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THE POLITICS AND ECONOMICS  
OF TRANSITION TO AN OPEN MARKET  
ECONOMY IN VIET NAM

by

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Research programme on:  
Major Regions and Large Countries

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## **RÉSUMÉ**

La réforme est au Viet Nam un processus de longue haleine. Engagée en 1979, elle a connu jusqu'en 1986 des avancées et des reculs, et une soudaine accélération en 1989-91. Depuis, elle progresse lentement, freinée par le durcissement des positions (favorables ou hostiles à une poursuite de la libéralisation) en fonction des intérêts en jeu. Les opportunités et les incitations nouvelles résultant de la réforme sont suffisamment importantes pour empêcher tout retour en arrière de grande ampleur, mais il semble que les futures avancées dépendront pour une large part de l'apparition de crises. De fait, les décideurs ont soutenu la réforme dans les périodes où une crise a sérieusement compromis la croissance, afin de restaurer leur légitimité. Dans les périodes plus fastes au contraire, des divergences apparaissent sur les risques à long terme de la réforme et la manière d'y répondre.

## **SUMMARY**

Reform in Viet Nam is a protracted process. Beginning in 1979, it experienced both advances and reversals until 1986, a sudden acceleration in 1989-91, then gradualism hampered by a deepening entrenchment of interests in positions both for and against further liberalisation. A stop-go cycle has developed in which the new incentives and opportunities resulting from reform are sufficient to block broad reversion to earlier phases, but comprehensive advances would seem to depend on the occurrence of deeply unfavourable shocks. When crisis has seriously undermined performance, leaders have embraced reform to shore up legitimacy, while in good times they have tended to disagree over the long-term risks of reform and how to deal with those risks.

## PREFACE

During the 1990s, the number of countries which have embarked on fundamental economic policy reforms leading to open, competitive market economies has grown dramatically. Centrally planned economies in Eastern Europe and East Asia, as well as countries with highly interventionist policy regimes such as India or Brazil, have been eager to reduce government involvement in economic decision making, to ensure macroeconomic stabilisation, and to open up to international trade and capital flows. Based on these experiences, a considerable amount of knowledge about critical reform ingredients and the timing of their implementation has been accumulated.

Experience has also shown, however, that reforms are not always carried through, or are stalled during the reform process, due to opposing political interests. Economic reform always creates winners and losers, and frequently the losers include politically powerful groups. In 1996, the OECD Development Centre launched a research project to analyse the political preconditions for the success of economic policy reform in transitional and developing countries. The objective is to study the interplay between economic necessities and political challenges during the implementation of policy reform, thereby generating recommendations for dealing with political opposition to reform.

The project focuses on the experience of six countries: three large economies, China, India and Russia, and the smaller Colombia, Egypt and Viet Nam. The distinction between large and small countries was made because the regional dimension adds to the problems of reform in large countries, while outside influences may play an important role in small economies. The case studies, each of which is being published separately, will be complemented by a synthesis volume identifying common experiences and summarising the major policy conclusions for countries which are latecomers in implementing reform.

Viet Nam was chosen as an example of a country implementing a “big-bang” approach to economic reform. The paper shows external and domestic influences culminating in a bold reform step, analyses the pros and cons of such an approach, and seeks to explain why reform vigour has tapered off in recent years. One important lesson from the Vietnamese experience for other reforming countries relates to the changes of political coalitions during the reform process which determine the ultimate outcome of reform.

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## I. INTRODUCTION: THE PROBLEMATIC OF REFORM IN VIET NAM

This study examines the interaction of economics and politics during Viet Nam's transition from a centrally planned to a market economy in the 1980s. In the 1990s, economic reform continued, albeit at a slower pace, but what was at stake was no longer the question of whether Viet Nam would have a market economy, but rather what kind of market economy it would have — a cumbersome, bureaucratic one like many in the third world, or an efficient, dynamic one like those of its successful neighbours in Southeast Asia. The question of what kind of market economy Viet Nam will have is, of course, still being decided by the interplay of economic and political forces in the country. In an effort to understand those forces, the study looks back at how economics and politics interacted during the transition to a market economy in the 1980s, and subsequently as the economic reform process continued in the 1990s.

The transition from a centrally planned to a market economy, albeit one with a “socialist orientation”, took place without any kind of political revolution or ideological conversion on the part of the leadership. Policy makers were pushed into taking the measures which in less than a decade fundamentally transformed the Vietnamese economy. They were pushed by forces from outside the country, most notably the withdrawal of support by the principal patron, the Soviet Union, but even more importantly they were pushed by the actions of individual communities and factories which spontaneously experimented on their own with various kinds of market-oriented solutions to the manifest failures of the planning system. It was only in the second half of the decade that a reform-oriented coalition was able to make the reorientation toward a market economy an official goal of policy.

The Viet Nam Communist Party (VCP) formally endorsed a programme of “renovation”, known as *doi moi* in Vietnamese, at its Sixth National Congress in 1986. No one attending that congress could have imagined what would transpire over the succeeding dozen years. There may be no historical precedent quite as remarkable. Certainly there is no precedent in Viet Nam, where for the first time in two thousand years of recorded history ordinary people had an opportunity to enjoy permanent improvement in their lives. The manifest success of *doi moi* is nevertheless questioned and to some extent diminished on several grounds:

- Some argue that Viet Nam's success was easy to achieve because the country started from a low base, but, now that the base is higher, growth will be more difficult to come by. As a member of the World Bank's group of 40 poorest countries, there is no question the base is low in Viet Nam. However, if growing from a low base were easy, Viet Nam would not be the only one of this group to have achieved sustained rapid growth, which it has.
- Some argue that Viet Nam's success is less spectacular than the numbers suggest because it has been confined to the economic realm, leaving the political regime completely untouched. Thus Russians and Eastern Europeans sometimes argue that even though their numbers are inferior to those of Viet Nam, or China, they have in fact achieved far greater reform because they have been able to discard the socialist

political system that was at the root of economic failure. The premise here is that political liberalisation is a prerequisite for economic success, if not in the short term, then in the long term. This may be true, but it avoids the question of what is the preferable sequence of reform. If political liberalisation were a universal prerequisite, then few Asian countries would ever have reformed and posted good figures. It is unimaginable that putting political liberalisation first would have been preferable for Viet Nam, considering its recent national division, weak middle strata, and feeble civil society.

- A synthesis of the two points above argues that initial reforms have exhausted their potential and growth in future will depend on political reforms. Adam Fforde for example argues that for the Vietnamese economy to catch up with its neighbours “will require a concentration of political authority that permits effective implementation of the programme of reform that *doi moi* has begun. . . One way of putting it is that the ‘limits of *doi moi*’ have been reached — the easy part is over. Another is that the logic of political development has led to the current situation, and without some new element to the equation, why should things change?” (Fforde, 1997, p. 165). It is not clear, however, whether Fforde’s thesis is that Viet Nam needs political liberalisation to advance; or the reverse, to avoid further backsliding on the objectives of *doi moi*, which he clearly states has been occurring.

Pessimism about Viet Nam’s reform process is now rampant among foreign observers. A Swedish study concluded in 1996 that “the potential benefits of past reforms are nearly exhausted” (Kokko and Zejan, 1996, p. 53). The Geneva-based World Economic Forum in 1997 ranked Viet Nam 49<sup>th</sup> out of 53 countries in “global competitiveness” and dead last in “openness”. Even before the 1997 financial crisis in Asia, Fforde forecast growth to the end of the decade at almost 5 points below the 12 per cent per annum forecast at the VIIIth VCP Congress (Fforde, 1997, pp. 178-179). The World Bank’s most recent report states that “Viet Nam cannot expect to maintain its recent success or achieve its medium term development objectives without deeper reforms. There are already indications that slow reform in key areas, notably the financial sector, the state enterprise sector and trade policy are beginning to threaten macroeconomic stability and jeopardise the achievements of medium-term objectives” (World Bank, 1997, p. i). The International Monetary Fund, the Asian Development Bank, and a succession of visitors including Lee Kwan Yew have echoed the World Bank in urging Hanoi to take up reform’s unfinished tasks immediately.

Although past reforms hold potential for growth that pessimists fail to recognise, it is true that the pace of reform slowed in the mid-1990s, leaving much to be done. To many of the country’s still Marxist-Leninist leaders, the need to strengthen the market mechanism when the economy was booming was not apparent, and those with a traditionalist bent perceived market economy as corroding cherished values. Even relatively moderate leaders came to feel that change was outpacing the capacity of the party and state to guide it. As Do Muoi said on retiring as party chief in December 1997, “If you are extremely full, you cannot eat more”. Powerful beneficiaries of earlier reforms also saw little need for more. Without a shock like those which led to the initiation of *doi moi* in the first place or the emergence of visionary leadership, standing still with the economy in a cumbersome, bureaucratic form was a distinct possibility. To explain this outcome and its present dynamic is the purpose of the present study.

## Interest, Power, Risk and Learning

The central puzzle of reform in Viet Nam is why ideologically orthodox Marxist-Leninist leaders initiated dramatic changes that would have been repugnant to them only a short time before. The decision to make these changes was anything but trivial. It implied a prolonged abandonment if not outright rejection, in conditions of great risk and uncertainty, of goals these leaders had fought for all their lives. Why did they take such a bold step? The simplistic answer is that circumstances compelled it: economic crises occurring at times of threat to national security narrowed the range of rational choice to the one taken. However, many governments facing no less imperative circumstances have made the “wrong” choice or no choice at all. Reform most often follows discontinuous change in regime or leadership, which did not happen in Viet Nam, (Bates and Krueger, p. 457), and the Vietnamese made successive good choices, not just one “big bang”. To explain why the Vietnamese made the “right” choices without this discontinuity, our account focuses on how specific Vietnamese circumstances translated into an effective political demand for change.

Powerful actors’ expectations of economic benefits are an obvious ingredient of this demand. Pressure for market-oriented change came from the bottom of the Vietnamese political system before leaders at the top perceived a need for them. As we shall see, the major turning points occurred when the expected payoffs of policy change for significant players motivated them to coalesce behind leaders who favoured stability, solvency, and efficiency, and the pace of reform slowed, once these same actors achieved their aims or found ways to exploit the remaining inefficiencies. Interests and power converged in the late 1970s and continued throughout the 1980s around proposals for partial reform, and as demands were met some supporters of reform in earlier periods drifted into indifference or opposition. This explains why many of the same province-level party organisations and state enterprises that supported reform in the 1980s defected to the *status quo* coalition in the 1990s. Expected utility helps as well to explain the pattern of the 1990s, in which policy has moved simultaneously forward and backward in different areas (e.g. more open in foreign investment, less open in foreign trade).

Still, for all this to happen, decision makers at the top have had to make choices which, in their perceptions, have involved high degrees of risk — to ideological goals, to their personal positions, and to the survival of the regime. Their risk propensities have been crucial, especially considering that Viet Nam’s political institutions allowed them to defer risk through repression. Conventional expected utility theory lacks a convincing explanation of why such leaders should demonstrate the degree of risk acceptance that the Vietnamese have exhibited at reform’s key junctures. That explanation is provided by prospect theory, which holds that decision makers evaluate outcomes with respect to deviations from a reference point rather than with respect to an absolute level of utility. Facing choices that would bring them gains relative to that point, the theory holds, leaders will be risk averse; expecting losses, they will be risk accepting (Kahneman and Tversky; Tversky and Kahneman; Payne, Bettman, and Johnson). As much as pressures from below, it mattered to reform in Viet Nam that leaders perceived themselves and the VCP entering the domain of losses in the late 1970s and again in the late 1980s, the high tides of policy boldness.

However bold in context, the early reforms nonetheless were not complete because the support of entrenched interests within the party and state was needed to launch significant change. The political cost of partial reform was to postpone the confrontation

with important remnants of state socialism, leaving the task of generating political support for further reform to the effects of the rapid growth triggered by the initial reforms. Change in the 1990s therefore has had to be incremental and thus dependent on the actions of political and economic entrepreneurs who perceive they could do better by altering the existing framework. The information and subjective models of these entrepreneurs have changed constantly as leaders have gained understanding of market economy, absorbed foreign advice, and searched for “lessons” in the development experiences of other countries.

## **Asian Exceptionalism and the Vietnamese Difference**

If Viet Nam is to be examined for lessons, the significant ways it resembles and differs from other cases must be borne in mind. If we divide cases depending on whether they implemented economic reforms before, during, or after a political transition, following Haggard and Kaufman (1992), Viet Nam belongs to the third group along with other “neoautocracies” of East and Southeast Asia. By comparison with most other developing and the post-communist countries, states in Asia have played a stronger role in managing their economy and have had greater success making economic reform compatible with high growth rates, poverty reduction, and shrinking inequality. Although transitional recessions are often assumed to be axiomatic (e.g. Przeworski, 1991, pp. 162-163), they have not occurred in the East Asian economies. Why have the Asians enjoyed superior outcomes, and can we expect Viet Nam to do as well?

The key point here is that Chinese Taipei 40 years ago, China in the early 1980s, and Viet Nam in the early 1990s were economies with enormous reservoirs of unused or underused resources, mainly labour in the rural sector (Riedel, 1993). Even without completely dismantling state socialism, these countries could with the right incentives take off at remarkable rates and sustain growth as long as the reservoir did not dry up. In Chinese Taipei, this stage lasted about 15 years up to 1975, when it was for the first time forced to do some serious trade policy reform; only now is Chinese Taipei starting to privatise its sacred cow SOEs. China is still running on this reservoir of labour resources and is recording high growth in spite of a protectionist trade policy and an enormous stock of inefficient SOEs. So, too, Viet Nam can expect high growth if it can mobilise its rural labour for industrialisation.

The situation in Eastern Europe and Russia is fundamentally different. These are not densely populated rural economies. They are highly, albeit inefficiently, industrialised economies. Unlike their Asian counterparts, they did not have a reservoir of untapped resources to draw on. Their wealth was instead heavily and not very profitably invested in heavy industry. So their challenge has been different and fundamentally more difficult, requiring them to give people an incentive to work and to organise production at the same time that they have had to tear down the old inefficient industry. Dismantling the old industrial structure has involved problems of time, sacrifice, cost, and politics with which Asians have not had to contend.

Broadly speaking, Viet Nam and China share more traits with each other than either of them does with post-communist Eastern Europe and Russia. In both countries, the social safety net is provided by the family, and so cutting welfare expenditures to bring down deficits was not as politically risky as it was in Europe and Russia. In both countries, quick economic results strengthened reformers in subsequent policy debates. They also

have state structures that accord more strength to local government than in the Soviet model and impose a distinctive dynamic on reform politics (Fforde, 1997, p. 149). The survival of similar institutional constraints in the two countries goes far to explain the similarity of their reform paths.

It would be a mistake, however, to see reform in Viet Nam as but a variant of reform in China. China is but one model among several that the Vietnamese consider worthy of study, and the differences between China and Viet Nam as countries and between their reform experiences are profound. At the time it initiated reform, Viet Nam was much poorer and less industrialised than China, so the “advantages of poverty” were even greater for it than for China. Viet Nam’s experience of socialism also had been much shorter and shallower than China’s. While China thoroughly socialised its economy during three decades of peace, Viet Nam was torn apart by war. Half of Viet Nam remained entirely outside the socialist system until 1975. For these reasons, reform faced less political resistance in Viet Nam than in China. On the other hand, Viet Nam was under embargo by the West and Japan at the time its reform process began, whereas the West and Japan rewarded China for opening to the capitalist world economy. Viet Nam lost the support of its friends while trying to implement gradual reforms, whereas China sailed along on a boom in trade and foreign investment. Balance-of-payments difficulties, accelerating inflation, and revenue loss — the “crisis triggers” of reform identified by Bates and Krueger (1993, p. 453) — played a far greater role in Viet Nam than in China.

More like a weak state of the Third World than China, Viet Nam initiated reform partly to restore state controls that economic conditions had begun to undermine. Joel Migdal (1988, p. 269) is mistaken in ranking Viet Nam among the highest in state capabilities among the states of Asia as well as Africa and Latin America. While it is true, as Migdal argues, that wrenching social dislocations gave rise to new distributions of social control, the outcomes are not necessarily state-strengthening. In Viet Nam, the new concentration of power had to contend with institutional legacies of war and the country’s poverty that sapped the state of capability. Capabilities, moreover, were unevenly developed across policy domains and depended heavily on foreign aid. Even with foreign assistance, the Vietnamese state in the 1970s and 1980s could not consistently appropriate and use resources in ways determined by its leaders. Too weak to implement the Bolshevik solution of a command economy, it was too weak as well to be a “development state” presiding over a market economy. Synchronising policies with capabilities was thus bound to be a fundamental challenge for reform.

The study is divided into five sections. The next section considers how the political and economic conditions shaped the reform approach through its main stages. It also provides an historical overview and analysis of perspectives and institutions that bounded policy choices up to the early 1990s. Section III examines how reform affected interests within key sectors of the economy. Section IV extends the preceding discussion to analyse the political stalemate that developed in the run-up to the Eighth Party Congress and speculates about the emergence of interest group politics. The fifth and final section considers where the Vietnamese case and its idiosyncrasies fit in relation to a number of generalisations about reform.

## II. REFORMING A PLANNED ECONOMY

Reform in Viet Nam has not involved an ideological conversion of the leadership from Marxism-Leninism to capitalism. Regime continuity rather than regime change has been the prime political condition, making reform a process of discovery the hard way that the alternative to a market economy does not work. This section discusses how political conditions shaped the approach to reform. The major factors were *i)* institutional capabilities; *ii)* leadership succession and recruitment; *iii)* centre-periphery dynamics; *iv)* North-South differences; *v)* legitimisation problems; and *vi)* external relations. These factors interacted with regime aspirations in complex ways over an extended period.

