

Doi Moi in Review: The Challenges of Building Market Socialism in Vietnam

MELANIE BERESFORD

Division of Economic & Financial Studies, Macquarie University, Sydney, Australia

ABSTRACT *Two decades ago the Vietnamese Communist Party embarked on a transformation from central planning towards a “socialist market economy under state guidance.” It looked to East Asian development models, particularly the role of state enterprises (SEs), combined with the creation of a “civilised and equitable” society. The article argues that, in the case of SEs, the state’s inability, especially under donor pressure, to provide crucial investment support to the SEs meant that foreign investors and the domestic non-state sector began to dominate the economic landscape. While state-led development remains feasible, it requires a clear and more authoritative industry policy; otherwise, the balance of interventionism could eventually tip towards cronyism. Further, the vagueness of the term “civilised and equitable” society leaves open both conformity with the post-Washington consensus and the possibility to achieve more aggressive redistributive measures, including redistribution of power. In practice, inclusion in and exclusion from successful public-private networks has been crucial for the capacity of individuals to participate in the rising prosperity of the market economy and has driven a process of rising regional inequality and the emergence of a new social class structure.*

KEY WORDS: East Asian development, socialism, distribution of income, industry policy, transition economies

At its 6th National Congress in December 1986, Vietnam’s Communist Party made a decisive step to abandon the central planning model of socialism and to adopt a “market-oriented socialist economy under state guidance” – also known as *Doi Moi* (Renovation). Since that declaration the country’s economy, state and society have undergone dramatic transformations. On the most common criteria of economic development, the process has been very successful. After the crises of the early reform period (which nevertheless were nowhere near as devastating as in Eastern Europe), the decade of the 1990s was one of high GDP growth rates, rapid reduction in poverty, more political openness and an upsurge of cultural diversity. Vietnam survived the regional crisis in 1997–98 in a relatively healthy state. While there have certainly been negative aspects to this transformation – increasing crime, reduced availability of public health, rising inequality, for example – most people in 2006

Correspondence Address: Melanie Beresford, Division of Economic & Financial Studies, Macquarie University, Sydney, 2109 NSW, Australia. Email: melanieb@efs.mq.edu.au

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were better off than they had ever been and the expectation is that things will improve further.

The sheer rapidity of change, however, presents some serious challenges concerning the way forward. The Vietnamese state must grapple, not only with new demands arising from its own population, but aid donors and foreign investors who carry much weight by virtue of their ability to influence economic policy and investment programmes. Further, the reforms have produced changes within the state itself, leading to uncertainty and conflict over the direction of change. Is Vietnam still on the road to socialism? Or has it, as many authors assert, effectively abandoned that path in favour of capitalism?

Few non-Vietnamese observers appear to think that socialism is any longer relevant to the Vietnamese case. Gabriel Kolko (1995) suggested that the Communists have sold out to capitalism. The Washington Consensus, now repackaged as the post-Washington Consensus, takes essentially the same view, but with the twist that the approved version of capitalism will eventually produce a socially optimal result. Within Vietnam, however, the debate seems much more complicated. The Party is not an autonomous monolith, but is clearly embedded in the society that gave birth to it and has an ongoing tradition of reaching decisions by a process of experimentation, compromise and consensus (Beresford, 1988; Dang and Beresford, 1998). The leadership has learned how to survive the buffeting, not only of domestic pressures, but of changing international circumstances as well. As Pietro Masina (2006) has ably argued, the Vietnamese market economy "model" is not set in concrete. Instead, the two decades of reform have produced new pressures and interests that will be influential in shaping the economy and society in future. Among these pressures and interests a continued commitment to building socialism remains visible. What is unclear, however, is the extent to which the vision of socialist Vietnam retains any political strength.

This review of the last two decades examines the ways in which the state and political life influence and are influenced by the changing economic structure. There are two themes running through the argument.

- The domestic political consensus to date looks "East" for strategic policy guidance. While East Asia provides the only recent models of successful "late industrialisation," the experience may be difficult to replicate in the Vietnamese context of transition from central planning. Moreover, all of these cases, except China which was not initially a credible model, were overtly capitalist.¹
- A "market economy" has been in place in Vietnam since the early 1990s, but the meaning of the term "socialism" changed markedly after the abolition of central planning. The article examines the meaning of this term in the new context and discusses some issues arising as a result of the change.

"Looking East": Some Conceptual Issues

East Asian "Alliance Capitalism"

A consistent theme of Western policy advice to developing countries is that the role of government should be "market facilitating." Vietnamese policy statements, on the

other hand, have consistently expressed an intention to implement "state guidance" of the market, primarily through domination of the "commanding heights" by state enterprises (SEs). Robert Wade (1998) coined the term "alliance capitalism" to describe the economic rationale for this type of state-business relationship that has been characteristic of East Asian economies, such as Japan, South Korea and Taiwan. His concern was to demonstrate an *economic* rationale for this type of economic system.

The key characteristic of East Asian economies from this point of view is that the most important source of capital for enterprises in industry and services is the state-dominated banking system. In consequence, firms in East Asia tend to have high debt-equity ratios and, in order to ensure the continuing viability of their loans, banks have developed close relationships with the borrowing firms. The danger in these close relationships lies in the development of a culture of lending that relies upon connection and reputation rather than close examination of the commercial viability of individual projects. It makes sense, therefore, for government to exercise a supervisory role – monitoring the performance of firms and banks. Whether this works successfully or not is incidental to the argument that the model does have an economic rationale. As Wade and others have frequently pointed out, government failure is no more common than market failure in achieving long-term stable growth patterns.

Wade also distinguished "alliance capitalism" from "cronyism."² The former, he argued, has an economic rationale and is featured by relative autonomy of the state. This point particularly applies to elite economic ministries that are charged with oversight of the development process. In these key areas, neither government policy nor bureaucratic management of the system are influenced by personal relationships or corruption. Instead, they have been characterised by meritocratic recruitment practices and "arm's length" economic management (Amsden, 1989; Wade, 1990).

"Cronyism," on the other hand, has a primarily political rationale which Wade associates with the goal of regime maintenance. Where, for instance, regimes have risen to power without a broad domestic power base, or where governments have sought to appeal to sectional interests, close relationships between business and government are more likely to arise as a means of preserving the regime. Relationships are more personalised than in the case of "alliance capitalism" and privileges accorded to firms depend significantly upon such personal connections.

