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Vietnam: Post-State Capitalism

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Abstract and Keywords

This article provides an overview of the institutional structure of the business system of Vietnam. It explores the role of the state, the financial system, ownership and corporate governance, the internal structure of the firm (management), employment relations, education and skills formation, inter-company relations (networks), and social capital. It highlights the critical crossroads Vietnam is facing, after a period of steady growth, in a desperate effort to save its economy from going virtually bankrupt as a result of ideological ambiguity, cronyism, vested interests, corruption, poor governance, and the absence of stakeholders' participation in the process of sustainable development of the country. This article contributes directly to the business systems and varieties of capitalism literature and identifies institutional contingencies for comparative and international social science research in general.

Keywords: Vietnam, Asia, business systems, varieties of capitalism, institutions, cronyism, vested interests, corruption, sustainable development

Introduction

DURING 1991–2010, Vietnam achieved a steady annual gross domestic product (GDP) growth of 7.7 per cent, which gradually increased its average income per capita from a scant US$98 to US$1174 (Ohno 2009; Schwab 2011) and reduced the poverty level from over 58 per cent to 10 per cent (Asian Development Bank 2011). This was achieved by a combination of stimulants, such as an inflow of foreign direct investment (FDI), exports of low-value-added products, and private-sector development. With a GDP of US$890 per head in 2008, Vietnam effectively became a 'middle-income country' (following the World

Bank's classification of GDP per capita between US$976 and US$3855) (Ohno 2009; Tran 2012).

Notwithstanding the growing interest in Vietnam as an emerging economy, little has been written on its business system. This gap requires an examination of the socio-economic and political system to help understand how the economy is structured at macro (country) as well as micro (enterprise) levels, and how the economy's actors relate, interact, and operate within the framework of the socialist–capitalist dichotomy. The business system encompasses state-owned enterprises (SOEs), private-owned enterprises (POEs), foreign-invested enterprises (FIEs), foreign-owned enterprises (FOEs), from small and medium-sized enterprises (SMEs) to large enterprises.

Role of the State

Vietnam remains a one-party state system under the sole leadership of the Communist Party of Vietnam (CPV). Party dominance and socialist principles, channelled through (p. 284) its controlled network of mass organizations, including trade unions, influence all business activities (Rowley and Truong 2009a). This provides privileges and monopolies to organizations under CPV control, especially SOEs. Socialist tenets such as 'democratic centralism' (*dan chu tap trung*) and 'collective leadership and responsibility' (*lanh dao tap the*), in the form of 'resolutions' (*nghi quyet*), are common practices in decision-making. The CPV leadership holds absolute power in deliberating strategic issues at country and enterprise level, leaving little room for bottom-up participation and grass-roots contributions.

The level of party/state control and involvement in the economy has been evolutionary and conditioned to the socio-economic challenges facing the country at the time. Thus, prior to 1986 the state followed the Soviet model, characterized by centralized planning, forced agricultural collectivization, and nationalization of industry. The economy performed disastrously after unification in 1976.

The economic reform (*doi moi*) programme in 1986 was a reaction to save the country from near-bankruptcy in the wake of the collapse of the Soviet Union and the abrupt cessation of all aid from the communist bloc, followed by an imminent embargo from the West. Despite the fact that economic policies were still highly *dirigiste*, this marked a dramatic shift towards becoming a more developmental/welfare state (Masina 2006), with priority targets in economic growth and welfare.

Following World Trade Organization (WTO) membership in 2007, the state continued integration into the global economy and set the highly ambitious goal of forging an industrialized country by 2020 (Communist Party of Vietnam 2010). Efforts focused on further reducing the role of the state and encouraging private-sector development, although SOEs continued to be ‘flagships’ of the economy. This mixture makes Vietnam more like a neo-liberalist (Masina 2010) or neo-capitalist (Le 2011) state than a genuine free-market economy.

In the late 1990s the state launched a comprehensive reform programme to reorganize itself into a development administration, shifting emphasis from bureaucracy-oriented to citizen- and market-oriented provider of public services (Do and Truong 2009). The 2001–2010 Public Administration Reform (PAR) campaign focused on developing a more complete regulatory framework by means of a decentralization programme (*phan cap quan ly*) to delegate decision-making authority from central to local government (e.g. the FDI license approval process). The state also attempted to reduce state subsidies by promoting the development of POEs and involving related stakeholders (businesses and communities) in providing social services (especially in education, health, and culture) through a ‘socialization’ process (*xa hoi hoa*). The continued reform of SOEs further pushed ownership rights, allowing more autonomy in operations (Do and Truong 2009).

These efforts to build a more effective and accountable state apparatus have not materialized. One explanation is that while the party–state–business monolithic system may be an effective mechanism to push policy through quickly, it does not guarantee smooth and successful implementation. As decision-making is based on consensus, checks and balances occur horizontally (across ministries and departments), vertically (between central and local governments), and geographically (North, South, Middle, and remote (p. 285) areas) (Ohno 2009). Hence, any important decision requires lengthy negotiations, extensive compromises, and networks to satisfy the vested interests of stakeholders. On the other hand, coordination among different central government agencies and provincial authorities is low (Masina 2010), typical of a decentralized, quasi-federalist structure (Redding and Witt 2007).