### **The Failure of Command Economy: 1976-79**

It is of critical importance to remember that in the late 1970s Viet Nam had just emerged from 30 years of national division and warfare. The sole experience of its leaders with economic policy-making involved the construction of a rudimentary neo-Stalinist command economy in the Democratic Republic (DRV), or North Viet Nam. This economy was exceptionally aid-dependent, partly because of the war and partly because the DRV, with a predominantly agricultural population but chronic food deficit, lacked the capital, resources, and institutions needed to sustain central planning. From 1966 to 1975, foreign grants and loans averaged 63.2 per cent of the non-military state budget (NGTK, 1981, p. 35). War-time mobilisation and large-scale commodity aid enabled the system to function and thus to nourish leaders' conviction that command economy held the key to Viet Nam's post-war development.

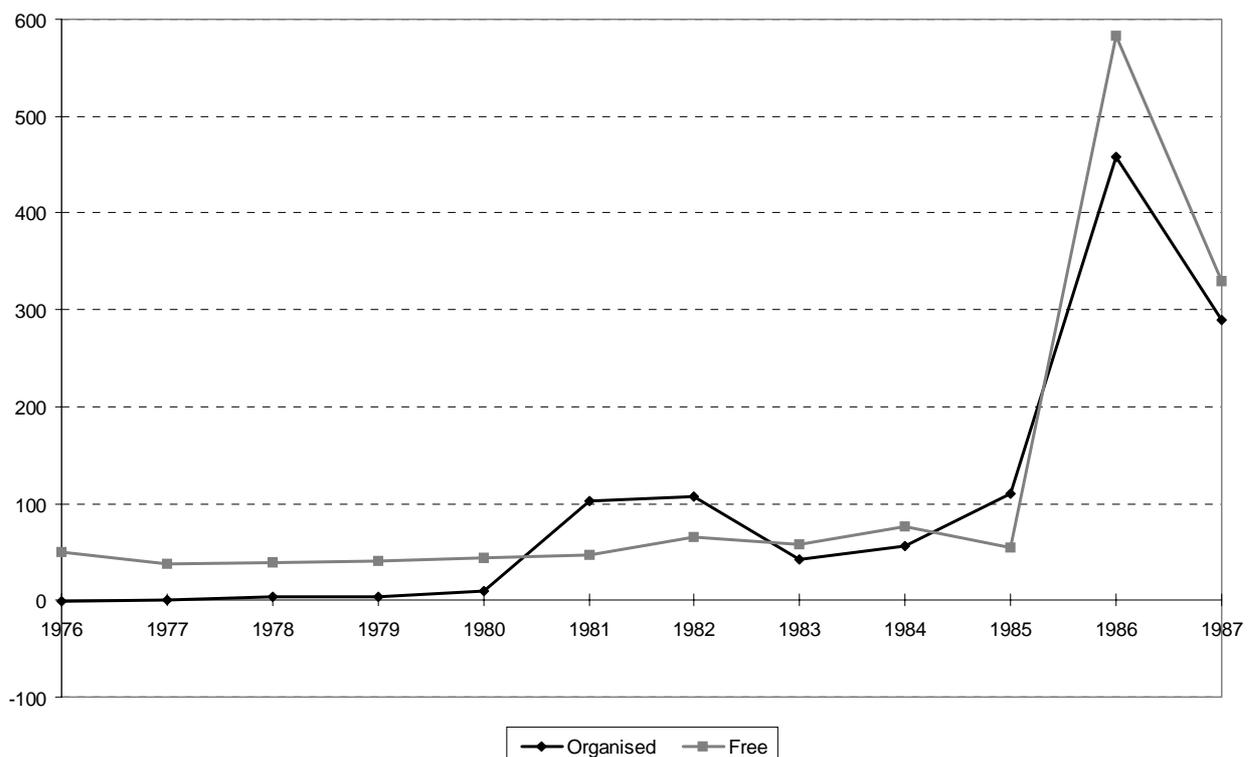
In fact the model was inappropriate, not only because of the North's material shortcomings, but because the state was weak, relative to the model's requirements. The DRV lacked the necessary staff to gather adequate statistics to operate a planning system and the means to communicate orders, prices, and other instructions in the requisite detail. Party discipline was lax, a legacy of wars fought under conditions that encouraged local initiative, while co-operatives retained some of the closed corporate character of the traditional communes on which they were based. Localism thrived despite constant exhortation to place national interests before communal ones. The 1960 constitution, which accorded provincial and municipal state agencies and central government ministries equivalent status, created jurisdictional conflicts without institutionalised means to resolve them (Fforde, 1997, p. 149). Resources of control and administration were meagre by Communist standards and distributed very unevenly. In 1976, the party had 1 533 500 members (3.13 per cent of the total population), but Southern membership was probably not over 200 000 (*Los Angeles Times*; Le Duc Tho, 1976). Of 82 900 civil servants, only 16 100 (19.4 per cent) were in the South (NGTK, 1977, p. 61). The government could bolster its resources in the South by dispatching cadres from the North, which it did, but only by depleting resources needed for reconstruction in the North.

The experience of war had more effect than the experience of development in shaping the post-war strategy. Thirty years of struggle for national reunification and socialism made it hard to justify any postponement or wavering on the path to full materialisation of these goals. Desire to give institutional expression to national unity combined with revolutionary hubris to sweep aside reservations based on pragmatism and regional difference. Leadership at the centre also saw extension of the DRV model over the entire country as

essential for the establishment of effective control over a refractory South. The Party's Fourth Congress in December 1976 therefore ratified a decision to proceed with full-scale socialisation, and on this basis to take the entire country "from small production to large-scale socialist production . . . within about 20 years" (VCP, 1977, p. 59). The vehicle of this goal was the Second Five-Year Plan (1976-80), which was to integrate the economies of North and South under uniform socialist institutions.

The Plan foundered from the start. Severance of aid and trade with the West and Japan, Khmer Rouge commando raids, the suspension of Chinese aid in spring 1978, and bad weather were contributing factors. In the South, the state nationalised industry and suppressed private trade before it was able to provide alternative management or distribution. In both regions, even in peacetime, the state lacked the "strong rationing" capacity needed to intermediate a flow of low-price inputs to industry. The attempt to act otherwise precipitated, as Fforde and de Vylder (1996) have shown, a spontaneous process of reform "from below" in the form of state-owned enterprises going "outside the plan" to find needed inputs through direct relations with local suppliers. Sometimes protected by local authorities and ministries, such "fence breaking" activities became "rampant" (Fforde and de Vylder, 1996, pp. 129-130). Fence breaking was not "planning from below" or "counterplanning" as practised in the Soviet Union until the late 1930s, in which the central planning commission parcelled out targets and limits on inputs to industrial ministries and enterprises offered counterbids, but actual violation of planning directives. The parallel and illegal "free" market grew along with these activities and the efforts of citizens to make ends meet, diverting resources from the "organised" market, exacerbating shortages, and fuelling inflation. In the period from 1976 to 1980, while real national income barely increased at all, prices in the state-controlled business sector increased an average of 3.5 per cent a year, but in the "free" market they increased over 60 per cent a year (see Figure 2.1).

Figure 2.1. Annual Inflation in "Organised" and "Free" Markets, 1976-87 (per cent)



Sources: NGTK 1981, p. 262; Do Hoai Nam, pp. 110-111.

The state was unable to fulfil its obligation to deliver gasoline, fertilisers, and other items to agricultural co-operatives, and weak ones began to dissolve in the North as well as the South (Quang Truong, 1987, pp. 261-262).

The crisis was most acute in agriculture. The North had begun in 1974 to consolidate “low level” co-operatives into fewer but larger “high level” ones in which incentives were weaker, with predictable results. Machinery went unrepaired, cultivated area decreased, and costs of production rose. Staples output in the North, already down from an annual average of 303 kilograms per capita in 1960-65 to 253 kg/cap in 1970-75, (NGTK 1981, p. 48) continued downward despite state investment and the introduction of miracle strains of rice (Chu Van Lam, 1993, p. 153). Meanwhile, in the South, collectivisation enrolled nearly half the peasantry but provoked resistance in the Mekong delta and led to declines in productivity and incomes. Lightly supervised and short of incentive goods, many co-operatives disintegrated almost as soon as they were organised.

The cost of discrepancy between Plan and outcome was not just economic; in fact deviations from the Plan probably softened the impact of crisis. Equally serious was the political cost of eroding public confidence in the party, and the state. Like “fence breaking” state enterprises, people had to work around the rules to subsist and so lost respect for the rules. Cadres with authority but little competence often behaved in high-handed ways, and officials supplemented their inflation-eroded salaries by stealing state property and peddling favours. These developments, coming at a time of renewed external threat, presented leaders with a stark choice: they could rescue the Plan by strengthening enforcement, which in the existing conditions was sure to make matters worse, or they could save the economy and recover public support by sanctioning some of the adaptations that already had occurred. The sixth plenum of the central committee in August 1979 decided to do the latter by relaxing some controls on private production and suspending the campaigns to socialise the South.

### **Retrenchment: 1980-85**

In the minds of most top leaders the sixth plenum decision was a tactical retreat, not a strategic turn towards market economy. The adjustment was supposed to be temporary, subject to repeal or refinement as soon as the crisis had passed, but in political terms the plenum was a watershed event. Southern critics of the decision to combine economic reunification with socialist transformation could claim vindication<sup>1</sup>, as could the individuals who had been accused in mid-1978 of holding “utopian” and “pseudosocialist” views for questioning the priority given to industry (Turley, 1980, p. 56). Officials at mid-levels, paralysed by orders “to implement unimplementable policies”, welcomed the relief of partial liberalisation (Beresford and Fforde, 1996), and producers now engaging legally in sideline activities henceforward would resist any attempt to roll back the changes. In the absence of alternative ideas, that of a limited, selective relaxation of controls guided policy developments.

Over the 18 months following the sixth plenum, the government devalued the dong 70 per cent, increased procurement prices for agricultural products 400 to 600 per cent, excluded co-operative and private sector workers from access to commodities at subsidised prices, and doubled civil servants’ salaries. In January 1981, the party authorised output contracts (*khoan san pham*) in agriculture and a “three-plan system” for state-owned enterprises that allowed SOEs to produce and sell goods not covered by quota on a free-

market basis. The economic results were mixed. On the one hand, the measures triggered a fairly rapid economic recovery; on the other, they spurred inflation and encouraged “negative phenomena” such as speculation, smuggling and corruption. Many enterprises and localities went on a binge of sideline activity, provoking renewed effort in 1980-81 to regulate private trade, expand state and co-operative control of the wholesale and retail sectors, and curb the autonomy of exporters. Renewed growth simultaneously raised new issues of political control and lessened the urgency of reform.

The concerns of leaders at the centre tended to differ from those on the periphery, however. The reason lay partly in characteristics of the local administrative state, descended from the DRV, in which effective authority lay with territorial authorities. Government agencies at the sub-national tiers (provinces and municipalities; precincts in urban areas and districts in rural areas; urban quarters and rural communes) could own industrial and agricultural enterprises. At each level, the network of government offices that owned and managed enterprises comprised a “line” ministry. Although the “functional” agencies of central government ministries had formal supervisory authority over all SOEs, the requirement to pass their orders through the line ministries gave the latter the greater power and authority. Line ministries had the capacity to defend enterprises against pressures from functional agencies (Vasavakul, 1996, pp. 44-45), and the policy shifts of 1979-81 encouraged them to do this in ways that further consolidated the local state business interest. Some of the initiative for mobilising and allocating resources shifted from central planners to the middle levels of government. Economic benefits trickled down and outward from these levels, providing mid- and lower-level party and state officials and even the military with a stake in expanding local autonomy in economic affairs.

Attempts by central planners since the late 1970s to “decentralise management” to the district level also exacerbated centre-periphery frictions. The ostensible aim was to place resources where they could best supervise the consolidation of agricultural co-operatives into “agro-industrial complexes”. However, the change directly threatened provincial, sectoral, and co-operative interests, which mounted “concerted resistance”. The potential for erosion of authority at province level, particularly after orders came down to provinces in 1984 to transfer their agricultural support services to the districts, gave provincial bureaucrats reason to avoid implementing the programme and to find allies among those who, for quite different reasons, were critical of big schemes and planning.

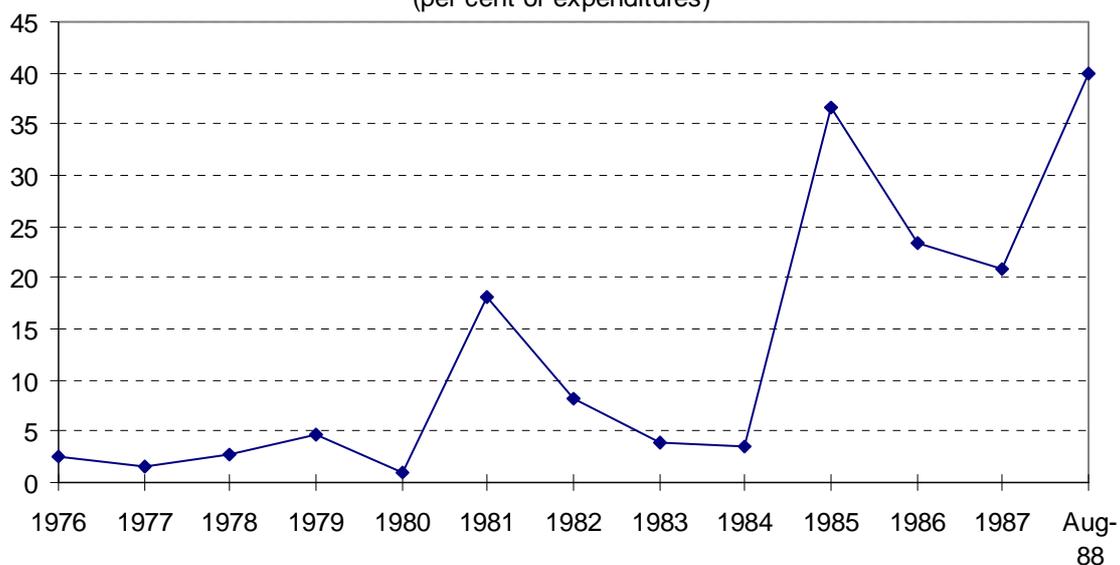
Groups on the periphery thus had reason to join with technocrats at the centre to form a base of support for reform. Early evidence of their growing strength came in Nguyen Van Linh’s rehabilitation in January 1982 as party secretary for Ho Chi Minh City and in Vo Van Kiet’s move from that post to a seat on the political bureau and chair of the State Planning Commission. Both men were results-oriented advocates of adaptation to local realities and popular with the provincial party machinery<sup>2</sup>, but neither man was as entrenched at the centre as Deng Xiao-ping was in 1978, and neither was in a position to take political risks. In March 1982, the Fifth Party Congress retained a higher than usual number of members in the central committee, so the new committee represented continuity, and like its predecessors it was dominated by central party and state officials. The proportion of members from the party and state periphery, which stood most to gain from further liberalisation, actually declined<sup>3</sup>. Linh, though back in charge in Ho Chi Minh City, lost his seat in the political bureau.

The Third Five Year Plan (1981-85) approved by the Congress was an awkward compromise between concessions to pressures from “below” and an overall recentralising direction. The most significant concession was to accept that, for “a definitive period of

time”, Viet Nam would have a “multi-component economy” with regional differences. The North would have three economic components (state-run, collective, and individual) and the South would have five (the North’s three plus joint state-private and private capitalist) (VCP, 1982, p. 75). The Plan also gave favourable attention to the “family economy” of sideline production on which the country now depended for most of its food aside from rice<sup>4</sup>. It gave top priority to agriculture, conceding for the first time that an economy as poor as Viet Nam’s could not skip this initial stage of development. However, it also reaffirmed the goals to “complete socialist transformation in the Southern provinces, [and] further perfect socialist relations of production in the North” (VCP, 1982, p. 5). Household economy and output contracts, it was hoped, would motivate the peasants to solve the food problem but also keep them in collectives. Subsequent decrees in all sectors sought to accomplish through regulation, taxes, and incentives what direct administration could not, namely, the promotion of state and collective forms of production and distribution. Punitive taxes, for example, caused many small trade and service businesses to close in 1983-84. The Plan had reformist elements, in that it acquiesced in the existence non-socialist sectors (for now) and increased the managerial autonomy of producers, but it was also anti-*free* market (Fforde and de Vylder, 1996, pp. 132-135; Spoor, 1988, pp. 122-123; Vo Nhan Tri, 1990, pp. 123-180).

In implementation, the Third Plan quickly exhausted the potential of partial measures and deepened the severity of macroeconomic tensions. State industry recovered, but mainly where it was allowed to respond to market demand using domestic inputs. Food output increased from 273kg to 304kg per capita between 1981 and 1985, (NGTK, 1985, p. 35) just achieving self-sufficiency, but the increase was a one-off response to output contraction and the expansion of household plots beyond the 5 per cent limit. Without continual productivity growth, population increase would soon nullify the gain. Inflation began spiralling out of control as the state raised wages for SOE workers and civil servants, boosted prices for rice needed to feed the urban population, continued paying out subsidies, and increased money supply to cover its growing budget deficit (see Figure 2.2).

Figure 2.2. **Budget Deficit, 1976-88**  
(per cent of expenditures)



Source: Do Hoai Nam, 1982, p. 111.

By 1985, it was apparent that the measures of 1982 could not put the economy on a path to growth and the state on the road to solvency.

