

Developmentalism with Vietnamese Characteristics: The Persistence of State-led Development in East Asia

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ABSTRACT *One of the most striking features of the economic development that has occurred in the East Asian region has been the influential role of the state in directing its course. Vietnam is also following this well-worn path of state-led developmentalism. The principal contribution of this paper is two-fold. First, we place the Vietnamese experience in comparative historical and conceptual perspective. It is suggested that the structure of the Vietnamese state itself and the distinctive nature of the policies it has undertaken are reflections of the country's traumatic recent history and the fact that its leadership is notionally "communist." Our second contribution is to detail some of the more important aspects of this process. We provide two case studies which focus on the role of state-owned enterprises and decentralisation initiatives which demonstrate that, despite the frequently ad hoc and contingent nature of the developmental project and an absence of the sort of state capacity that distinguished the likes of Japan in its heyday, the Vietnamese government is overseeing economic development in creative and surprisingly effective ways.*

KEY WORDS: Vietnam, developmental state, economic policy, politics, economics

For a country with a population of nearly 90 million people, which had an average growth rate of over 7% between 1995 and 2005, and which is situated in one of the most geopolitically significant regions on the planet, Vietnam attracts remarkably little analytical attention from scholars of international political economy. There are a number of possible explanations for this oversight, some more defensible than others. For much of Vietnam's modern history, scholarly attention focused primarily on its bloody struggle for independence from first France and then the USA. Explaining how an impoverished "Third World" country managed to defeat two of the world's great powers led to an understandable preoccupation with military matters and grand strategy (see Kolko, 1986). In the case of the war with America, some of the most influential analyses of the conflict have been produced in the USA and reflected American priorities and perspectives, something that tended to obscure its impact on Vietnam itself. Even now, Vietnam's remarkable history continues to

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be overshadowed by the attention given to more powerful regional states, most recently China. But while the “rise of China” may currently be the principal focus of scholarly attention in East Asia, despite Vietnam’s own rapid development, China’s ascendance may ultimately serve to reinforce a style of state-led development in Vietnam that has become synonymous with the East Asian region.

One of the most striking features of East Asian economic development has been the influential directing role of the state (Kohli, 2004). First Japan and then the so-called newly industrialising countries – South Korea, Taiwan and Singapore – “caught up” with the established core economies in the West by pursuing policies of state-led industrialisation and development. This style of development was subsequently pursued in much of Southeast Asia with varying degrees of success and competence, and has now influenced the unparalleled economic expansion in China, despite some capacity constraints on the part of the Chinese state (see Moore, 2002; Tsai and Cook, 2005). True, there are important differences in political practices and economic structures among these nations, but the widespread belief in the importance and legitimacy of the state playing a central role in accelerating and shaping the course of development in its initial phases remains pervasive (Beeson, 2007). As we shall see, Vietnam is no exception to this regional pattern. While there are significant differences in the sorts of initiatives the Vietnamese state has undertaken, the political milieu within which such policies have emerged, and in the state’s capacity to implement them, the general claim stands: Vietnam is following a well-worn path of state-led developmentalism that has underpinned the success of the region and which seems likely to propel Vietnam to a more prominent place in the region’s increasingly important political and economic institutional infrastructure. Despite some serious problems managing short-term issues, such as inflation, real long-term developmental gains have been made on the back of an annual growth rate of 7%. From unpropitious beginnings, Vietnam is clearly doing something right and its recent history consequently has important comparative significance.

The principal contribution of this article is, therefore, two-fold. First, we place the Vietnamese experience in comparative historical and conceptual perspective. We suggest that the structure of the Vietnamese state and the distinctive nature of its policies are reflections of both the country’s traumatic recent history and the fact that its leadership is notionally “communist.” As with China, the nomenclature of state intervention is becoming rather less significant than the specific style that has emerged: political and economic forces operate in a complex, mutually-constitutive dialectical relationship that is shaping contemporary Vietnam. Our second contribution is to detail some of the more important aspects of this process. We do this by providing two case studies which focus on the role of state-owned enterprises (SOEs) and decentralisation initiatives which demonstrate that, despite the learning-by-doing nature of the developmental project and an absence of the sort of state capacity that distinguished other successful East Asian states, the Vietnamese government is overseeing economic development in creative and effective ways. One of the most important aspects of this process, we argue, is the way that Vietnam’s policy makers are trying to control the potentially fissiparous impacts of decentralisation by redirecting the activities of, and rents generated by, the country’s SOEs. Thus, despite the proselytising neo-liberal efforts of the international financial institutions, and the supposedly irresistible demands of international economic

integration and markets, the Vietnamese state appears intent on responding to such pressures creatively. So far they are experiencing a surprising degree of success, suggesting that, in parts of East Asia, at least, the state continues to play an influential role in shaping the course of economic development.

Vietnam in Context

Discussions of comparative public policy in general and about the developmental state in particular understandably focus primarily on the capacity individual states have to formulate and implement policy (see Migdal, 1988; Polidano, 2001). While we also subscribe to this approach, we suggest that any plausible account of state behaviour needs to be placed in a specific historical and geopolitical context. This claim has merit in any circumstances, but it is especially germane in the context of East Asia generally and of Vietnam in particular. One of the most important facets of the generalised process of economic development in East Asia following World War II was that it occurred in the context of the Cold War and under the auspices of US hegemony (Stubbs, 2005). The geopolitical contest between the USA and the Soviet Union (and, to a lesser extent, China) meant that Japan and the first generation of developmental acolytes had much greater freedom of manoeuvre than subsequent, second- and third-generation industrialising economies. As far as Japan, South Korea and Taiwan were concerned, the fact that they were becoming successful outposts of capitalist development means that the precise way they were achieving economic growth was less important as far as the USA was concerned. In other words, state-led industrialisation, neo-mercantilism and authoritarian political rule were all tolerated, if not actively encouraged, in the context of the geopolitical struggle between capitalism and “communism” (Beeson, 2012).

