

# **Vietnam and the Outlook for Long-term Economic Expansion**

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## 1. Vietnam's political economy – some basic features

A range of factors, of which geography, history and philosophy are probably the most important, shapes Vietnam's political economy.

### *Geography*

- o There is no single urban centre, comparable to London, Bangkok or Paris. Ho Chi Minh City provides a high proportion (around 40-50%) of the tax base, which is then spent through fiscal redistribution, directed by Hanoi.
- o There is a 'land frontier' in the Central Highlands, but, apart from this, rural settlement is fixed.
- o Vietnam is situated in the most dynamic region of the world, economically, on the border of the emergent but unstable economic powerhouse that is China, a country that it knows well.

### *History*

- o Since the 19<sup>th</sup> century, Vietnam has experienced various international conflicts, from which it has emerged with national confidence and an intact national territory. This deeply colours international relations across a wide range.
- o Since 1945, dominant development thinking has changed, usually through a mixture of 'radical wine in conservative bottles'. Major shifts typically occur at 5-8 year intervals.
- o The shift 'from plan to market' was faster than in China, slower than in Laos. It had important spontaneous features.
- o Relations between rulers and ruled show a pattern of adaptation and adjustment, which is naturally too slow for some and too fast for others. But change occurs.

### *Philosophy*

- o Daoist, Marxist and Buddhist thinking tends to agree that the value of state policies can only be seen in practice. There is little point, therefore, in discussing policy in the abstract, before the event. This leads to a pragmatism, which has advantages (acceptance of bottom-up liberalisation) and disadvantages (weak internal discipline and problems implementing certain types of reform, such as top-down privatisation and establishment of a stock market). *It produces a 'policy' style that is quite different from the orthodox Western approach.*
- o General popular irreverence for those in authority (chu nghĩa mac ke).
- o Strong sense that rulers have responsibility for ensuring a national development. The world of officials and leaders retains considerable élan and internal agreement upon this fundamental point. Vietnam suffered no equivalent to China's Cultural Revolution.

## 2. The contemporary political economy: main features

Upon these basic factors much of the present situation rests:

- o Extreme levels of international competition as over-investment in export-oriented growth models world-wide combines with the emergence of China, Central Europe and a revitalised Latin America.
- o Most modern Vietnamese business is to be found within the shells of partially privatised SOEs, performing rather better than would be expected were they operated according to usual norms, but rather worse than if they were better structured.
- o Since around 1998, a true private sector has started to emerge strongly. This is due to a combination of factors: end of the 'state boom', so talent (by now well tempered) has nowhere else to go; increasing legalisation and official recognition of the value of the sector; accumulation of organisational and financial capacity.
- o Rather large volumes of development funds are going to the rural areas. These are sometimes channeled through remnants of old thinking (eg the 'new-style' cooperatives). But they have impact.
- o The rural economy is growing rather fast, helped by the failure of SOEs to establish enough market power to squeeze farmer incomes greatly, in part because SOEs compete with each other.
- o FDI in rather low volumes by international standards is nevertheless sufficient, in Vietnam, to create a situation where by the middle of the decade more than 50% of industrial output will derive from foreign-invested factories.
- o The labour regime is relatively 'soft'; the power balance between workers and employers at shop-floor level, is, by regional standards, favourable to workers.
- o The macroeconomy was remarkably stable through the 1990s. Some 40-50% of bank deposits are in \$s, freely withdrawable and paying interest rates close to international rates. The premium paid on Dong deposits is low, and less than the trend depreciation of the Dong against the dollar.
- o Growth since the Asian Crisis has been around 4% yearly. Export growth has been good (helped by good oil prices). In industry, the private sector is now growing faster than the state sector and at around the same speed as the foreign-invested sector. Improved performance since 1997 has come in part from use of the state banks to tighten budget constraints on SOEs and so reduce under-performance.
- o Important shifts took place in the mid - late 1990s that strengthened internal state discipline and improved relations between the state and other agencies. This was associated with the evidence for regime-threatening problems in both the banking sector and in the rural areas. Law is now clearer and an established issue.
- o At present, and to generalise, foreign commentators see confusion and 'reform stagnation'; many Vietnamese advisors see coherence and an emerging order. This is associated with the emergence of a private sector, solid export growth, a good fiscal position and, not least, maintenance of independence from IMF conditionality due to a relatively health balance of payments position. The strong differences in view reflect underlying disagreement about the nature of 'policy', and have philosophical origins.

### 3. Conditions for sustainable development in Vietnam

What does this imply for sustainable development? ‘Intervention’ is inevitable. But how? Vietnam is ‘naturally’ more NEA than SEA. Thus the state must find a way to develop, and interventions to do so. But now is not the 1960s. Markets cannot so easily be shielded.

#### *‘Localisation’ of ideas is the primary central issue – a Vietnamese developmentalism must arise.*

But localisation of what? Orthodox global development thinking? This cannot occur through “normal channels”. Two reasons.