By attempting to recentralise controls, moreover, the Plan clashed with the interests of local governments and enterprises that had developed a stake in market and off-plan activities. Efforts to halt the creeping commercialisation of state business not only slowed output growth but irritated producers and their local government owners. Such resentments existed in all parts of the country, but they were expressed most sharply in Ho Chi Minh City, where local leaders risked the rebuke of the centre to promote the city's development. The city had for example set up its own joint state-private import-export companies and tolerated growth in private rice trading, which essentially returned control over the city's economy to its ethnic Chinese minority. Such displays of initiative, undertaken while some leaders in Hanoi saw this minority as the "fifth column" of a hostile China, prompted three members of the political bureau to visit the city in autumn 1982 and castigate its leadership for inattention to security and disregard of the centre's instructions (Quinn-Judge, 1983, pp. 46, 48). With support for the Third Plan dissolving in 1985, Nguyen Van Linh criticised "autarkist" visions for failing to exploit the city's "designed industrial capacity" (Nguyen Van Linh, 1985) and alternative strategies received a hearing (Beresford, 1991, pp. 127-128). The general refractoriness to socialisation extended to rural areas surrounding the city. Renewed collectivisation brought 28.5 per cent of peasant households throughout the South into advanced co-operatives by late 1985, but many of these were nominal (Vo Nhan Tri, 1990, p. 130), and in the Mekong delta "rice basket" the average of households enrolled was just 3.7 per cent (NGTK, 1985, p. 130).

The political key to policy change, however, was held by Truong Chinh, former general secretary of the party and its pre-eminent ideologue. Chinh had been the architect of land reform in the North in the 1950s and an ardent proponent of accelerated socialisation in the South in the 1970s. Perhaps no leader then living and active could, by his personal conversion, so effectively legitimate criticism of central planning as Chinh. On a tour of the provinces in 1984, Chinh gathered the views of frustrated local officials and began aggregating the disparate pressures from "below" into a coherent movement<sup>5</sup>.

### ***Doi Moi: 1986***

The tide was running in reform's favour by June 1985, when the eighth plenum restored Nguyen Van Linh to the political bureau and announced some moderately reformist goals including movement away from two-tier prices. In July, Truong Chinh became general secretary to fill out the term of the deceased Le Duan. Conservatives led by To Huu, however, prevented implementation of the plenum resolution and engineered a currency conversion that confiscated wealth and tripled prices for some staples (Porter, 1990, p. 77; Fforde and de Vylder, 1996, p. 14). Exasperation with conservative obstructionism and incompetence almost certainly helped Linh to succeed Chinh at the Sixth Party Congress in December.

Who were the constituents of the reform coalition? An important indicator was the increased representation of secondary party and state officials in the new central committee, which rose to 49 per cent (from 30 per cent in the previous committee) (Thayer, 1988, p. 187). Significantly, the addition of provincial party secretaries (or deputy secretaries) accounted for the bulk of this increase. Whereas only three province party committees

had representation in the central committee chosen in 1960, province party leaders accounted for 24 of 154 members (15.6 per cent) in the central committee of 1982 and 41 of 173 (23.7 per cent) in 1986. The increase since 1982 was partly an effect of the break-up of larger provinces, but that in itself was evidence of a trend towards fragmentation and decentralisation of power (Elliott, 1992, p. 162). It is not clear how or even whether provincial authorities intent on building “independent kingdoms” and reform-minded leaders at the top co-ordinated with one another, but that they had parallel interests, which Truong Chinh had helped bring together, seems obvious.

Despite the political ascendancy of reform forces, the programme of *doi moi* (renovation) approved by the Sixth Congress was hardly radical or bold. Many delegates remained wedded to ideological orthodoxy, as indicated by sharp debates over whether private enterprises should be allowed to hire up to 10 or 30 workers and whether capitalist economy should be allowed to “return” to the north (*Nhan dan*, 20 April 1989). The adopted reforms fell far short of what neighbours, including China, were then implementing. Although Congress documents sharply criticised the “bureaucratic centralised mechanism based on state subsidies” and promised to bring the “multi-sector economic structure” into “full play”, the “most *important thing*” (emphasis in original) was “to strengthen and develop the socialist economy, first of all, to enable the state sector to really play the leading role and control the others” (VCP, 1987, p. 66). Policy innovations enhanced SOE autonomy, eliminated the state monopoly in foreign trade, and allowed private small-scale commercial activity, but the principle of “socialist market economy” ruled out significant reduction of government control over SOEs, dismantling the planning apparatus, or abolition of the dual price system. Failure to end dual pricing was particularly telling, because producers had to go on selling to the state at artificially low prices and finance their losses through subsidies, financed by borrowing from the central bank, leaving the basic cause of macro-instability untouched. Persistent macroeconomic imbalances were reflected in high inflation rates — the consumer price index peaked at 774 per cent in 1986, dipped to 232 per cent in 1987, and then rose again to 394 per cent in 1988 (SRV, 1993, p. 5; IMF, 1993, p. 22) — and in mounting balance-of-payments difficulties.

Why the party moved towards reform in 1986 is the main question for some analysts, (e.g. Perkins, 1993, pp. 2-4) but it is more puzzling why *doi moi* did not immediately break more decisively with the past, considering the chronic imbalances and leadership changes. Several top leaders were “new” in the sense of winning top office for the first time, so incumbency did not constrain them to defend failed policies<sup>6</sup>, and in just two years they would introduce reforms that were indeed bold. Why did they not do this upon taking office, when the “honeymoon effect” supposedly provides new leaders room for manoeuvre and allows them to blame difficult decisions on problems left by predecessors? The argument that the economic crisis was not yet deep enough (Dollar and Ljunggren, 1995, p. 3) begs the question why new leaders of reformist stripe were chosen at all. If the crisis was sufficient to lift new leaders to power, why was it not sufficient to enable them to enact the policy changes necessary to overcome it?

The answer lies in boundaries of reform leaders’ understanding and perceptions and in the political constraints of the time. In the first place, the “new” leaders were not really political outsiders, free of all the commitments and liabilities of incumbency. Truong Chinh, as we have seen, was a former general secretary; Nguyen Van Linh had already served one stint on the political bureau; and Vo Van Kiet had already joined it in 1982<sup>7</sup>. No new or old member of the Bureau in 1986 could claim non-involvement in previous policymaking,

even if the party ethos allowed this. Viet Nam's reform leaders had been implicated in failed as well as successful economic experiments, and they shared a dedication to socialism with reform's opponents. Reformers differed from opponents mainly over what constituted the least change in institutional framework that was needed to promote growth.

Second, the Bureau operated by consensus, so reformers could not ride roughshod over the opposition, even if they wished to. Last, broad political support for policy radicalism was by no means assured. Support for reform was diverse and uneven, and the existing model still afforded many party members, officials and bureaucrats their most credible source of economic security. Typically, so long as gain seems possible people prefer certain gains of small magnitude over less likely ones of great magnitude, and it was the certain but small gain that *doi moi* offered in 1986. For reform leaders, the risks of policy radicalism to their own positions must have seemed to outweigh those of moderation. It would take the prospect of certain losses to people and groups across the state, party, and society to raise the level of risk acceptance and make boldness politically feasible<sup>8</sup>.

### **Rounding the Corner: 1987-89**

Whatever its limitations, the Sixth Congress did allow reformers and technocrats to introduce change at the margins. In 1987, the changes included a reduction of differences between free market and official prices, abolition of rationing for many commodities, removal of checkpoints on internal trade, enactment of a Foreign Investment Code, and establishment of the State Committee for Co-operation and Investment. In 1988, they included user rights of at least fifteen years for farmers and de-cooperativisation in agriculture, increased autonomy for SOEs, eased restrictions on foreign trade, and the separation of central and commercial banking functions. Moves to relinquish administered pricing, unify exchange rates, substitute positive for negative real interest rates, and harden the budget constraint on state enterprises were conspicuously absent.

This was reform by the path of least resistance — rewarding groups that had or could be expected to support a partial marketisation and postponing measures that might inflict real pain. The more innovative ideas of liberal technocrats went ignored, and some proposals adopted at central committee plena went unimplemented. Caution and disagreements within the political bureau thwarted proposals for a more coherent and comprehensive approach (Porter, 1990, pp. 78-79). The result was continuing macro-instability and an unsustainable burden on the state budget. Adjustment of some prices to market forces along with growing private sector competition cut into state enterprise income. So did the termination of the central government's foreign trade monopoly, as grossly overvalued exchange rates caused losses to exporters. Provincial authorities and enterprises that set up foreign trade organisations made large profits, but undervalued imports undercut domestic producers, adding to the pressure for subsidies (IMF, 1995, p. 55). Without new forms of taxation, payment of subsidies implied a burgeoning deficit (to 40 per cent of expenditures in 1988) and continuing triple-digit inflation. As if all that were not bad enough, a poor harvest of 1987 resulted in pockets of famine that lasted into spring 1988.

The party central committee met to assess *doi moi's* first two years in March 1989. According to the party newspaper's report of this, the sixth plenum,

conspicuous difficulties stem from the rate of inflation . . . the large state budgetary over spending, the chronic scarcity of cash, and price fluctuations . . . Many honest labouring people, particularly cadres, workers, administrative personnel, members of the armed forces, retirees, and social welfare recipients, have gained nothing. The living conditions of many people are extremely difficult. In the meantime, people who do business illegally make a great deal of money overnight. Consequently, social injustice becomes more and more acute with each passing day . . .

Difficulties also resulted from an irrational finance, money, and credit regime which encouraged a flood of (often smuggled) imports, with which state enterprises could not compete. "If we cannot promptly check the rate of inflation and significantly increase the state economic sector's efficiency", the paper concluded in typical understatement, "the situation may develop in a complex fashion" (*Nhan dan*, 20 April 1989).

The plenum did not foresee the unravelling of communist regimes in Eastern Europe or the demonstrations in Beijing's Tiananmen Square that lay just weeks ahead. "Comprehensive co-operation" with the Soviet Union and the Council for Mutual Economic Assistance (CMEA) was still the "guideline for expanding foreign economic relations" (VCP, 1989). The collapse of Viet Nam's allies and termination of CMEA assistance stunned the leadership and fuelled fears that reform could lead to turmoil and collapse. At this disastrous juncture, a decision to halt or repeal reform, at whatever cost to the population, was an option. It is not uncommon, after all, for elites to prefer survival in office to the public good, and this was essentially the choice made at this same juncture by the leaders of Cuba and North Korea.

Why did the Vietnamese respond differently? One cannot ascribe the difference to unique learning experiences, for these were ambiguous and divisive for the Vietnamese themselves (Turley, 1993, pp. 333-334). Nor can one be content with saying radical stabilisation was the economically rational choice, because many governments facing similar pressures have chosen for political reasons to continue domestic deficit financing and accept the economic consequences (Krueger, 1993, p. 123). Considering Viet Nam's isolation and its leaders' views of world capitalism, they might well have seen autarky as the politically safe course, whatever the economic consequences. The Cuban and North Korean cases show that regime type had nothing to do with the choice taken.

One has to look instead to characteristics of leadership and milieu at the time of decision. The Hanoi government no longer faced a domestic rival capable of absorbing it if reform went wrong, as did Pyongyang. Hanoi's nearby large neighbour, unlike Havana's, had neither the capability nor the disposition to overthrow it. Preparing to withdraw in September 1989 the troops it had stationed in Cambodia since 1979, Viet Nam could look forward to improving relations with China, and, unlike the communist governments of Eastern Europe, the one in Hanoi had nationalist legitimacy and faced no appreciable domestic opposition. The Hanoi leadership thus still had some room for risk-taking that leaders in other communist states did not perceive. Moreover, the economic gaps between Viet Nam and the region's market economies had widened enormously. Countries that Vietnamese had only a decade earlier depicted as hapless victims of capitalism and neo-colonialism were now racing ahead. Such perceptions had weakened the hold of ideology in the party's own ranks and, along with the circulation of Eastern European critiques, had helped to discredit and isolate the orthodox<sup>9</sup>. Lastly, in 1989 reformers were the incumbents, the policies they felt obliged to defend were those of *doi moi*, and all leaders publicly

supported *doi moi* as the party “line”. If *doi moi* so far had produced unimpressive results, its defenders argued, this was because it had not gone far *enough*. Seriously believing that the choice for them as for the country was to “renew or die”, Viet Nam’s leaders embraced the advice that some technocrats for years had been urging upon them.

That advice may well have reflected the views of international lending institutions and particularly the IMF, which had sent staff regularly to Viet Nam since the war’s end. Several IMF missions made visits during the first half of 1989 to discuss Viet Nam’s arrears, and the government’s interlocutor with the IMF, Nguyen Xuan Oanh, had worked for the Fund in the early 1960s<sup>10</sup>. Whatever their provenance, the steps actually taken resembled “pure IMF orthodoxy” (Riedel and Comer, 1996), but the IMF had no material leverage over policy so long as the United States prevented lending to Viet Nam. The World Bank and the Asian Development Bank were held back, too, as an ADB briefing note put it, “by the lack of an IMF programme and the same elements in their governing bodies which block Viet Nam at the IMF”. None of these organisations could “bribe” or threaten Viet Nam into adopting IMF-approved policies, which a number of technocrats had come to believe were intrinsically good anyway. The external push to change policies thus had to come from the loss of CMEA support, which “pushed” by causing top leaders to modify their perceptions of the risks and viability of the options before them.

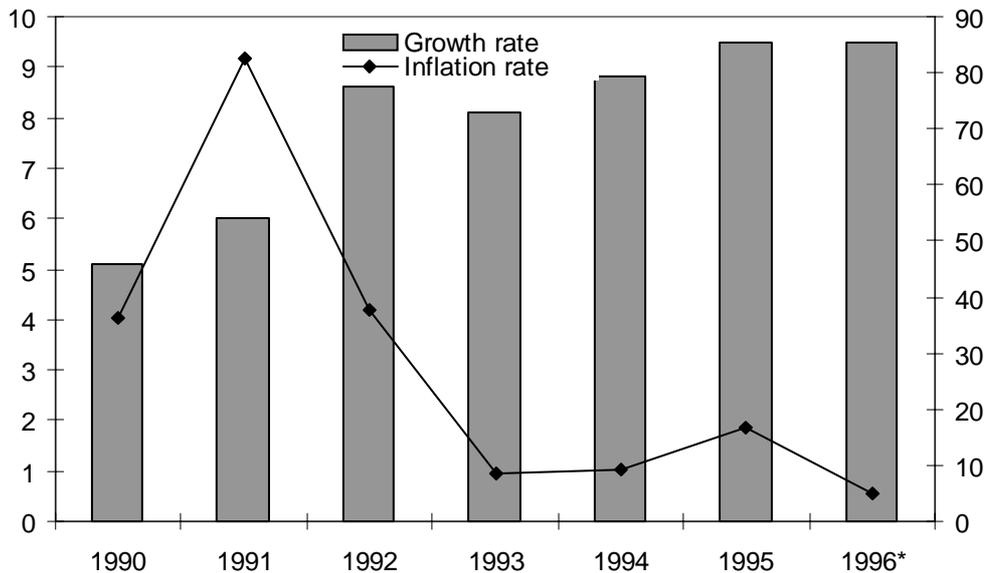
The pace and scope of *doi moi* quickly exceeded anything imagined by its proponents in 1986, matching and in some ways surpassing the reforms of China. In 1989 alone, the two-tier price system was abolished, interest rates were raised to real positive levels, the dong was devalued close to the market rate, foreign exchange and trade rules were relaxed, and tax rates were equalised across economic sectors. Looking back, the main elements of the transition to this point were: *i*) the adoption in the early 1980s of the contract system in agriculture, which led later in the decade to the full restoration of family farming and the effective privatisation of the agricultural sector; *ii*) the adoption, also in the early 1980s, of the three-plan system for industry, which allowed state-owned enterprises to engage to a limited extent in non-plan economic activities, followed later in the decade by measures to tighten the budget constraint on state-owned enterprises; *iii*) the watershed Sixth Communist Party Congress, which initiated the reorientation from central planning to a market economy, albeit one with a “socialist orientation”; *iv*) following that decision, in 1987, the opening up of the economy to international trade and foreign investment; and finally *v*) the completion of price liberalisation and the adoption of a bold programme of macroeconomic stabilisation in 1989. Up to the late 1980s, Viet Nam approached reform in gradual steps, but in seeking immediate solutions across several policy areas the measures adopted around 1989 qualified as a “shock”.

## **Economic Outcomes**

Similar attempts at stabilisation in Eastern Europe and Latin America during the 1980s caused inflation, unemployment, volatile changes in relative incomes and other politically unpopular consequences. Initial support for reforms that were launched by surprise eroded as social costs set in. Viet Nam’s experience was quite different. Far from causing a transitional recession, the above reforms unleashed exceptional growth, exceeding the expectations of those who implemented them. Viet Nam’s main economic performance indicators, real GDP growth and the inflation rate, are shown in Figure 2.3. In the 1980s,

Viet Nam recorded some years of good, solid growth, but never as high or as sustained as in the first half of the 1990s, and growth in the 1980s was invariably accompanied by accelerating inflation. Since 1990, however, Viet Nam has achieved both rapid growth and low inflation. Indeed, the speed with which the country was able to lower the inflation rate and raise the real growth rate is perhaps unprecedented.

Figure 2.3. **Real GDP Growth Rate and the Retail Inflation Rate**  
(percentages)



Note: \*1996 figures are projections.

Source: World Bank, October 1996.