The need for accelerating the development and integration process led to greater ‘autonomization’, in which the state is forced to gradually yield more latitude to local authorities and thus forms of ‘para-state’ entities have emerged (Painter 2008). Under these circumstances, decentralization has given rise to localism (Nguyen 2008) and cronyism (Roberts 2010), notably the practice of ‘favour distribution’ (‘*co che xin cho*’ or ‘application-approval’) (Tran 2010). Vertical delegation (from central to local authorities) has delivered examples of effective urban planning (e.g. Da Nang City) and industrial development (e.g. Binh Duong and Dong Nai Provinces). In contrast, horizontal delegation (from ministries to SOEs) seems to be reversing after the bailout of the shipbuilding group Vinashin in 2010 (Business Insider 2011a). An example of localism can be seen in the race among provinces/cities for ‘prestige’ infrastructure projects. Many local CPV leaders also sit on the Party’s Central Committee, the National Assembly, or key ministerial positions in the cabinet. The result of this ‘political lobby’ is a proliferation of airports, seaports, industrial/special economic zones, universities, etc. (Dat Viet 2011). Many of these costly facilities are close to each other in neighbouring provinces and often left idle or under-used. Unfocused and uncoordinated delegation/decentralization also allows corruption in the public sector, such as 'under-the-table payments' (or '*van hoa phong bi*', 'envelope culture') (e.g. Le et al. 2006; Nguyen 2010; Papin and Passicousset 2010).

Despite the state's continued commitment to build a more responsive and clean development administration and to create a more equitable business environment for all participants in the economy, problems continue. The World Economic Forum ranked Vietnam 65th out of 142 countries in 2011 (a drop of six places from 2010), with a special remark that corruption is considered frequent and pervasive (ranked 104th) (Schwab 2011). The Transparency International Index ranks Vietnam 116th out of 178 countries, the lowest of ASEAN countries, except for the Philippines (134th) (Transparency International 2010). The 'Ease of Doing Business' Report puts Vietnam at 78th out of 183 economies, highlighting that administrative procedures remain the main barriers for investors. For example, it still averages nine procedures and 44 days to get licenses to start a business in Vietnam, compared to 7.8 procedures and 39 days in East Asian and Pacific countries and 5.6 procedures and 13.8 days in OECD countries (IFC/WB 2011).

Financial System

In many respects, the financial system is typically centralized and heavily dependent on state-owned banks (SOBs) to provide access to finance. The financial sector has (p. 286) undergone a series of structural changes post 1986, the US–Vietnam Bilateral Trade Agreement in 2000 and WTO membership in 2007. The main challenges comprise restructuring the SOB sector, stabilizing the currency and stock exchange, managing the debt market (Massmann and Rowley 2009), and creating a more level playing field between state and privately controlled financial institutions (Kovsted et al. 2003).

The banking system was substantially restructured in 1990, separating the central bank, the State Bank of Vietnam (SBV), from commercial banks and allowing private banks to participate in the financial market. The SBV became an independent bank charged with executing monetary policy and supervising the sector. The banking and finance sector has diversified relatively rapidly in terms of participants and activities. The new regulations also put subsidiaries of foreign-owned banks on an equal basis to local banks, allowing them, for example, to take unlimited local currency deposits from corporate borrowers and issue credit cards (Business Times 2010).

There are four main types of credit institutions: commercial banks, policy-lending institutions, credit funds, and financial companies. The ongoing equitization process (the Vietnamese version of privatization) reduced the total number of state-owned commercial banks (SOCBs) and the state's shareholding to 51 per cent by 2010, while limiting total foreign holding to a maximum of 30 per cent. There are five SOCBs, controlling about 70 per cent of banking sector assets and 70 per cent of total bank loans. Another 37 joint stock banks (JSBs), mainly small in size, control about 15 per cent, with the remaining 15 per cent spread among 37 foreign bank (FB) branches and five joint-venture banks (JVBs). Banks with foreign capital, whose clients are predominantly FIEs, account for about 10 per cent of bank loans (Kovsted et al. 2003; Leung 2008; Harvard Business School 2008; Bland 2012).

Stock exchanges opened in Ho Chi Minh City (HoSE) in 2000 and Hanoi (HNX) in 2005 and helped manage the inflow of foreign currency and FDI and facilitate SOE equitization. After a slow acceptance, the stock market developed from late 2006. The total number of listed companies, most of them small joint stock companies from former SOEs, increased to 193 (of which 87 were JSCs) by early 2007, six times the 2005 figure, due to tax incentives for listing by the deadline of 31 December 2006. However, only 4 per cent of more than 3000 SOEs equitized by the end of 2006 listed on the stock market, as they preferred not to disclose company information, and/or because of under-valuation at equitization (Thai and Biallas 2007). By mid-2010 there were 258 listed companies on the HoSE and 328 on the HNX (Chu 2010), with a total market capitalization value of about VND740.433 trillion (about US$37 billion) or 45 per cent of the country's GDP (Stockbiz 2011), compared to less than US$1 billion at the end of 2005 (World Bank 2007). However, only 60 per cent of stock value can be traded freely, because the state continues to hold controlling stakes in large enterprises (Chu 2010). The HoSE's stock market index (VN-Index) is generally seen as a relatively reliable barometer of Vietnam's financial market, while the HNX is less developed, accounting for only about one-third of total market capitalization (IMF 2007).