A problem with Wade's distinction between "alliance capitalism" and "cronyism" lies in his separation of the economic from the political. All states in modern societies share two common functions: they need to facilitate sustainable capital accumulation as well as maintain legitimacy of the regime. These two do not occur in isolation from each other, although that may happen in the short to medium term. Successful late industrialisers appear, with ups and downs, to have achieved both. Often beginning with authoritarian regimes,³ they have succeeded not only in promoting high rates of accumulation and growth, but in spreading the benefits in a way that blunts and isolates opposition. Such an achievement often involves flexibility in the shape of the regime: South Korea and Taiwan have both shifted to more democratic systems in line with changing aspirations of their expanding educated middle classes.

Politics and economics are thus inextricably intertwined, although the essentially political nature of alliances is not always clearly visible. In post-colonial societies a shared ideology of "nation building" can preserve, over a relatively long period, a sense that all citizens have an investment in maintaining the current form of the state. Nationalism has been a powerful force, often overriding class interests in East Asia in all but the most serious crises.

Alliance capitalism and cronyism are two sides of the same coin insofar as they share a common reliance on close business-government relations and state direction of the industrialisation process. They differ in the extent to which state actions are relatively autonomous from the business community. Put another way, cronyism exists to the extent that the state has been "captured" by sectional interests such that other interests are excluded from consideration in the decision-making process. The existence of cronyism means that excluded groups are unlikely to perceive any gain from it. While vested interests arise in maintaining the crony system, despite its inefficiencies, opponents gain an interest in putting an end to the regime. Establishment of a crony regime is therefore likely to lead ultimately to instability.

A key feature of cronyism, which distinguishes it clearly from alliance capitalism, is that government is unable or unwilling to discipline firms that fail to perform. The one great advantage that the market economy confers in both the developed and developing economy contexts is that it compels firms to become efficient or die. Competition is the greatest driver of technical change, increasing productivity and efficiency in the use of resources. While all successful industrialisers have used protectionism, some have been more successful than others in maintaining their advantage through productivity growth, constantly renewed through market competition.⁴ Others have often failed to utilise this advantage of the market: self-perpetuating cronyism prevents them from doing so. Developing economies, like Vietnam, can rest on a knife edge between building a strong state-led economic system and degenerating into cronyism.

The Consequences of "Alliance Capitalism"

For our purposes, two major features of alliance capitalism are important. The first of these is its ability to achieve long-term structural change (industrialisation). The second is its capacity to avoid both market failure and government failure.

The ability to achieve long-term structural change is undoubtedly the major success story of alliance capitalism. In the entire history of capitalism there has been no group of countries that has achieved such sustained growth, economic diversification and rising living standards as East Asia's so-called "miracle" economies. Nowadays, aside from those ideologues who are inclined to downgrade the significance of East Asian industry policy (World Bank, 1993), there is widespread agreement that the process was pushed along decisively by state intervention.

In orthodox macroeconomic theory, designed in countries that were already highly developed, the focus of state intervention is on short-term adjustments towards (or away from) a full employment path of growth. In the practical sphere, such short-term adjustments give a stop-start character to public policy and are

designed to smooth cyclical fluctuations rather than raise the economy to a higher growth path. For developing economies, the more important issue is precisely how to reach the higher growth path. Investment decisions are aimed at inducing long-term structural changes in the economy (Kalecki, 1971). What matters, therefore, is not merely the quantity of investment, but also its quality – or how it induces those long-term changes.

Left to their own devices, markets in poor countries tend to favour consumption decisions. The shares of savings and investment in national income are low because most incomes are low. Moreover, investment decisions are concentrated in sectors that, far from generating structural change, tend to perpetuate existing structures – particularly the dominance of trade. Since financial sectors are, by definition, underdeveloped and farmers have few savings, urban economies thrive on export of agricultural surpluses and import of manufactured consumer goods. Successful state interventions in East Asia tended not only to raise the share of investment and savings in national income, but to ensure that investments were directed towards enterprises that would generate long-term structural change – in other words, industrialisation.

Implemented either through state control over the banking system, which allowed for directed credit, or the use of public enterprises to establish new industries, the key strategic focus in successful East Asian industrialisation was on industry policy. Japan, Korea and Taiwan did not encourage foreign investment, but made use of favourable overseas interest rates to on-lend to firms that undertook desired investments. Singapore, relying on much greater openness to foreign investment, used economic levers – taxation, subsidies and, above all, wages policy – to direct investment into its desired sectors. Singapore used a compulsory savings programme, Korea used corporate profits and the state's financial power to force an increase in investment rates. Taiwan used its public corporations to underpin the profitability of a myriad of small export-orientated family firms. Consultations with the business community in both Korea and Taiwan were regular and often dictatorial.

A crucial characteristic of the East Asian model is, therefore, that investment decisions and long-term structural change were directly influenced by politics. Private investment decisions were not dominant during the industrialisation process.

The second key feature of successful East Asian models is their ability to avoid both market failure and government failure. Unlike the model of cronyism described above, public investments (whether directly in state enterprises, or indirectly via state bank credits) did not become deadweight losses that were permitted to remain inefficient under their protective shelter while continuing to provide pocket money for a restricted elite. Instead, strong pressures were exerted on these enterprises to become internationally competitive.

Two types of policy were used in order to exert this pressure. At the microeconomic level, selected firms and sectors received special incentives, subsidies and monopolistic privileges. These, however, were far from unconditional: firms that failed to meet targets, including export targets and training of skilled workers, were penalised. In Taiwan a mixture of state and market discipline was imposed – state enterprises were established in upstream industries in order to provide cheap inputs for small and medium enterprises (SMEs) working in highly competitive

export-orientated manufactures. At the macroeconomic level governments used overvaluation of the exchange rate to encourage the purchase of imported capital equipment and then devalued in order to increase competitive pressure on firms. In the next sections I argue that Vietnam has not met many of these criteria.

Vietnam: Looking East?

The Vietnamese Definition of Socialism

The term "socialism" held a particular meaning in Soviet-type economies, basically consisting of three components. These were (i) allocation of resources through central planning and elimination of markets for goods and labour; (ii) ownership of all major means of production by the state, representing the whole society, and elimination of private enterprise; and (iii) distribution of income according to labour input and the elimination of wage differentials based on labour markets.

The Vietnamese Communist Party, while broadly perceived as legitimate in the nationalist struggle, never possessed the strength to eliminate markets and private enterprise entirely. Numerous domestic pressures arose, leading to a reform process that began in 1979 and saw the gradual reversal of these "socialist" objectives in all but the sphere of public ownership. Central planning had disappeared by 1989 and labour markets had begun to emerge.

The remaining element of the earlier definition of socialism is the government's determination to maintain state enterprise domination of the economy's commanding heights. The rationale for this determination is very clear: the Communist Party wishes to retain its ability to influence the long-term structural changes discussed above. While there are some variations in the way this project is conceived at the practical level, it is similar to the "nation-building" project of East Asian capitalist states. The state is viewed as representing the long-term interests of the whole nation, rather than short-term or particular interests, and goals are expressed in abstract terms such as "industrialisation" and "modernisation."