Of course, Vietnam’s economic prospects were blighted for a considerable period as an already poor country grappled with the devastation of war. This may help to account for Vietnam’s relatively lacklustre initial performance post-unification, but it is also important to emphasise what might be called the ideational path-dependence that the years of struggle and conflict imparted: the attractions of a neo-Stalinist developmental strategy become somewhat easier to comprehend when seen against the backdrop of a struggle for national survival, and when the county’s principal supporter and source of aid was the Soviet Union (Dang and Beresford, 1998).

The Politics of Reform

Crises are rightly thought to be major sources of change (Capoccia and Kelemen, 2007). The limits of path dependence and the drivers of institutional transformation can be seen at such moments. Given that Vietnam’s modern history has been one of unrelenting crisis, we might have intuitively expected its politics to have been more fluid and chaotic than has been the case. In reality, there has been a remarkable continuity in the overall form of political order and rule in Vietnam despite – or perhaps because of – the profound changes that have taken place in the international economic and geopolitical order. In the context of the region’s and the country’s major transformations, the desire of the Communist Party of Vietnam (CPV) to maintain political control and stability is clear. As has been the case in China, thus

far at least, changes in the formal structures of governance have been relatively minimal. Where significant change has occurred it has happened *within* the existing political system and manifests itself in often relatively subtle shifts in policy. Indeed, it is important to emphasise that things could hardly be otherwise as the Vietnamese constitution specifies that the CPV is the only political authority authorised and able to play the doctrinally-demarcated role as the vanguard of the working class. While this language may sound slightly archaic, the salient point is that the recent Party General Secretary, Nong Duc Manh, stated unequivocally that opposition parties will never be tolerated (Gainsborough, 2009: 1323).

Despite the continuing political dominance of the CPV and the concomitant rhetorical invocation of Marxist-Leninism, there have been a number of noteworthy innovations in economic policy. The most visible turning point in Vietnam's public policy history was undoubtedly the 6th National Congress of the Vietnamese Communist Party in 1986. It was at this moment that the celebrated process known as *doi moi* was inaugurated, in which central planning was abandoned in favour of a "market-oriented socialist economy under state guidance" (Beresford, 2008). A combination of internal and external factors are routinely cited as having underpinned this shift from the previous orthodoxy of central planning by a state apparatus dominated by the Communist Party. The major external influences were the steady decline of the Soviet Union and its ability to aid Vietnam's developmental project. It is also clear that the attractiveness of centrally planned development was being undermined by the rapid take-off of the capitalist economies of the region, a process that was causing Vietnam to fall behind its regional neighbours. Internally, the contradictions generated by central planning were becoming increasingly difficult to contain and there was a growing, if ideologically muted, sense of unhappiness about the basis of economic management amongst the country's policy-making elite.

In Vietnam, as elsewhere (Gourevitch, 1986), crisis has been a catalyst for change, at least at the level of policy, if not the overarching political system. Rampant inflation during the 1980s, and the inability of the government to contain it, led to a major change in policy direction. Faced with a major economic crisis, "conservative thinking" gave way to "reformist thinking" and the introduction of market mechanisms into the former command economy, a process that was played out and encapsulated in the deliberations of the 6th National Congress of December 1986 (Vo, 2008). While this might seem in retrospect to have been in keeping with a wider international movement and rejection of state interventionism, it is important to emphasise that the networks of power and interest that had coalesced around the centrally planned economy were deeply entrenched in Vietnam and more difficult to overcome as a consequence.¹ Here the actions of former General Secretary Nguyen Van Linh were pivotal, although not entirely unprecedented.² Under the pen-name "N.V.L.," he wrote a series of articles on "Tasks to be implemented urgently" (*Nhung viec can lam ngay*) published in *NhanDan* (The People's) during 1987, pointing out necessary reforms and starting the movement of resisting "the frightening silence" (*su im lang dang so*), or the lack of policy discussion among senior officials (Huu, 2005).³ The key innovation in this context was the introduction of the "socialist law-governed state" (*nha nuoc phap quyen xa hoi chu nghia*), which followed the "Western" rule of law in underpinning the operation of capitalist economies and the protection of private property, but which tries to marry it with socialist principles (Le, 2007).

But while Vietnam's governing elite may have come to recognise that change may have been needed and even inescapable if Vietnam was to accelerate economic development and take advantage of its potentially favourable geographical and geopolitical position, there was nothing inevitable about the course that was followed. The overwhelming importance attached to maintaining Party control over the reform process meant that some actions were simply politically off-limits. Paradoxically, however, some policy options were also foreclosed or re-worked by the nature of contingent political and social realities: like many other parts of East Asia, the absence of established civil society organisations and a "thin" array of non-state institutions meant that responses to changing geopolitical and geo-economic circumstances were inevitably refracted primarily through the auspices of the state (Beeson, 2001). In Vietnam's case, the modern state and its propensity toward developmentalism were born out of its specific historical experience and the mass incorporation of social groups, an historical reality that helps explain political and economic outcomes to this day (Vu, 2010).

Although it has become increasingly common to talk about civil society in Vietnam (Nguyen, 2009), some of the key examples, such as the Youth Union, the Women's Union, the General Confederation of Labour, the Peasants' Association, the Trade Union, the Vietnam Journalists' Association and others, are mass organizations that were actually established under Party and state auspices with often overlapping memberships among the general population. Rather than being spontaneous expressions of independent social movements, such organisations have historically been effective mechanisms of social control in a country in which civil society is still viewed as a potential "opponent of authority." Consequently, formal civil society organisations remain under the overall oversight and control of the Vietnam Fatherland Front in which the CPV is the most important member. The revolutionary origins of civil society organisations and the continuing prominence of the CPV make them important conduits of political and economic power (Khuyet, 2006). The net result is that what passes for civil society in Vietnam can still actually facilitate state control and influence despite some liberalisation of the media (McKinley, 2009) and greater activism and participation at the "rice roots" level (Wells-Dang, 2010). While there have been important challenges to both the legitimacy and ideology of the CPV, thus far the Party has been able to accommodate critics by allowing an expansion of the private sector and tokenistic concessions to democratic impulses (Thayer, 2010).

