party the mandate to represent the interests of a broad spectrum of social forces.[4] This is also witnessed, for instance, by the ability to rejuvenate key organizations like the trade unions, which in the new economic environment are due to play a much more active role than during the central planning era. A number of studies indicate that with *doi moi* the Vietnamese trade unions have succeeded in improving their ability to defend workers rights, especially in relations with foreign companies (Nørlund 1999; Chan and Nørlund 1999; Dixon 2000):

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

The second major factor in leading to the creation of a national bourgeoisie rather than a *burguesía compradora* is the strong role played by the national identity in East Asia, and in Vietnam in a very special way. Nationalism is emerging as the glue that keeps the country together in a process of deep social and economic transformation. It is important to note that, like in other Asian countries, the strong national commitment of the ruling classes is not only ideological, but also reflects concrete economic interests. Like in other East Asian countries, the national bourgeoisie could have more advantages in creating national virtuous circles (the creation of a national market through significant poverty reduction) than by entering in a dependent relation with international capitalist forces. Although the Vietnamese reform process is far from linear and contradictions are clearly visible, it is reasonable to assume that a national option has more appeal for leading forces, also because current trends justify a certain level of optimism.

Conclusions. Transition: where to?

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

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

The debate on governance signalled a major change in the foundation of the new consensus: the regulatory functions of the state are now emphasized after two decades of deregulation. However, governance is interpreted as the creation of efficient institutions removed from political influence (but obviously very accessible to the big capital[1] that rule in the name of their technical expertise rather than on the basis of a political mandate. This new approach to governance is not specific to Vietnam; it is also visible in the industrialized Western world. However, in the case of a poor developing country, such a regulatory and institutional frame may further expose the country to a dependent relation with powerful (foreign) capitalist forces.

The first phase of *doi moi* has been characterized by impressive economic results and by substantial poverty reduction. After the regional economic crisis, many East Asian countries (with Vietnam among them) have resumed fast economic growth. However, the future for a market economy with socialist characteristics is uncertain, because the ideological rationale that supports the reform process is very ambiguous. The identification of a guiding role for the state sector of the economy *per se* is neither a guarantee that the state will be able to exert control on the national economy nor that socialist objectives can be maintained. A more clear definition of aims, power structures, social and institutional actors and policies would be required, although this clarification may be hampered by the CPV tradition to move along a consensual decision-making process and to avoid confrontation with the international financial institutions.

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

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

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

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

Notes

Introduction

1. Contrary to the perception of most Westerners, Vietnam is a large country. With more than 80 million inhabitants it ranks thirteenth in the world and second in Southeast Asia (after Indonesia) for population. This misperception regarding the country's populace is symptomatic of the substantial lack of information in the West about Vietnam. The 'Vietnam war' remains the most popular genre in American fiction literature, but general understanding about the country is scanty and dismaying. As we will see, the number of scientific studies about Vietnam is also rather limited.
2. The need for a developing country in search of concessional loans from the international financial institutions and preferential access to Western markets not to challenge openly 'orthodox' thinking is a general condition. This has also been experienced by other East Asian countries, such as South Korea and Taiwan, at an earlier stage of their industrialization drive, when they made an effort to conceal characteristic features of their development strategies and officially bowed to Western prescriptions; see White and Wade (1988: 7–8) and Dixon (2002).
3. International agencies have an irresistible power in co-opting local scholars, in a process that risks undermining the scope for critical and independent research. By participating in foreign-sponsored research, local scholars not only receive allowances many times higher than their normal salaries, but also get access to professional training, travel grants, new career opportunities, etc. Thus, owing to their intellectual dominance and their economic means, the international organizations have great leverage in promoting conformist and opportunistic behaviours among local scholars (as well as among international scholars highly paid for their consultancy jobs). International cooperation in policy research, which is often intended to promote capacity building and institutional strengthening, risks achieving dismaying results even when it is carried out with the best intentions.
4. We will see in Chapter 4, for example, that substantial disagreements have emerged since 1996 in the negotiation for structural adjustment loans, up to the point that the IMF suspended the third instalment of a loan already approved. We will also see that Vietnam forced the USA to reopen negotiation for a bilateral trade agreement, when Washington was already preparing for the signature.
5. A number of recent studies (see in the following) have indicated that Vietnam can be taken as a model for its impressive results in terms of poverty reduction and for its ability to reach the target provided by the Millennium round.
6. Incidentally, we may recall that Robbins' neo-classical tenets were soon to be contested successfully by such an 'ignorant' and 'perverse' economist as Keynes (and the same Robbins was led to modify his views).
7. Polanyi shows, however, that society eventually reacted and succeeded in bringing the market under political and social control [see Cox (1995: 39)].