This objective implies that the government will continue to provide support for state enterprises (SEs) as a central plank of the "socialist market economy." Two issues arise here: first, whether the weakness of the central planning state can be overcome sufficiently to permit successful "East Asian-style" development; and, secondly, how the state can support SEs in a way that is beneficial for society, without degenerating into cronyism. These issues will be discussed in the remainder of this section.

First, however, we need to mention a new goal, replacing the old "distribution according to labour," that has emerged since the inception of *Doi Moi*. The goal of creating a "civilised and equitable society" (taken from the slogan "strong country, rich country, civilised and equitable society" promulgated by the 7th Party Congress in 1991) adds a socialist flavour, albeit an extraordinarily vague one, to the project of nation-building described above. In the market economy, however, the way to create an equitable society is more open to debate than it was under central planning. In a later section some of the problems that have arisen are reviewed.

The Situation of State Enterprises

About a decade ago, many of the SEs were described to me by a retired senior Communist as “deformed” – a textile mill, for example, may have spinning and weaving plants, but be “missing a leg,” namely, the dyeing plant. Others had been cobbled together from a range of different (Soviet, Chinese, East European) sources and could not operate as an integrated plant. Further, in explaining why the state was unwilling to privatise, dissolve or break up the SEs, he argued that “they are our children and we cannot eat our children.”

I would argue, nevertheless, that the Vietnamese state had been “eating its children” since the inception of central planning in 1960. In general, SEs received little support from the state before 1990. Instead, the focus was on creating new enterprises, while existing ones were expected to operate with no new investment. A study I conducted in 1992 (Beresford, 1993) showed that the vast majority of SE equipment dated from the time the factory was first established, usually in the 1960s or 1970s.⁵ Even then, much of the equipment was acquired second-hand. At the time, five years after the enterprise autonomy legislation of 1987, only a few enterprises had been able to undertake any modernisation at all of their plant and equipment. Despite the liberalisation, the depreciation fund of the enterprise was often still returned to the state coffers and directors wishing to upgrade their plant still had to apply for the necessary funds. Thus, at the inception of *Doi Moi*, the SE “children” were, if anything, even more deformed than they had been at birth.

A further aspect of the lack of support for SEs during central planning was that the subordination of plans to political targets meant that over-investment in new plant occurred at the expense of chronic input shortages. The Second Five Year Plan (1976-80) was especially over-optimistic, entailing the necessity to reduce imports of key raw materials in order to accommodate large-scale importation of new capital equipment from a limited pool of Soviet aid (Beresford and Dang, 2000). As a result, enterprises could neither meet output targets nor ensure the quality of output. All planning cycles prior to *Doi Moi* suffered from this problem to some extent. Only the 1981-85 plan, inaugurated after the reform process was already under way, demonstrated clear recognition of the problem.

In the late 1970s many leaders did begin to doubt that central planning could be made to work. A process of institutional reform began, basically through granting of greater autonomy to enterprises. In the 1990s, this autonomy extended to allowing the formation of joint ventures with foreign investors and a gradual process of equitisation (partial privatisation), particularly of smaller, non-core businesses. The focus remained on institutional reform, based on the supposition – fostered by the neo-classically trained economists of the international aid agencies – that marketisation alone was sufficient to generate economic growth. Donor advocacy of increased investment in the public sector was restricted to provision of infrastructure, basic education and basic healthcare – in other words, market facilitating rather than market-directing investments.

In this process of institutional reform, SEs were largely left out in the cold. From their starting point of outdated technology, poorly integrated production systems and low profitability, they were expected, under the regime of enterprise

autonomy, to pull themselves up by the bootstraps. While they were given trade protection, in the name of "not eating the children," this only enabled most of them to survive. Due to low rates of investment, increases in productivity within SEs came mainly from the shedding of labour during 1990-91, and tended to slow down after that. A large number remained unprofitable, such that bad debt in the banking system forced a major bank restructuring programme to be undertaken in 2002-03.

The majority of SEs continued, throughout most of the last two decades, to lack *investment* support from the state. Table 1 shows the broad pattern of change in state and other investment from 1991-2004. Over the period the share of gross capital formation in GDP doubled, while total state investment rose in line with the trend. The share of non-state investment (which includes private capitalist enterprises, the few remaining co-operatives and small-scale household enterprises) remained high and stable until the Asian crisis, when foreign investment fell away. As a result of the last factor, public investment has been the most important element of capital formation since 1998.

When we come to examine the breakdown of public investment, two elements of Table 1 stand out. First, investment from the state budget retained a relatively stable share from the mid-1990s. Second, the SE's own investment share rose by about a third before 1997, but stabilised thereafter, and that of investment directed through the state commercial banks (SCBs) rose by over 50% in the second half of the 1990s. There was also a marked decline in "other" sources of state investment (not defined in the source). During the first half of the 2000s investment by domestic private firms rose by 20.9% per year, leading to a sharp rise in their share of the total. It is not surprising, therefore, that SE output has undergone a relative decline. In 1996 SEs still accounted for half of industrial output, but their share declined to 34% by 2004, which translates into a decline from 11.5% to 9.3% of GDP (GSO, 2007).

Within total state investment a rising share has been devoted to infrastructure. In 2000, 41% of all state investment went to electricity, gas and water supply plus transport, storage and communications (GSO, 2004: 295), compared with 22% in 1993 (GSO, 1994: 237). There is no doubt that infrastructure investment was very necessary, but the shift left a much smaller share for SEs: in 1993 state-owned industry took 55% of total state investment, but only 14% by 2000. The decline was accompanied by a large shift from budget finance to self-finance as enterprise autonomy increased. In contrast, public enterprises in Taiwan consistently accounted for a third of gross capital formation during the three decades from 1951-80 (Wade, 1990: 177).