The purpose of the financial reforms was to lessen persistent and indirect state control through the creation of a more market-oriented autonomous sector. However, there are risks for both the financial sector and economy (Kovsted et al. (p. 287) 2003; Leung 2009), given the discriminatory capital allocation. POEs often have difficulties accessing official financing sources, while SOCBs continue to give preferential treatment for loss-making SOEs, many of which are close to bankruptcy with heavy non-performing loans (NPLs). In 2009 the total debts of 81 of the 91 centrally controlled SOE groups soared to VND813.4 billion (about US$38.7 billion) from VND31.935 (about US$2 billion), equivalent to 49 per cent of the country's GDP. Many NPLs lack files and evidence for a complete audit (Bui 2006). For example, the debt share of the Vietnam Shipbuilding Industry Group (Vinashin) alone was VND86 trillion (about US$4.1 billion) (VietNam News 2011) or about 5 per cent of GDP in 2009 (Business Insider 2011a).

The need for more complete and effective regulation was apparent when the post-2008 global financial crisis hit. In 2011 the VN-Index lost 6 per cent of its total market capitalization value of VND643.395 trillion (about US$32 billion) from three months earlier, after already having lost 8.1 per cent of its trade value in 2010. The finance market became extremely difficult to access for POEs due to increasingly high interest rates (16–20 per cent p.a. during 2010) and conditions for loan applications (Thecurrencynewshound 2011). POEs commonly resorted to alternative sources of capital, such as the 'underground' sector with exorbitant interest rates (Vuong 2011).

This informal market makes up as much as 20 per cent of GDP (Kotkin 2011), or about US$20.8 billion in 2010 GDP value.

The shortage of finance has been compensated for by the inflow of remittances from the Vietnamese diaspora overseas, who in 2011 alone sent home US$9 billion or about 7.8 per cent of the country's GDP (Nguyen 2011b; Deutsch Presse-Agentur 2012). Large amounts of these transactions are via informal channels (Pham 2010a) that help Vietnam to balance its payments.

In sum, under strong state intervention (SBV), Vietnam's finance tends to be indirect, with a large state-supported network of banks (SOCBs) providing soft loans to SOEs (the pillars of the socialist economy); many of these big borrowers (e.g. Vinashin, EVN, and Petrolimex) are unable to repay their loans. Meanwhile, the private sector often fails to meet the complex conditions for capital acquisition and hence has to turn to friends, families, and the informal market (loan sharks) for start-up and operations capital. Both banking system and capital market need further comprehensive reforms to meet international standards and sustain economic growth (Bland 2011a, 2011b, 2012).

Ownership and Corporate Governance

Officially there are five main categories of ownership: SOEs, FOEs, collective enterprises, household enterprises, and POEs. Joint-venture enterprises (JVEs) are the (p. 288) preferred entry mode in the early phases of establishing enterprises that will eventually become FOEs once foreign partners, SMEs as well as multinational companies (MNCs), have sufficient access to local markets (Truong 1998). Through SOEs, the state retains a significant role in the economy. It is estimated SOEs account for approximately 40 per cent of total GDP, with 42 per cent from the non-state sector (household enterprises and POEs), and 18 per cent from FOEs in 2009 (GSO 2010; Vietnam News 2011).

As 'pillars' of the economy, SOEs enjoy favourable operating conditions and privileges, such as preferred access to credit, land use, and markets. There were about 12,500 SOEs in 1990, declining to 5600 in 2001 and 2100 in 2006 as a result of restructuring and equitization. About 950 more SOEs were planned to be equitized in 2010, leaving 554 SOEs, including 26 large-scale economic groups and corporations (Do and Truong 2009). However, equitization did not proceed according to plan. By 2010 there were still about 1473 SOEs. Also, the state continues its influence by holding majority shares in equitized enterprises (Brown 2011), many of them reappearing in the form of joint-stock enterprises (JSEs).

SOEs can be characterized as bureaucratic, with many layers, duplicated functions, and excessive staffing, especially the ten groups or corporations (in energy, banking, transport, shipbuilding, telecommunications, oil, coal, etc.) operating on the South Korean *chaebol* model (Do and Truong 2009). The majority of SOEs lose money, with heavy debts and poor governance as a result of corruption and nepotism and mismanagement (Wright and Nguyen 2000). FOEs are seen to operate more effectively. In a recently published report on the VNR500 list of Vietnam's biggest firms, FOEs were ranked the most effective with return-on-assets (ROA) of over 13 per cent, but while more than double that of SOEs (5.2 per cent), it was also more than quadruple that of POEs (2.5 per cent) (VietNamNet 2010).

POEs are considered the engines of growth for the economy, despite unfavourable tax and regulations. Since the introduction of the first Enterprise Law in 2000, POEs increased quickly, from 49,000 in 1999 to 254,000 in 2006 and 520,000 in 2010 (Pham 2010c). Their contribution to the economy continued to grow from 2004, and by 2009 accounted for 41.1 per cent of GDP, about 5 per cent more than SOEs and 20 per cent more than FOEs (Business Insider 2011b). About two-thirds of listed companies and a substantial number of POEs are family-run or start-up businesses often lacking the necessary capital and managerial skills to be competitive in domestic and international markets. More than 80 per cent of POEs have capital under VND5 billion (about US$250,000) and 87 per cent have fewer than 50 employees (Le 2010). Nevertheless, POEs can be resilient (Harvie 2004), with self-motivated and young entrepreneurs who can be more receptive towards adopting technologies in production and innovative management methods.

