



UNITED NATIONS
DEVELOPMENT PROGRAMME



VIETNAM ACADEMY
OF SOCIAL SCIENCES



EMBASSY OF
SWEDEN HANOI

PROCEEDINGS

FROM

THE FOURTH HIGH LEVEL ROUNDTABLE MEETING

ON 20 YEAR REVIEW OF *DOI MOI*

HANOI - 15th - 16th June 2006

These proceedings were drafted by VASS and UNDP Vietnam





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ACRONYMS AND ABBREVIATIONS

ABE	Alternative Basic Education
ACFTA	ASEAN-China Free Trade Area
AFTA	ASEAN Free Trade Area
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BMI	Body Mass Index
CIEM	Central Institute for Economic Management
CPV	Communist Party of Vietnam
DAF	Development Assistance Fund
DFID	Department for International Development (UK)
DPI	Department of Planning and Investment
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FES	Friedrich-Ebert out Stiftung
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion
GSO	General Statistics Office
HCMC	Ho Chi Minh City
ICT	Information Communication Technology
ILO	International Labor Organization
IMF	International Monetary Fund
IPM	Integrated Pest Management



IWEP	Institute of World Economics and Politics
LSE	London School of Economics and Political Science
LSMS	Living Standard Measurement Survey
MDG	Millenium Development Goal
MoLISA	Ministry of Labor, Invalids and Social Affairs
MRC	Mekong River Commission
NCFAW	National Committee for the Advancement of Women
NCSSH	National Centre for Social Sciences and Humanities
NEA	North East Asia
NGO	Non-Governmental Organization
NPO	Non-Profit Organization
NUS	National University of Singapore
ODA	Overseas Development Assistance
OTC	Over the Counter
PMRC	Prime Minister's Research Commission
PPP	Purchasing Power Parity
RTM	Round Table Meeting
SIDA	Swedish International Development Agency
SOCB	State Owned Commercial Bank
SOE	State Owned Enterprise
SSRC	Social Science Research Council
UNDP	United Nations Development Program
VASS	Vietnam Academy of Social Sciences
VAT	Value Added Tax
VBSP	Vietnam Bank for Social Policies
VCCI	Vietnam Chamber of Commerce and Industry
VEA	Vietnam Economic Association
VHLSS	Vietnam Household Living Standard Survey
VLSS	Vietnam Living Standard Survey
VNCI	Vietnam Competitiveness Initiative
WTO	World Trade Organization



INTRODUCTION

The Communist Party and Government of Vietnam are undertaking a thorough review of the *doi moi*, or “renovation” period since 1986. Led by the Steering Committee for the Review created by the Party, a broad based national consultation process is being launched involving all provinces and major cities to collect national perspectives on the success and failures of *doi moi* to help point the direction for further success. At the same time, the Party and government are keen to consult with the foreign community for their comments and suggestions for the Review.

The “Assistance to the 20 Year Review of *doi moi* in Vietnam” project is a joint initiative by the United Nations Development Program (UNDP) and the Vietnam Academy of Social Sciences (VASS) intended to complement the national consultation process by supporting VASS in three areas. First, the project will contribute to new research on critical aspects of *doi moi*, economic transition and other related policies. Second, the project will help to widen participation in national consultations to include all interested sectors of society. Third, the project will strengthen national capacity in research management, applied policy research and policy advocacy.

The Fourth High Level Roundtable Meeting was held in Hanoi on 15. – 16. June 2006 gathering 239 participants (136 from Vietnamese institutions, 41 from international organizations, 62 from media organizations). Most of the Vietnamese institutions involved in reviewing the *doi moi* process in preparation for the next Party Congress and working on Vietnam’s development strategy were present at the meeting.

Among the list of 239 participants, the roundtable meeting benefited from the presence of Mr. Subinay Nandy, Resident Representative a.i. of UNDP in Hanoi; Ms. Anna Lindstedt, Ambassador of Sweden to Vietnam; Prof. Jomo Kwame Sundaram, Assistant Secretary General for Economic Development, United Nations Department of Economic and Social Affairs; Prof. Do Hoai Nam, Member of the Central Committee and President of the Vietnam Academy of Social Sciences.