As elsewhere, policy initiatives in Vietnam continue to be shaped by a complex amalgam of domestic constraints and capacities, external economic and political influences. In Vietnam, these forces are mediated by the overriding need to maintain Party control of the reform process itself. As a result, as Martin Painter (2005: 265) points out, in Vietnam "outside resources and ideas are both appropriated for domestic purposes and, in the process, transformed to support alternative outcomes to those that might be expected." A number of East Asian countries practice what Andrew Walter (2008) describes as "mock compliance," in which developing countries go through the motions of adopting Western standards of "best practice" in areas such as neo-liberal-orientated financial sector reform, but in reality such efforts are undermined by domestic actors who seek to maintain their control, which might be adversely affected by the genuine implementation of liberalising reforms.

Much has been made of the influence of powerful international financial institutions (IFIs) on the development trajectories of “peripheral” economies, but the governments of “developing” countries like Vietnam are not necessarily the powerless dupes of implacable external forces (Weiss, 2003). On the contrary, the Vietnamese government has been quite skilful in its ability to maintain a degree of autonomy and distance from the IFIs, the desire to maintain inward flows of aid and investment notwithstanding (Painter, 2005: 277).

This ability to manage the politics of economic restructuring and international engagement merits emphasis because of the stress some authors place on the impact of external influences and the seeming inevitability of neo-liberal reform that flows from this (see, for example, Evans and Bui, 2005). We argue, by contrast, that while there has been an important, tangible move to integrate the Vietnamese economy into regional and global production structures by the country’s ruling elites, this has been achieved in a manner that owes more to domestic political and institutional realities, than it does to any ubiquitous, irresistible pressures for change emanating from outside the country. Indeed, we agree with Martin Gainsborough (2011: 476) when he suggests that “despite twenty years of reform, which has involved extensive engagement with a wide range of neo-liberal actors, the state in Vietnam remains little changed in terms of its underlying political philosophy and many of its practices.” As Gainsborough makes clear, because IFI personnel frequently have a limited understanding of the cultural and political context in which they operate, and because the host government and the IFIs may benefit from Vietnam continuing to be portrayed as a success story, it is possible for the Vietnamese government to appear to co-operate while maintaining a good deal of autonomy.

In this context, the following sections illustrate how Vietnam’s government has attempted to maintain control over the SOE sector and manage the process of decentralisation without relinquishing the Party’s role in overseeing the country’s political and economic activities. While its efforts may not have been unqualified successes, what is important for our purposes is that they are much more in keeping with a general East Asian tradition of state-led, “interventionist” public policy than they are the sort of neo-liberal reforms that have been so assiduously promoted by the IFIs.

Decentralisation and the Persistence of State Control

Superficially, the Vietnamese state would seem to have embarked on the sort of reformist policy agenda that has been advocated by the IFIs, and adopted to varying degrees in other parts of the developing world (Wade, 2003). Clearly, the decentralisation of formerly tightly controlled policy-making processes and responsibilities marks an important shift in the way Vietnam is governed. Political authorities in the provinces and controllers of private economic entities are having more influence and generating “bottom-up” policy initiatives (Painter, 2008). However, this does not mean that the central government is losing either the desire or – more crucially for our purposes, perhaps – the capacity to maintain a controlling influence over what is still a centrally directed developmental project. Indeed, we need to remember that until 1986 Vietnam followed a moderately successful model of central planning. Even now membership of the Communist Party of Vietnam remains an indispensable prerequisite for achieving political influence and economic power.

Under such circumstances it is hardly surprising that ideological genuflection toward Marxist-Leninism remains commonplace and the state is still seen as having a legitimate and central role in shaping the development of the nation. What have changed are the methods and strategies by which such control is exercised.

The key point to emphasise in this context is that, while these reforms seem superficially in accord with international trends and influences, in reality they have been shaped by a central government keen to retain its influence over administrative reform. Indeed, we shall suggest that the reform process has actually served to *reinforce* the influence of the central government as it has retained control of crucial budgetary processes and developed new modes of governance to assert its authority. Even though Vietnam lacks the sort of state capacity and ability to penetrate society that is generally thought to distinguish the ideal-typical developmental state (Leftwich, 2005; Stubbs, 2009), Vietnamese policy makers have demonstrated a surprising ability to influence the direction and style of economic development. The government has, in fact, responded to the challenge of international economic competition and the pressures for political reform in creative and surprising ways – albeit ones that have benefited from Vietnam’s being in the right place at the right time on occasion (Fforde, 2009). Consequently, we argue that it is not a specific, common set of policy initiatives of the sort associated with its northeast Asian neighbours that makes Vietnam an aspirant developmental state, but a more general orientation or vision about the appropriate role of governments in shaping economic outcomes (Beeson, 2009; Fritz and Menocal, 2007).