Stabilisation in a country like Viet Nam boils down to fiscal austerity, since the monetary expansion that fuels inflation invariably originates in public sector deficits. Since the tax base was weak, the only way to reduce the public sector deficits was to curb public sector expenditures, which Viet Nam did dramatically between 1989 and 1991 by eliminating subsidies to state-owned enterprises, cutting the state investment programme, restraining wage increases for state employees, and demobilising a half million soldiers. However, the typical village household saw only benefit in the sharp decrease of inflation and end to price controls that offered new incentives to grow, and the vigorous response of the household sector far outweighed the recession in the public sector. Over 70 per cent of Vietnamese were farmers and only 15 per cent worked in the state sector in 1989. Liberalisation of agricultural prices and decollectivisation yielded an overwhelmingly positive net result for most households, and the rapidly growing private sector absorbed about one-third of the state enterprise sector's 2.4 million employees (World Bank, 1995a, pp. 22-23). Higher private sector salaries for skilled labour in fact caused something of a "brain drain" from SOEs. Reduced spending on social services and education raised alarms, but overall social costs were low, and the government remained determined to contain inflationary pressures by following a prudent fiscal policy, as Table 2.1 shows.

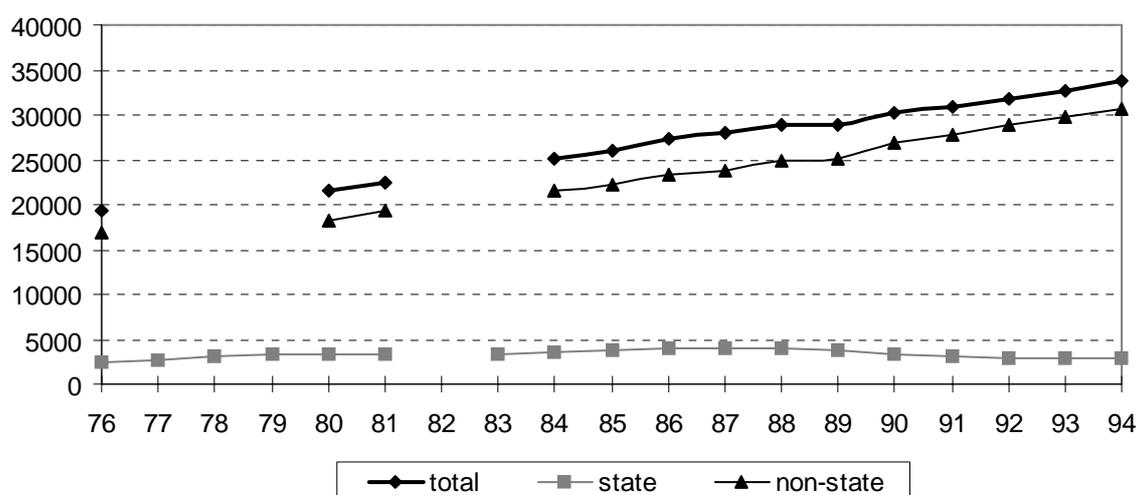
**Table 2.1. Fiscal Policy Indicators: 1988-94**  
(percentages of GDP)

	1988	1989	1990	1991	1992	1993	1994	1995
Revenue	11.3	13.8	14.7	13.5	19	22.5	24.3	23.9
Current expenditures	14	15.4	14.7	11.4	14	18.8	17.6	17.3
Government saving	-2.7	-1.6	0	-2.1	5	3.5	6.7	6.6
Capital expenditure	4.4	5.8	5.1	2.8	5.8	7	6.6	5.7
Primary balance	-7.1	-7.2	-5.1	-1.7	-0.8	-3.5	0.1	1.1
Interest payments	0.1	0.3	0.7	0.8	0.9	1.3	1.7	1.3
Overall Deficit	-7.2	-7.5	-5.8	-1.5	-1.7	-4.8	-1.6	-0.5
Domestic borrowing	4.8	6	2.8	0.5	-0.7	1.8	1.5	1.2
Foreign borrowing	2.4	1.5	3	1	2.4	2.7	0.1	-0.7

Source: World Bank, 1994, 1995.

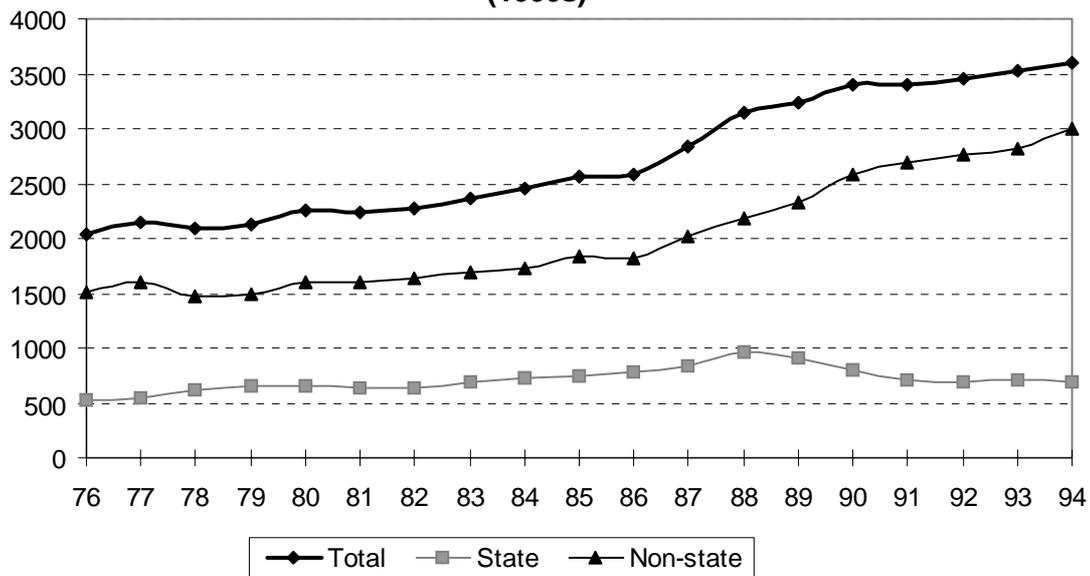
Cutbacks in the public sector and growth in the private sector made the latter the primary focus of job creation. As Figure 2.4 shows, the “non-state” sector was always a larger contributor to total employment than the state or public sector and has accounted for a steadily growing share of total employment since the late 1980s. This is not just an effect of counting all of agricultural labour except state farm workers in the non-state category. In industry, the pattern is similar (see Figure 2.5). Non-state employment declined during the brief attempt at socialist transformation after the war, but then it resumed growth, particularly after 1986, fuelled by the boom in family enterprise and cottage industry. Since 1988, the two lines have moved in opposite directions. Since private businesses routinely under report their incomes, these diverging lines are probably better indicators than gross output figures of changing relative importance to the economy (though not equally, as we shall see, to politics).

**Figure 2.4. Labour by Ownership Sector, 1976-94 (1000s)**



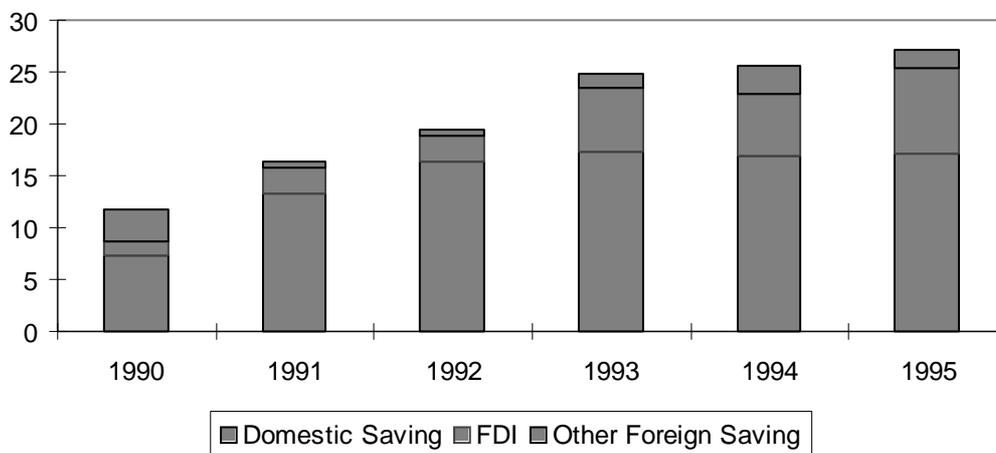
Sources: NGTK, 1985, pp. 14, 16; NGTK, 1988, pp. 9, 11; SLTK, 1930-1984, p. 24; and IMF, 1995a, p. 13.

Figure 2.5. **Industrial Labour by Ownership Sector, 1976-94**  
(1000s)



Viet Nam's reforms also succeeded in attracting the investment on which growth depends. Investment as a share of GDP doubled from 1990 to 1995. As shown in Figure 2.6, the dramatic increase in the rate of investment was accompanied by an equally dramatic rise in the rate of domestic savings and by a massive inflow of foreign direct investment. Impressive as these numbers are, however, there is reason to suspect that they fail to capture fully saving and investment activity in Viet Nam. The fact is that a large proportion of saving and investment in the private sector, the most dynamic component of the economy, went unreported and unrecorded. The impact of private sector saving and investment on growth appears all the greater when one considers that figures on foreign direct investment are the reported amounts based on official approvals, a significant proportion of which is never implemented (World Bank, 1995).

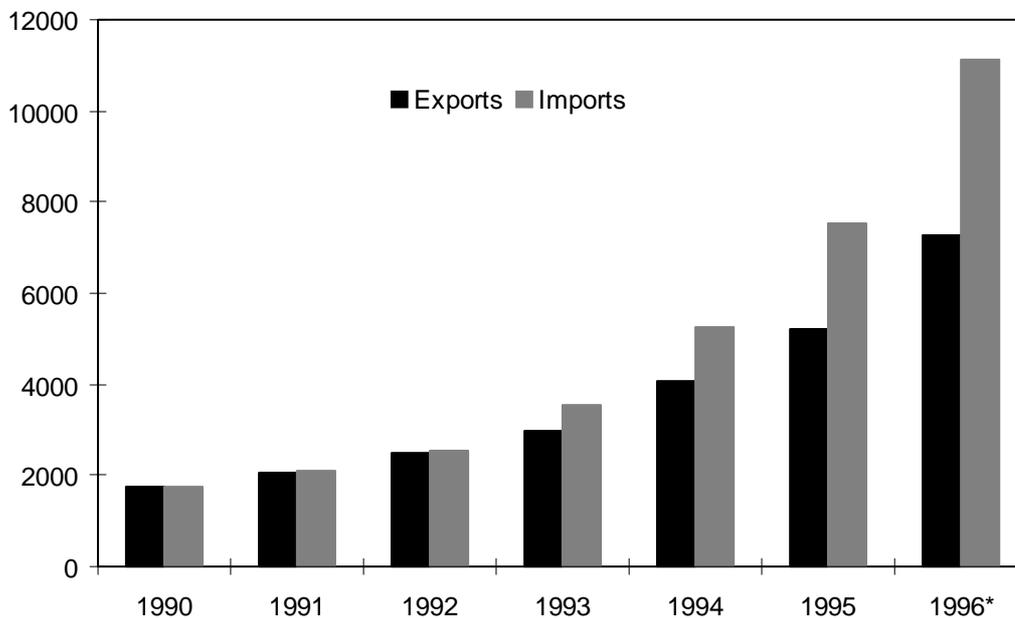
Figure 2.6. **Gross Domestic Investment as a Per Cent of GDP and the Sources of Financing Gross Domestic Investment**  
(percentages)



Source: World Bank, October 1996

To be sure, growth beyond the transitional boom would depend on further adjustments. The counterpart of the net inflow of foreign direct investment and other foreign savings, shown in Figure 2.6, is the current account deficit. A current account deficit of about 10 to 12 per cent of GDP is often the harbinger of a balance of payments crisis, although in Viet Nam's case that outcome may be less likely since the deficit has been financed primarily by foreign direct investment rather than by debt-creating foreign capital inflows. Nevertheless, given that Viet Nam by 1996 had about \$900 million in arrears to international commercial lenders and needed more than \$40 billion more in foreign capital before the year 2000 to undertake its infrastructure investment plans, the time had come for steps to improve its creditworthiness (Grant, 1996). If it responded to the growing trade deficit (see Figure 2.7) by restricting imports, the government would only make external financing more difficult.

Figure 2.7. **Exports and Imports**  
(millions of US dollars)



Note: 1996 figures are projections.

Source: World Bank, October 1996.

Urgent reform of the trade regime in 1989 had helped Viet Nam to redirect its trade from CMEA partners to non-communist countries in an astonishingly short period of time. Exports to convertible-currency countries increased 118 per cent in 1989, and the export volume grew at about 25 per cent per year into the 1990s. However, the commodity composition was heavily weighted towards agricultural products and mineral resources, neither of which rested on a sufficiently strong resource base to be sustainable in the long run. The unambiguous lesson of the LDC debt crisis of the 1980s that Viet Nam needed to apply was that the most effective way to improve international creditworthiness is to expand and diversify exports.

Whatever the challenges ahead, the process of transition to a market economy in Viet Nam as in China was easier and less costly than in Eastern Europe and Russia. Why? It is routinely suggested that this is because the East Asian socialists had less

inefficient industry to dismantle but that is not the main difference, for China had an enormous stock of grossly inefficient industry which it has kept running, as it did in the past, by giving it high levels of protection and massive subsidies financed by taxes on agriculture and mining. Instead, what differentiates the socialist economies in Asia from those in Europe is their large rural labour force which is ready and willing, at a moment's notice, to go to work in export-oriented industries at wages only slightly above the subsistence level. It is the abundance of their human resources that has allowed East Asian countries to build dynamic, export-oriented industries side-by-side with the inefficient, often state-owned, capital-intensive industries. Viet Nam had comparatively little inefficient industry to dismantle or to subsidise, and this was decisive.

### III. OPPOSITION AND INTEREST GROUPS

An elementary point on which economists and political scientists agree is that the economic consequences of reform change the political equilibrium that generated pressures for reform in the first place. Reform is a dynamic process that usually leads to further changes in politics and economic policy. In this section, we examine how the reform process played out in selected areas, causing groups to emerge or fragment and support or oppose specific proposals, modifying the configuration of power and interest.

#### Agriculture

The decision in 1988 to permit land to be distributed to individual households marked the substantial abandonment of three decades' efforts to collectivise agriculture. Combined with price liberalisation, decollectivisation helped to boost agricultural output and income per capita. In 1993, over half the people polled in a nationwide poverty survey reported their living standards had improved and 17.5 per cent said they had become worse. The region in which the largest percentage of people reported improvement was the Red River delta (72.1 per cent) and the lowest was the Mekong River delta (36.4 per cent) (NGTK, 1994, p. 382). Farmers in the latter, having had only brief and superficial experience with collectivisation, had less to gain from its abandonment.

The response of co-operators to the broader range of issues associated with decollectivisation is, however, difficult to gauge. Co-operatives vanished where they had never been firmly established, land was abundant, and economic risks were low, such as the Mekong delta; but some survived, in degraded form, in the Red River delta and central coastal areas<sup>11</sup>. In these areas entrenched local leaders sometimes managed to hold co-operatives together by offering new services to farmers who faced considerable risks as individual cultivators and were accustomed to outside help (Tran Thi Van Anh and Nguyen Manh Huan, 1995, pp. 202-203). Government surveys in 1990 found that the majority of farmers in some northern and central provinces preferred reorganisation to dismantling of the co-operatives (Ngo Vinh Long, 1993, p. 191). Although the incomes of both rich and poor improved, the widening of disparities and deterioration of co-operative-funded schools and clinics were sources of nostalgia for co-operatives among the northern poor. Meanwhile, the expansion of the market economy in rural areas presented opportunities for farmers to engage in myriad new activities and to register these as co-operatives, but this response was confined almost entirely to the South (SRV, 1997).

Resistance to decollectivisation was to be expected from co-operative cadres when their responsibilities and control over resources passed from management boards to households. Cadres who secured good plots for themselves and their families could hope to join the ranks of rural rich, but others including district and province support personnel stood to lose power, status, and income. Up to 50 per cent of co-operative management cadres lost their jobs in the first two years of decollectivisation (Ngo Vinh Long, 1993, p. 178). During the run-up to the Seventh Congress in 1991, rural cadres and provincial authorities in land-short regions stoutly defended co-operatives and vigorously opposed any movement towards private landownership or inheritance rights (Ngo Vinh Long, 1993,

pp. 191-192). The Land Law adopted in July 1993 extended the right to transfer, lease, inherit, and use land use rights as collateral, but it did not recognise a right to private land ownership and remained a focus of contention.

Since the mid-1990s, some provincial authorities have advocated the establishment of “new style co-operatives”, which received sanction in the March 1996 Law on Agricultural Co-operatives. These are not so different from the old ones that they could be expected to be more effective economic units, and there is little evidence of demand for them from the local population. Few new co-operatives have been formed, possibly because of weak incentives to join. By the end of 1996, there were 99 “new style co-operatives” nationwide, 53 in the North and 46 in the South (SRV, 1997). The main promoters and prime beneficiaries appear to be members of the commune party committees, who inevitably form the memberships of the new co-op management organs<sup>12</sup>. Lacking a sound economic basis, “new style co-operatives” appear to have less to do with development than with shoring up local party organisations and strengthening provincial controls over communes.

Other issues stemmed from the initial chaos of decollectivisation and the distributional implications. Although land remained property of the state, urban growth, peasant debt, and relaxed controls on population movement generated a market, technically illegal, in land use rights. Land prices began to rise and ownership to concentrate. In the allocation of land to households, bitter confrontations over the demarcation of plots sometimes escalated into conflicts between entire villages, occasionally resulting in demonstrations, murder, arson and armed violence. Appropriation of the best land by local officials also provoked peasants’ wrath. A 1990 study identified 6 000 “hot spots” or localities with unsettled land disputes<sup>13</sup>, and although the number of disputes slowly diminished, the “hot spot” phenomenon continued to bedevil many communities.