8. 'The beliefs express our ideas about what reality actually is, or was, while valuations express our ideas of how it ought to be, or ought to have been' (Myrdal 1970: 15).
9. This apparent contradiction is well elucidated in Amin (1998).
10. The concepts of *system* and *lifeworld* are defined by Jürgen Habermas is his *The Theory of Communicative Action.*
11. In a longer term, world-system analysis perspective, Immanuel Wallerstein [1997 (1983)] motivated that hegemonic countries promote free trade when they are at the apex of their power, but start to violate free-trade norms once their hegemony declines.

1 Reflection on the analytical tools

1. Berger and Beeson remind that the 'intolerance of dissent' maintained by Anne Krueger was not necessarily shared by other World Bank officers and those policies always coherently implemented by the different departments. This was possible because, under President Clausen, the bank lost the monolithic structure that she had under the McNamara administration – for a critical and vivid description of the McNamara presidency see George and Sabelli (1994).

   In 2001, Anne Krueger was appointed as Chief Economist of the International Monetary Fund (IMF) by the administration of George W. Bush.
2. The 1991 World Development Report conceded that 'market-friendly policies – neither complete laissez faire nor interventionism – are optimal for growth and income distribution' (Berger and Beeson 1998: 491).
3. Rightly, a reviewer of my edited volume on *Rethinking Development in East Asia*, in whose Introduction I have already reported this interpretation, reminded me that as an Italian I should quote *Il Gattopardo* by Tomaso di Lampedusa, i.e. the strategy to change everything in order not to change anything. We may wonder if the recent views of the former World Bank Chief Economist (and Nobel laureate) Joseph Stiglitz are part of this paradigm readjustment or represent a real conversion on the road to Damascus.
4. Toye, for instance, recalls that Francis Fukuyama, in his *The End of History*, failed in giving an explanation of the success story of these countries (although acknowledging their high economic growth) and confused their cases with the 'genuinely free-market' (and less successful) case of 'the Chicagoan experiment in Pinochet's Chile' [Toye 1993 (1987): 12].
5. In this work 'statist' is used to indicate a group of scholars who emphasize the role of the state in promoting economic development, and could be loosely referred to as supporting a so-called 'developmental state' approach. These scholars should not be confused with those supporting centrally planned economies.
6. According to Toye, these scholars were inspired by Keynes, as 'an advocate of reform capitalism, in which the state plays a supplementary and co-ordinating role in a basically market economy'. However, in more precise terms, the strategy adopted by East Asian countries relied on 'long-term industrial policies, rather than the short-term demand management policies which are the hall-mark of Keynesianism in its narrow (too narrow) sense' [Toye 1993 (1987): 13–14].
7. The specification of *selective* state interventions should be noted. Here lies a key element in the discussion regarding the Vietnamese case. Obviously, not all forms of state intervention are beneficial.
8. For a more detailed analysis of neo-mercantilism and the other historical traditions in international political economy, a key reference remains the volume by Robert Gilpin (1987). Björn Hettne (1993) provides a very interesting discussion of neo-mercantilism and its developmental implications.
9. This search for more contextual analysis is, in itself, a reason of conflict with more 'orthodox' (i.e. neoclassical) studies, especially with those economists or institutions

that have attempted to interpret reality in terms of universalistic mathematical models. It is well known that the World Bank and the IMF have often (and rightly) been accused of trying to impose the same prescriptions throughout the developing world without any consideration for the specific national contexts.