Fiscal redistribution and development. One of the key mechanisms available to the state in Vietnam with which to direct the course of economic development is taxation. The ability to collect and utilise tax revenue is both a function of state strength and a reflection of the relative bargaining power of domestic interest groups (Hobson, 1997; Levi, 1988). In Vietnam, the sorts of internal and external reformist pressures noted above have made the challenge of maintaining control over the taxation process more difficult as ideological, pragmatic and political pressures in support of decentralisation gather strength. In this regard there have been a number of important policy initiatives undertaken since the early 1990s which have been designed to decentralise public sector decision making and transferring some fiscal powers to the provinces. Although the central state remains largely in control of this process, there is no doubt that some provinces “have exceeded the constraints placed on them by the Law” (Nguyen-Hoang and Schroeder, 2010: 698). In other words, the conduct of fiscal policy sheds a revealing light on the state’s ability to control and utilise key areas of domestic public policy.

As part of the decentralisation strategy, responsibility for taxation has been divided between the central, district and city governments around the country. This division of responsibility, which was formalised in 1996,⁴ meant that subnational governments have the authority and responsibility to tax local enterprises, households and individuals. Crucially, the central government decides how much of this revenue will actually be retained by the subnational authorities, and how much must be transferred to central government. Some of the more successful city governments, such as Ho Chi Minh City, Hanoi and Baria-Vungtau, are net contributors to the central government and act as revenue collectors on its behalf

(see MOF, 2009). As we shall see, the role of the successful cities and the taxation revenues they generate is underpinned to a significant degree by their position as hosts of SOEs or former SOEs that have been part-privatised. Hanoi and Ho Chi Minh City are the two economic centres of the North and the South, where almost all largest SOEs base their headquarters. They, respectively, hosted 210 and 273 out of the total of 889 biggest firms of the country in 2007, of which 38% were SOEs. Although Baria-Vungtau had only 28 of the biggest firms in 2007, it is the base of oil exploitation where the largest firm, Petrol Vietnam, operates (GSO, 2007a; GSO, 2007b). In addition, the central government actually encourages local governments to increase revenues by granting a fixed period of “budget stability” – usually 3 to 5 years – in which local provincial authorities and city governments enjoy a guaranteed share of the funds raised (NAV, 2002). After this period the central government reviews the central-local tax take in light of Vietnam’s overall developmental priorities. Crucially, therefore, these locally generated taxation revenues are appropriated by the central authorities and used to underpin a nationally based developmental strategy.

Taxation revenues are derived from three principal sources and there is a clear division between central and local governments. The principal sources of taxation revenue for the central state are derived from VAT and special consumption tax on imports, import and export taxes, revenues from oil and gas, corporate tax on centrally controlled SOEs, and incomes from capital invested in business by the central government which always accounts for the majority of the total taxation revenues (NAV, 2002).⁵ It is important to note here that the central state’s goal of maintaining control of these major sources is clearly illustrated in the fact that they have remained unchanged since 1996, though the Law on State Budget has been amended several times.⁶ Provincial governments, by contrast, derive most of their tax revenues from land (including agriculture) and housing taxes, taxes on natural resources (but not oil and gas), and revenues from local government investment in business entities.

There is a third stream of taxation revenue that is divided between central and local governments and this is derived primarily from VAT (excluding VAT on imports), corporation tax (excluding on centrally controlled SOEs), a tax on Vietnam’s growing numbers of high income earners, taxes on repatriated profits, and a special consumption tax on domestic goods and services (NAV, 2002).⁷ Despite this division through which subnational governments have been authorised to control many types of taxes, local sources account for only about 3% of the total tax revenues. None of the subnational governments are self-reliant, therefore, and this makes the nature of local taxes in Vietnam “extremely limited” (Vo, 2005: 10). As Figure 1 indicates, a number of provincial governments actually spend far more than they directly raise in tax revenues and are highly dependent on the central government as a consequence. By contrast, Figure 2 shows that some successful cities and provinces have to remit the majority of their tax collection (including the local own sources and the central-local shared sources) to the central state. This gives the central government the capacity to determine investment priorities despite the appearance of greater decentralisation in the overall pattern of governance. The key point to emphasise is that the revenue side of subnational governments remains highly centralised, but provincial governments have the capacity to decide how the

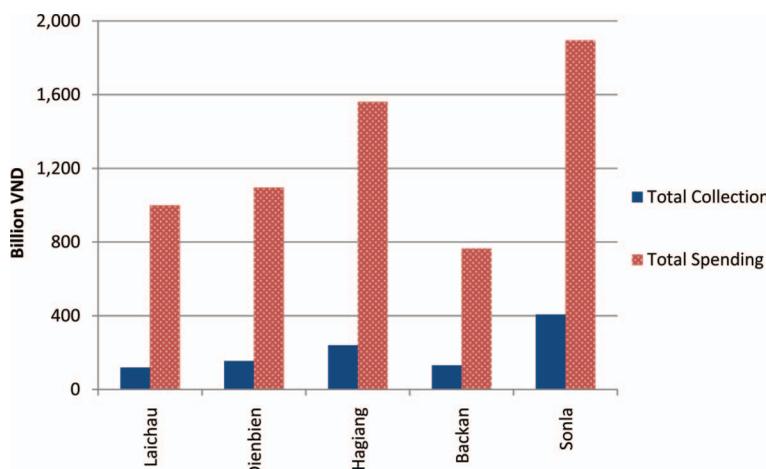


Figure 1. Revenue collection and spending of net-receiving localities, 2008. *Source:* selected data from Appendices 4, Resolution 09/2007/QH12 dated 14 November 2007 on allocation of central state budget of 2008 (NAV, 2007).