The Fourth High Level Roundtable Meeting aimed, first, to delineate the areas for contribution to the national consultation process of reviewing 20 years of *doi moi* in Vietnam and, second, to propose new areas for further and new research on different aspects of *doi moi* relevant for policy decision makers.



PROCEEDINGS

OPENING CEREMONY AND KEYNOTE ADDRESS

Co-Chairs:	Prof. Do Hoai Nam,	Chairman Vietnam Academy of Social Sciences
	Mr. Subinay Randy,	Resident Representative UNDP Vietnam
	Ms. Anna Lindstedt,	Ambassador of Sweden to Vietnam
Keynote Address:	Prof. Jomo Kwame Sundaram	Assistant Secretary General for Economic Development, United Nations Department of Economic and Social Affairs

OPENING REMARKS BY PROF. DO HOAI NAM

Prof. Nam opened the roundtable meeting with a warm welcome to honor guests and participants.

Prof. Nam also emphasized that the roundtable meeting is a 'bridge' connecting researchers, policy makers, and donors to share ideas between domestic and international scholars about *doi moi* and in the broader context of world development. From this perspective, Prof. Nam expressed the wish that the meeting would raise high quality discussions and make a concrete contribution to the *doi moi* process by assisting the 20 year review of *doi moi* in Vietnam.

Prof. Nam also appreciated results and contributions from the previous roundtable meetings. He expressed the wish that the participants of this



roundtable meeting would discuss the changes and challenges of *doi moi* 2. Prof. Nam highlighted the importance for the meeting and discussions to be:

- scientific;
- aimed at fostering development;
- aimed at suggestions for more effective development;
- aimed at a more stable development.

WELCOMING REMARKS BY MR. SUBINAY NANDY, UNDP RESIDENT REPRESENTATIVE

Prof. Do Hoai Nam, your Excellency Ambassador Lindstedt, esteemed scholars, colleagues and friends:

It is a great honor to welcome you today to the fourth and final High Level Roundtable Meeting organized as part of the 'Assistance to the 20 Year Review of *doi moi* in Vietnam' project. The project is in many ways an unusual one in that it has created an opportunity for many of us to set aside our normal day to day concerns in order to reflect more deeply on the social, economic and political changes that have taken place in Vietnam over the past two decades. On behalf of UNDP, I would like to express my sincere thanks to the Vietnam Academy of Social Sciences, and to Professor Do Hoai Nam, for inviting UNDP and the Government of Sweden to participate in the 20 Year Review of *doi moi*.

At the first of these Round Table Meetings, Mr. Jordan Ryan, at the time UNDP Resident Representative and United Nations Resident Coordinator in Vietnam, argued that *doi moi* is a truly Vietnamese experiment of the sort imagined by the great economist John Maynard Keynes. Keynes had once said that the socialism of the future 'will emerge from an endless variety of experiments directed towards discovering the respective appropriate spheres of the individual and the social.' Jordan returned to this theme at the third Round Table Meeting, when he set the transition to 'democratic citizenship' alongside Vietnam's other historic transitions, namely the transition from war to peace, from plan to market and from least developed to middle income country.

The three previous Round Table Meetings have returned often to this theme of *doi moi* as a policy experiment that has reworked the relationship between state and society, and between the state and individuals. Many of our discussions have considered the changing role of the state in the economy, and the remarkable success of Vietnam's economic



transformation. Over the three previous meetings speakers, panelists and participants have touched on corresponding changes in law, politics, culture and society, and the linkages between them. Democratic citizenship is a term that encapsulates these inter-related changes and the aspiration of building a prosperous, just, equal and peaceful country based on universal values and an active, engaged citizenry.

Looking back over the three previous meetings, I think we can all agree that we have covered a tremendous amount of ground. We have reviewed the achievements of the past and considered specific challenges over the coming five to ten years and beyond. We have delved more deeply into specific topics such as legal reform, social and economic inequality, international economic integration, gender equity, rural development and urbanization, public participation, the role of civil society and the development of state capacity. We have considered *doi moi* in comparative perspective, finding lessons in the experiences of other countries for Vietnam and lessons from Vietnam relevant to other developing countries.