10. In the language of the world-system scholars, Japan is the only country that has moved from the 'periphery' to the 'core'. The special status of Japan is also well illustrated by the definition of 'Triadic globalization', i.e. a world economy dominated by a 'triad' of which Japan represents one vertex.
11. See Bruce Cumings (1999) and Robert Wade (1990) for a discussion of this crucial issue. Concerning the present work, it is useful to contrast the Japanese promotion of heavy industry in Korea and of modern agriculture in Taiwan with the French more short-term predatory attitude in Vietnam. In colonial Vietnam, only some small-scale light industry was developed, to serve the needs of the French local residents and of the colonial elite.
12. A well-known account of the role of Japan in shaping a regional productive system is provided by Bruce Cumings (1987) [we have dealt with this issue in Masina (1996)]. For an analysis of the complex web of economic relations between Japan and the other Asian countries before and during the Asian economic crisis, see Sum (2002) and Masina (2002a).

    Japan has quite openly attempted the promotion of its own developmental strategy as a model for the region with the aim to reassert its hegemony. As discussed in Masina (2002a), this attempt has produced tensions within the international financial institutions, which have perceived the Japanese initiatives as a challenge to the 'orthodoxy'.
13. For a review of the debate motivated by Chalmers Johnson's work, see the volume edited by Meredith Woo-Cumings (1999).
14. In his review of the main literature analysing the East Asian developmental state model, Laurids Lauridsen defines as a 'strong version' the interpretation inspired by Wade, but also by other authors such as Alice Amsden (1989), apart from Chalmers Johnson (1982).
15. Amsden's *The Rise of 'the Rest'* is a very stimulating contribution. But the attempt to pull together a rather heterogeneous group of countries, including some whose economic performance has been substantially dismaying, within a single explanatory frame risks making the whole construction problematic.
16. For an interesting reappraisal of this point, which relates to the classical 'dependent development' debate, see Glassman (1999).
17. It is useful to recall that the ultimate aim of the reforms introduced in Hungary in 1968 and in other countries belonging to the Soviet bloc was to 'rationalize' central planning, not to replace central planning with market mechanisms. Both in the Chinese and Vietnamese reforms there is, instead, a clear acceptance of the need to supersede central planning, while maintaining state guidance in economic development. See Naughton (1995) on this point in relation to China.
18. The state sector in Vietnam never did employ more than 16 per cent of the workforce, and the percentage declined sharply in the first phase of the reform process: it was about 10 per cent in 1991 and below 9 per cent by the mid 1990s. Employment in the SOEs accounted for only 9.7 per cent of the workforce at the launch of *doi moi*, and it was down to 6.2 per cent in 1991 (McCarty 2001: 8–9).
19. Notwithstanding the obvious relevance of this comparative analysis, the number of studies dedicated to the two countries is surprisingly limited. A remarkable exception is the volume edited by Chan *et al.* (1999).
20. The major threat to the central authority was represented by the so-called Gao Gang affair in the early 1950s. The leader of Manchuria (a key industrial region) was suspected of challenging the authority of Beijing (probably with Soviet support). Gao Gang eventually committed suicide in 1954.

21. Still, in January 1950, Truman and the State Secretary Acheson had confirmed that Taiwan and South Korea were outside the defence perimeter guaranteed by the USA. And the State Department had clearly indicated the intention to not be involved in the Chinese civil war in defence of Chiang Kai-shek.
22. For an historical reconstruction of the American 'China policy' in the period 1947–71, see Masina (1993).
23. In Chapter 6 we will rely on the analysis of Fascism by Antonio Gramsci to make this point.
24. This process of identification with the Asian models was also visible on the occasion of the 2002 World Football Championship – a quite annoying experience for this writer, who unfortunately watched the match between Italy and South Korea in Hanoi!
25. Regional inequality was already remarkable before the start of *doi moi*, and it was further increased by the different ways in which regions were able to cope with the new opportunities and threats created by the reform process; for a more detailed account, see Beresford (2003).
26. A direct influence of Myrdal's ideas on Vietnamese policymakers remains difficult to verify. The long-term cooperation with the Swedish Development Agency (SIDA) may have contributed to making the lesson of the Nobel Prize economist known in Vietnam, or at least indirectly received through the work of the Swedish experts. I acknowledge the comments on this point received by colleagues in the Vietnam Studies Group mailing list, and particularly the hints by Oscar Salemink and Shawn McHale on the role of SIDA.
27. Rice and vegetables, with very little intake of proteins, still constitute the diet of many poor peasants.