The other major source of finance for SEs came from credit, which, however, provided a progressively lower proportion of their investment. Given generally low profitability, they tended to borrow for working capital rather than for longer-term investments in fixed assets. The structure of interest rates favoured short-term borrowing over long term, partly as a result of risk management by banks and partly because interest rate policy was designed to enable SEs to survive in the market environment. The latter was not, however, designed in a way that enabled technologically backward firms to upgrade their equipment to globally competitive standards. Further, the private sector received an increasing portion of credit

Table 1. Investment shares 1991-2004

	1991	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
(1) Share of GDP (%)											
Gross capital formation	15.0	27.1	28.1	28.3	29.1	27.6	29.6	31.2	33.2	35.4	35.6
State investment	5.9	13.3	15.8	17.1	18.0	19.2	20.3	21.2	21.0	20.4	20.7
(2) Share of total investment (%)											
State investment	42.0	49.1	49.1	49.4	55.5	58.7	59.1	59.8	56.3	54.0	53.6
of which: State budget	44.6	45.6	45.6	44.0	40.4	41.3	43.6	44.7	44.3	44.4	46.9
Credit	19.9	19.3	19.3	23.7	28.3	32.1	31.1	28.2	31.1	31.2	30.7
SE investment	12.2	14.8	14.8	16.8	17.7	17.4	16.3	17.7	13.9	17.2	17.0
Other	23.3	20.4	20.4	15.5	13.5	9.3	9.0	9.4	10.7	7.2	5.4
Non-state investment	27.6	24.9	24.9	22.6	23.7	24.0	22.9	22.6	26.2	29.7	30.9
Foreign investment	30.4	26.0	26.0	28.0	20.8	17.3	18.0	17.6	17.5	16.3	15.5

Note: State, non-state and foreign investment may not add to 100% due to rounding errors.

Sources: GSO (1997; 2007).

from the SCBs: by the mid-2000s it accounted for 60% of their lending (Masina, 2006: 125).

State support for the SEs, therefore, scarcely realised the Party's intention to give them a leading role in economic development. In terms of investment and output, SEs have lost ground to the private sector since the 1990s.

In practice, the main strategy adopted by the government to allow SEs to upgrade was the encouragement of foreign direct investment (FDI) through joint ventures. Although the Law on Foreign Investment was passed at the end of 1987, FDI only began to increase rapidly in the early 1990s. In reality, FDI in Vietnam was driven not so much by the law itself, but by external factors. First, the collapse of the Soviet Union led to a gradual breaking of the Western aid embargo on Vietnam so that foreign investors felt more secure about investing in the country. Secondly, the development of the speculative "bubble" in much of the Asian region led investors to disregard Vietnam's poor infrastructure and red tape. FDI rapidly increased to almost a third of total annual investment by 1995.⁶ This strategy of the government therefore was initially highly dependent on external developments.

Because it was bubble-driven, much of the early FDI was not in areas favoured by Vietnam's development goals. Hotels and property development were at first the main sectors and it was precisely the real estate bubble that accounted for the downturn in foreign investment after 1996 (Masina, 2006: 78). Only gradually did investor confidence about investing in industry increase (in 2005 it comprised the majority of projects). Within industry, joint ventures were initially the favoured form of FDI. The reasons were that foreign investors could not own land, but SEs could provide it as their capital contribution, and foreign investors also felt safer investing in the protected SE sector.

Nevertheless, from the point of view of many SEs, these joint ventures had a relatively low impact. In 2004, for example, there were only 821 FDI joint ventures and a total of 4596 SEs. A large majority of SEs, therefore, had no foreign investment at all. In fact foreign investors increasingly preferred 100% ownership. Between 2000 and 2004, joint ventures declined from 44% to 26% in the number of foreign-invested firms, from 70% to 53% of foreign capital formation and from 30% to 17% of employment in FDI enterprises (GSO, 2007).

Many SEs continued to survive through protection from international competition and provision of low-interest loans to cover their working capital needs. Largely absent in the transition to a market economy was government commitment to invest in these enterprises in order to upgrade technology to make them competitive in an increasingly globalised market. Given that public investment priorities shifted to provision of infrastructure, the protective attitude of the Party and government towards their SE "children" bore little fruit. The main reason for this situation is that the focus of policy and strategy was on institutional reform (enterprise autonomy) rather than on using industry policy to promote investment in the government's priority development areas.

It is hard to avoid the conclusion, when examining the situation of SEs, that far from using them as instruments of industrialisation and modernisation, the Vietnamese state allowed the priorities of the private sector, especially foreign investors, to act as the key to long-term structural change. We examine this conclusion more closely in the next section.

Is the Rationale for Current Policy Towards SEs Political or Economic?

Within the framework of the East Asian models described above, it is difficult to find an economic rationale for the post-*Doi Moi* policy towards SEs. Given their generally backward level of development, most SEs were unable to play the leading role in economic strategy that the Party wished them to have. Too many survived in the market economy due to increasing indebtedness and "soft budget constraints," the burden of which ultimately fell on the state budget as the government increased its external debt in order to carry out bank restructuring. Unless the efficiency and productivity of SEs can be improved dramatically, it seems likely that this problem will recur further down the track.

The alternative, of liquidating poorly performing enterprises, was also unpalatable. Over 900,000 workers were employed in industrial SEs in 2005 and, given high rural underemployment (estimated at 20%) and youth unemployment in the major cities at close to 6% (GSO, 2007), the consequences of additional unemployment might be serious. The major shake-out of SEs that occurred in 1990-91 saw some 750,000 people (mainly women) laid off and was associated with a rise in the unemployment rate to 13%. Many former SE workers easily found employment in the household sector during that round of enterprise dissolutions, but there was a perception that the increase in youth unemployment, due to lack of new hiring by SEs, contributed to the rise of social problems such as drug abuse, prostitution and theft.

The liquidation rate did accelerate in the early 2000s, but this solution remained a drop in the ocean compared with the more commonly applied strategy of merger. Smaller, often unprofitable, SEs were absorbed into larger entities known as General Corporations, a strategy aimed at replication of the Korean *chaebol* model. By 2005, of Vietnam's initial 12,000 SEs, only 4086 were left. In 2004, 15% reportedly continued to meet none of the government's performance criteria based on turnover, profitability, solvency and compliance with laws and regulations, including 7% of the largest SEs.⁷ The number meeting only one or two of these criteria is not recorded (World Bank, 2006).

A handful of very large corporations have been more successful, including Baoviet (insurance), Vinacomin (minerals), VNPT (telecommunications), Vinashin, (shipping), Vinatex (garments and textiles), EVN (electricity), Vietnam Rubber Corporation, and Petrovietnam (oil). The first five of these have received approval to be converted to "economic groups," the parent company of which will be a 100% state-owned limited liability company. Such groups must have capital of over \$US650 million and their scope of operations must be international (World Bank, 2006).

Some solutions have been found by the SEs themselves. Many have changed their line of business in order to survive. Since rent-free access to high-value urban land has been one of the few marketable assets that SEs could use as a source of revenue, there was much participation by industrial SEs in the real estate and hotel boom of the early 1990s. Joint ventures were also often not related to the core business of the enterprise. In other cases, SEs used their access to low-interest finance to engage in trading activities – again unrelated to their core business, but profitable enough to ensure easy repayment of the debt. Such activities not only injected finance into

languishing enterprises, they enabled the retention of employees well above what was required for actual production activities.⁸ Many enterprises in fact used their market-orientated businesses to provide a social safety net rather than as a way to invest in the activities for which the government had designated them to lead economic development.