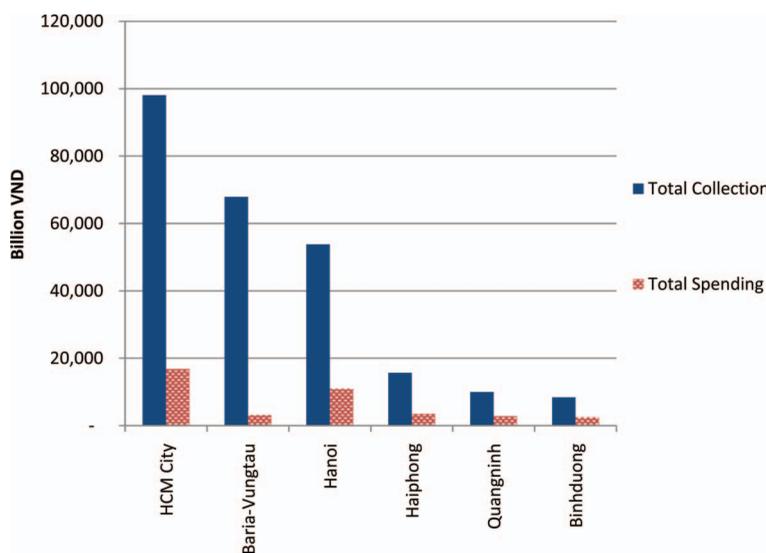


Figure 2. Revenue collection and spending of net-contributing localities, 2008. *Source:* selected data from Appendices 4, Resolution 09/2007/QH12 dated 14 November 2007 on allocation of central state budget of 2008 (NAV, 2007).

tax revenues that are allocated to them will be divided at the local level (Nguyen-Hoang and Schroeder, 2010: 706).

A number of aspects of the state-led developmental project in Vietnam merit emphasis. First, the Vietnamese state is attempting to kick-start or accelerate economic development in provinces that are either economically underdeveloped or judged to be strategically significant. In Hagiang, for example, its proximity to the

militarily-sensitive border with China has meant that it has received far more from the central government than it has actually raised in taxation revenues. The central government is able to do this because it determines national investment priorities according to a four-tier classification system in which strategic investment decisions (projects of group “A”) ultimately rest with the Prime Minister or delegated ministerial authorities (see Vietnam Government, 2009). Likewise, the central state has poured VND42,476.9 billion (about US\$2.5 billion) into Sonla, Laichau and Dienbien provinces to develop the massive Sonla hydroelectric plant, which is the biggest of its kind in Southeast Asia (Quyen, 2005). However, it is not simply the conventional desire on the part of the state to generate and direct economic activity that makes the use of taxation revenues strategic and significant. State assistance for provincial development can also be determined by their political significance: the economic and political consolidation of pro-reform provincial governments has been crucial in entrenching reformist elites across the country (Malesky, 2006).

The final aspect of the central government’s control over economic resources and thus developmental priorities and direction, is in the management of official development assistance (ODA). The relatively small size of the Vietnamese economy means that ODA remains a crucial source of investment and its impact on the overall direction and style of economic development is potentially very significant as a consequence. More importantly, ODA is used only for “developmental investment,” and is a crucial source of capital for this type of investment. Its significance is illustrated in that it has accounted for more than 50% of the total developmental investment. Development investment in 2009 was about VND130 trillion – approximately US\$7 billion – of which the total ODA spending was about US\$3.6 billion).⁸ Since the reform process began, Vietnam has received a large amount of ODA – for example, between 1993 and 2009, ODA spending was US\$22 billion (out of a total of US\$42.5 billion pledged by the donor community) (Thanh, 2009). Thus, ODA has obviously played a very important role in planning the central state’s budget spending, especially on developmental investment (Vu, 2009). The important point to make here is that the central state has retained “absolute” control over this source of capital. According to Decree 131/2006/ND-CP (on issuing the regulation of the management and use of ODA), ODA is:

an important capital source of the state budget, which is used to support the implementation of preferential programs and projects for socioeconomic development of the government ... The government uniformly controls ODA in such aspects as strategy, policy, master plan, attraction and use of ODA in each period, authorises the Prime Minister to approve the list of projects enquiring for ODA capital and its amendment (Vietnam Government, 2006, Decree 131/2006/ND-CP, articles 2 and 38).

Although local governments can apply to draw on ODA capital, all projects have to be approved by central government (Vietnam Government, 2006). In reality, the most important projects funded by ODA have been implemented by central state agencies, such as the Ministry of Transportation and the Ministry of Agriculture and Rural Development. As a consequence, large-scale economic or infrastructural developments are beyond the capacity of local authorities, and they must

consequently co-operate with the central government and its strategic priorities if they wish to access relatively scarce investment capital.

The potential effectiveness of state involvement at the central and local level can be clearly seen in the agricultural sector, which has seen Vietnam rapidly transform from a food importer to an exporter, in large part because of direct state assistance and guidance about crop selection and improved farming practices which have dramatically lifted rural productivity. True, the relationship between the peasantry and the state has not always been harmonious and the current situation reflects early struggles for autonomy in the countryside (Kerkvliet, 2005), but positive views about the state's role have become more commonplace of late as a consequence of the spread of privatisation and a more practical, less doctrinaire approach on the part of the state (Pham, 2012).

The general point to make about the state's continuing control over provincial governments and the overall course of national development – despite the ostensible move toward decentralisation of a sort that is prompted by external donor agencies (World Bank, 2005) – is that it is not an aberration. On the contrary, retaining state control even while seeming to embrace reform is a central goal, as can be seen in the privatisation of SOEs.

Reform and the Strategic Significance of State-owned Enterprises

The nature of, and relationship between, politics and economics is one of the defining characteristics of any nationally based system of production (Hollingsworth and Boyer, 1997). Making a clear-cut distinction between political and economic activity is, of course, necessarily a somewhat artificial and arbitrary exercise, especially in an East Asian region where such conceptual boundaries are especially difficult to draw (Underhill and Zhang, 2005). In the case of Vietnam, the political-economic continuum is particularly important and sensitive because this is, after all, notionally a communist country. In such circumstances, economic development really *ought* to be under state control, and the very existence of an independent private sector is still an issue of some political sensitivity and ideological contention. As a consequence, despite recognising the potential advantages of, and international momentum behind, the privatisation of state assets, Vietnamese policy makers have found the process rather discomfiting and difficult to control at times (Beresford, 2008).