The term “hot spot” was used to describe the situation in the North’s Thai Binh province, 50 miles Southeast of Hanoi where, in May 1997, a peaceful protest of farmers in the provincial capital precipitated violent confrontations with local officials across six districts. Five other provinces also experienced turbulence. Investigation by the party newspaper indicated that excessive demands by district and commune governments for public contributions to development projects, bidding irregularities, and corruption were the targets of popular wrath (*Nhan dan*, 8 September 1997). In November, demonstrations by Catholics in the south’s Dong Nai province to demand the return of land previously owned by the Church led to clashes with police involving thousands of residents. The turbulence revealed rising popular discontent with the efforts of local officialdom to preserve its power and privilege, played into the hands of party traditionalists demanding priority for stability over growth, and provided occasion for the security and defence establishments to argue for strengthening local militia units and enlisting veterans in maintaining order.

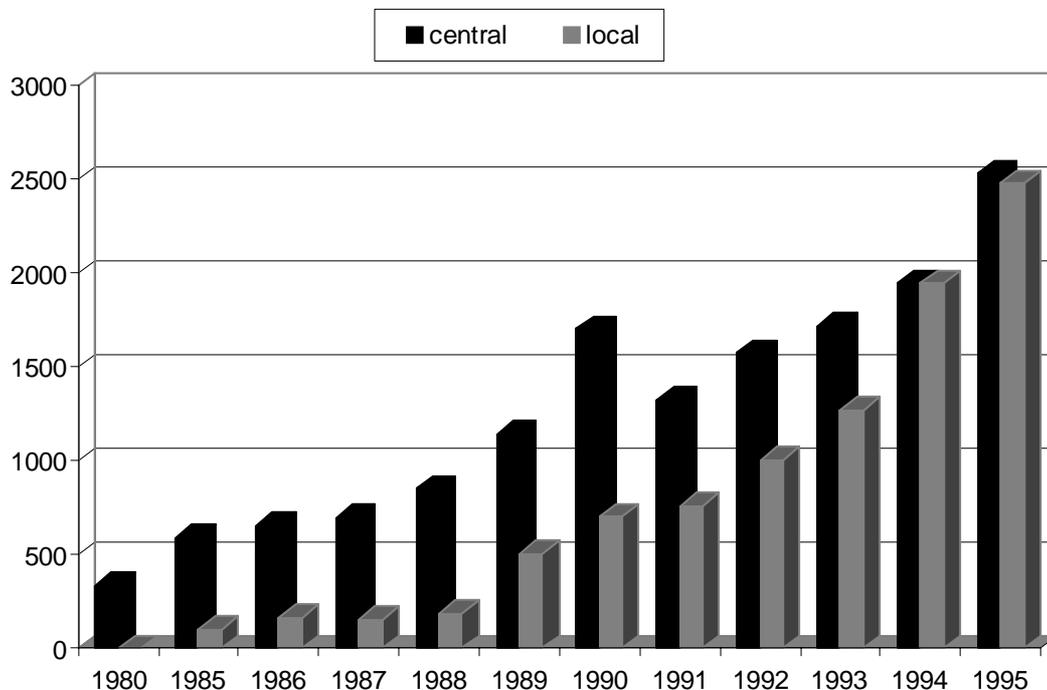
## **Foreign Trade**

The earliest step towards foreign trade liberalisation, a crisis measure adopted in February 1980 to stimulate exports, allowed provinces and large cities to set up their own export-import companies and trade directly with the outside world. Centre-local tensions have been a prominent feature of trade politics ever since. The proportion of direct exports by organisations under provincial and municipal control in the national export total grew from a minuscule 0.8 per cent in 1980 to 14.9 per cent by 1985 (NGTK, 1988, p. 238). The response was strongest in Ho Chi Minh City, where the nationalisation of Southern

trade in 1976 had never completely supplanted direct trade<sup>14</sup>. Municipal authorities seized the opportunity to invigorate this activity by allowing precincts to set up export-import companies. Seventeen companies quickly emerged, helping to triple direct exports from the city in a year, but a bidding war among the companies exacerbated an already serious inflation (*Asia 1984 Yearbook*, p. 286). Central authorities suspended sub-municipal operations and curtailed direct trade by localities all across the country.

Direct regional trade resumed in 1983, testifying both to the growing power of the regions and recognition that regional enterprises could more easily obtain inputs through trade than from the state. The central government attempted once again to “reinforce management” of trade in 1985 and succeeded in limiting regional direct trade to about 20 per cent of total exports until restraints were relaxed in 1988. From just 80 in 1987, the number of firms and organisations authorised to engage in foreign trade swelled by 1990 to 212, of which central ministries controlled 60 and peoples’ committees of provinces, municipalities, and districts controlled 152 (Luu Van Dat, 1990, p. 219). Authorisation in 1991 for private as well as state enterprises to establish direct links with foreign markets vastly increased the number of companies with licenses to trade and further decentralised the trade structure<sup>15</sup>. Regional direct trade grew faster than that of the large centrally-managed state companies until it drew even with the latter in 1994 (see Figure 3.1). As regional direct trade has grown, it has undermined the ability of the central government to control foreign exchange and to structure imports to fit development needs (Fforde and Goldstone, 1995, p. 29). The majority of private traders focus on importing because these yield quicker and higher profits than exports, and along with the majority of SOEs with licenses to trade that are in fact controlled by local governments, they have interests that conflict with attempts at macro-management by the centre.

Figure 3.1. **Exports by Management Level**  
(roubles and dollars)



Source: NGTK, 1988, p. 238; NGTK, 1993, p. 236; NGTK, 1996, p. 207.

Trade liberalisation affected some producers negatively, however. In the late 1980s, progressive lowering of both tariff and non-tariff barriers and the reopening of border trade with China in 1989 unleashed a flood of cheap consumer goods into the North, while goods from Thailand and Singapore flowed into the South. Competition from imports showed up in rising unemployment and downward pressure on wages in both regions. The official labour union magazine blamed competition from imported goods for throwing 500 000 people out of work (*Asia 1991 Yearbook*, p. 239; see also Kim Ninh, 1990, p. 389). Not surprisingly, the affected enterprises, which tended to be SOEs involved in the manufacture of bicycles, household goods, textiles, electric fans and clothing, demanded protection from imports and lower taxes on domestic products. In many cases enterprises blamed foreign competition for difficulties that may have been due to the termination of state subsidies, loss of markets in Eastern Europe, inefficient management and poor quality.

Rising protectionist sentiment led to reimposition of quotas and raising of tariffs, particularly in areas dominated by large state firms such as sugar, construction materials, machinery, fertilisers and steel. SOEs in all of these areas made specific demands for protection during 1997, to which the government caved in (Haughton, 1997, p. 38). Interests seeking protection from international competition would not have got their way so easily, however, if ideas that have long been discredited elsewhere did not still exercise a hold on many policymakers. It is still common for policymakers to cite the infant industries argument, economies of scale and scope, a hostile external environment, and the virtues of self-sufficiency (Kokko, 1997, p. 28). Backsliding from the rather striking liberalism of the trade regime in the early 1990s was the result, visible in high levels of smuggling<sup>16</sup>, an overvalued dong, the steady rise of foreign trade taxes from 10.4 per cent of budget revenues in 1992 to nearly 30 per cent by 1995, and favourable tax and tariff rates to attract foreign investment in infant industries (IMF, 1995a, p. 22; Nguyen Tuan Dung, 1996, p. 82; and *Asia 1996 Yearbook*, p. 223).

Viet Nam thus showed signs of following the path trod by other fast growing but inefficient economies towards import substitution. Opposed to this trend were some technocrats (Le Xuan Nghia), the growing number of SOEs and foreign-invested firms whose profits depend on exports and a cheap dong, and the liberalisation demanded for trade agreements with the EU and United States and by membership of the ASEAN Free Trade Association<sup>17</sup>. The contention between import substituting and free trade interests may be seen in the government's dithering over whether to devalue the dong until the Asian currencies crisis tipped the scales in 1997. Only in the face of a sharp increase in competitive pressures and a threatened loss of export markets for rice did the government accede to demand for devaluation.

## **Banking and Finance**

In Viet Nam, the financial sector and the banking sector are almost one and the same thing. While a large number of small credit funds, a couple of finance companies, and since 1995 a Treasury Bill market are in operation, most finance is through the banking system. A two-tier banking system, separating the function of the central bank from those of the commercial banks, was established only in 1988, when four state-owned commercial banks were established and made independent of the State Bank of Viet Nam, which became exclusively a central bank. In 1990, restrictions requiring state-owned commercial

banks to specialise in particular sectors were lifted and entry of private and commercial banks was permitted. There were already some 52 private joint-stock banks, 23 foreign bank branches, 4 joint venture banks and 62 representative offices of foreign banks (World Bank, 1997). In spite of these developments, however, the state-owned commercial banks still accounted for the bulk (75 per cent) of deposits and credits in the banking system.

Reform of the financial sector is far from complete; nevertheless some positive results have been achieved. Viet Nam has experienced significant financial deepening, as witnessed by the tripling of the ratio of financial assets to GNP (currently at 35 per cent). However, compared to other developing countries (for which the ratio on average is about 60 per cent), Viet Nam lags far behind and financial reform is clearly a high priority. In addition to the relatively low ratio of financial assets to GDP, Viet Nam's financial assets are disproportionately short-term. Furthermore, the soundness of the banking sector is a matter of grave concern due to the rise in overdue loans (at 15 per cent of credit in June 1997) and weakening of banks' capital base (especially among the private joint stock banks). Particularly alarming have been the defaults on deferred payment letters of credit by both larger state-owned commercial banks and some smaller private joint-stock banks.

The unwillingness of the authorities to undertake a thorough reform of the financial sector, at least so far, is a natural result of their continuing desire for a "market economy with a socialist orientation" in which the state occupies the "commanding heights" of the economy. It is reasonable to surmise, too, that local governments and party committees that hold stakes in joint-stock banks would resist efforts to reduce politically-inspired lending. Although private banks have been allowed to operate, reforms so far have been careful not to threaten the dominant position of the state-owned banks, just as reforms in trade and industrial policy have been careful not to threaten the privileged position of state-owned industrial enterprises. There appears, however, to be a growing recognition on the part of authorities that the financial sector cannot be managed the same way as other sectors because mistakes and failures reverberate throughout the entire economy, threatening not only financial institutions, but every sector of the economy as well. This lesson was vividly demonstrated by the financial crises of 1997 in East and Southeast Asia, which brought growth to a standstill and generated political as well as economic instability in those countries. The dismissal of the Central Bank Governor Cao Sy Kiem by the National Assembly in autumn 1997, amidst the rising incidence of financial scandal and mismanagement in the state-run banking sector, was indication that the lesson was being learned. Certainly Viet Nam needs a strong Central Bank to promote policies to enhance competition and to promote discipline in the banking system.

## **State-owned Enterprise**

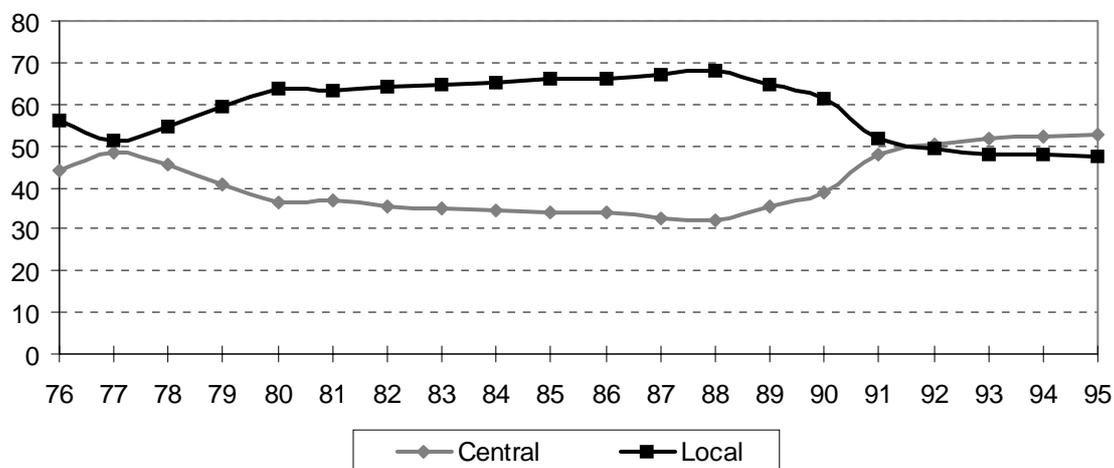
The beginnings of state enterprise reform in Viet Nam can be traced to the sanctioning of "fence breaking" in the early 1980s, but it took the fiscal and payments difficulties later in the decade to push the government towards a fundamental restructuring of relations with its enterprises. Piecemeal reforms increased SOE autonomy through 1988, and then in 1989 the government hardened the budget constraint, ended direct operating subsidies and easy bank credits, and shifted to market pricing for both inputs and outputs. In 1989, 4 485 state enterprises out of a total of 12 084 operated at a loss, (Tran Hoang Kim and Le Thu, 1992, p. 65), so reform when it came had potential to impose hardship on a large number of firms and workers. Profitability and performance improved, but not without significant adjustment. The number of industrial SOEs declined from 3 020 (666 central,

2 354 local) in 1989 to 2 002 (528 central, 1 474 local) in 1994, while the total of SOEs declined to 6 310 (1 846 central, 4 463 local) by the end of 1995 (SLTKCHXHCNVN 1976-1990, p. 31; NGTK, 1995, pp. 41, 196). Employment in state industry began declining from a peak of 2.7 million in 1987, then plummeted after 1989, shedding nearly a million workers before beginning to rise again in 1994 (World Bank, 1995; NGTK, 1995, p. 31).

The SOE collapse might have been greater had not a certain amount of “bottom-up” reform already taken place, or had the largest SOEs not operated in relatively protected sectors of the economy and retained privileges not enjoyed by private firms, but it is also important to remember that Viet Nam’s industrial base was small and all large enterprises were state-owned. It was neither necessary nor desirable, in the short-run, to close down large state-owned industries. In the absence of a “big collapse” following the “big bang”, state enterprises slightly increased their share in industrial gross output to about 70 per cent (NGTK, 1995, pp. 9, 31, 33). The overwhelming majority of the approximately 2 000 liquidations by the end of 1994 involved very small enterprises under local not central management, and these generally were auctioned off to state or private bidders<sup>18</sup>.

The distinction between enterprises under central management and those under local level (province, municipality, district) has political significance because the balance reflects relative control over resources. As the mirror-image lines of Figure 3.2 show, the attempt at economic reunification under “hard socialism” in the immediate post-war period correlated with a rising share in industrial output value for enterprises under the central government’s direct jurisdiction. Then, from the onset of “fence breaking” in 1978-79 to the bold reforms of 1988-89, output of enterprises under local, or “line ministry”, management grew faster than those under central management. This was the decade in which provincial authorities enjoyed their greatest power and piecemeal reforms sanctioned off-plan activity “below”. Considering the political power of the provinces and their support of *doi moi* in 1986, it is interesting that drastic reforms at the decade’s end led to a reversal of trends until, in 1992, the output of central enterprises exceeded that of local ones for the first time. Why? The answer is that, as noted above, the brunt of adjustment fell on the small SOEs, which were disproportionately under local management. Big SOEs survived, and they were concentrated under central management. Reform thus altered the balance between central and local echelons of government in the economy, giving the former steadily greater influence.

Figure 3.2. Industrial Output Value by Management Level  
(per cent)



Sources: NGTK, 1985, pp. 139, 142; NGTK, 1988, pp. 120-121; NGTK 1995, pp. 170-171; SLTK, 1976-1989, p. 73; KTTCVN, 1986-1992, p. 19.

Restructuring left a state enterprise “establishment” of managers and workers that was, by comparison with Eastern Europe, Russia, and China, smaller in the overall economy and probably more content. The state sector nonetheless had interests worth defending. While the number of SOEs reporting losses decreased from over 50 per cent in 1990 to 8 per cent in 1994, performance was probably poorer than data suggest due to inadequate accounting systems<sup>19</sup>. A study in 1995 estimated that over 25 per cent of SOEs were operating at a loss (Le Hong Tien, 1995). SOEs also derive substantial rents from operation in the most protected sectors of the economy, such as the distribution of agricultural inputs and products, heavy industry, transport and financial services. These enterprises comprise a lobby for protection from both foreign and domestic competition and sometimes push the ministries that own them into seeking it. In 1997, for example, on behalf of Vinachem, the state-owned fertiliser company, the Ministry of Trade and Industry requested a ban on further investment licenses for the production of NPK fertiliser, arguing that this resulted in “unhealthy competition for local producers” (Haughton, 1997, p. 38), and while state and private enterprises officially operate under the same rules, SOEs enjoy significant privileges in the form of access to land and foreign trade licenses and quotas (World Bank, 1995). Moreover, many SOEs in rural areas have local monopolies, maintained with help from the local units of government that own and manage them.