- o International relations are far too fluid for a ‘pushed’ adoption. Recall Taiwan/Japan and US direct influence (equivalent to the DRV, early SRV and direct Soviet influence). It is a different time and place; the world order has changed.
- o Also, ‘pull’, ie spontaneous adoption of similar ideas by the existing government of Vietnam is unlikely. It is Leninist, has quite different political and governmental traditions and cultures. ‘Blueprint’ solutions are inappropriate.

Therefore we must look to a ‘harmonisation’ (thich nghi hoa) between local and global ideas. How? Experience with market economy and its governance suggests that the ‘hierarchy of logics’ visible in most neo-institutionalism is suitable. ‘Market failure’ means that a market economy requires suitable institutions, but these must be local and locally embedded. Yet they have certain limited universal implications (‘Zysman effects’).

Thus the creation and maintenance of order (the basic issue of politics) will occur through both state and societal effects. Here there is a clear chance for a coherent blending of ideas.

#### *Implications for the creation and use of state power*

Creation of a Vietnamese ‘developmentalism’ must entail the use of state power. How is this to happen? Through much of the 1980s and early 1990s the situation was muddled and incoherent, leading to corruption.

This task was:

First, re-creation of state sovereignty (“over itself”) through centralisation of authority. By this is primarily meant “rule by law” – that the state apparatus be rule-governed. Phap tri rather than Nhan tri or Duc tri. Much was lost during the 1980s and 1990s. This requires recognizing important constitutional issues, which are resolvable both formally and informally. Central is recognition of the problem. How much authority, and over what, does the Prime Minister have? Second, this then leads to changes in the relationship between apparat and non-apparat. Here ‘rule by law’ is extended to relations between state and the rest of Vietnam. Far more difficult due to Leninist legacy and attitude to non-Fatherland Front associations. How did the KMT do it? By recognizing the limits of state rationality and encouraging ‘outside’ forces (non-KMT participation in local government very early).

But the private in VN is very strong ('tu tinh' vs 'cong tinh'). This pushes the public to become more normal, thus creating conditions for it to move more easily to providing support for the private sector.

### ***The use of a re-created state power***

Thus there is a need for the recreation of state power, within a freer economy, but still within a political culture that will look to the state to act as the national 'developer'. How will this 'developmentalism' happen?

The government will seek to find ways of focusing resources upon target areas, and reducing the risks for itself that are involved in doing so. And the central issue here is the creation of both resources and mechanisms for ensuring their efficient use in ways compatible with national development goals. What is new here, is trying to make this happen in the global and regional conditions of the current decade, and from a starting point of current Vietnamese institutions. *It runs against current global thinking in many ways.*

## 1. The current situation re-examined

Granted this broad set of constraints and opportunities, what can be said about the current situation?

- o Macroeconomic stability has been maintained, in the wake of the corruption of the mid 1990s and the Asian Crisis. This points to coherence and order, and a protection of 'money' from commercial pressures.
- o We can see signs of the use of directed state effort to secure exports growth and sustainable expansion. One sign is the performance since the Asian Crisis. A pointer, in another sector, is the re-greening of the northern uplands through the 1990s. Treatment of mechanisms such as the various 'Development Funds' will be crucial.
- o The evidence for intellectual coherence (in Vietnamese terms) is there. Lessons have been drawn from the 1990s. PAR, partial local democratisation, emergence of the private sector, equitisation, the mid 1990s economic crisis and the clearer meaning of the results of the SOE-focus of the early and mid 1990s ... Yet nobody yet talks of an emergent 'Vietnamese way', in part as the natural interventionism, and avoidance of 'blueprints', contradicts global orthodoxy.
- o The global context does not 'objectively' encourage 'classic' NEA developmentalism (based upon targeted cheap bank credits). It is far harder to insulate business from external resources so as to impose discipline and obtain concordance with state development objectives. But guidance and management of investment 'in accordance with national interest and development doctrine' remains a central issue. This implies that we may see use of a *series of interlocking structures, and these are already in place*:
  - o *Business: Conglomerates (General Companies – Tong Cong ty – and Groups – Tap Doan), tapping capital through stocks and bonds.*
  - o *Quasi-Business: State Banks, mediating domestic capital sources.*
  - o *State: State organs such as the General Department for Managing State Capital and Assets in Businesses*
  - o *Political: The Party through its local membership and the Mass Organisations.*
- o It is likely, though, that more rather than less public information will be needed to address coordination problems. And so public debate about the meaning of development will be important.

Finally, it is quite correct to assert that these structures compete, and have different political rationalities to them. But this is part of the process. The question is, simply, to what extent they are compatible with rapid economic expansion. Given experience to date, both locally and globally, it is possible to see many reasons why this should not happen, but the Vietnamese have surprised us before.