Domestic and foreign investors have the right to operate businesses under various forms, such as limited-liability companies (LLCs), shareholding companies, proprietors, private enterprises, partnerships, cooperatives, and joint ventures. In particular, both the Company Law and the Law on Private Enterprises in 1990 followed corporate (p. 289) legal principles from Anglo-American jurisdictions. In preparation for WTO membership, the 2005 Enterprise Law added new dimensions to the existing legal framework and in effect formed the foundation of the Vietnamese corporate governance system.

Under the Enterprise Law, LLCs are classified into two forms: (i) two or more shareholders and (ii) single member. The law provides different internal governance structures for LLCs, defining different tasks between the Council of Members (CM, *hoi dong thanh vien*), CEO (*giam doc or tong giam doc*), and board of supervisors (BS, *ban kiem soat*). However, the law does not state the owner as a corporate decision-making body in the governance structure, which may result in the potential interference of the owner, especially the government agency as the sole owner of SOEs, in company management (Bui and Nunoi 2008). In addition, the law does not provide any rules for supervision mechanisms, which makes company internal governance structures lack flexibility, efficiency, and accountability (Bui and Nunoi 2008).

In effect, equitization did not result in much change in corporate governance; while a part of ownership (in the form of shares) was transferred to employees and management, the state retained a substantial share, with practically no change in new management teams or participation of strategic investors (Sjoholm 2006). For example, at its peak in 2004 the number of equitized enterprises grew to 715 from 123 in 1998, but state ownership stakes of equal and over 50 per cent in these new JSEs also increased from 12 to 42 per cent (Masina 2010).

Generally, corporate governance remains a new concept, alien to many in Vietnam. In a survey of 85 large local enterprises, fewer than 25 per cent of executives believed that business people in Vietnam understood the basic concepts and principles of corporate governance. The executives also revealed that there was still confusion over the difference between corporate governance and operational governance (Vietnam Chamber of Commerce and Industry 2005). Companies need to improve corporate governance to ensure market transparency, investor protection, and effective management in order to ensure better development of the securities market (Le and Walker 2008).

Internal Structure of the Firm

Organizations typically tend to be hierarchical in structure and patriarchal in operation (Truong and Nguyen 2002) and have task specialization. Being deeply rooted in the centrally planned system for many decades, firms still bear characteristics of ‘mechanistic’ organizations, with centralized decision-making, complex structures with many layers and departments, task duplication, and cumbersome procedures. In general, the governance structures and management of SOEs appear more bulky and less effective than those of FOEs and POEs of the same size and business coverage (Bui 2006).

Many large SOEs and centrally managed corporations opt for matrix structures, while small POEs are organized around functions and focused markets. Functions deemed strategically sensitive, such as finance and human resource management (HRM), are (p. 290) centralized and/or dealt with directly by top management. FOEs often pattern their branch organizations after corporate matrix/hybrid structures on a smaller scale, depending on line of business, often centralized at the top (Ren 2010).

Decisions are usually generated at the top and communication flows one way, down through organizational levels. Participation, especially in strategic matters, is often not encouraged or practised, although discussions and ideas are sometimes allowed in the implementation phase. Nevertheless, even SOEs are becoming more ‘organic’ to respond more quickly to market conditions.

Status is important in the business community (reflecting societal values), and respect is given to superiors and senior colleagues (Communicaid 2009). Status is obtained with age and education and in many cases relationships and connections. Titles are particularly important and are often used as a practical way of ‘favour distribution’ among ‘followers’. However, abuse of this practice can make organizations difficult to manage. In SOEs, where ‘mentor-protégé’ relationships are common, executives and managers are appointed from among CPV members for fixed five-year terms, making them loyal to their mentors rather than their organizations. This ‘patronage politics’ is displacing the previous, more consensual, system (Bland 2011a). In POEs the owner is, in many cases, also the CEO and appointments and promotions can be based more on merit and the qualities of candidates, although nepotism also occurs, especially in family-owned companies.

As well as the Confucian heritage, there is strong Western influence in the management and leadership styles of organizations as a consequence of long foreign intervention (Truong 2006). On a comparative basis, Vietnamese organizations are seemingly more centralized at the top and managers are often reluctant to delegate authority down the line, typical characteristics of a socialist system and family-owned SMEs. One survey found that FOEs and joint ventures (many of them having SOE business partners) were more 'bureaucratic' and 'conservative' than POEs, while POEs ranked higher in 'participative' and 'entrepreneurial' aspects of management (Truong and Nguyen 2002). Types of enterprises also differed widely in leadership style. In particular, SOEs and JVs were higher in 'close supervision' and lower on 'giving freedom to subordinates', 'consulting subordinates' opinions' and 'delegation of authority to subordinates', as compared to POEs (Truong and Nguyen 2002). In this regard, the 2010–2012 World Economic Forum report ranks Vietnam 95th out of 142 countries on 'willingness to delegate authority', compared to Malaysia (14th), Singapore (21st), Indonesia (56th), Philippines (33rd), Thailand (77th), and China (54th). Hence, it is understandable that most important decisions concerning strategic planning, financial management, and HRM (including resourcing and development) are the prerogative of top management (Schwab 2011).