Indeed, one of the factors hampering SEs in their drive to become competitive was the social welfare function carried over from the central planning system. While the tradition of looking after their employees – taking care of their health, education, social security and childcare needs, as well as providing jobs for their children – is certainly admirable, private investors are scarcely interested. In the market economy profitability rules, so if SEs are to survive in the long run their welfare functions need to be taken on by the state.

In short, enterprise autonomy enabled SE directors to pursue market-orientated activities in a situation in which their core activities were often unprofitable. While many managed to remain afloat by pursuing non-core activities and relying on credit and protection, directors had few incentives to make large investments in the more uncertain task of technological upgrading and becoming internationally competitive. Further, as long as they were “owned” by the line ministries that were also their regulators, government industrial strategy scarcely influenced what these SEs did.

The challenge posed to the Vietnamese state in terms of its strategy of SEs playing a leading role was reinforced by donor attitudes. Throughout the 1990s the main thrust of donor advice on SE reform was towards privatisation and, when this advice failed, equitisation, although little evidence was presented that this was either feasible or desirable for the longer term. Indeed, although the government adopted an equitisation strategy as early as 1991, very little happened during the ensuing decade. A key problem was the valuation of assets, since the assets of many SEs had no market value. A further problem lay in the suspicion of directors and workers that equitisation would result in loss of control and/or loss of jobs.

The latter problem was at least partly solved by the prevalence of “insider equitisation” (managers and workers taking the majority of shares) and by the state retaining a controlling interest. The reform was able to proceed and 2121 SEs were equitised during 2001–05, mostly at the smaller end of the SE scale (World Bank, 2006: 23). As the size of SEs undergoing equitisation has risen, a larger proportion has been kept under state control.

Indeed, the equitisation programme has clearly demonstrated the ability of the Vietnamese government to resist donor pressures in the interests of maintaining a consensus-driven policy approach. There has been a marked change in, for example, World Bank language from the early 1990s when it advocated privatisation, then equitisation, to its 2006 report in which it refers to “enterprise transformation” (World Bank, 2006). The Bank’s reduced level of concern does not, however, represent a change of heart. It reflects the government’s willingness to promote a level playing field through the new Enterprise Law, which puts SEs and private firms on the same footing, and Vietnam’s accession to the WTO, which will increase the pressures on inefficient and non-competitive SEs.

Meanwhile thousands of larger-scale SEs have continued to function without major new capital. Support for direct investment in upgrading of SEs was obviously not forthcoming from the donor community. While such support might actually

have increased the attractiveness of equitisation to potential investors, retention of a controlling interest by the state would also have created an opportunity to implement its strategy for the public sector.

Until now the incentives faced by SE directors have been mixed. On the one hand, the institutional reforms put them in a "carrot without stick" situation. By this I mean that they had every incentive to make special pleadings for protection and other privileges in the Vietnamese market, but the government had little power or influence over what they actually did. Market discipline was largely absent, but government discipline was not implemented either. On the other hand, they faced a generally unsupportive investment climate and lacked the necessary funds to upgrade their backward production facilities. Without investment, the task of becoming competitive, either against imported goods or in export markets, was nigh impossible.

Offsetting the slow progress of the SE sector was the success of the FDI and domestic private sectors, including some key joint ventures. At the end of 2005 foreign-invested firms employed a million workers, an increase of 156% compared to 2000, reflecting increasing confidence in the Asian region following the disturbances of the late 1990s. Employment in domestic non-state firms had expanded to 2.5 million – an increase of 137% over 2000 – while SE employment had grown by only 8% over the same period, to 2.2 million.

More importantly, the FDI sector was the most dynamic sector in terms of generating GDP growth. Table 2 gives some data on productivity in the SE, domestic-private and foreign-invested sectors.⁹ It shows that the SE sector has a tendency to under-perform. In the FDI sector output per unit of fixed capital rose in the two-year period 2000-02 and capital per employee fell substantially. This relative decline in output per worker of the FDI sector after 2000 is due to a shift towards labour-intensive manufacturing compared to the earlier dominance of capital-intensive oil production. In the SE sector, on the other hand, output per unit of

Table 2. Productivity indicators in industrial enterprises

	1998	2000	2002
Output per employee			
SEs	1.00	1.00	1.00
Domestic private ^a	1.23	0.92	0.79
Foreign invested	1.95	1.86	1.19
Output per unit of capital			
SEs	na	1.00	1.00
Domestic private ^a	na	3.10	2.50
Foreign invested	na	0.57	0.66
Capital per employee			
SEs	na	1.00	1.00
Domestic private ^a	na	0.30	0.31
Foreign invested	na	3.30	1.80

^aRegistered enterprises only.

Sources: Calculated from GSO (2000; 2007) and World Bank (1999).

capital grew only slightly (negative in real terms) and capital per employee rose – reflecting a continuing tendency to focus on capital-intensive production. The domestic private sector appears to follow the same tendency as the SEs. Its decline in productivity relative to SEs between 1998 and 2000 is accounted for by a change in the company registration law, which led to a splurge on investment. During the two years 2000-02 its output per unit of fixed capital dropped and capital per employee rose. It is not clear that this worsening of the capital-output ratio will be permanent, however, as the available data cover only a short period.

Exports are dominated heavily by FDI enterprises: in the 1998 enterprise survey, 79% of foreign-invested firms and 50% of joint ventures reported exports, compared to a third of SEs. The prevalence of sub-contracting blurs the picture for purely domestic firms, however. While 30-40% (SE and private) reported exports, others may have been selling goods to domestically based exporters.

Despite the stated goal of using SEs as leaders of the development process, we can conclude that this did not happen in practice. If anything, the attempt to form *chaebol*-type conglomerates, including many loss-making units, actually hampered the dynamism of the sector. Although the political rationale for a close government-SE relationship remained intact, the economic rationale was present only in rhetoric. While I would hesitate to suggest that this political rationale degenerated into a form of cronyism – rather it seems to have contained a strong element of welfarism – a clear economic rationale for the government-SE alliance remained to be established.

Guanxi – Vietnamese Style

So far in this article I have used the distinction between SEs and the private sector somewhat uncritically. However, in the East Asian context this is not such an easy distinction to make. East Asian economies are characterised, more than their Western counterparts, by markets embedded in social networks (Orrù et al., 1997; and Herno, 1997, for the Vietnamese case). A particular characteristic of this system is that legal frameworks are regarded widely as irrelevant. Transactions are carried out on the basis of trust, reputation and social pressure.