This Fourth Roundtable comes at an important juncture in the progression of *doi moi*. This year marks the 20th anniversary of the reform process. The Communist Party recently completed its Tenth Congress and the Socio-Economic Development Plan for the next five years has been completed and now enters the implementation phase. Vietnam will soon accede to the World Trade Organization, an important milestone in the country's relationship with the rest of the world.

All signs are that 2006 will mark the beginning of a new era in Vietnam, and in Vietnam's relations with the rest of the world. This final Round Table Meeting will therefore adopt a forward-looking perspective. Our speakers and panelists will focus their attention on the next steps in the reform process in view of past achievements and limitations and the rapidly changing regional and global context.

We are honored to welcome our keynote speaker, who will set the scene for our discussions on the future of *doi moi*. Jomo Kwame Sundaram is United Nations Assistant Secretary General for Economic Development and a longtime observer of Vietnamese, Southeast Asian and global trends in economic development. He is an eminent development economist in his own right, having authored 35 books on the subject and edited a further 50 in addition to numerous publications in scholarly journals. For many years he was Professor of Economics at the University of Malaya and he has held academic posts at Cornell University, the University of Cambridge and the National University of Singapore, among others.



Prof. David Dapice of Tufts and Harvard Universities is well known to all of us as longtime observer of the Vietnamese economy. He will lead a discussion on the difficulties of sustaining the momentum of reform. Thaveeporn Vasavkul, a leading researcher on Vietnamese politics, will examine changes in the state socialist system and in key political institutions. Tomorrow, former United States Ambassador Pete Peterson will put forward a positive assessment of achievements to date while also identifying a few missed opportunities that provide useful lessons for the future. Finally, Andrew Wells-Dang, the first representative of an international non-government organization to make a presentation at a Round Table Meeting, will consider the dynamics of social change in Vietnam from different theoretical perspectives.

We have a full and exciting agenda ahead of us and I am as anxious as you to move to the main business of the day. So I will keep my remarks brief.

In closing, I would like to once again reemphasize the close correspondence between the objectives of the Government of Vietnam in launching the *doi moi* reform process, and those of UNDP and the United Nations more broadly. *doi moi* has given many Vietnamese people the opportunity they needed to realize their economic and creative potential. Ultimately, *doi moi* represents an important step in the promotion of human development in Vietnam.

During his recent visit United Nations Secretary General Kofi Annan remarked on Vietnam's tremendous progress towards the Millennium Development Goals. He was particularly struck by the energy and dynamism of the Vietnamese people. But he also emphasized that development is not about averages or indicators. Reducing poverty by half is a great achievement, but it still means that millions of people still lack the basic necessities of life. The United Nations, he pledged, *would continue to work side-by-side with the Government and the people of Vietnam in their efforts to realize the MDGs in every province, district and village. For Vietnam and the United Nations, the job will not be done until everyone enjoys freedom from hunger and deprivation, access to education, protection from infectious diseases and a healthy, safe environment.*

This is the same ambition expressed by the Government of Vietnam when they aspire to a prosperous people, strong nation and just, democratic, and civilized society. In this spirit and in the spirit of the Millennium Declaration, I hope that as we discuss the past, present and future of *doi moi* we will keep in mind this central aim of universal progress and social justice for all.

Thank you.



WELCOMING REMARKS BY MS. ANNA LINDSTEDT, AMBASSADOR OF SWEDEN TO VIETNAM

Prof. Do Hoai Nam, Mr. Subinay Nandy, distinguished scholars, colleagues and friends,

I am pleased to be here today, both to welcome you all and to take part in this fourth and final High Level Round Table Meeting of the 20 Year Review of *doi moi* in Vietnam. Once again, I would like to thank Professor Do Hoai Nam and the Vietnam Academy of Social Sciences for inviting Sweden and UNDP to support and participate in this interesting project.

Today's meeting is yet another opportunity to create a more profound understanding of developments in Vietnam during the last 20 years, as well as to dwell on future challenges.

When *doi moi* was introduced, it represented a tremendous step forward. Some would argue that reforms could have been more far-reaching and more determined, but it is a fact that the renovation has led to a booming economy and unique levels of poverty reduction – as well as deep social and political changes. In his paper, Andrew Wells-Dang goes as far as saying that Vietnam is one of the fastest-changing societies in the world.