Indeed, so sensitive is the issue of privatisation generally in Vietnam – which has moved more slowly in this direction than has China (see Li and Putterman, 2008) – that the official discourse has avoided using the word altogether, preferring to describe the process as “equitisation” instead. Whatever the process is called, reform of the SOE sector officially began in 1992, albeit cautiously and on a limited basis. It was not until 1998 that the government began to get serious about equitisation, partly as a consequence of pressure from the IFIs, and partly because state officials were becoming more confident about their ability to manage the process (Evans and Bui, 2005: 232-3). There are two significant points to emphasise about the SOE reform process. First, it has only amounted to a partial transfer of ownership to the “private sector:” not only are many of the new owners of former state enterprises actually state officials or close associates, but the extent of private ownership is still only about 60%. Second, the remaining 40% or so represents the “commanding

heights” of the economy (MOF, 2008a).⁹ In other words, despite appearing to go along with the wishes of the influential external funding agencies, such as the World Bank and the IMF, in reality the Vietnamese state has sought to retain control of those elements of the former state-owned command economy it considers strategically significant. Strategic significance in this context means not just the key elements of an industrial economy that were nurtured successfully by other East Asian developmental states, but it also refers to their role as a pivotally important source of political control and rent distribution (Nguyen and Freeman, 2009). Before considering the latter, however, it is important to say something about the way the state has managed and controlled the reform process.

Statist Privatisation

The status of the SOEs began to change as a consequence of the economic crisis in the later 1970s. As early as 1981 – and despite the continuing importance of central planning – SOEs were allowed to engage in market-determined activities. But it was not until the 1990s that the status of the SOEs and their relationship to central government was clarified and formalised. Assets of the state were “allocated” to the SOEs to be managed and used by them. Some SOEs had their assets sold off, but the potentially most important initiative was the start of the process of equitisation, which established formally independent owners and equity-holders (Fforde, 2004: 6–7). However, it is important to emphasise that despite the symbolic importance of these initiatives, which marked a potentially significant step on the road from plan to market, the reality was rather less significant and decisive. In actuality, the equitisation programme enjoyed limited success. While it might have been expected that new owners, including former managers and the labour force, would have taken over the ownership and control of the SOEs, in reality they invariably remained linked to the central state which attempted to utilise them in a process of what Adam Fforde (2004: 43) describes as “embryonic state-focused developmentalism.”

It is important to emphasise just how counter-intuitive this result is. We would expect the growing importance of the private sector and the decline of public ownership to be a crucial expression of a transfer of power and influence away from the state. After all, the private sector share of GDP expanded to nearly 60% of the economy, while that of SOEs declined to about 40%. There was an even more striking shift in employment patterns, with the private sector employing nearly 90% of the work force, with only 10% in the state sector (Nguyen and Freeman, 2009: 230). Likewise, the actual number of SOEs declined from 12,000 in 1990 to 1192 by the end of 2008 (Hong, 2009). At first blush, therefore, this looks like a case of the Vietnamese state adhering to the dominant logic of the era, and withdrawing from direct control of economic activity in the country. Such a conclusion would – thus far, at least – be premature, however. The reality is a good deal more subtle and complex. Once it is unpacked, however, the principal conclusion is that the state has ensured that it retains control of the leading SOEs because of their strategic importance to the economy as a whole and their importance to the overall developmental project.

The process of SOE reform which began in 1992 was given greater focus in 1994 by two decisions that paved the way for the consolidation of large-scale conglomerates.¹⁰ Crucially, these new corporate entities (which were named after the two Decisions and

christened “Corporations 90 and 91”) were directly authorised by the Prime Minister of the government, who either personally appointed or approved the boards of the new companies. The new SOEs were built on the foundations of existing firms, but state control was formalised and centralised through legal and managerial reform (Vietnam Government, 1994a; Vietnam Government, 1994b). One of the most important features of this process was to push locally prominent firms into mergers with emergent “national champions,” increasing both the scale of operation and the degree of influence of central rather than provincial government at the same time. Because those SOEs that were not considered suitable for amalgamation in this way have been equitised, sold or even liquidated, thus avoiding being equitised, many local SOEs actually applied to be integrated into Corporations 90 and 91. This process is still continuing now as a recent government report confirms: in 2009, 171 companies were voluntarily applying to affiliate with the large conglomerates established under the 1994’s Decisions. Indeed, it is also important to note that very few larger, centrally controlled SOEs have been equitised: the majority of equitised companies were small scale and local (MOF, 2008a).¹¹

In many ways the corporate consolidation and the concentration of state control in Vietnam mirrors similar developments in China, which were captured under the rubric of “grasp the big, let go the small” (see Gabriele, 2010). The troubled relationship between Vietnam and China after 1979 makes it difficult to trace any direct influence on the reform process in Vietnam, but at the very least it is plain that Vietnam’s reform path is closer to the “Beijing Consensus” than to the neo-liberal Washington Consensus.¹² The consequence in Vietnam is that the government has under its direct control the largest and most strategically important actors in the domestic economy. Vietnam is also similar to China in that figures on economic activity are notoriously unreliable, but some observers claim that state-controlled SOEs contribute over 40% of national GDP (Luu, 2010). Either way, this strategy of maintaining central control has not been hidden, but is a publically acknowledged part of the state-guided restructuring process. As the head of the Central Committee of Propaganda, To Huy Rua (2006), has observed, SOEs are “an indispensable part of the State economic sector ... [E]quitisation in Vietnam is not a comprehensive retreat of SOEs or privatisation, as some may think.”