Such networks can extend to the international sphere, especially when, as in the case of Vietnam, there is a large diaspora – in Eastern Europe, France, the USA, Australia and elsewhere. Established international networks created by sailors of the Vietnam Overseas Shipping line, by guest workers in Eastern Europe, by émigrés and by students studying overseas, played an important intermediary role in the development of Vietnam's international trade both before and after the official inception of *Doi Moi* (Beresford and Dang, 2000).

Vietnamese commercial networks began to be established in the early stages of the reform process, at a time when private enterprise was still frowned upon. As a result, cadres played an important role within the networks. It was usually local officials, using their urban connections, who enabled the establishment of market relations between town and countryside (Abrami and Henaff, 2004; DiGregorio, 1994). Since family production units often lack information and access to markets, these local cadres still play an important role in organising village-based commercial enterprises. SE directors similarly used their official connections to establish semi-autonomous commercial activities, while workers were also able to use the skills and

connections gained in SEs to set up small-scale operations. Many private enterprises today are in sub-contracting arrangements with larger firms in both the state and non-state sector (Tran, 2004). Global firms can be found sub-contracting to Vietnamese state firms.

The consequence of this historical development of market relations in Vietnam is that the dividing line between public and private sectors is blurred. It follows that the state-private dichotomy is not very helpful for analysing the development of the business sector, primarily because we cannot assume the existence of enterprise autonomy. For example, one might find that underdevelopment of the SE sector hinders rather than aids the development of the private domestic sector. The two sectors may not be in a relation of rivalry but in a relation of mutual dependence. Closing down SEs, even unprofitable ones, might have knock-on effects that are detrimental to private firms and households that either use their products as inputs or rely on their demand.

If the state-private dichotomy is not very helpful for analysis, the links between SEs and private firms also suggest that the Taiwanese model – in which SEs provide inputs to or buy outputs from thousands of small export-orientated, and highly networked, firms – might be a more appropriate model for state-led development in Vietnam than the Korean *chaebols*. The move in 2005 towards the creation of state-owned holding companies, including dominant SEs within their industry (insurance, minerals, telecommunications, shipping, and textiles and garments), with global linkages, suggests something along these lines. Since only the holding company is required to be 100% state-owned, the groupings will presumably include equitised SMEs with close network linkages to the parent.

Inclusion in public-private networks can be beneficial to small firms because they provide access to markets and more or less stable employment (cyclical fluctuations notwithstanding). Importantly, if the Taiwanese model is pursued, inclusion in these networks could facilitate the development of backward and forward linkages, thereby mitigating the inherently destabilising effects of exposure to “footloose” global capital movements (as have been seen, for example, in garment manufacturing in the region). While there is, as yet, little evidence for a conscious strategic shift by the Vietnamese government in this direction, the current structure of the Vietnamese enterprise sector – with 105,569 registered firms (average employment 32) in 2005, thousands more household-scale enterprises, and only 4086 SEs – indicates that the Taiwanese model might be a more successful strategy for state-led industrialisation than the Korean one. Moreover, such a strategy might provide the economic rationale that is currently missing from the state-SE alliance.

An Equitable Society?

Achievements in Poverty Reduction Since Doi Moi

Vietnam recovered quickly from the difficulties of its early reform decade and, since 1992, progress has been rapid and impressive. There has been consistently fast growth of national income, the Asian crisis causing only a minor slowdown. Per capita GDP has approximately quadrupled and, according to the four national Living Standards Surveys (LSS), there has been rapid reduction in absolute poverty,

from 58% of the population in 1993 to 23% in 2004. Since poverty is not defined by income alone, we also note that the ability of individuals to make decisions and to be consulted about decisions impinging on their economic and social well-being has improved immensely. Elected bodies like the National Assembly have adopted a far more critical role than they had under central planning, newspapers have increased their scrutiny of developments in society and politics, and individuals have far greater access to information than before.

The uneven distribution of these improvements has, however, been widely noted. Beresford (2003) discussed, for example, the marked increase in regional inequality during 1990-91. While there was a slight convergence in incomes of agricultural provinces during the 1990s, the gap between urban and rural areas continued to widen. In the early 2000s, in the wake of the Asian crisis and political tensions arising in some provinces (Thai Binh in 1998 and the Central Highlands in 2001), a much greater policy concentration on poverty reduction seems to have borne fruit. The urban-rural gap, as measured by the ratio of average urban to average rural monthly incomes, declined from 2.26 in the 2002 LSS to 2.16 in 2004 (GSO, 2007). None the less, social stratification continued apace: the ratio of the richest to the poorest quintile rose, over the same two years, from 8.11 to 8.34, and that of the richest quintile in the richest region (the south-east), to the poorest quintile in the poorest region (the north-west) from 19.9 to 21.4.

Since the end of central planning there have been changes in the ways in which people become poor and unable to participate in the benefits of growth. Whereas under central planning, the distribution of income was fairly flat (Beresford and McFarlane, 1995), the increased dynamism of the economy in recent years has generated a new mechanism for the distribution of income with a consequent need to tackle the question of equity in new ways. One way, of course, would be to rely on the so-called "trickle down" effect. While this might lift *average* standards of living, it is notoriously unsuccessful in improving equality and tends to leave large numbers below the poverty line. Welfare handouts, on the other hand, may succeed in temporarily alleviating the worst impacts of poverty, but unless they are targeted in such a way that new investments and jobs are created, they are likely to sustain relative poverty in the longer run. Any successful strategy to create a more equitable sharing of the benefits of growth must first analyse the mechanisms by which relative wealth/poverty are created and then use policy instruments to offset these mechanisms.

The "Growth Pole" Model

The "growth pole" model of development adopted by the government in the early 1990s built on several realities of Vietnam's emerging market economy that led to a strong bias in favour of development of a few major urban agglomerations. While a third growth pole, around Da Nang, was part of the government's plan, in practice only two areas, Ho Chi Minh City (HCMC) and its immediate vicinity and the Hanoi-Haiphong-Quang Ninh triangle received the lion's share of investment.

FDI was attracted mainly to the southern growth pole around HCMC and to a lesser extent the northern one. By 2005, 83% of projects were located in these two

areas or in offshore oil and gas. Given the importance of FDI in the total investment effort during 1990s, the pattern of FDI constitutes a major reason for uneven development between rural and urban areas.

A better survival rate of centrally managed SEs was another important reason for the widening urban-rural gap. It was largely locally managed SEs and co-operatives that suffered closure during the 1990-91 restructuring. In a major policy reversal since 2000, however, investment in centrally managed enterprises has grown at only 5% per annum in real terms, compared to 16.6% for locally managed enterprises (GSO, 2007).