Employment Relations

To deal with the new conditions post-*doi moi* reform, the Trade Union Law was adopted in 1990. This foresaw a tripartite relationship of the three key actors (state, trade union, (p. 291) employers' organizations) to resolve industrial disputes. A Labour Code was introduced in 1994 on key issues of employment practice, labour standards and working conditions (ILO 2010).

The Vietnam General Confederation of Labour (VGCL, *Tong lien doan lao dong Viet Nam*) is the sole trade union, entrusted with the task of protecting the interests of the working class and general public (Clark and Pringle 2011). Officially, the basic functions of the VGCL are to defend the legitimate rights of workers, provide training and education to members, and help settle disputes. However, it is under the direct leadership of the CPV, with its chair often a member of the CPV's Central Committee. Union branches are expected to play a crucial role in the operations of organizations, together with the CPV's cell and representatives of other mass organizations, such as the Youth and Women's Unions (Truong et al. 2008).

Despite the formal ‘closed shop’ character, only about 20 per cent of enterprises are unionized and total membership density has fallen from nearly 86 per cent in 2000 to 67 per cent in 2005 (Truong et al. 2008). VGCL representation has been declining, partly due to failure to deliver in industrial disputes and because collective bargaining is not a practice used as an official device to regulate employment relations. FOEs often opt for works councils to deal directly with emerging issues, without union intervention.

In reality the tripartite consultation mechanism (represented by the National Labour Relations Committee) has failed to deliver on collective bargaining and industrial conflicts (Yoon 2009), for two reasons. First, the Vietnam Cooperative Alliance (VCA, *Lien hiep Hop tac xa Vietnam*) and Vietnam Chamber of Commerce and Industry (VCCI, *Phong Thuong mai va Cong nghiep Viet Nam*), which represent the employers’ organizations, are semi-state organs affiliated with the Vietnam Father Front, a liaison body between the mass organizations and CPV (Cornell University ILR School 2002). Second, the representational gap between union and rank-and-file workers has also contributed. Basic union tasks are often taken over by enterprise human-resource managers, producing an emerging informal system to which employees resort when they feel that formal channels are not representing them. This growth of informality has led to employee turnover and labour shortages as workers react to poor pay and working conditions and the absence of a means to improve them (United Nations Vietnam 2010).

Industrial disputes, especially in the form of wildcat strikes, have been increasing. During 2000–2010, about 5000 unofficial strikes without the VGCL’s involvement were reported (ILO 2010), mainly over inappropriate wages, unpaid bonuses/allowances for special occasions, unfulfilled contributions to social insurance, and working conditions (Truong et al 2008; Tran and Coleman 2010). Full employment, a typical ‘iron rice bowl’ socialist practice, has been almost dismantled in all types of enterprises (Le et al. 2006), except SOEs. The minimum wage of VND830,000 (about US$47) to VND 1,270,000 (about US$65), recently fixed by the government to make it competitive to foreign investors, actually only covers 60–65 per cent of basic living costs, depending on location (Asian News Network 2010).

In many aspects Vietnam does not follow market rules on prices and wages and lacks a complete and consistent wage policy (Pham 2010a). The Labour Code and Trade Union (p. 292) Law has failed to meet employment relations changes. Typical deficiencies in the system include low understanding of employment relations, lack of collective bargaining (especially in POEs and FOEs) (Luu 2011), and failure to protect workers’ interests. Only a few enterprises have collective bargaining agreements, since the VGCL’s ability to effectively bargain with management is handicapped by the fact that at many enterprises, union representatives are also human resource staff.

In anticipation of potential problems from an FDI surge, Vietnam introduced new mechanisms in 1994 for the resolution of collective disputes under the Labour Code, which provides for the use of strikes as a last resort. In reality the VGCL often fails in its role as workers’ champion, especially when workers go on strike in difficult times (Clark

2006). The growth of strikes has led unions to pay increasing attention to employment relations issues, but responses are often slow and inconsistent. Unions show little inclination or ability to stand up to employers on behalf of their members, while workers show a preference for direct action (Clark et al. 2007). As an alternative to its traditional task, it is suggested that the VGCL mobilize its pro-labour press to play a mediating role among state agencies, union branches, and management (Tran 2007).

Education and Skills Formation

With a Confucian heritage and high expectations for the future, there is a strong commitment to education and human resource development (HRD). The country is rich in terms of people, having a large and young population of 87 million (in 2009), with 47 per cent between 15 and 34 years old and an adult literacy rate of 90.3 per cent (UNDP 2009). The Human Development Index Trends 1980–2010 includes Vietnam in the 'Medium Human Development' category (ranked 113th out of 169 countries), with a human development index (HDI) value of 0.572, compared to 0.407 in 1990 (UNDP 2010). In 2008 education accounted for approximately 20 per cent of total state budget expenditure and 5.5 per cent of GDP (Runckel 2009). However, the quality of output remains doubtful and the dearth of skilled labour remains acute, despite expenditure of about 6 per cent of the 2006 national budget on vocational and professional training (Hong 2008).