For those SOEs that are effectively under state control and part of the national development strategy, the benefits are considerable: enterprises that have the state as their principal customer perform better and are less vulnerable to closure (Hansen et al., 2009). Strategically important SOEs are given monopoly or oligopolistic positions with which to underwrite their profitability. Petro Vietnam, for instance, dominates oil and gas exploration, the production of oil, gas and petroleum derivative products. It also operates the first oil refinery in Vietnam which supplies about 40% of domestic demands of oil and gas (Hai, 2005). Vietnam Electricity (EVN) produces 68% and distributes 98% of electricity (VNNTX, 2009). Besides the Sonla hydroelectric plant, EVN has undertaken most of the key strategic projects in producing electricity, and it is preparing to build the first two nuclear power plants with a total capacity of 4000 MW, and investment capital of about VND200 trillion or US\$11 billion (Duc, 2010) – a development with wider geopolitical ramifications. The central government’s attitude toward such projects and the role of the SOEs it has supported is evident from the following quotes. As Deputy Prime Minister, Nguyen Sinh Hung, put it, “if not SOEs, who will the government rely on?” (cited in

Doan, 2010). He repeated this message at a meeting with more than 100 leaders of those groups and corporations created under the two government decisions of 1994: “If the groups and corporations are strong, then the government will be strong as well” (cited in Manh, 2010).

The state is able to reinforce its influence over SOE development through its control of the state-owned commercial banks (SOCBs). Although there are only six SOCBs out of a total of some 85 financial institutions in Vietnam, they are estimated to control some 75% of total assets, loans and capital mobilisation (Pham and Vuong, 2009: 197). Significantly, and similar to China’s strategy, the state continues to pump capital into the SOCBs, something that allows them to collaborate and fund major infrastructure developments by state-controlled utilities, such as the EVN. Indeed, the majority of the SOCBs’ clients have been government-controlled entities, especially the SOEs. For example, an estimated 90% of SOE debt in the construction and transportation sectors is owed to SOCBs (MOF, 2008b) – close connections to policy-making elites are often a key part of facilitating bank credit in this process (Saga, 2008). In this context Vietnam – like China, Japan and elsewhere in the region – is far from immune to problems of corruption and the potential misallocation of capital that can bring in its wake (Malesky and Taussig, 2009). The incompetence, corruption and political fallout surrounding the ill-fated attempt to make Vinashin, the state-owned shipbuilder, a major global player, demonstrates the pitfalls of ill-conceived industry policy (Hookway and Tudor, 2010). The damage that this has done to Vietnam’s image and external investor confidence has been significant – a problem compounded by a 2010 clampdown on internal dissent and political opposition (Bland, 2010). Nevertheless, the key point to emphasise for our purposes is that whatever shortcomings Vietnam’s policy process may have in terms of transparency, good governance and even economic efficiency, state control over capital allocation allows senior officials to continue exerting a significant influence over the course of economic development.

Equally as important as the state’s continuing institutionalised influence over development at the domestic level has been its ability to deflect external pressures for more thoroughgoing reform (Beresford, 2008: 232). Consequently, despite a superficial adherence to the sorts of liberalisation and privatisation strategies that are urged upon Vietnam by external donor agencies, and which have attracted so much attention under the rhetoric of *doi moi*, the reality has been rather different. The emphasis placed by government officials on the strategic importance of the SOEs has never been in doubt – or hidden, for those who cared to look. As a number of government policy statements have consistently made clear, the SOEs are at the centre of the Vietnamese government’s developmental strategy: “the state economic sector, first of all SOEs, must be consolidated, modernised and developed to increase their efficiency and allow them to play a decisive role in the economy” (Communist Party of Vietnam, 1994). Crucially, it is a strategy in which the state remains the lead actor and director, even if some of the supporting cast are playing more prominent parts.

Concluding Remarks

At a time when capitalism is in crisis and there are major doubts about the stability, efficacy and attractiveness of the Anglo-American model of economic organisation

and development, Vietnam's experience and its possible future trajectory are especially significant. Indeed, it is becoming increasingly commonplace – even in the USA – to argue that “the [global financial] crisis and the effective response to it by some countries are likely to bolster the notion that competent technocrats in developing countries are capable of efficiently managing state involvement in the productive sectors” (Birdsall and Fukuyama, 2011: 49). While we acknowledge that Vietnam has serious economic problems to confront and there are concerns about the durability, transparency and efficacy of some aspects of governance in that country, nevertheless, it has made remarkable progress in a short period of time from inauspicious beginnings, and the state has been a central actor in this process. If Vietnam remains on its current path of rapid economic growth, it has the potential to become one of the most important and powerful countries in the East Asian region, not just among the relatively small Southeast Asian economies. Vietnam's significance is not just material, however: its successful and rapid development from a remarkably unpromising starting point has a wider comparative significance in debates about how countries in the “periphery” escape from poverty and underdevelopment. There are several aspects of Vietnam's experience that are worth emphasising as they have wider comparative significance.

First, not only did the Vietnamese government have the desire to “intervene,” retain control over strategically significant parts of the economy and direct the course of its overall development, but it also had the capacity to do so. Given that the conventional wisdom is that “globalisation” has fundamentally undermined the autonomy of states and compelled a process of policy convergence, this observation is not without significance. True, Vietnam is the product of a specific set of historical circumstances and the “lessons” that can be learned are easily overstated and possibly less relevant as a consequence. But the fact that Vietnam has coped with formidable developmental challenges and the legacy of a Stalinist economic management orientation makes its story all the more remarkable. While the legacy of central planning may explain the state's reluctance to relinquish its control over the commanding heights of the economy, that it has been able to accomplish this without jeopardising the developmental process is striking. Indeed, Vietnam's recent history seems to suggest that the more generalised pattern of state-led development that distinguished the earlier East Asian success stories still has some mileage in it. Even in a more economically integrated international order where individual states may be more exposed to the influence and judgements of inter-governmental agencies and private sector actors, there is still scope for highly interventionist public policies, and potentially highly successful ones at that (see Amsden, 2001; Chang and Grabel, 2005). If accurate, this claim about the continuing utility of state-led development in the periphery takes on additional significance in the context of broader debates about economic management.