The fact that many SOE managers and directors are party members and many party committees have stakes in SOEs means that state-sector enterprise has political influence that private firms do not yet come close to matching. Leaders of state industry are part of a political establishment whose members tend to regard private businesses as a necessary evil or as economic competitors. State-sector enterprise also derives influence from the desire of party leaders to perpetuate the VCP’s dominance of the political system. The head of the central committee’s Organisation Department noticed in 1992 that the 10.3 per cent of the party’s members who belonged to party organs in business enterprises had value out of proportion to their numbers because they controlled “thousands of billions of dong” and the enterprises that were “taking the lead . . . in the process of carrying out renovation” (Le Phuoc Tho, 1992). This was a political asset not to be squandered through reduction of the state sector. Without a vigorous state sector dominated by the party, some feared, power would follow wealth to the private sector, intensifying pressure on the party to share power. “In order to ensure that society develops in an orderly and stable manner with a socialist orientation” as one put it in 1995, “the party must strengthen its leadership role through state control” (Bui Minh Thang, 1995). The party’s survival and identity needs thus merged with state-sector interest in an SOE-focused development strategy. Additional support for this strategy came from local authorities whose SOEs felt competitive pressure from imports and FDI-financed business activity.

The confluence of these political forces helps to explain the preservation of a major party and/or state stake in SOEs that have attracted new capital, the establishment of “general corporations” reporting to the prime minister’s office, and proposals to enlarge the SOE share in joint ventures. They are also implicated in the delay of plans for the break-up or “equitisation” (privatisation) of some large SOEs, although equitisation is also held back by practical constraints (indebtedness, lack of buyers), continuing debate over forms of management and ownership, reluctance of directors to share authority, and apprehensions of workers about losing jobs.

## IV. THE EIGHTH PARTY CONGRESS: “REFORM IMMOBILISM”

The preceding section suggests that *doi moi* itself generated drags on further reform, even while it was scoring undisputed successes. Viet Nam not only enjoyed high rates of growth with low inflation, but it achieved such major external goals as adjusting to the CMEA's collapse, terminating the embargo, normalising relations with China and the US, and joining the Association for Southeast Asian Nations (ASEAN). The process of transition was by no means completed, but the sense of urgency about it lessened and defences of turf stiffened. Caution took a clear lead over courage in January 1994 at the party's Mid-Term National Conference, which identified “four dangers”. These dangers were being left behind economically, deviation from the socialist path, corruption and bureaucratism, and “peaceful evolution”. In fact each “danger” was the justification advanced by one group or another for its pet priority. Since then policymaking has resembled, in Brantly Womack's apt words, “reform immobilism” (Womack, 1997). The pace of change has slowed, boldness has been notably absent, and policy has sometimes advanced or backtracked in different areas at the same time. The present section examines this phenomenon, its sources, and dynamics, through a dissection of politics surrounding the Eighth Party Congress in late June 1996.

### Dynamics of Discord

Before discussing the Congress, a few background observations are in order. Although debates have sometimes been quite sharp and described as pitting “reformists” against “conservatives”, the cleavages are seldom so simple. Leaders who seem reform-oriented in one area may be quite traditionalist in another. For example, Nguyen Van Linh, the party's secretary general in the late 1980s and a leading “reformer” in matters of economy, has always been a sharp critic of political pluralism and “social evils”. In other words, he is a political and cultural conservative. Moreover, leaders have multiple constituencies, few constituencies have clear structures, and alignments shift. A pure factional model that assumes stable polarised positions and tight bonds of patronage between leaders and constituencies has little utility. A model that considered institutional groups and societal interests to have some autonomy and their influence to fluctuate inversely to leaders' unity would have better fit. In Viet Nam groups and interests have vied for access to leaders who generally have operated by consensus within a framework of shared political orientations. It follows that a weakening of consensus would force leaders to look downward for support and to act as representatives of those below.

So far, leadership consensus on three broad points has helped to prevent ruptures below from causing rifts at the top and to sustain commitment to *doi moi*. These are, first, the belief that political stability is a prerequisite of economic development, and only the VCP can provide this stability. Second is the conviction that in a post-communist, world market economy, Viet Nam must keep its door open to foreign trade and investment. Third is the recognition that reform has to continue if the country is not to fall even farther behind its neighbours but, if it proceeds too fast, reform has the potential to cause deviation from the socialist path and undermine the foundations of the regime itself. The correct speed being unknowable, the third point is agreed in principle but contested in practice.

The two predominant leaders of the 1990s, Do Muoi and Vo Van Kiet, were rivals for the chair of the Council of State (in effect, Premier) in 1988. Muoi won the post in a close vote largely because he commanded the respect of colleagues at the centre with whom he had worked most of his career, and this counted more than Kiet's following in the provinces. Although the two men represented well-known differences of policy and style — Muoi the moderate consensus builder, Kiet the flexible innovator — neither policy nor style was a decisive factor in their selection. In 1991, Kiet moved into the premiership while Muoi replaced Nguyen Van Linh as general secretary of the party. Both men had supported the drastic measures of the late 1980s and basked in *doi moi's* successes. The two worked compatibly, despite having different and somewhat conflictual bases of support.

The main cause of growing tension has been the differential impact of reform across the party. Decentralisation made state enterprises and cadres responsible for their management in the “line” ministries the prime beneficiaries of reform. Some party committees, state agencies, and military commands developed commercial interests and came to have a stake in the new economic arrangements as well. In the capital, cadres with economics responsibilities took credit for saving the country following the Soviet collapse and held the best jobs in new emerging centres of wealth and power. Meanwhile, party members with responsibility for political, ideological, and mobilisation work found themselves stuck in roles widely perceived as no longer having much relevance or status. Tension between these two loose coalitions — tendencies might be a better word — found expression in debate during the 1990s over what constitutes a “socialist direction” in development. Although the cleavage cut across the five functional sectors into which the party itself has categorised delegates to congresses since 1991, leaders in the government sector have tended to express modernist views, while representatives of the party work, mass association, and political organisations in the military and security sectors have defended traditionalist ones<sup>20</sup>. The growing tension between these groups was a major factor behind the increasing rancour of debate in the run-up to the Eighth Congress and the transparency of rifts among top leaders.

### **Pre-Congress Manoeuvres**

More or less open skirmishing to control the Eighth Congress surfaced in January 1995 at the central committee's eighth plenum. In the course of formulating a resolution on ideological work in the “current situation”, certain delegates proposed deleting reference to “proletarian dictatorship”. The uproar deadlocked the meeting, which referred the matter to later plena and the political bureau. Debate toiled on through the rest of the year, with increasingly scholastic arguments disguising what was at bottom a struggle to define what role the party should play relative to the state and in the economy. Much of the meeting of the Party Central Standing Committee in November 1995 was taken up by argument among members of the political bureau over what scope if any to allow private ownership beyond the present “transition to socialism”<sup>21</sup>. The frustration of technocrats was palpable.

Obviously hoping to influence this debate, Prime Minister Vo Van Kiet in August 1995 had sent a memo to his politburo colleagues that soon found its way into more than one émigré journal<sup>22</sup> (*Nhan dan*, 9 May 1996). The letter was extraordinary for the insight it provided into Kiet's thinking, its contrast with the views of party traditionalists, and its forthright identification of the contested ground. It made the following main points:

- The most important factor shaping relations among nations today is not the contradiction between socialism and imperialism; rather, it is diversity and multipolarity (*da dang da cuc*). National, regional and global interests related to peace, environment, development and the internationalisation of production also play a more important role than before. By adjusting to this reality, Viet Nam has steadily improved its international position despite the collapse of the socialist world system, and it must further develop this line.
- The “four remaining socialist countries” (Viet Nam, China, North Korea and Cuba — Laos was not included) base their relations on national interest not socialism, and each must find its own path to development. The resurgence of communist and workers’ movements in countries of the former Soviet Union and Eastern Europe has been slight, ideologically diluted, and without prospect of restoring communism as before. By implication, neither China nor any bloc of countries provides Viet Nam with a model to follow. The country is on its own and must chart its own course.
- Notwithstanding American carping about democracy and human rights, the world understands Viet Nam’s need for political stability. The world will accept Viet Nam’s one-party system so long as it hews to its goal of building a “strong country, prosperous people, and just and civilised society”.
- It is “totally wrong” to think that a guiding role for the state economy is a criterion and objective of socialism. Socialism is a composite of prosperity, justice, equity, national resilience, and development harmonised with social welfare and environmental protection under party leadership, and all economic sectors have roles to play in attaining these objectives. The years prior to *doi moi* proved that the state economic sector cannot mobilise resources or provide jobs efficiently, so there is no alternative to further improvement of markets, management, finance, etc. “We certainly must not let the state enterprises take over everything.” State enterprises are needed to concentrate resources and take risks in selected areas, but they will first have to undergo thorough restructuring, and “there is much resistance to this”.
- Corruption, localism, waste and theft of public property, mafia groups, and social tensions related to income inequalities and other negative phenomena are serious problems, but “it would be a mistake to blame all of these unwholesome developments on the market mechanism”.
- *Doi moi* should create a level playing field between state and private actors and place no limits on the development of the latter so long as this proceeds in ways that are consistent with macroeconomic stability, state law and the “socialist orientation”.
- Party and state functions need to be separated more clearly. The party must cease passing its directives through party committee secretaries and instead pass them through the government chain of command, allowing government officials to take full responsibility for implementation. A “law governed state” must supplant organisational structures that had originated in war, and state agencies for their part must cease their involvement in commercial activities. Failure to take these steps in the past is the reason “many correct positions and policies of the party and laws of the state cannot be implemented”.

- Viet Nam should not hesitate to borrow from the institutions and practices of capitalist countries, particularly in matters of budgetary control, banking systems, stock and bond markets, and monetary authority, as these are needed both to strengthen and to regulate markets.
- Finally, the party should be content for the present to fulfil national aspirations for development and defer the goal of “building socialism”.

These points had obvious appeal to results-oriented state cadres, closet liberals, and private businessmen as well as to Kiet’s own technocratic supporters. They were also direct attacks on the cherished views of traditionalists concentrated in the party work sector. The inevitable counter-attack came in the form of stepped-up assaults in the press by ideologues and military figures on “social evils”, “peaceful evolution” and other supposed ill-effects of haste in reform and loose control of the market.

Much of the wrangling focused on the draft political report to be presented to the Congress, which was submitted for comment to a wide array of party organisations, lower level congresses, and mass associations during spring 1996. Chairs of party organs with economic oversight functions (e.g. political bureau member Nguyen Ha Phan, head of the central committee’s Economic Commission, and Phan Van Tiem, head of the Central Steering Committee for Renewal of State-Owned Businesses) weighed in with a defence of the state and co-operative sectors (Vasavakul, 1997, p. 106) and the draft political report issued in April duly fixed a target of raising the SOE and co-operative share in GDP to 60 per cent by the year 2020 (Schwarz, 1996b). Kiet’s proposals were notable for their absence. This, however, was something of a high tide for advocates of SOE dominance of the economy and party control of SOEs, as charges brought against Phan (possibly by Kiet supporters) for revealing information to the enemy while imprisoned during the war in the South resulted in Phan’s expulsion from the political bureau. Anger also boiled up against political bureau member Dao Duy Tung, chair of the Political Report Drafting Committee, for hijacking the drafting process on behalf of ideologues, and the draft had to be reopened to revision.

Do Muoi took an uncharacteristically partisan approach, touting caution in matters of economy and party control. In a speech to the Hanoi party congress on 7 May, he urged the state sector to “continuously grow to maintain its leading role in production, technology, and markets. . .” and private business to set up joint ventures with state enterprises. Equitisation and shareholding should proceed “gradually” (*Hanoi moi*, 8 May 1996). A day later at the Ho Chi Minh City party congress, he applauded the rapid growth but expressed fear that foreign competition could turn the nation’s economy into a “consumer market for foreign products and into a source of raw materials for foreign countries”. One reason for “weakness” was the failure so far to develop the state sector’s “leading role over certain domains, especially over trade and services”. Meanwhile, growth in the non-state sector was still very much “uncontrolled”, evasion of taxes and business registration was rife, and corruption, product counterfeiting, and smuggling continued unabated. All this made the city susceptible to “conspiracies of ‘peaceful evolution’, political destabilisation, economic sabotage, and cultural and social pollution aimed at overthrowing the revolutionary regime”<sup>23</sup>. The party’s ideological apparatus signalled its approval when the Ho Chi Minh National Political Institute awarded Muoi the Gold Star Order later that month.

The party organisation within the military aligned itself with party traditionalists<sup>24</sup>. At least the publicly reported remarks of delegates to the army’s party congress leaned in this direction. The apparent consensus was that strengthening the state and co-operative

sectors was essential to keeping on the socialist path. Unidentified “mistakes” had resulted from what delegates judged to be favouritism for private-sector development at the expense of the state and co-operative sectors, and this was leading to “disorientation”. Measures were needed to assure that the state and co-operative sectors would be “strong enough to serve as the backbone of the national economy”. If not soon rectified, “disorientation” would lead to irreversible decline into political instability. More experiments with shareholding were needed, “some delegates” argued, before this system is introduced on a wide scale. Typically for the army, delegates decried the impact of economic trends on equality. The day was not far off, “many delegates” pointed out, when “old communists” would have to hand over their positions to a new contingent of cadres, trained to a higher scientific and technological standard, but where would these come from if only children of rich families that “had amassed wealth through illegal means” could acquire the requisite education? (Voice of Viet Nam Radio, 7 May 1996).

### **Struggling to Stalemate**

The outcome was inconclusive, although the political-work sector and the central level recovered ground they had lost at the two previous congresses. Including new members inducted at the Mid-Term Conference in 1994, the Congress elected a central committee that had the largest number of new members in two decades, reducing the proportion of incumbents from one-third to one-quarter. A substantial portion of the new members were from the central party and state sector, which increased its share of total membership to 45 per cent. This figure represented a higher degree of “centralism” than in any central committee elected since war’s end, far above the low of 32 per cent in the committee elected by the Sixth Congress that launched *doi moi* in 1986<sup>25</sup>. Further, it implied a decrease in representation by secondary party and state officials, who include the provincial secretaries who had figured prominently in the reform coalition of the late 1980s, and among the secondary level officials, representation by heads of state enterprises appears to have increased.

The impression of a shifting balance away from those party sectors that had provided the strongest support for change was further confirmed by the composition of the new 19-member political bureau. By most analysts’ reckoning the reform group within the Bureau consisted of 6 or 7 members, while the more cautious group had 4 or 5 members supported by a 6-member military-security bloc, leaving proponents of reform in a minority position. The reform group included all Bureau members who held concurrent positions in the state structure plus at least one municipal party secretary; the more cautious group consisted of the party work and mass organisation sectors<sup>26</sup>. Do Muoi asked to step down, pleading age and fatigue, but stayed on until year’s end amidst rumours that the leadership was unable to agree upon a successor.

The resolutions passed by the Congress require no detailed analysis here. It suffices to say that the political report was close in tone and content to speeches made by Muoi before the Congress. However, both the political and socio-economic reports contained concessions to reformers, omitting for example a target for the state enterprise share in GDP and acknowledging the need for significant revamping of state enterprise management. The Congress documents were significant not as guidelines for policy but as snapshots of the contested ground, over which bickering and bargaining would continue once the Congress was over.

The conflict during drafting and awkwardness of the compromises were symptoms of weakening collegiality in leadership. In an article for the party's theoretical journal published shortly after the Congress ended, Le Xuan Tung, the Hanoi party committee secretary thought by some observers to harbour pro-reform sympathies, harshly attacked reformist positions. To argue as "some people" do, wrote Tung, "that every form of ownership and every economic sector is all right because it is only a means to expanding the production force; that the state economic sector does not need to play a leading role in the national economy; and that the state economic sector and the co-operative economic sector are not the foundation of the national economy. . . is a manifestation of the deviation from the socialist direction"; and deviationism could exist in the minds, lines, and policies of leaders and authorities "at all levels" (Le Xuan Tung). By these criteria the category of deviationist would have to include Vo Van Kiet, a bold charge for one member of the political bureau to make against another, especially an elder.

Developments following the Congress were consistent with the impression of a bifurcating polity. In July 1997, elections produced a National Assembly that was younger and better educated than any of its predecessors. The Assembly proceeded to confirm the selection as prime minister of Pham Van Khai, a vigorous reformer with strong links to Vo Van Kiet, to approve Khai's nominations for a reform-oriented cabinet<sup>27</sup>, and to choose Tran Duc Luong to be president (defeating Defence Minister General Doan Khue). All of these selections gave leadership of the state structure a distinctly reformist cast. About the same time, however, the party apparently reached agreement on a successor to Do Muoi, though it did not formalise this until December. The new general secretary was Le Kha Phieu, who had spent his entire career since 1950 as a political officer in the armed forces. His public statements, which included a prediction in 1996 that capitalism was "obsolete" and "would soon be replaced", had been typical of the traditionalist wing of the party, known for its preoccupation with "hostile forces" and ignorance of economics. On taking office in December, Phieu reaffirmed commitment to *doi moi*, probably to appease reformers, but he and the party's tattered unity were only beginning to face the test of the regional economic crisis lapping on Viet Nam's shores.

### **Interest Group Politics?**

The intensification of competition among sectoral interests within the VCP has prompted Thaveeporn Vasavakul to suggest that an interest group model would explain Vietnamese politics better than a mono-organisational one (Vasakul, 1997, p. 127; see, also, Thayer, 1988, p. 179). Actually, as a substantial amount of literature suggests, it is never wrong to assume that interest groups exist in some form in communist systems, so long as these groups are understood as informal clusterings of people who express common attitudes and advance similar claims, not as formal organisations based on shared characteristics. Of course, Viet Nam does have formal interest organisations of the state corporatist variety, but it is the interests embodied in government agencies and branches of the party that are primarily able to exert pressure on top leaders and policy. Group competition necessarily takes place within a tightly-structured and restrictive framework. The "sectors", which are categories the VCP has used to describe its central committee and National Congress delegates, are but a crude first step towards identifying these interests and determining their structure, scope, and composition. Much research remains to be done on Viet Nam in this area.