Development of the rural areas relied to a large extent on small, privately owned enterprises, mostly at the household scale with rather low capital investments and low productivity growth. There are also major differences between regions in the extent to which rural development and diversification has occurred. In the 2000s, the tendency towards urban-rural equalisation has depended largely on rural diversification in the north, especially the Red River delta (FAO, 2006: Part III, 39). The same tendency has not appeared in the south, where migration out of the rural areas has been a more important feature of the growth process.¹⁰ While I have seen no systematic study, there are several case studies suggesting that the rural-urban commercial networks mentioned above have led to stronger development in traditional artisan villages in the northern delta (although often in non-traditional activities), a phenomenon that was absent from the southern region (Abrami and Henaff, 2004; Bui, 2004; DiGregorio, 2001).

In principle, fiscal redistribution through the state budget could be used as a means partially to offset the inequalities arising from investment decisions by the corporate (SE and FDI) sectors. Government spending in poor regions should be able to generate higher growth rates, more employment and a process whereby these provinces can begin to catch up. However, fiscal redistribution in Vietnam was not very strong during the 1990s. Most state revenues were raised within the urban areas which were, in turn, permitted to spend a high proportion of those revenues. Other areas, that raise relatively few revenues, had smaller budgets and much lower per capita spending.

The poorest provinces do receive subsidies from the central budget in order to increase their level of spending – the two regions that receive nearly all of these subsidies are the poor, densely populated coastal provinces in the centre of the country and the mountain provinces. The size of such subsidies is also roughly in inverse proportion to the GDP of the province. However, the subsidies received by the mountain provinces are considerably higher than those received by the poor coastal provinces. They are not purely redistributive and spending in the mountain provinces may be more related to issues such as defence and integration of ethnic minorities. Moreover, subsidies are insufficient to enable poor provinces to catch up to the wealthy urban areas.

Class Formation

While increased social stratification is certainly visible in northern villages, village solidarity has to some extent survived the break-up of the co-operatives (Kerkvliet, 2006). In the south, on the other hand, class formation – in the sense of separation

from the means of production – is much stronger. Landlessness in the Mekong River delta had reached 25% of rural households by 2004, compared to 7% in the Red River delta, and was strongly associated with the formation of a mobile, low-paid working class. However, the Mekong delta is the only region in the country in which landlessness is strongly associated with poverty. In other regions the poor tend to be land holders, while those who no longer have land are more likely to have moved into higher-paid forms of employment (Ravallion and van de Walle, 2006; UNDP, 2004: 38).

Even in the northern provinces there can be little doubt that class formation is occurring, but the process is different from the classical case of proletarianisation evident in the south. Instead, household enterprises are being incorporated into global co-ordination mechanisms through sub-contracting arrangements. Schraner's study of reform in the Moc Chau state dairy farm, for example, showed how former wage earners were turned into small holders who, by being required to purchase cows from the farm in return for land allocation, became heavily indebted. Due to the shifting of costs and risk onto family farmers, the state farm turned its losses into profits, although Schraner also showed that the process was, if anything, more beneficial for the SCBs and for the farm's monopsonist, Vinamilk, than for the farm itself (Schraner, 2001).¹¹

Subordination of labour to capital is, of course, not unique to the rural areas. I have already noted the rapid expansion of wage employment in the domestic and foreign private sectors which, in 2005, accounted for 67% of the wage labour force (GSO, 2007). The waged and salaried, non-farm labour force itself accounted for only 14% of all employment in 2004. As in other Southeast Asian economies at an earlier time, the most rapidly expanding sector is low-wage, export-orientated manufacturing in which women predominate. Women's share of employment in the FDI sector rose from 60% to 67% over 2000-04, while in SEs and domestic non-state firms it actually fell. In particular, males form a large and rising share of employment in the SEs, where, due to lower exposure to global competition, the welfarism of the central planning system is more likely to persist. Men also predominate in the more highly skilled areas of employment.

The rise of structural inequality along class (and gender) lines does not imply immiseration. It implies that inequality in Vietnam is increasingly based on new mechanisms of capital accumulation in which control over the means of production – whether indirectly, through management of state-owned assets, including land, or directly through private ownership – is confined to a small proportion of the population while strong redistributive mechanisms are absent.

Winners and Losers Under the New Mechanisms

The principal beneficiaries of the dynamic changes taking place in Vietnam over the last two decades are those who are included in the networks that, as they originated from the old system, have been best able to adapt to the emerging market economy. At the risk of over-generalisation, I think it is possible to identify some key groups who have been able to acquire, if not wealth, at least stable employment and rising incomes.

- Joint ventures with foreign investors provided opportunities for workers and managers to upgrade their technical skills and knowledge about the market environment.
- The protective attitude of the government towards SEs has fulfilled a welfare function, cushioning the effects of economic restructuring for those employed in them.
- State officials have been able to benefit financially, particularly through what are effectively donor subsidies to the wages budget that allow civil servants to work at higher salaries on donor-funded projects.
- Perhaps one of the more important effects has been the ability of people with the right connections to privatise resources that were often unutilised or under-utilised in the public sector. The list is long, but includes, for example:
 - (1) the conversion of coastal swamp areas to private aquaculture plots (Adger, 1999);
 - (2) privatisation of urban state-owned housing that could then be converted to capital;
 - (3) use of skills and/or capital obtained through employment in SEs to establish private businesses or household enterprises (though some of the more egregious attempts at asset stripping were punished);
 - (4) provision of private tutoring by public school teachers, private health care by public health workers, etc.;
 - (5) conversion of social power into private income – in other words, corruption.
- Employment was created in new export-orientated industries, notably the garment industry where large numbers of young women have found work.
- The household sector in the rural areas has benefited where it is integrated into global and domestic markets. In many cases this has depended on the role played by local cadres during the transition phase of the 1980s. Where local cadres actively sought commercial opportunities, they were able to establish businesses in construction, trading, manufacture and services in the urban market. Farmers and village artisans and traders continue to find employment in and benefit from these early established commercial networks.

By contrast, some groups continue to be excluded. Some of the reasons for this exclusion are related to technical or geographical issues which, for example, limit access to basic infrastructure, but some of them are more clearly related to political and social factors that inhibit access to the influential networks. There are thus important political reasons for the persistence of poverty. Public investment has often been planned in the form of “wish lists” with the result that, where funding was insufficient, projects with low political priority – often in poor regions – were dropped. Politically motivated investment decisions have sometimes been poor: as in the case of the sugar industry, where modern refineries were built in non-sugar growing areas. Central budget subsidies have not been strongly redistributive, while decentralising reforms have not simultaneously tackled local elitism or the highly regressive nature of local revenue raising (Beresford, 2003; 2005).