Second, the Vietnamese experience potentially reinforces, both materially and ideationally, the apparent shift in power and influence from “West” to “East.” Clearly, these labels are less than satisfactory and are often deployed to support specific ideological agendas, but they do highlight what appears to be an increasingly inescapable reality: the continuing economic expansion of East Asia generally and China in particular is bringing about a profound, long-run transformation in the international economic order, one which has seen the world's centre of economic

gravity shifting toward Asia. Almost without exception, the Asian economies have been developed by “strong” states, high levels of guidance and intervention, and a good deal of scepticism about the merits of a predominantly market-orientated development model. This scepticism has been reinforced as a consequence of East Asia’s own 1997-98 economic crisis when “premature” liberalisation and too little state oversight were widely thought to have undermined the “East Asian model” (Wade, 2000). With the apparent decline in the US economy and the rise of powerful forms of “state capitalism” in China and elsewhere, the prospects for wholesale market-orientated reform and liberalisation in Vietnam or other parts of the developing world look increasingly remote (Beeson, 2009).

Although it is difficult to trace a direct Chinese influence on the content and style of Vietnamese development policy, China’s success and prominence in the region are highly significant. Not only is China’s own highly successful developmental experience likely to have a continuing influence on other would-be developing economies, but China’s experience is a powerful reminder that there is nothing inevitable about the course of political development as a consequence of major economic restructuring and development. On the contrary, China’s recent history suggests that capitalist development is entirely compatible with continuing authoritarian control by a notionally “communist” party (Tsai, 2007). A rising bourgeoisie can, it seems, live comfortably with “communism lite.” If this recipe has proved so successful in China, there is no reason to think it is likely to disappear anytime soon in Vietnam.

Notes

- ¹ We would not want to give the impression that we see Party Congresses as simply vehicles for policy development, however. As Gainsborough (2007: 6) points out, they are also venues where “access to political patronage and political protection are circulated.”
- ² It should be noted that former President Truong Chinh from 1981 to 1986 was the first political leader to pioneer the new thinking about reform as early as 1984. He designed the economic model in the Political Report that the Sixth Party Congress passed. Though not in power since that Congress, as an adviser, he closely co-ordinated with General Secretary Nguyen Van Linh (1986-91) to implement the reform process (see Dang, 2009).
- ³ The phrase “the frightening silence” refers to the behaviour of senior officials who would always keep silent when dealing with complaints from citizens or subordinates to which they did not have proper answers.
- ⁴ The Law on State Budget (*Luật Ngan sach Nha nuoc*) regulating the state budgetary process was introduced in 1996, and first amended in 1998, then amended for the second time to its current form in 2002.
- ⁵ It is also worth stressing that these sources are the main and largest sources of all available revenue sources of the country. The central state has kept all important sources and decentralized small and scattered sources to the local authorities. The estimation of state budget of 2010, approved by the National Assembly on 11/11/2009, shows that the total revenue belonging to the central state accounts for 65.6%, while that of all local governments (63 cities and provinces) accounts for only 34.4%. In 2010 the main sources belonging to the central state, such as revenue from import and export, revenue from oil and gas, revenue from SOEs, respectively accounts for 20.7%, 14.4% and 21.6% of the total national revenue.
- ⁶ Part 1 of article 28 in the Law on State Budget of 1998 and part 1 of article 30 in the Law of 2002 indicates 10 identical sources of revenue entirely controlled by the central state. Those ten sources are also of the same nature as the nine sources indicated in the Law of 1996. The only difference is the division of the two previous types of import-export-related taxes (import-export tax and special-consumption tax) into three types of import-export related taxes, namely import-export tax,

value added tax and special-consumption tax on imports. This division was due to the introduction of the Law on Value Added Tax in 1997.

⁷ Articles 30, 32 of the Law on state budget of 2002.

⁸ Developmental investment is aimed at infrastructure, promotion of trade, tourism and investment, investment in business, support to enterprises and poor families . . . which exclude the regular government expenditures on salaries, insurance, military . . . According to the Law on state budget, government borrowings can be used only for developmental investment. ODA is mainly composed of loans, and thus has mainly been used for developmental investment. Out of the US\$3.6 billion of spent ODA of 2009, US\$3.255 billion was loans, and only US\$345 million was non-refundable (see Binh Thuan DPI, 2010).

⁹ The Ministry of Finance's Report at the third Plenum of the XII National Assembly, 29 May 2008, showed that the state was taking hold of the controlling share (more than 50%) of 35.7% of the equitised SOEs, which are relatively large-scale companies and running efficiently.

¹⁰ They are Decision 91/TTg and Decision 90/TTg both dated 7 March 1994. Decision 91/TTg is on "pilot foundation of business group." Decision 90/TTg is on "continuing rearranging SOEs" which stipulates the foundation of the second largest corporations from existing SOEs.

¹¹ The Ministry of Finance's Report at the third Plenum of the XII National Assembly, 29 May 2008, showed that up to the end of 2007, among the equitised enterprises local SOEs accounted for 58.1%; ministries' SOEs accounted for 30.3%; and governmental SOEs accounted for only 11.6%. Some 77% of equitised companies were companies of less than VND10 billion of capital (about US\$500,000), equitised companies that had capital of over this amount accounted for only 23%.

¹² The labels are rather imprecise and all encompassing, but they capture something of the difference between China's state-dominated "pragmatic" approach to development and the more doctrinaire, market-orientated approach favoured in the USA and the IFIs (see Beeson, 2010).

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