The important interim finding is that policy differences among top leaders in the late 1990s reflect the group competition at lower levels (Vasavakul, 1997, p. 87). This contrasts sharply with the pattern from the late 1980s to the early 1990s, when a highly consensual top leadership imposed policies upon the groups. What is “new” is not the group competition, but the increased potential of this competition to drive leaders apart or push them in directions preferred by the groups. This is not a bad thing if it pushes leaders towards more efficient outcomes, but in present circumstances it is more likely to push them towards stalemate or distributive political strategies.

## V. GENERALISATIONS AND IDIOSYNCRASIES

The reform process everywhere is complex, involving political-economic interactions in the conditions prior to reform and changes in both the economics and politics brought by the reform process itself. Countries differ, and so do the economic and political contexts of each policy reform situation. Nonetheless, there are commonalities across reform experiences and thus a basis for comparison and reflection about general causes and dynamics. In this section, we discuss how the Vietnamese case “stacks up” against some of these generalisations to clarify its particularities.

### Economic Conditions

It is virtually a truism to say that reform emerges in response to economic crisis, considering that governments almost never embark upon bold economic reforms when economic growth is satisfactory. Crisis may force incumbent leaders to perceive change as a necessity to save their own necks, the regime, or the country, or it may cause powerful actors to defect from the *status quo* coalition and rally around a reform alternative. Bates and Krueger, 1993, (p. 452) identify balance of payments difficulties, accelerating inflation, and loss of economic control as the main “crisis triggers”, while acknowledging that “what constitutes a sufficient crisis to prompt sweeping changes can differ dramatically from country to country and time to time”. One cannot define an objective degree of economic distress that triggers a policy response and must instead infer it from the actions of politically relevant actors. Since the effect is the proof of the cause, the crisis-causes-reform hypothesis cannot be invalidated. The challenge is to show how particular levels of stress lead to particular policy outcomes in specific cases.

In Viet Nam, imbalances were chronic under the command economy, but few perceived them to be critical as long as the country was at war and foreign assistance was generous. This began to change in the late 1970s, when sharply worsening economic conditions triggered a spontaneous transition, as individuals, agricultural co-operatives, and SOEs all scrambled for inputs outside the plan. Military conflicts on two borders and the tightening of the embargo by the West and Japan exacerbated the difficulties. The central government had to sanction limited “reforms from below” to avert further breakdown of controls and erosion of legitimacy. The lesson drawn by several top leaders that Viet Nam lacked the means at that time to complete “socialist transformation” constituted a defection from the *status quo*, in which they were joined by technocrats, fence breaking enterprises, some provincial authorities, and agricultural co-operators.

No crisis as pressing as the first loomed over the great juncture of 1985-86, when reformists took over key posts and committed the party to *doi moi*. The economy had returned to growth and Soviet support was generous. The reform coalition thus gained strength in times that were, if not good, at least better than the ones just a few years before. However, a cycle had developed whereby attempts to narrow the gaps between state and market prices through increases in wages and prices in the subsidised sectors of the economy led to price rises in the open market, exacerbating the government’s fiscal deficit and inflation. Many enterprises saw opportunities blocked by attempts to mend the

planning system, but state employees were perhaps the only large group that was materially worse off. If these conditions comprised a sufficiency of crisis to explain *doi moi*, then why were they not so in 1979 or 1982?

The imprint of economic distress on policymaking was much clearer in 1988-89. Under the two-price system, repeated adjustment of official prices and wages to market levels simply fuelled the inflation and allowed the free market to dominate economic activity, further weakening state control and deepening the fiscal deficit. The situation took a sharp turn for the worse when communist regimes collapsed in Eastern Europe and Soviet support ended. Within the space of a year, Viet Nam lost access to cheap fertiliser and material inputs that had subsidised its agriculture and SOEs, and trade with former allies dwindled to insignificance (Le Dang Doanh and McCarty, 1995, p. 119). Replacements were available only in the convertible area. The situation confronted leaders as never before with a stark choice between stagnation in the *status quo* and drastic measures that entailed both risk and uncertainty. As we have argued, the situation did not force the “right” choice upon leaders, much less the specific policies that were chosen, but it did isolate ideological conservatives, induce interests facing losses to be more risk acceptant, and enhance incumbent reform leaders’ political discretion. Thus one can affirm that economic distress led to reform in Viet Nam, but this tells us nothing about the characteristics of response in each instance.

What, then, about the impact of economic ideas? Vietnamese policymakers have been quite open to the intellectual climate of the last decade, but it is important to note that the received message has been very mixed. Viet Nam after all was a CMEA member, had only modest debt to the convertible area and limited relations with multilateral lenders at the time of the Sixth Congress. In the same period that Foreign Minister Nguyen Co Thach was publicly praising Paul Samuelson’s textbook (but not, apparently, reading Friedman or Hayek), Gorbachev was launching *Perestroika*. The Soviet Union supported *doi moi* in 1986, seeing it through the lens of Lenin’s NEP as a step towards more efficient use and eventual reduction of Soviet aid. Vietnamese officials were aware of IMF strategies when they designed their structural adjustment of the late 1980s, but they have also identified more easily with Asian than Anglo-Saxon models when thinking about long-term development. The analysis of the Asian NICs and China has long been a cottage industry for Hanoi’s think tanks, resulting in numerous conferences, articles and books containing mostly favourable comment on the growth models in Viet Nam’s backyard.

The Vietnamese discourse on reform is thus a diverse one and not easily dominated by any presumptive consensus among foreign agencies and governments. External advice may nonetheless carry special weight, especially when it is backed up by conditionality. As we have seen, in 1989 the authorities took the steps they did partly because they did *not* have access to international support. The advice given by the IMF and World Bank was not crucial because the authorities already understood and had accepted the basic principles anyway. However, since 1994, the influence of multilateral lending agencies has grown enormously. These agencies are the key to infrastructure investment, and this gives them access to the power circles of government. Aside from access, they can exercise influence by allowing or encouraging reformers to invoke their authority and threatened loss of resources as leverage in debate. Vietnamese officials understand as well that bilateral aid givers and private investors look to the IMF and World Bank for guidance and

so, presumably, are sensitive to the need for these agencies' seal of approval but, so far, these agencies have signally failed in their attempts to push privatisation, effect financial sector reform, or prevent backsliding from reform in the trade sector.

## Political Conditions

As a one-party state, Viet Nam might seem to confirm the hypothesis that authoritarian governments are better able than democratic ones to change economic policy. It obviously belongs to the category of countries with authoritarian governments that have successfully introduced significant reforms. Leninist institutions limit popular participation, bar opposition, and insulate technocrats from the pressures of particularistic groups. The VCP has a strong tradition of democratic centralism, which insists on unanimity at the top and unquestioning obedience from below. The political bureau normally operates by consensus, a practice which allows the general secretary and a few other members of the bureau to make decisions informally before meetings are held to unveil them. If such institutions and practices gave Gorbachev the power to liquidate one-party rule in the Soviet Union, it would not be surprising if they enabled VCP leaders to make sharp turns in economic policy. They certainly demonstrated impressive capacity to solve the collective action problems of reform in the late 1980s and then to keep distributive conflict under control.

Nothing is ever so simple. Fforde and de Vylder (1996) rightly argue that reform began in Viet Nam as a spontaneous development from "below" to which policymakers found it expedient to respond. It was not a matter of all-powerful leaders at the top enacting the recommendations of insulated technocrats. The authoritarian state at that time was feeble and reactive, sanctioning activities rather than imposing or shaping them. If the state's authoritarian character gave it strength, that strength was used until then to impose inefficient policies, and then to delay the transition. Only with the adoption of *doi moi* and the reforms of the late 1980s could it be said the state took the initiative. For a while, particularly from 1988 to 1991 when Nguyen Van Linh was general secretary and Do Muoi was Premier, a consensual leadership adopted and imposed policies through democratic centralism that went beyond removing obstacles to growth to impose real, sometimes painful change<sup>28</sup>. Vietnamese who were in positions to know at the time said that whatever these two men could agree on became policy, they based their policy choices on the recommendations of technocrats not pressure from particularistic interests, and these policies were carried out. However, as we have seen, that situation did not persist. If the authoritarian character of the state and party was a factor in *doi moi's* early success, it must also be implicated in the stalemate and backsliding that have followed. Weakening leadership consensus and sectoral competition have slowed decision making and increased susceptibility to pressures "from below" that are no longer efficiency-seeking. The benefits of authoritarian rule for introducing reforms thus seem as mixed, or unproved, in Viet Nam as anywhere else.

Nevertheless, it could be argued that, when Vietnamese party and government leaders have been united behind a particular policy, they have had an advantage over democracies in not having to build support for it in the legislative branch. Legislative support for the government's programme is assured, as the electoral system guarantees VCP domination of the National Assembly. In the election that took place on 28 July 1997, the 663 candidates for Assembly seats included 551 members of the Communist Party, and among the 450 winners, 384 were members of the VCP. Only 11 candidates were "self-nominated"

(of which 3 won seats). Pre-election screening of nominees further assured that the 66 non-party members of the Assembly would be compliant. The party also exerts leadership over the Assembly through the central committee and political bureau members who are concurrently Assembly delegates. The Assembly's function is thus largely symbolic, that is, to ratify proposals that are developed by the government under party supervision.

The Assembly, however, is no longer the quintessential rubber stamp. The 1992 Constitution increased its power to initiate and amend legislation, and the Assembly has debated proposed legislation vigorously. The Ninth Assembly whose term ended in 1997 passed 4 times as many laws (40) as the Seventh whose term ended in 1987. When key actors have remained unreconciled to proposed legislation, the contention has sometimes extended to the Assembly, allowing the Assembly to become the arena of compromise or delay. The land laws of 1987 and 1993, which provoked opposition from co-operative officials and the military and veteran community, are cases in point (Ngo Vinh Long, 1993, p. 202). The Assembly also had denied leaders' wishes in areas that do not affect the party's authority or principles. In the autumn of 1997, for example, the Assembly rejected incoming Prime Minister Phan Van Khai's request to extend the term of Cao Si Kiem, Director of the State Bank, blaming Kiem for the rising incidence of financial scandal and mismanagement in the state-run banking sector. The new Assembly, which by comparison with its predecessor has a smaller proportion of deputies who are party members (85 per cent vs. 92 per cent), a much larger proportion of university graduates (91 per cent vs. 49 per cent), and 100 "business entrepreneurs or managers", seems already to be more assertive and ready to represent popular interests than its predecessors (Nguyen Thanh Ha). To be sure, the Assembly's capacity to constrain the executive is quite limited, but it is not irrelevant.

Regardless of regime type, it is sometimes argued that reformist leaders will have the most freedom of manoeuvre in the period immediately following their takeover of power, when the need for difficult decisions can be blamed on the legacy of outgoing leaders. Major reform initiatives, then, are more likely to occur directly following leadership turnovers than between them (Williamson and Haggard, 1994, pp. 571). Viet Nam provides ambiguous support for this hypothesis. A single general secretary (Le Duan) and relatively cohesive top leadership presided over the sanctioning of "fence breaking" in 1979 and the vacillation of the early 1980s. A major turnover of leaders cleared the path to *doi moi* in 1986, but if they enjoyed freedom of manoeuvre they did not use it to much effect until 1989, by which time they were well-entrenched incumbents. Crisis thus seemed to have more impact than "honeymoon" on leaders' propensities to act.

When they did act to push reform forward, Viet Nam's leaders did not face organised opposition from outside government, and until the mid-1990s opposition inside the party and state was fragmented and demoralised. Reformers composed a relatively stable coalition committed to a relatively coherent programme, while opponents were slow to gel or to advance credible alternatives to the themes of "market" and "openness". Whereas the Asian "tigers" provided reformists with ready examples of policy success, there was no foreign model to guide, inspire, and unite an opposition. The disparity in cohesion and *esprit* between the two currents was an important factor in sustaining Viet Nam's reform project into the 1990s.

Reform also was made easier in Viet Nam by a highly favourable social consensus, which lowered resistance to change and impelled it forward. The essence of that consensus as it emerged in response to the attempt to accelerate "socialist transformation" after the

war was that planned economy did not work. “Fence breaking” and spontaneous decollectivisation were both causes and effects of that perception. For many Vietnamese too, and increasingly as time has gone by, the desire to emulate the “tigers” and join ASEAN have come to serve as consensual objectives like Turkey’s desire to “become European”. Such perceptions suggest a consensus that would be receptive to further reform and resistant to an atavistic definition of the “socialist direction”.

Departing from the experience of most countries, reform in Viet Nam has not depended on the visionary leadership of “an individual prepared to take a long-term view of what is at stake regardless of the short-term political risks” (Williamson and Haggard, 1994, p. 578). None of Viet Nam’s leaders took a long-term view in 1979, when policy was reactive and most leaders believed the changes would be temporary. A few regional figures such as Nguyen Van Linh in Ho Chi Minh City and Doan Duy Thanh in Haiphong were committed to a more far-reaching change, and they proved willing to take political risks, but in 1979 they lacked national stature and could not be described as visionary. The nearest thing Viet Nam had to a Deng Xiaoping was Truong Chinh, the former party general secretary who abandoned his long-standing defence of orthodoxy in the early 1980s to encourage reform and restore Linh to the political bureau. The reform leadership that emerged in 1985 was a collective one, although headed by Linh, and it responded to the crises at the end of the decade in basically pragmatic ways. Learning accompanied by an accumulation of knowledge throughout government and society has counted far more than the vision of any individual in defining where the country should go and how to get there.

## **The Economic Team**

One of the best substantiated hypotheses holds that reform simply does not happen, much less continue, unless the state has a coherent and united economic team (Williamson and Haggard, 1994, p. 578). A rare exception is Indonesia, where “technocrats” in charge of the financial ministries and “engineers” in charge of the spending ministries advance competing views and the president decides between them. Viet Nam appears to be another exception. Until 1985, the nearest thing to an organised economic team was the planning apparatus itself, and reform leaders sought advice from disparate sources around the country. Technocrats united behind pro-market reformists to support *doi moi* in 1986, but since then they have not consistently spoken with one voice. Debate among key economists over what actually brought hyperinflation to an end continued long after the crisis had passed, and these same advisers presented conflicting advice to the prime minister and general secretary, who themselves had to agree if a proposal were to pass the political bureau<sup>29</sup>. The economic team’s coherence does not appear to have been strong, if it existed at all.

Economic advice has come from a constantly changing array of players. Until the State Planning Commission (SPC) absorbed it in 1993, the Central Institute for Economic Management Research (CIEM) had severe policy differences with the SPC and was the SPC’s rival for access to the Council of Ministers. While the CIEM has been strongly reformist in outlook, the Planning Institute, also located within the SPC, has a reputation for conservatism<sup>30</sup>. Numerous other institutes and committees located within ministries and, of course, the party’s own Economics Department competed for access and influence. Cohesion is further undermined by pressures on technocratic institutions to generate consultancy revenues and by the widely varying success of these efforts.

If a coherent and united economic team is almost universally associated with successful reform, the puzzle is how Viet Nam has made do without one. Is there an organisational or procedural substitute, or some analogue to the Indonesian model? One answer may be “socialist corporatism”; a concept Jonathan Stromseth (1997) has found applies to Vietnamese policy-making, at least in his study of business associations. He describes a process that involves consultation with many fractious constituencies under the co-ordination of a single authority. In the case of the Law on Promotion of Domestic Investment, drafting began in 1993 with the assignment of overall responsibility to the SPC, which delegated the task to the CIEM. A committee composed of the SPC chair and relevant ministers and vice-ministers oversaw the work of the CIEM, while an inter-agency group of about ten specialists drawn from the CIEM, SPC, two National Assembly committees, the Ministries of Justice and Finance, the Office of Government, the State Committee for Co-operation and Investment, and the party central committee’s Economic Commission did the actual drafting. Drafts, of which there were at least seven before submission to the National Assembly for formal debate, were reviewed by the government, National Assembly delegates, selected private entrepreneurs, SOE directors, city and province People’s Council and Committee chairs, and the Chamber of Commerce and Industry (the officially authorised representative of the national business community). Consultation resulted in numerous revisions, but participation was limited to those who were invited. “The articulation of business demands”, Stromseth observes, “was solicited and managed from above” (Stromseth, 1997). Though neither insulated from societal pressures nor completely open to them, the process broadened consensus around basic principles that were themselves the result of consensus building among key agencies.

The main constraint on building an economic team and on the emergence in Viet Nam of a “technopol”, or professional economist in high political office, is of course the legacy of giving priority to political rather than professional qualifications in recruitment, promotion and appointments. This legacy however began to fade when the VIIth Party Congress in 1991 resolved to mobilise the intelligentsia to support the VCP and its development goals. From the late 1970s to 1995, the proportion of university-educated cadres in the memberships of provincial and city party committees increased from 23 per cent to 57 per cent (*Thoi bao Kinh te Saigon*). In 1996, the Eighth Congress despite its *status quo* leanings selected a new central committee in which 88 per cent of the members held university degrees, compared with 56 per cent in the previous committee. On the state side, the proportion of university graduates in the National Assembly also rose, as mentioned above. The growing power of relatively young, educated people was undoubtedly a factor in the selection of Phan Van Khai, a protégé of Vo Van Kiet, as prime minister in September 1997. Khai, who holds an advanced degree in economics from the Soviet Union, is the first economist to hold a top political position in Viet Nam.