2 The historical background: Vietnam between revolution and economic reform

1. Two main factors, at least, should be recalled: first, the increasing American involvement in South Vietnam, which in a few years led to a direct military intervention; second, the ambiguous role of China, successively denounced by the Vietnamese Communist Party. During and after the Geneva agreements, the Chinese government was not too keen in promoting the reunification of Vietnam, which was considered as a potential contender in the Southeast Asian geopolitical equilibrium. A Vietnam divided and dependent on Chinese support was a more appealing option for Beijing.
2. The need for Mao to accelerate the process of industrialization in China – culminating in the dramatic Great Leap Forward – was also motivated by the underlying conflict with Soviet Union. This conflict became openly visible in 1957, and led to a complete rupture in the 1960s.
3. An assessment of the long-term development implications deriving from the French colonial rule remains a controversial issue. On the one hand, France certainly subjected the country to a regime of harsh economic exploitation (e.g. Marr 1981); on the other hand, France also contributed to the development of a consumer-goods-related light industry (Nørlund 1989). However, contrary to the experience of the Japanese colonization in Manchuria, Korea and Taiwan, France did not support Vietnam in the development of a heavy industry. The differences between the Japanese colonization of Taiwan and the French colonization of Vietnam are well discussed by Bruce Cumings (1999): Japan financed physical infrastructures (roads, railways, harbours and irrigation), but also promoted agricultural extension, technical schools, peasants associations, etc. Nothing of this kind was realized by France. The question of the reforms introduced by Japan remains a sensitive one, because it risks

being confused with a justification of the Japanese colonial rule [see also discussion in Wade (1990)].

4. Gabriel Kolko (1997: 21), recalling the war experience in other countries such as Germany, Britain and the USA, concludes that: 'Few, if any, of Communist Vietnam's economic policies from 1955 to 1975 differed in principle from what states normally do during wars'.
5. Important differences existed between the Chinese and the Soviet models, and in both countries the 'models' changed over time. However, the Chinese system during the First Five-Years Plan (1953–8) was also strongly influenced by the Soviet example.
6. Even in the full 'socialist collectives' peasants were allowed to maintain private plots, corresponding to 5 per cent of the collective land. The products from these plots could be sold on local markets. In many areas peasants tended to dedicate more energy to these lands than to the collective farming; and in some cases the dimensions of private plots were increased with the consent of local authorities.
7. For instance, the notorious CIA-led Operation Phoenix was directed to the systematic murder of those democratic activists, who were considered sympathetic with the Communist forces.
8. The Vietnamese historian Nguyen Khac Vien (1993: 390) criticizes the 'atmosphere of political suspicion [toward] those who had worked in the Saigon Administration'. This led to the dismissal of thousands of former officers from all levels of the new administration, even in technical services. Also, errors were made in sending to 're-education camps' officers whose association with the previous regime had not been marked by criminal behaviours.
9. For the sake of simplicity in this text, the conventional dichotomy North/South is employed. However, at least five geographical areas could be distinguished with different socio-economic characteristics. Traditionally, the country is considered as consisting of the North (Bach Bo), the Centre (Trung Bo) and the South (Nam Bo). This distinction relies on historical and natural differences (reflected in the French colonial organization), and still plays an important role. [For a critical assessment of the three regions in the revolutionary movement, see Chesneaux (1972).] At the time of reunification, the part of centre below the seventeenth parallel was more easily integrated into the new socialist system than the rest of the 'south', exactly for this long historical heritage (Beresford 1988: 63).
10. After Vietnam became a full member of Comecon (1978), it lost the right to the preferential treatment it had received due to war reasons. The price for many imported commodities increased 2.5–3 times (Dang 2004: 25).
11. Truong Chinh, former general secretary of the party and pre-eminent ideologue, had been a supporter of accelerated socialist transformation in the south in the 1970s. However, from 1984 he became convinced of the need to implement a reformist agenda. He, together with other senior leaders, initiated preparing the ground for the subsequent major change (Riedel and Turley 1999: 18).
12. This coalition is described by Fforde and de Vylder (1996: 143) as resulting from the convergence of three groups:

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

13. Party leader in Ho Chi Minh City and later prime minister.
14. This section is based on Masina (2002b).
15. This interpretation has been confirmed by officers of the UN system in Hanoi, during informal talks in the spring of 1998.

16. Parts of this and following sections are based on Masina (2002b).
17. This deal fixed the amount of the debt at US$1.7 billion (Russia had initially claimed 11 billion) to be repaid in 23 years, with 10 per cent to be paid in cash and the rest through commodities and export opportunities (*Far Eastern Economic Review*, 9 November 2000).
18. In this sense, Vietnam (like China) was never 'Stalinist' or 'neo-Stalinist'. A wide debate within the leadership has always existed (and still exists) without the prevailing group eliminating the other and without the formation of permanent factions. The stress within the CPV has been on collegiality of the decisions, and the party has maintained its unity even in the face of the devastating split between China and the Soviet Union (Vietnam even attempted a mediation between the two). A comparison between Vietnam and China [see Chan *et al*. (1999: 9)] suggests that not only was the political conflict within the Communist Party in Vietnam less harsh than in China, but also class warfare within society was less violent.
19. For Vietnam, e.g. see World Bank (1998).

3 Vietnam and the regional economic crisis

1. For a critical review of the different interpretations, see Masina (2002a) and the other contributions in the same volume.
2. It should be noted that there are only a very limited number of international analysts working on independent interpretations of Vietnam's current economic development. This makes it possible for a small group of scholars and international financial institutions' officers to lay down an interpretative frame that is constantly repeated in reports, media, studies, etc. This is what can be schematically defined as 'common wisdom'. Within this general 'common wisdom', however, significant differences exist in the interpretation of specific issues.
3. In March 1999, the General Statistical Office of Vietnam revised the historical series of economic data for the country. The real GDP growth rate for 1997 was reported at 8.8 per cent in the old series and at 8.2 per cent in the new series (IMF 1999b).
4. Here, and in the following, the FDI data are those reported by IMF sources. The choice of the source responds to the aims of this chapter, i.e. to show that even on the basis of these figures the account provided by the international financial institutions is rather inconsistent. For a detailed discussion on the complexity of assessing FDI data in Vietnam, see Freeman and Nestor (2004).
5. I wish to thank Curt Nestor for his comments on this point, and more generally on FDI to Vietnam.
6. In pre-crisis East Asia there was an overinvestment tendency, visible in key industrial sectors and motivated by a strong 'catching up' drive [see the discussion presented by the different contributions contained in Masina (2002a)].
7. In an interview with a high official in the Ministry of Foreign Affairs in October 1997, I was told that the management of the Thai Binh disturbances showed that the Vietnamese political system was functioning well, the state being able to react and respond to the people's demands.
8. The international financial institutions have suggested on several occasions that these figures should be revised downwards. They have estimated growth at about 3 or 4 per cent in 1997 and about 2 or 3 per cent in 1999. Vietnamese authorities might have tried to adjust figures upwards for political purposes. The international financial institutions, instead, might have presented a bleak scenario in order to push the government to accept their prescriptions. The fear expressed by the World Bank (1999a) in December 1999 that 'Vietnam now faces the possibility of becoming one of the slower performers in the region' was not confirmed by the data.
9. The data on the composition of exports contained in the Statistical Annex of an IMF Staff Report published in February 2000, cover the period until 1998. In that year, the

Thai economy had a contraction of about 10.4 per cent. GDP growth turned positive only in 1999.