In quantitative terms, Vietnam has been relatively successful in widening the educational system from one reserved for the elite (World Bank 2008). In 2010 there were 409 higher education institutions (universities and colleges), 307 of which were established post 2000. Some 40 provinces (of 58 provinces and five centrally governed cities) now have a university and 60 provinces and cities have a college (VuVan, 2010). However, many were established without proper infrastructure, faculty, or system quality control (Vu 2008). Official targets aim at 573 higher education institutions and 400 students per 10,000 (up from 195 in 2010) in 2020 (Nguyen 2011).

In the 2009–10 academic year there were 15 million students at all levels; 7.4 million female (49 percent), 6.9 million in primary education (46 per cent), and 8.1 million in high-school education (54 per cent). There were over 1.9 million students in higher (p. 293) education, compared with just 162,000 (49.9 per cent of them female) in 1993 (World Bank 2008; MOET 2011). About one-quarter (25.4 per cent) received some professional training in 2006 (Hong 2008). The drop-out ratio is high, especially at middle-education level. In 2006, only around 55 per cent finished high school (Hong 2008).

Overall, the education and training system is facing several issues, such as outdated curricula, neglect of vocational training, and lack of linkage with teaching and research activities. Labour force quality remains low and many have to be retrained to fit job requirements (Truong et al. 2010). About 60 per cent of young college graduates needed to be retrained for at least 6–12 months after recruitment (NUFFIC 2010). According to WEF criteria, the Vietnam's low competitiveness in 2011 (65th of 142 countries) is a combination of several related factors, such as quality of educational system (ranked 69th), availability of latest technologies (133rd), firm-level technology absorption (88th), capacity for innovation (58th), quality of scientific research institutions (74th), university–industry collaboration in R&D (82nd), and availability of scientists and engineers (66th) (Schwab 2011).

Attempts have been made to develop skills. For instance, a comprehensive HRD strategy concentrated on enhancing the skills of three groups: public servants and policy-makers, entrepreneurs, and workers (Ministry of Labour, Invalids, and Social Affairs 2006). Nevertheless, there remains a serious input–output mismatch between what education and training institutions offer (curricula) and what industry needs (requirements).

The training programmes and forms provided vary among enterprises, depending on their understanding of the role of human capital to their success and the strategic role of HRM departments in organizations (Truong and Hoang 1998; Le and Truong 2005a, 2005b; Zhu et al. 2008). In relation to this, the WEF score on 'extent of staff training' in Vietnam (107th of 142 countries) is surprisingly low compared with ASEAN counterparts such as Singapore (4th), Malaysia (9th), Philippines (34th), Indonesia (52nd), Thailand (56th) and even Cambodia (97th).

Local enterprises are focusing on improving competitiveness by investing more in HRD (Le and Truong 2005b; Zhu et al. 2008). Large MNCs are also driving demand for a more skilled workforce. The service sector has great potential, especially in information and communication technology, tourism, logistics management, finance, and banking, but 10–15,000 skilled people need to be trained in these fields annually, though at current training capacity, only 40–60 per cent of this demand can be met (NUFFIC 2010).

Foreign workers have been used to fill skills gaps. Their number has risen from 12 602 in 2004 to 21,117 in 2005 and 34,000 in 2007. Only 41.2 per cent filled managerial and professional positions, while half were from Asia and 14 per cent from Europe (Hong 2008). The intellectual resources of overseas Vietnamese professionals—about 300,000 of a total 3.6 million spread over 90 countries, many qualified in technology and management—could be tapped (Truong et al. 2010; Deutsch Presse-Agentur 2012).

The private sector is active, with increasing numbers of new higher-education institutions and professional training centres. In the 2009–2010 academic year, the number of private higher-education institutions increased to 76, 20 per cent of the total (MOET (p. 294) 2011). Cooperation programmes with foreign institutions (especially at postgraduate levels) have been approved and foreign universities encouraged to participate (e.g. RMIT from Australia, British University Vietnam, Vietnamese-German University). However, quality control and affordability, as well as the inherent bureaucracy of the system, are key issues in the operation of these institutions.

At the micro-level, HRD is considered necessary (Le and Truong 2005b). Yet the business community has divergent views and practices regarding the effectiveness of training. While FOCs see HRD as a motivational tool to make employees capable of meeting performance standards and as a high and quick return on investment, SOEs and POEs still consider HRD as an expense and hence tend to keep budgets small (Truong et al 2008). A survey (of 166 enterprises across various sectors) also found that on-the-job methods of training were adopted equally by different types of enterprises, while off-the-job methods were less preferred by FOEs than by SOEs (Le and Truong 2005b). Furthermore, due to budget constraints, most SMEs relied only on informal training, whereas, compared with FOEs, SOEs and POEs rarely sent people abroad, financed self-study, or rotated jobs (Truong and Le 2004).

Inter-Company Relations

Transfer of technology and management from FIEs to local partners and self-improvement by local organizations to improve productivity and quality of products and services is possible. There are associations organized around professions (e.g. Human Resources Professionals, Vietnam Young Entrepreneurs) and industries (e.g. Shrimp Farmers, Footwear, Garments, Coffee), but these exist more in formality than substance, with no concrete activities to foster inter-company relations among local enterprises.

In the early phase of economic development, because the level of technology and management was low, domestic organizations were eager to learn from practical experience and best practices from foreign counterparts. Domestic organizations gradually developed and spread success stories within their own organizations and among the local business community.