Sustaining reforms might be more difficult in the future, considering increased global competition. The huge growth in world exports has led to the creation of a single world economy. Technological changes have been rapid not only in Vietnam, but also in other markets, some of them more highly competitive than Vietnam. There is increasing pressure on the environment, not just in Vietnam, but worldwide. Globalization has resulted in the creation of a single world, where no nation can be secure in its prosperity when other nations are destitute, miserable and unstable.

How can Vietnam develop quickly in such a world?

Vietnam needs to develop robust institutions, using the word “institutions” in a very broad sense of the word. Robust institutions should be able to fulfill their basic tasks well, promote excellence and adapt to changing conditions.

Important institutions include the following:

1. Democracy. As Sweden sees it, a nation cannot be built sustainably on one leader or one party, however successful they are in the short run. Having said this, it is important to stress that it is up to the Vietnamese people – including each and every one of the more than 80 million



citizens – to determine to what extent and at what speed the political system should change.

Make government accountable to the citizens, promote well-informed public debate based on free and independent media and there is a good chance that the nation continues to develop and implement sound public policy in the long run.

2. Productive employment as the major tool for economic development, as well as for poverty reduction.
3. Competitive markets. This includes developing a level playing field for all forms of businesses, be they large, medium-sized or small, be they private or state owned.
4. Public sector efficiency. This includes fighting corruption, which first and foremost hurts the poor. Corruption also reduces economic growth and discourages trade and investment. It is encouraging that the awareness about the damaging effects of corruption are well entrenched in Vietnam's leadership, as confirmed during the recently held Mid Year Consultative Group Meeting.
5. Sustainable use of the environment. A good environment is an asset that will be increasingly valued in the future. Investing to maintain the quality of the environment will give returns for many years to come in terms of sustainable economic growth and a higher standard of living. As developed and developing countries around the world are finding out, it is very costly to try to build up a depleted environment.

Furthermore, it is important to create an inclusive nation, where Vietnamese of various backgrounds can contribute to the nation and enjoy the fruits of the nation's development. The term used by Jomo Kwame Sundaram, "social citizenship", is very accurate. As we look around in the world it is clear that a country that embraces its difference and builds confidence between different peoples reaps enormous benefits; it takes years, if not generations, to rebuild the damage of divisiveness. I would therefore recommend:

1. To continue promoting poverty reduction, keeping in mind that this reduction may prove more difficult in the future and may require different measures than those that have been so successful until now. It is crucial to see poverty as multi-faceted; poverty is not just a lack of material resources, but also a lack of power, choice and security.
2. Work harder to bring prosperity to ethnic minorities and to promote their participation in society.



3. Liberate the potential of Vietnamese women. Half of the nation's human resources cannot be over-looked. Give women education and rights, and they will promote their interests and the interests of their families while making a greater contribution to the nation. Why is there not a single woman in the country's most powerful institution, the Politburo?
4. Make sure that all Vietnamese have access to education and health care, particularly the poor who will not otherwise have access. Compared with other productive assets, education and health care can be relatively easily shared with a large number of people. Moreover, investments in education and health tend to be quite productive in a growing economy.

I will be leaving Vietnam soon, after completing my tour of duty here. During my three years in Vietnam, the country has continued moving forward. I strongly believe in Vietnam. There are, however, important challenges ahead. I hope that the discussions during these two days will prove useful and provide additional input into future policy choices. The decision about what path to follow then lies with the Vietnamese people.

Xin cam on.





KEYNOTE ADDRESS

ECONOMIC REFORM FOR WHOM? *DOI MOI* IN COMPARATIVE PERSPECTIVE

Prof. Jomo Kwame Sundaram

Prof. Do Hoai Nam, Ambassador Anna Lindstedt, Mr. Subinay Nandy, esteemed colleagues and friends,

It is an honor for me to join you today at this final High Level Round Table Meeting of the 20 Year Review of *doi moi*. As a development economist, and fellow Southeast Asian, I have followed the progress of *doi moi* over the years with great interest, and I believe strongly that the lessons of your remarkable economic recovery and regeneration extend well beyond the borders of Vietnam, and beyond the East Asia region.