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

4 The agenda for economic reform

1. This sense of frustration was similar to the one registered among foreign investors by the mid 1980s. The head of the Beijing office of one of the largest European industrial groups told us in 1986 how his group 'had' to be there in the hope of future opportunities, but for the moment it was wasting money and resources. The rush to invest in China came at the moment in which the Chinese market was still smaller than that of a medium-size European country, and this often resulted in frustration among investors.
2. In a round of interviews conducted in the summer 2003 with numerous high-ranking representatives of Vietnamese research institutes and policy think-tank in Hanoi, 'step-by-step' was constantly repeated as the 'magic formula' for successful reforms.
3. 'The Congress documents were significant not as guidelines for policy but as snapshots of the contested ground, over which bickering and bargaining would continue once the Congress was over' (Riedel and Turley 1999: 39).
4. Le Kha Phieu had apparently used his connections with the army for spying on his fellow party leaders. Such unacceptable behaviour led the three elder 'Senior Advisers' to the Central Committee – Do Muoi, Le Duc Anh and Vo Van Kiet – to let it be known that Phieu had lost their support, thus making it impossible for him to be re-elected.
5. It is often reported that the popularity of Nong Duc Manh is also due to the rumour that he was a natural son of the late President Ho Chi Minh. When confronted with a direct question on this issue, Mr Manh always replied that 'in Vietnam we are all Ho Chi Minh's children'.
6. E.g. see Masina (2002a) and the other contributions collected in the same volume.
7. The World Bank and the US Treasury, in particular, would insist on a hard-line message regarding free trade. See Kanbur (2001) for an account of the current disagreements in development policies; this account, however, is shy in reporting the reasons that forced its author to resign from his important job. For more detailed information about the resignation of Kanbur (and Stiglitz's resignation as World Bank Chief Economist), see Wade (2001).
8. The Vietnamese *Attacking Poverty* and *Voices of the Poor* are actually considered as the most successful among these studies. This seems at least to be the view among international experts, as it was confirmed during a private conversation with a representative in the Poverty Working Group of the OECD's Development Assistance Committee.
9. The IMF argues that in the early 2000s the problem was only technical (i.e. a lack of direct information on the Vietnamese foreign reserve) and did not imply a disagreement in the terms of policies.
10. I rely for this point regarding the views of the Japanese experts (and before the Asian crisis also of South Korean advisers) on private conversations with scholars (Vietnamese, Japanese, but also Western) and with officers of international agencies. The research directed by Professor Keinichi Ohno in cooperation with the Vietnamese

National Economic University has also indicated the need for industrial policies that related more with the experience of Japan and other Asian countries than with the neoliberal orthodoxy.

11. Once again we must note how the World Bank's regime of truth is constructed by simply ignoring the wide scientific debate. The publication of the *East Asian Miracle* has resulted in a wide debate, which became particularly vibrant with the unfolding of the regional economic crisis. For an agency with so large a responsibility in assisting developing countries in shaping their own developing strategies is quite unfortunate to simply deny this debate. The review of existing literature can easily show that there is rather little general consensus on what has been 'convincingly demonstrated' about the developmental experience of the high performing East Asian countries.
12. As usual, differences do exist between these two *sister institutions*. While the IMF is asking for a neutral trade regime, the World Bank is somehow more nuanced in arguing for trade liberalization.
13. We have already seen that even the World Bank's *East Asian Miracle* of 1993 had to concede that growth in these countries was a result of something more than 'getting the price right'. The importance of state-led development strategies has been even more openly recognized in the more recent studies of one of the key authors of the *East Asian Miracle*, i.e. Joseph Stiglitz (2001).
14. Vietnam was one of the few countries in the world not to have normal trade relations with the USA, together with North Korea, Laos, Cuba and Iraq.
15. These rumours were reported to me by a well-informed foreign expert, but neither I nor my informant had the possibility to verify their reliability.
16. The mutual misunderstanding between those looking at different time perspectives in addressing economic development and poverty reduction is aptly analysed by Ravi Kanbur (2001).
17. This scepticism was confirmed by interviews with representatives of key international organizations in April 2005.
18. Once again, it should be underlined that World Bank officers in Vietnam have proven to be quite able in mediating between Washington doctrinaire views and the concrete conditions in the field.
19. Although Vietnam relies on intensive agriculture (e.g. rice transplanting), in densely populated rural areas there is an oversupply of labour. For example, for an average family in the Red River delta with around 6 or 7 *sao* of land (one *sao* is about one-third of a hectare) farming cannot absorb more than two people; all the other members of the family must find occupations in off-farm activities (which are scarcely available) or migrate. In an investigation conducted in two villages of two different districts in Hung Yen province (Red River delta) in July 2002, it emerged that almost every family had at least one member working in Hanoi either as seasonal or long-term migrants. Of these migrant workers only a very tiny number could find occupations in industry, while the vast majority would work in informal occupations (especially selling fruit or tea, and shoe shining) or in services (night guards in shops, care for elderly people or children, etc.). This investigation was conducted by the author with a team of European and Vietnamese scholars in the frame of an EU INCO-Dev project on 'Sustainable livelihoods in Southeast Asia'.