However, the propensity of the learning and applying process varies between organizational types. The influx of foreign firms has brought managerial expertise and Western HRM practices. In 1992 the first wave of restructured SOEs led to a new genre of mixed-ownership companies, in the hope that they would prosper after the ownership change through improved management (Le and Truong 2005b).

Changes have not occurred in many organizations, due to their fear of losing their own identity and competitive advantages. The state also insists that models should be 'typically Vietnamese', reflecting genuine Vietnamese characteristics (Le et al. 2006). At the micro-level, 'first-mover' enterprises are fearful of their creative/innovative ideas and products being imitated or duplicated by competitors in the (p. 295) absence of effective protection mechanisms for intellectual property and copyright (Huong 2011).

A culture favouring ‘right relationships’ (*quan he*) can evolve and develop into not only corruption as a result of nepotism, cronyism, and camaraderie (Le et al. 2006; Pei 2012), but also self-protection and isolation. These traits could prevent enterprises from forming strategic alliances with counterparts. SOEs prefer business-to-business (B2B), making optimal benefits from the ‘quota distribution’ system, while POEs are more in favour of business-to-customer (B2C) marketing methods to directly engage target markets. On the other hand, a supply value-chain system built on a cooperative and synergetic partnership between key players (e.g. producers, suppliers, and distributors) is yet to develop among local enterprises to help them compete internationally under a unified ‘made-in-Vietnam’ brand umbrella and to prevent such blunders as ‘dumping’ cases (e.g. catfish, footwear, and gas lighters in the USA and EU) due to lack of knowledge of foreign markets (Vietnam Business 2011).

In fact, supply-chain management is still in the early phase of development (Dinh 2011). In this regard, Vietnam scores relatively low on ‘value-chain breadth’ (101st of 142 countries) compared to Singapore (10th), Malaysia (23rd), Indonesia (29th), Thailand (36th), Philippines (67th), and China (45th) in the WEF Global Competitiveness Report (Schwab 2011). The importance of developing integrated supply-chain networks has been made (Vo 2011; Dinh 2011) and several professional institutions (e.g. Vietnam Supply Chain) and journals (e.g. *Tap Chi Chuoi Cung Ung Viet Nam*) have been set up to assist local enterprises in this respect.

Social Capital

Vietnam is a relationship-based society where trust is key in business culture and practice, albeit not fully institutionalized. The level of interpersonal trust is fairly high. For example, 41 per cent of local people say they trust their fellow citizens (Norlund 2006). There is a relatively conservative attitude toward foreigners, as the Vietnamese may see Westerners’ individual assertiveness and directness as arrogant and tactless (Ashwill and Thai 2004).

In business a trust-testing approach is followed to gauge the amount of trust to put in a person, especially foreigners. Therefore, expectations for effective shortcuts to employee involvement and empowerment can be deemed naïve (Le et al. 2006). Compared to their ASEAN counterparts, Vietnamese managers give equal weight to personal qualities (dependable, trustworthy, honest, responsible) as to managerial behaviours (strategic vision, logical problem-solving, consistent decision-making), with a higher emphasis on being ‘honest’ in business relationships (Truong et al. 1998). In business, these networks are a matter of ‘social security’ and even of survival, hence ‘sponsorship’ is important in opening up a point of entry and building a viable business partnership (Ashwill and Thai 2004). (p. 296)

Yet, while *quan he* might work out positively, especially in harnessing long-term mutual benefits and cultivating trust and personal relationships (Yeung and Tung 1996), it can also develop into corruption (as a result of nepotism and cronyism) in the absence of an effective legal system and social control norms (Vuong 2005, Le et al. 2006). Lack of institutionalized trust may lead to 'collective responsibility' (*trach nhiem tap the*), in which individuals feel safer and are not concerned about personal accountability.

Business relationships are yet to be institutionalized, as business is still relatively formal and it usually takes time to build lasting trust. People prefer doing business based on personal relationships and through informal, rather than formal, talks (HR Solutions Vietnam 2010). This is visible, for instance, in the tendency to spend much time on trust-building with new business partners, especially foreigners, before transactions go ahead (Communicaid 2009).

As competition has intensified, trust among business partners needs to be further institutionalized, together with a competent arbitration mechanism to resolve conflicts. Fewer than a half of companies believe the court system is fair or impartial (World Bank 2010), as it was corrupt with political interference, the main reason preventing use of the courts to resolve business disputes (Malesky 2010; Global Integrity 2009). On average it takes 34 procedures and 295 days, at a cost of 28.5 per cent of the claim, to enforce a contract through the courts (World Bank 2011). Nevertheless, a recent survey supports the general assumption that trust can be intentionally developed to facilitate inter-firm relationships, especially in the private sector (Nguyen and Jerman 2009).

Institutional Complementarities

Vietnam is a country of contradictions and compromises, given the complexities of its political and economic system. Some complementarities, which need to be further institutionalized, are summarized.

1. The party, state (government) and business (SOEs) alliance, characterized by CPV dominance, concentration at the top and collective responsibility, are linked to quick decision-making, but also negatively affect the quality of implementation, such as with favouritism, cronyism, red tape, and corruption.
2. The informal and 'underground' economy has functioned as an alternative for capital resources, especially to POEs.
3. FOEs have provided effective business models, with some limited transference of state-of-the art operations to local enterprises (SOEs and POEs alike).
4. The need for a skilled workforce has been partly resolved by a 'brain gain' policy to exploit the capital resources of overseas Vietnamese. **(p. 297)**

5. The involvement of foreign institutions in development and delivery has contributed to improving the overall quality of education and training and the demand for managers and professionals.
6. In employment relations, the use of the media as a temporary solution has partly helped relieve workers' grievances in the face of labour disputes in which unions have failed to act.