Moreover, as Secretary General Kofi Annan remarked on his recent visit to Hanoi, Vietnam and the United Nations share in common a number of core principles, not least among them the belief that national ownership of policy is a prerequisite to successful development and that development should benefit everyone, not just the privileged few.

It is this second idea that forms the main theme of my presentation today. Last year, the Report on the World Social Situation published by the United Nations Department of Economic and Social Affairs was entitled *The Inequality Predicament*. However one measures the distribution of income or wealth, it is impossible to escape the conclusion that we live in a grossly unequal world. According to our best estimates, the richest 20 percent of global population accounts for 86 percent of private consumption, while the corresponding figure for the poorest quintile is just one percent (United Nations 2005, 9). The richest one percent spends more than the bottom half (UNDP 2003).

It is not difficult to amass similarly gloomy statistics covering a wide range of economic and social indicators. The under-five mortality rate in low income



countries is 123 children per thousand, as compared to six in the OECD countries. The net secondary school enrolment rate for girls is 92 percent in the industrialized countries and only 26 percent in the least developed countries (UNICEF 2006). It has been estimated that in 2004 the 8.3 million people with a net worth in excess of one million dollars owned about \$31 trillion in assets, more than six times the gross domestic product of all of the world's lower and middle income countries taken together.¹

Levels of within country inequality are equally shocking. In the United States, which spends more than any other country in the world on healthcare in real terms and as a share of national income, the infant mortality rate among African Americans is twice the level of whites (UNDP 2005). The wealthiest five percent of Chinese control half of the nation's bank deposits. In Brazil, the incomes of the richest 10 percent are on average 32 times higher than the poorest 40 percent, and only 10 percent of children from the bottom half of the population complete grade 9 as compared to 79 percent among the top 10 percent (United Nations 2005; World Bank 2003).

I could go on, but that would hardly be necessary. The fact of scandalous global and within country inequalities in wealth, income, health outcomes and educational attainment is apparent to everyone. A more contentious issue is the relationship between inequality and the process that we generally refer to as globalization. On this there is less agreement. Has the most recent wave of integration of global capital, commodity and services markets since 1980 made the world a more or less equal place? Mainstream economists are predisposed to the belief that globalization reduces gaps between rich and poor, both within and between countries. According to the textbook model, the liberalization of trade and capital flows should produce a convergence of global incomes. Developing countries will specialize in labor-intensive products, creating jobs and generating incomes for the poor. Meanwhile, capital will flow to where it can generate the highest returns, and this is likely to be in capital importing developing countries. They cite evidence that world income inequality has decreased since 1980 when measured in purchasing power parity terms and weighted by population. Partly on this basis David Dollar concludes that, 'So far, the most recent wave of globalization starting around 1980 has been a powerful force for equality and poverty reduction' (David Dollar 2005).

Other observers consider the same statistical sources and reach the opposite conclusion. Robert Wade, for example, concludes on the basis of a review of

1. The estimate on the assets of 'high net worth investors' is taken from Cap Gemini Ernst and Young 2005.



a range of inequality indicators that ‘the evidence strongly suggests that global income inequality has risen in the last twenty years’ (Wade 2001; 2004). The case for declining inequality is highly sensitive to the choice of countries, as I will discuss in a moment (Sutcliffe 2003). Globalization from this perspective has benefited rich countries more than poor. Developing countries are locked into a ‘race to the bottom’ in the pursuit of international competitiveness, in which governments have lowered taxes on capital, undermining their ability to finance public health and education services and social security programs. Labor and environmental standards have been sacrificed to attract inward investment.

In my view the evidence supports neither of these conclusions. The world is becoming more equal by some measures and less equal by others. But globalization in itself is neither the solution to the inequality problem as imagined by some nor the cause as argued by others. Today I would like to make three simple points about global and national-level inequality and the processes of economic reform and globalization. First, the benefits of globalization have been distributed in a highly unequal manner among countries. I will argue that this is due to the nature of the world trading system, but also a product of national policies that have kept some countries from getting the most from globalization. Second, I can find no clear trend linking globalization to either more or less inequality within countries. This is partly a reflection of the limited state of our knowledge relating to inequality trends. But there is also an important policy lesson. Policymakers are seriously mistaken if they believe that the benefits of globalization are automatically distributed in a reasonable or pro-poor manner. On the contrary, explicit policies are needed to ensure that ever closer integration does not lead to rising inequality, polarization and social exclusion. Finally, I will invoke T.H Marshall’s notion of ‘social citizenship’ to argue for a rights-based approach to civil, political and social equality. Social citizenship, from my perspective, is the next logical stage of reform in Vietnam. Social citizenship implies rapid progress towards poverty reduction and the elimination of the most extreme forms of deprivation. It also means giving everyone a stake in the development of the country’s economic, social and political life. In this way the target of the next phase of *doi moi* in Vietnam will be the full realization of the Millennium Declaration and the Universal Declaration of Human Rights.