The inability of local state interventions to be effective, at least from the point of view of poverty reduction, may arise from the fact that local authorities are largely responsible to their superior levels rather than to the people. This tendency to look

up rather than down leads to the need to pay villagers to attend meetings and, due to shortage of funds, an invitation list chosen from among those who already belong to successful networks. Relatively few villagers see it as in their interest to participate in meetings where they have little influence.¹² A corollary of the system of responsibility upwards is that the central authorities often do not receive information about the actual impact of their programmes.

Closely related to this point is the extremely uneven implementation of the Decree on Grassroots Democracy. This decree, promulgated in 1998, was intended as a means to enable the population to monitor and provide feedback on the activities of local authorities, as well as to participate in local decision-making processes. In the rural areas people have often not yet heard of the decree (Beresford, 2005).

In many respects women are the most vulnerable to persistent poverty. Since *Doi Moi*, and the revival of the household economy, the maintenance of low labour costs and the provision of a social safety net have relied to a very large extent on unpaid household labour. When co-operatives were disbanded and SEs shed labour it was women who were most severely affected. Not only did they lose salaried employment in greater numbers, they also had to compensate for the loss of benefits formerly supplied by co-operatives and SEs by increasing their domestic workload. Thus, while women have long been the victims of unequal treatment in Vietnamese society, the possibilities that were opened up for them by the socialist system have disappeared as market reforms compelled their retreat into the household. Not only are they a minority of workers in the formal sector of the economy, they are a diminishing minority – except in foreign-invested manufacturing (GSO, 2007). There is no argument that the material standard of living of most women has improved, but it is in the areas of choice and control that *Doi Moi* has been a major backward step for women, especially rural women.

Numerous studies have shown that women are the real work horses of Vietnamese society (for example, Desai, 2000; Tran and Le, 2000). Not only do they work as long as men in paid employment, they do far more domestic work. They therefore face increased obstacles to their participation in public life, through lack of time, lack of educational opportunities (on average, they leave school earlier than men) and lack of access to the kind of information that circulates within male networks. When they are able to attend meetings, they are reluctant to speak up on civic issues because they feel ignorant.

Conclusion

The successes of *Doi Moi* – the rapid increase in material well-being and the far greater openness of politics and society – have been well rehearsed in recent years. Instead, the focus of this article has been on the challenges confronting the Party's goal of creating a socialist market economy. In outlining these challenges, I identified two areas in which the Vietnamese leadership reached a consensus in the early 1990s: state enterprises as the means of implementing "state guidance" and the creation of a "civilised and equitable" society.

Two decades on from the official acceptance that the central planning experiment was over, socialism in Vietnam appears as far away as ever.

The necessary abandonment of the Soviet model of central planning in production and distribution was, understandably, accompanied by a process of groping in the dark – looking to East Asian models for inspiration, but focusing on institutional reform rather than on development of a coherent industry policy. SEs were awarded political privilege under *Doi Moi*, but have been unable to seize the “commanding heights” of the economy. The initial choice of the Korean *chaebol* model was not successful in light of the state’s inability, especially under donor pressure, to provide crucial investment support to the SEs. Instead, foreign investors and the domestic non-state sector have begun to dominate the economic landscape. While a shift towards the Taiwanese model of state-led development remains feasible, it requires a clear and authoritative industry policy. Lack of strong state co-ordination leaves scope for increasing influence of sectional business interests in politics. Over time, it may not only further weaken the prospects for a successful alliance-based market economy, but actually tip the balance towards cronyism.

In the second part of the article I reviewed the achievements in creating a “civilised and equitable” society. The extreme vagueness of this concept leaves open both conformity with the post-Washington consensus and the possibility to achieve more aggressive redistributive measures that include the redistribution of power. I argued that inclusion in successful public-private networks, or at least access to them, has been crucial for the capacity of individuals to participate in the rising prosperity of the past two decades. Exclusion from these networks reduces economic opportunities by increasing the difficulty of gaining access to modern means of production. Thus, despite the relatively equitable stance of government policy, market dynamics have produced regional inequality, the emergence of a new social class structure and the perpetuation of vulnerability among certain groups. Socialism is not simply a question of technical solutions to the provision of infrastructure, education, etc., or of providing a social safety net. It is mainly a question of empowerment. The Grassroots Democracy Decree is potentially a powerful instrument for imposing discipline on cadres by increasing their responsiveness to the population they serve. At present, however, its implementation remains feeble. Success of the socialist element of Vietnam’s market economy will depend crucially on the “voice of the poor” being able to offset the growing influence of public-private business networks in political life.

Notes

¹ At the time Vietnam introduced its reforms, it was technically at war with China. Although peace was restored in 1989, it was several years before relations fully thawed. Chinese industrial reforms also proceeded more slowly than in Vietnam.

² This term describes regimes that privilege certain groups that are considered politically reliable supporters, friends or “cronies.”

³ Weiss (1995) argued that authoritarianism is not a necessary feature of the model.

⁴ We should not ignore, however, the protectionism that is, for political reasons, afforded to declining sectors such as agriculture that are unable to maintain their advantage in the face of competition from low-cost regions.

⁵ The famous Nam Dinh Textile Mill, when I visited in 1992, was still using English spinning machines dating from the 1930s, manufacturing for itself the necessary spare parts that were no longer obtainable in the market.

- ⁶ This was a level comparable to that of Malaysia and Singapore at much later stages of their development. In per capita terms FDI was also much higher than in other countries with similar levels of GDP per head (Beresford, 2004).
- ⁷ Preliminary results from the 2006 enterprise survey showed 27.35% making losses (includes state, non-state and foreign-invested units) (GSO, 2007).
- ⁸ For example, at one factory I visited in 1996, only six out of 300 current employees were actually at work on a normal working day. While this may be an extreme case, it was nevertheless a common pattern in many enterprises.
- ⁹ Ratios are given because the source data are sometimes in constant and sometimes in current prices.
- ¹⁰ Between 1994 and 2001, the share of rural households reporting non-farm employment as their principal source of income rose from 8.6% to 21.5% in the Red River delta. In the Mekong delta and other southern provinces, the percentage fell over the same period.
- ¹¹ To date I am aware only of DiGregorio's (1994) study covering similar ground; i.e. the subsumption of "informal sector" workers under capital.
- ¹² One study suggested that the poor are especially reluctant to attend such meetings in case they are seen as only coming for the payment (or food and drink) (Tran, 2002).

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