Evolutionary Dynamics

After two decades of steady growth, Vietnam is at a crossroads, given the context of the post-2008 global economic crisis and overheating economy. Growth has been slowing and critical fundamentals for a sustainable economy are yet to be developed. Corruption as a result of 'capitalist cronyism' (Roberts 2010) or 'crony compitalism' (Pei 2012) and related vested interests is rampant, especially in SOEs; the debt-to-GDP ratio and living conditions have worsened due to soaring inflation underpinning a lack of consistent monetary policies and poor governance (Pham 2010b; Economist Intelligence Unit 2011). In 2009–2011 Vietnam led the region in having the highest inflation rate, a growing budget deficit and the weakest currency and sovereign risk rating (Le 2011; Koh 2011).

The next phase of development involves several issues. To begin with, the 'market economy with socialist orientation' (*kinh te thi truong dinh huong xa hoi chu nghia*) model (To and Hoang 2007) seems to be losing momentum (Nguyen 2011a; Quynh 2010; Vu 2010a). Second, SOEs have failed to perform as 'pillars of the economy', while POEs are growing (Sjoholm 2006; Vu 2009; Fuller 2011). Third, efforts to integrate into the global economy with comparatively moderate capacity based mainly on low-cost, low-tech manufacturing (with low local content and value-added), reliance on external resources, especially technology and R&D and exports (with huge trade deficits, mainly with China), and a poor global supply chain (Tencati et al. 2010), have not paid off (Truong et al. 2010). Fourth, to continue the projected strong growth for the next decade, it is imperative that Vietnam works to raise labour productivity (Breu et al 2012). Fifth, the focus on achieving fast growth (quantitative) has become an impediment to achieving more sustainable development (qualitative) (Tran 2008).

Vietnam remains an excellent economic prospect (Bremmer 2010; Brown 2011), recognized as one of the promising emerging economies of the CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa) club, and benchmarked with the MIT (Malaysia, Indonesia, and Thailand) group in Asia for its resilience in the post-2008 financial crisis. In 2010 Vietnam was ranked among the ten most improved economies in terms of ease of doing business (78th of 183 countries) (IFC/WB 2011). Nevertheless, the gap with neighbours remains. The WEF Competitiveness Index 2010–12 Report ranked Vietnam 65th of 142 countries, a much lower position compared to (p. 298) MIT countries

(Malaysia 21st, Indonesia 46th, Thailand 39th), especially in such critical areas as 'Innovation and Business Sophistication' (Schwab 2011).

To a large extent, the future of Vietnam's state capitalism will greatly depend on its capacity to respond to challenges as noted and to build good governance and human capital (Rowley and Truong 2009b; Vu 2010). As such, Vietnam needs to also focus on 'institutional development' rather than just 'organizational development' in the form of adding and adjusting laws, restructuring SOEs, fighting corruption, etc. The drive towards more sustainable development will require a clearer ideological stand on the ambivalence of the 'socialism-capitalism' cohabitation, a long-term, clear-cut and realizable vision and a consistent implementation roadmap, not the 'amateurish' (Bremmer 2010) 'poor' government (Koh 2011) with a 'muddled approach' (Du Venage 2011), or the 'damage control mode' (Cain 2012) of current practice.

The experience gained in the last few decades has brought a new realism and greater economic resilience and maturity that could help Vietnam. The CPV recognizes the need for political restructuring (Le 2011) to foster sustainable economic growth (e.g. to combat rising inequality and corruption), but will never 'waver' from its socialist system.

Conclusion

This chapter has examined the development and operation of the business system in Vietnam. After more than two decades of experimentation, Vietnam's economy still seems to be more a 'coordinated market economy' than a 'liberal market economy', according to the Hall and Soskice definition (2001). It remains to be seen whether the Vietnamese development model ('the Vietnamese miracle') will succeed (Cain 2012).

As described here, Vietnam's state capitalism is at a turning point. The challenges ahead involve both structural and strategic change. Structural change (immediate and short term) requires an overhaul of capacity at the national level (e.g. financial system and governance), a redefinition of internal (e.g. between organizations) and external (e.g. employment relations) factors, and above all a comprehensive HRD plan to improve competitiveness. The strategic transformation (long term) is more difficult to realize, as it would mean a departure of the CPV from its socialist perspective. More critically, civil society has to be equally developed in socio-cultural and educational terms to catch up with economic advances.

A developed and self-functioning civil society (*xa hoi dan su*) in tandem with good governance in the context of a state of rule of law (*nha nuoc phap quyen*) at the macro-level and effective management at the micro-level could help Vietnam overcome key structural challenges to more sustainable development. As the CPV will need economic success to justify its political legitimacy (Thayer 2009), it does not matter much whether it is labelled a 'socialist-oriented market economy', 'market socialism', or a 'market economy with Vietnamese character', provided that the new and adjusted model, a (p. 299) kind of 'grassroots capitalism' (Kotkin 2011), helps the country achieve the status of 'an industrialized country' as promised by the end of this decade.

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