1. Global inequality

Let’s begin with ‘between country’ income inequality, or what economists often refer to as divergence. For some years now economists have preoccupied



themselves with a debate over whether global productivity levels are converging or diverging. The debate begins with the proposition derived from neoclassical growth theory that in the presence of diminishing marginal returns to capital poor countries should grow more quickly than rich countries. The process, under a number of restrictive assumptions that should not detain us here, should reveal itself as convergence of global per capita incomes.

Researchers have used a vast array of methods and data sources to test for convergence of global incomes. Unfortunately they have tended to rely on the methods and indicators that confirm their prejudices rather than evaluate the evidence in a more dispassionate manner. I believe that an objective analysis of the international statistics leads to three conclusions. First, the long term trend, at least since the late 19th century, is certainly one of increasing inequality, or to use Lant Pritchett's apt phrase, 'divergence big time' (Pritchett 1995). This is hardly surprising given that productivity per worker has increased at historically unprecedented rates in the advanced capitalist countries over this period, while other countries have remained locked in the struggle for subsistence. I will not go into any detail on this point as it seems to me to be self evident. Second, global inequality trends over the more recent past are ambiguous, and depend on the choice of indicator. Third, the emergence of regional 'convergence clubs' suggests that historical and institutional factors must figure prominently in any explanation of the ability of individual countries to catch up to regional and global leaders.

Let's consider the question of recent trends in global inequality. This has emerged as a point of contention between pro-globalizers who want to claim that liberalization will produce a fairer world, and anti-globalizers who argue the opposite. Each camp has seized on carefully selected indicators to support their cause. If you would like to make the case that the world is becoming a more unequal place, all you would need to do is compare income per capita at prevailing exchange rates. Everyone agrees that this simple measure, whether weighted by population or not, shows a divergence of incomes over the past twenty years. However, most economists would argue that a comparison of incomes converted into US dollars at prevailing exchange rates tells us little about productivity or well-being. Market exchange rates are influenced by numerous short term factors and are therefore not a good measure of long term values. For example, the recent appreciation of the euro against the US dollar does not mean that Europeans are better off. They are of course if they are visiting the United States, but back home the rise of the euro will not do them much good. The Chinese yuan is widely regarded as undervalued, which implies that per capita income in China is actually much closer to US levels than suggested by income at market exchange rates.