5 Poverty reduction, inequality and social differentiation

1. This point was stressed repeatedly during interviews with Vietnamese scholars and policymakers.
2. The author of the *Asian Drama* would have been glad to see that many Asian countries escaped poverty through policies that are often reminiscent of his teaching.

3. This comparative investigation was coordinated by the author and conducted by a network of European and Asian scholars in the frame of an EU INCO-Dev project on 'Sustainable livelihoods in Southeast Asia'. Fieldwork in Vietnam was carried out in Soc Trang (Mekong Delta), Hung Yen (Red River Delta), Tan Trieu (Hanoi), Hanoi City and Son La. The team working in Vietnam was coordinated by Bui Huy Khoat, Dinh Thi Ngoc Bich and Irene Nørlund.
4. For the field study reports and a list of publications also involving a comparative study in Laos and Thailand, see: www.ssc.ruc.dk/inco.
5. This issue is discussed in more detail by the different contributions contained in Taylor (2004).
6. The propensity of households to invest in health care and schooling was confirmed by a number of interviews conducted by the INCO-Dev research team in several locations of the country. Interviewees reported that improvement in quality compared with the 1990s justified, in many cases, getting into debt to pay for emergency costs. Interestingly, in the Red River Delta there is evidence of households mortgaging or selling their land to support university education for their youngsters – which demonstrates the perception of investment in education as a valuable investment (information kindly provided by Do Ta Khanh).

6 Interests representation, role of bureaucracy and governance

1. Two of these key issues are the process of decentralization and grassroots democracy on the one hand, and the question of corruption on the other hand. These issues are dealt with by the *Vietnam Development Report 2005* (World Bank 2005) for the Consultative Group Meeting of December 2004. This report has a rather balanced position, and the part on corruption is very refreshing, as it allows one to look deeper than the usual stereotypes.
2. L'ipotesi ideologica potrebbe essere presentata in questi termini: si avrebbe una rivoluzione passiva nel fatto che per l'intervento legislativo dello Stato e attraverso l'organizzazione corporativa, nella struttura economica del paese verrebbero introdotte modificazioni più o meno profonde per accentuare l'elemento di «piano di produzione», verrebbe accentuata cioè la socializzazione e cooperazione della produzione senza per ciò toccare (o limitandosi solo a regolare e controllare) l'appropriazione individuale e di gruppo del profitto. Nel quadro concreto dei rapporti sociali italiani questa potrebbe essere l'unica soluzione per sviluppare le forze produttive dell'industria sotto la direzione delle classi dirigenti tradizionali, in concorrenza con le più avanzate formazioni industriali di paesi che monopolizzano le materie prime e hanno accumulato capitali imponenti.
3. This is what has historically been done by Latin American dominant groups, which came to be known as *burguesía compradora.*
4. It should be noted that while the political system is often criticized for the high level of corruption, few people challenge the legitimacy of the party to rule the country.

Conclusions. Transition: where to?

1. For big capital we mean large companies like the Transnational Corporations (in the case of Vietnam, also large SOEs), major international or national banks, and more broadly powerful economic lobbies whose interests may differ from those of the country and in some instances even from those of the medium-level bourgeoisie.

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