### **Characteristics of the Reform Programme**

Observers of reform in Eastern Europe and the NIS tend to believe that radicalism is preferable to gradualism, on the assumption that gradualism bogs down in partial measures, while China is sometimes cited as a case of successful gradualism. When it comes to Viet Nam, however, not even those who have studied it closely agree whether its reforms were gradual or a “big bang”. Those who interpret the Vietnamese experience as a “big-bang” approach give centre stage to the policy reforms the government adopted and rightly note

that the pace of policy reform in Viet Nam in the 1980s was anything but gradual. Indeed, in many respects it was more rapid and thorough than what was attempted in Russia and Eastern Europe. The big difference in outcomes between Viet Nam and China, on the one hand, and Russia and Eastern Europe, on the other, it is argued, is less a matter of the pace and scope of policy change than the enormous differences between the two regions in initial conditions<sup>31</sup>. “Agriculture, the dominant sector of the Vietnamese economy, was simply in a better position to respond to incentives provided by the market-oriented reforms than was industry, the dominant sector in Russia and Eastern Europe” (Riedel, 1996, p. 13).

Those who take the gradualist view of Viet Nam’s transition, most notably Fforde and de Vylder (1996), reject the portrayal of the transition as a top-down, policy-led process, and instead argue that it was a bottom-up process, with many of the most important changes occurring spontaneously in the local communes and factories, the policy makers only later making *de jure* what had already become *de facto*<sup>32</sup>. This view stresses the importance of institutions over economics and gives much more attention to the unique aspects of the Vietnamese experience than to the commonalities shared with other countries undergoing similar kinds of reforms. For this reason, the gradualist view has been strongly embraced by the communist leadership of Viet Nam (and China) who for obvious reasons wish to deny that the changes going on in their countries have anything in common with those in Russia and Eastern Europe after 1989 (Le Dang Doanh, 1996).

Certainly it is true that re-orientation of the Vietnamese economy away from a rigid central planning model began long before the Sixth Party Congress when the famous term, *doi moi*, was coined, but then many economic reforms were also undertaken with partial success in the Soviet Union and Eastern Europe before the Berlin Wall came down. The fact remains that the process of piecemeal reform in Viet Nam up until the late 1980s failed to achieve sustainable rapid growth or price stability, just as piecemeal reform failed in general everywhere else it was tried (Murphy *et al.*, 1992; Probert and Young, 1995). The economic turnaround for which Viet Nam is rightly famous was accomplished only after the introduction of a comprehensive set of structural adjustment and stabilisation measures in 1989. Moreover, Viet Nam did not clearly sequence microeconomic reforms before macroeconomic ones — the reverse of the “standard approach” of the World Bank and IMF — as Rana (1994, p. 1161) supposes, but overlapped them in 1988-91. By any reasonable standard of comprehensiveness and abruptness, these years saw a “big bang”. It thus lends support to the view that reform is most likely to succeed where it is comprehensive and capable of rapid implementation.

On the other hand, the gradualist interpretation is certainly correct in suggesting that the conventional view, which treats policy reform as an autonomous determinant of economic change, is too narrow. Fforde and de Vylder (1996) cite a number of cases where individual economic units attempted to rectify the failures of the planning system by taking matters into their own hands and experimenting with partial market-oriented solutions, which only later were validated by the policy makers. Clearly, policy is not made in a vacuum, but instead is conditioned by the environment in which it operates. Thus, a more nuanced interpretation of the political economy of the transition is one which recognises the mutual interdependence of policy reform from above and institutional change from below (Fforde, 1993).

Another issue is the way reform distributes gains and losses. The assumption is that the chances of success are enhanced if losers are compensated rather than “abandoned to become impoverished and embittered opponents” (Williamson and Haggard, p. 587).

In Viet Nam, state employees were the clear losers from inflation throughout the 1980s. The continuation of inflation without adequate compensation after 1986 may well have discredited reform among these employees, (Haughton, 1994, p. 7) but by placing them in the domain of losses it also should have made them, according to prospect theory, more willing to accept the risks associated with a “big bang”. Whatever the case, government expenditures on wages and salaries increased from 1991, though not enough to draw even with salaries paid for equivalent work in the private sector. To make ends meet, many government employees have turned to second jobs, consulting, and petty corruption (World Bank, 1996, p. 16).

Reform’s compensation for losers does not depend on wages alone. While public sector salaries are low, it still pays to be an official. Few officials live solely on their official salaries that average around \$30 a month (\$50 for a deputy department head). For civil servants, the non-salary compensation is often lucrative (how else could so many of them acquire \$2000 motorbikes?) and sometimes illegal. Officials are forbidden by law to own private businesses, but many of them circumvent the law by facilitating the businesses of family members. From the cabinet down to province, municipal, district, and village levels, officials help relatives go into business, capitalising on government employment not for the wage but for the political control of rents. Some units of government also supplement civil servants’ salaries with proceeds from the operations of unit-owned SOEs (a significant motivation for many agencies to create SOEs in the first place), form joint state-private firms with relatives of unit employees, and direct business towards firms owned by relatives of employees. Many hundreds of nominally non-state enterprises in fact belong to agencies of the state or party, evading the taxes that apply to non-state enterprises while enjoying the preferred access to land, capital, and buildings of state ones. “[T]he overall effect is to ensure that state assets and resources are privatised, in the sense of flowing into peoples’ pockets” (Fforde, 1995). In rural areas, officials made sure long ago that decollectivisation would leave them or their relatives in possession of the choicest plots. Thus the low wages paid to public sector employees may have had the ironic effect of making them reform oriented by driving them to plant one foot in the private sector. Anecdotal evidence does suggest that officials with “outside” interests, either through family connections or agency collaboration with business, express the greatest enthusiasm for reform. Unfortunately, they also constitute an emerging class of notables with stakes in privilege.

### **Will *Doi Moi* survive?**

Whether or not Viet Nam’s political leaders and institutions have the qualities needed to adopt the policies to sustain economic reform is very much open to question. At its fourth plenum in December 1997, the central committee passed a resolution approving direct export by private companies, more emphasis on labour-intensive industries, trade in agricultural land-use rights, and other progressive measures, though without indicating awareness of what the region’s economic difficulties might signify for Viet Nam (Keenan, 1998). The measures fell short of what Viet Nam’s own technocrats and international lenders had been urging even before the region headed into crisis. Gradualism was the result of compromise, made necessary by the continuing rift over the pace and scope of liberalisation, the influence that Do Muoi still wields as an official “advisor” to the party, and the power of satisfied interests.

Under these circumstances policymaking on reform in Viet Nam is bound to be incremental at best, with occasional backsliding at worst. This has been the pattern — obscured by the favourable economic outcome — ever since Viet Nam's reform process got under way in the late 1970s. Viet Nam's leaders diverged boldly from the socialist path into, for them, the uncharted and risky waters of market economy only when deep crises seemed to require it. However, there is no assurance that a particular level of pain for an economy as a whole will produce change, as it is the impact of economic events on the interests and perceptions of those who wield power that matters. What constitutes a sufficiency of crisis to trigger change differs widely from country to country and time to time. The usual triggers are balance-of-payments difficulties, accelerating inflation, and revenue losses, none of which aside from payments have worsened recently for Viet Nam.

The economic difficulties Viet Nam seems likely to face in the short term do not immediately threaten the vital interests of any significant actor. Nor is any emerging group with a stake in different arrangements, such as private small business, yet powerful enough to exert effective pressure for change, even at the margins. Meanwhile, powerful interests such as state enterprise are still more committed to preserving their existing privileges than to seizing opportunities within a more efficient structure. In the absence of a sharp turn for the worse in the economy, no sudden switch from muddle to boldness should be expected. However, it is also obvious that Viet Nam cannot sustain growth at recent past rates, much less even come near the party's 9 per cent target, without significant further deepening of its reforms. The gap between the economic performance Viet Nam needs to "catch up" and what the present model is able to deliver is bound to grow, and with it so will questions about the adequacy of Viet Nam's political leadership and institutions.

Such questions are increasingly broached by members of the political elite itself<sup>33</sup>. The present leadership seems determined so far to answer these questions by showing sensitivity to popular grievances and by emphasising good governance, hoping to defuse pressure for more meaningful political change. This was evident for example during the rural turmoil of 1997, to which the authorities responded by peremptorily replacing local party and state cadres accused of corruption, suspending onerous development schemes, and launching pilot projects in "democracy". Such measures, however, are no substitute for effective restraints on officialdom, lack of which allowed abuses to become widespread in the first place. Partly for lack of such restraints, Viet Nam is also increasingly gripped as China by economic parasitism. Party members and relatives, state agencies, ministries, people's committees at district and province levels, and the army<sup>34</sup> own, control, or manage a very large slice of the economy, including most of the firms that operate in protected sectors. In the face of the accumulating tensions, privilege, and politically defended inefficiencies, rhetorical commitment to good governance is little more than a political holding pattern.

The stress is symptomatic of economic reform's tendency to produce consequences that outstrip the capacities of the political system. The new decentralised economy requires strengthening certain kinds of central control, particularly for example in fiscal, monetary, and revenue matters, as well as improving transparency and accountability. These are politically more difficult steps than reforms which concentrate on getting government out of the way. In 1986-91, local governments strongly supported reforms which increased their autonomy, but they became ambivalent when reforms to enhance the central government's macroeconomic management role entailed curbs on their power (Rana, 1995, p. 1166). Controlling much of the state's privileged business interest, they have also resisted

pressures to conduct their affairs with greater openness. It was precisely because of this centre-region tension that proposals to reorganise local governments and their relationship to the centre were a major point of contention during the drafting of the 1992 constitution. The resolution of this issue, which gave the prime minister the power to dismiss local leaders but to appoint them only on the recommendation of the local people's council, was a compromise (Thayer, 1993, p. 54). Following this, the government launched a public administrative reform to clarify functions and lines of authority within the state and slightly relaxed the screening of candidates for elections, producing a younger, better educated crop of popular representatives. Thus Viet Nam has moved — appropriately for its development needs — in the direction of greater centralisation and collaborative means of social control mapped out by the interventionist Asian NICs (Crone, 1998). The question is whether it will continue to move, and move fast enough, in this direction.

## NOTES

1. Party leaders in Ho Chi Minh City widely believed that the priority given to capital goods industry of the type that was concentrated in the North was essentially a North-first growth strategy. They also tended to believe that because the city's economy was so heavily dependent on private commerce that early, full-scale socialisation would snuff out recovery. Interview by Turley with Tran Bach Dang, Ho Chi Minh City, 13 November 1995. In 1977, the city's party chief, Nguyen Van Linh, opposed the decision to proceed with nationalisation of all the South's trade and industry, even though he was chair of the committee tasked to organise this campaign. Charged with "rightism", he was removed from this post in February 1978.
2. On Kiet as representative of provincial party concerns, see *Asia 1984 Yearbook*, p. 282. Foreign Minister Nguyen Co Thach also attained alternate rank on the political bureau at this time.
3. On change in the sectoral composition of party leaders, see Thayer, 1988, pp. 184 and 187.
4. "In 1983, the family economy reportedly supplied 50-60 per cent of the peasants' total income, more than 90 per cent of the pork, chicken, vegetables and fruits consumed by the peasants, and 30-50 per cent of total foodstuffs" (Vo Nhan Tri, 1988, p. 84).
5. Several individuals interviewed in August 1995 mentioned Chinh's conversion to the reform cause and his province tour as pivotal, but he was not the only "conservative" senior leader who reversed his views, lobbied for change, and protected younger reformists like Nguyen Van Linh and Vo Van Kiet during the early 1980s. Others mentioned were Pham Hung, Pham Van Dong and Do Muoi.
6. On incumbent vs. new leaders, see Dicie and Okonkwo, pp. 370-373.
7. Truong Chinh retired from the bureau in 1986 along with Pham Van Dong and Le Duc Tho, eliminating all first generation party leaders except Pham Hung from the bureau. New members included Tran Xuan Bach, Nguyen Thanh Binh, Doan Khue, Dong Si Nguyen, and Mai Chi Tho, plus Foreign Minister Nguyen Co Thach who was elevated from alternate status.
8. Robert Dicie helped to clarify this point.
9. The declining relevance of the Party itself in the lives of ordinary people showed up in recruitment difficulties. The Party's youth wing lost half a million of its four million members in the first nine months of 1990 alone (see Turley, 1993, pp. 333-334; 340-341).
10. Oanh subsequently held high positions in the old Saigon government, including Director of the State Bank and Acting Premier. Held briefly under house arrest after the war, in the late 1970s he wrote several critiques of socialist economy and its inappropriateness for the South which attracted the attention of Southern party leaders. Vo Van Kiet helped secure an appointment for him as an advisor to the government in 1983 (a post he held until 1994), and in 1987 he was elected to a seat in the National Assembly.
11. The number of remaining agricultural collectives (*hop tac xa*) nationwide kept falling throughout the 1990s, from 16 234 in 1994 to 13 664 in 1996. Of the latter, 11 807 were in the North and 1 857 were in the South, and fewer than a fifth of these in both regions were operating on a sound basis (SRV, 1997).
12. Adam Fforde kindly shared his observations about "new style co-operatives" with us but does not bear responsibility for this interpretation.

13. An excellent description of this turbulence is Kerkvliet, 1995; pp. 73-80. Considering that Vietnam in 1994 had 465 rural districts (*huyen*) and 8 774 communes (*xa*), with most communes divided into two to four hamlets, the phenomenon was quite prevalent.
14. The city officially reported direct exports worth two million dong and 2.2 million Hong Kong dollars in 1978, negligible sums in 1979 (due to Western and Japanese trade embargoes), 2.2 million dong and 2.7 million Hong Kong dollars in 1980 (*NGTKTPHCM 1976-1981*, p. 373). Of course, these figures do not include unofficial trade, most of it conducted by the city's ethnic Chinese business community.
15. In 1997, 1 900 state-owned companies and 6 000 private ones had licenses to trade (*Vietnam Business Journal*, December 1997, p. 28).
16. Estimates of goods smuggled in during 1995 ranged from \$500 million to \$1 billion, while up to 500 000 tons of rice were smuggled out to China with the connivance of officials in the navy and customs department (*Asia 1996 Yearbook*, p. 220). In 1994, it was estimated that the amount of rice smuggled to China about equalled official exports to that market (Nguyen Thi Khiem, 1996, p. 38).
17. AFTA requires Viet Nam to lower tariffs on goods coming from other members to 5 per cent or less by 2006.
18. Of the 4 584 SOEs that operated at a loss in 1989, 4 162 were "small scale" and 4 083 were under the management of local authorities (World Bank, 1995, p. 105; Tran Hoang Kim and Le Thu, p. 65).
19. A study by the Ho Chi Minh City department of finance in 1995 discovered that only 30 per cent of the city's SOEs were profitable and 70 per cent were in marginal financial condition (*Indochina Digest*, VIII, No. 11, 17 March 1995).
20. On party sectors, see Thayer 1997; and, for a refinement of Thayer's approach, Vasavakul, 1997.
21. Interview, Hanoi, November 1995.
22. See, for example, *Dien Dan* (1 January 1996), *Viet Luan* (5 January 1996), *Xay Dung* (1 December 1995).
23. There was also more than a small gap in perception between Muoi's observation that Ho Chi Minh City was "second only after Hanoi" and the tendency of Ho Chi Minh City officials to see the city as Viet Nam's Shanghai.
24. It is inaccurate to depict "the military" as "conservative", as foreign news sources have tended to do. There is no unified military interest or viewpoint on reform. It must be kept in mind that while virtually all officers are members of the party, those whose primary responsibility is political work have a separate career path and training from those whose primary responsibilities are in operations. It is mostly officers in the General Political Directorate who have taken public positions identified as "conservative". Many officers and units have benefited from *doi moi* by going into business on the side, sometimes in illegal pursuits.
25. For a comparison of central committees on which this paragraph is based, see Thayer, 1997. See, also, Vasavakul, 1997, pp. 94-96.
26. Sometimes labelled the "government bloc" or "technocrats", the reformers are Vo Van Kiet, Nong Duc Manh, Nguyen Manh Cam, Phan Van Khai, Tran Duc Luong, Truong Tan Sang, and possibly Le Xuan Tung. The "party bloc" consists of Do Muoi, Nguyen Duc Binh, Nguyen Van An and Nguyen Thi Xuan My, plus Pham The Duyet representing the mass organisation sector. Le Duc Anh, Le Kha Phieu, Doan Khue, and Pham Van Tra represented defence and Nguyen Tan Dung and Le Minh Huong the security forces.
27. The one reappointment the Assembly did not approve was that of Cao Si Kiem as director of the State Bank, holding him responsible for the rising incidence of scandal and mismanagement in the finance and banking sector. The gesture not only displayed some capacity for independent action but also for attention to collective rationality in economic issues.
28. Would a democratic government have responded as effectively? The counterfactual is implausible, given Viet Nam's modern history and political culture. The more realistic question is whether any of the plausible authoritarian alternatives to the VCP would have done better. We think not.

29. According to some of these advisers who were present at the workshop on *doi moi* held under the auspices of the National Center for Social Sciences and the Social Science Research Council in Hanoi, June 1990.
30. We are indebted to Adam Fforde for sharing his information on these institutions with us.
31. This point was first made in Riedel, 1993, and elaborated on by Sachs and Woo, 1994.
32. See, also, Turley, 1993 and Thayer, 1992.
33. The most significant recent examples, an open letter from retired General Tran Do to the Party, National Assembly, and government and a speech by Phan Dinh Dieu to the Expanded Conference of the Presidium of the Vietnam Fatherland Front Central Committee, both in December 1997, called for *inter alia* a substantial reduction in the Party's power and more competition in elections.
34. Businesses owned by the armed forces had revenues of \$83 million in 1997, an increase of 30 per cent over the year before, and average wages in the sector were nearly \$70 a month compared with the national average of about \$40, according to Vietnam News Agency (reported by Reuters, 22 January 1998).

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