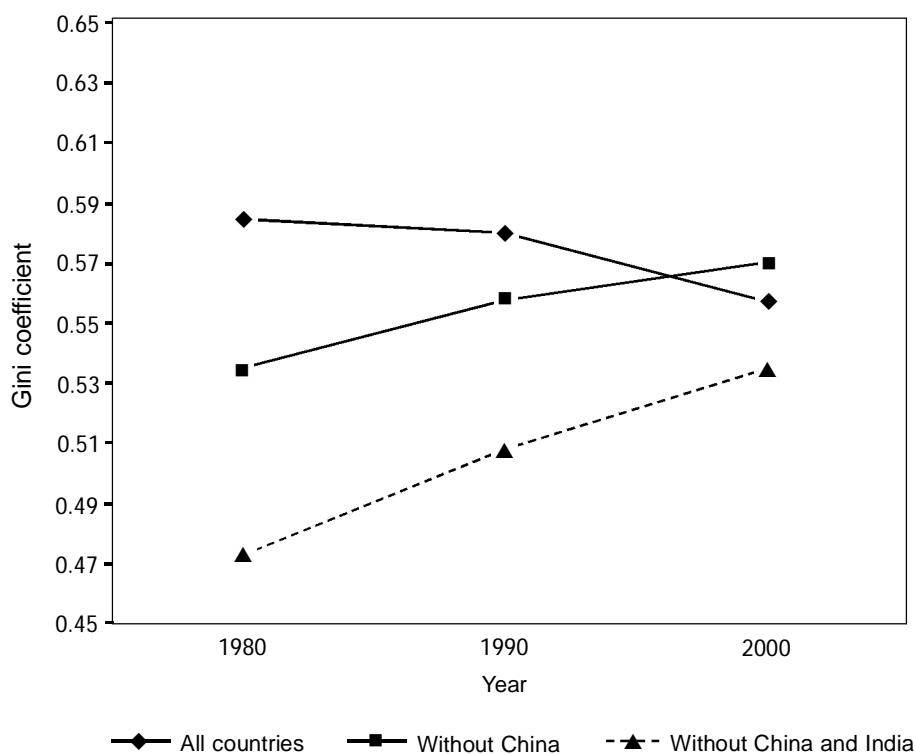
Market exchange rates are not a good indicator of domestic purchasing power. I can buy a delicious bowl of Vietnamese noodles a few doors down from this hotel for about 50 US cents. In New York City, a bowl of considerably less delicious Vietnamese noodles costs me \$10. So I would need to earn twenty times more money in New York to equal my standard of living in Hanoi measured in terms of noodles. For this reason, inequality is usually measured in terms of 'purchasing power parity' (PPP) dollars, which adjust exchange rates to take domestic prices into account.

I do not have time to go into much detail on the calculation of PPP exchange rates, but suffice it to say that these calculations do not produce income estimates that are universally accepted as reliable. Just to cite one example, when the World Bank readjusted its PPP \$1 a day poverty line for the year 1993, measured poverty decreased by 35 percent in Latin America and increased by 27 percent in sub-Saharan Africa at the stroke of a pen (Reddy and Pogge 2002). Because data of adequate consistency and coverage are not always available, the calculation of PPP rates often involves a considerable amount of guesswork. Unfortunately, PPP estimates are particularly weak for the world's largest countries, India and China, which have routinely refused to take part in data collection exercises to compile international price comparisons. Competing attempts to generate PPP income estimates for China differ by as much as 100 percent, and large discrepancies exist between alternative Indian PPP rates. Since global inequality measures are population-weighted, the trend in global inequality over the past twenty years depends largely on which estimates are selected for these two countries.

Figure 1 illustrates the point that estimates of global inequality are very sensitive to per capita income estimates for China and India. Pro-globalizers are quick to report that on the basis of PPP estimates of per capita income weighted by population, global inequality declined from 1980 to 1998. But as shown in the figure, when we drop China we obtain the opposite result. Global inequality rose rather than fell over the same period. Removing India reinforces the view that incomes are diverging.

But this finding should not be interpreted as a vindication for the anti-globalizers. Certainly China's historically unprecedented growth rates have enabled the largest country in the world by population to close the income gap with the OECD countries. India's performance has also been exceptional in recent years. That such a large proportion of humanity lives in countries that are catching up means that there has been some convergence in incomes measured at PPP exchange rates and weighted by population.

Figure 1: Global income inequality

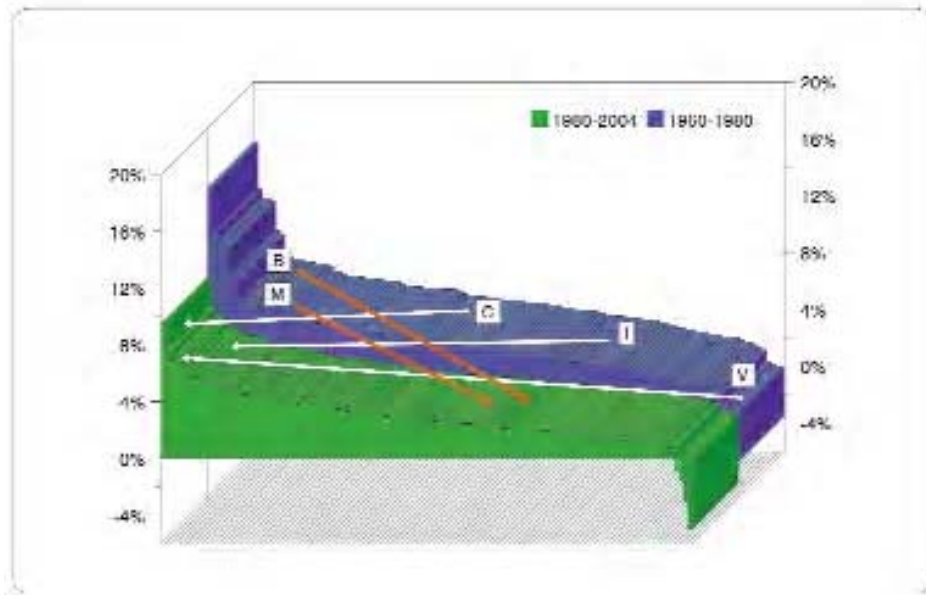


Source: United Nations 2005

However, before we begin the celebrations we need to take note of three caveats. First, convergence in this case only refers to *average* per capita incomes and does not consider intra-country inequality. In a few minutes I will touch on the sharp rise of income inequality in China over the same period, and the implications for welfare outcomes in that country. For the moment it is sufficient to note that as China becomes more unequal global inequality is sure to rise, although a precise measure of the impact of China on global inequality is not yet available. Second, there is probably a selection bias in global inequality calculations, since we lack data for some of the poorest countries of the world, many of which are embroiled in civil wars and other forms of violent conflict. If we were able to include these countries in our sample, world inequality would probably look much worse rather than better (Sutcliffe 2003). Finally, the evidence is inconclusive on the relationship between globalization and world inequality. The predicted convergence of global incomes and productivity levels has yet to materialize. Instead we see *regional* rather than *global* convergence, with the East Asian region performing considerably better than the rest.



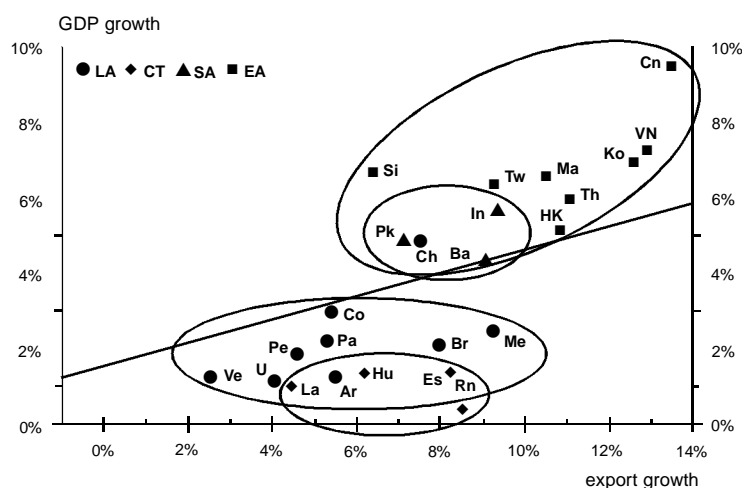
Figure 2: Average Annual Growth Rates for 108 Countries, 1960-1980 and 1980-2004



Source: World Development Indicators, author's calculations

This final point is the most relevant for policymakers. Figure 2 presents 108 countries ranked in order of average growth rates over two periods, 1960 to 1980 and 1980 to 2004. Two results are immediately apparent from the figure. For the world as a whole, average growth rates are lower for the period since 1980 than for the 1960 to 1980. Whatever the impact on distribution, we can all agree that this latest wave of globalization and liberalization has been accompanied by decline in the rate of economic growth in the advanced or developing countries (Glyn 2006; Weisbrot, Naiman and Kim 2000). The second observation is that there has been a marked shift in the fortunes of the large Latin American and Asian countries. Growth in China and India accelerated in the second period, while the performance of Brazil and Mexico deteriorated significantly. Vietnam has joined India and China, and a number of other East Asian countries, in recording world-beating rates of growth over the past two decades. Other Latin American countries, with the exception of Chile, have joined Brazil and Mexico among the slow growth economies. The convergence in regional growth is interesting in part because the most rapid growth has occurred precisely in countries in which neoliberal policy prescriptions have been most actively resisted.

Figure 3. Export Growth and GDP 1980-2004



Source: World Development Indicators, author's calculations

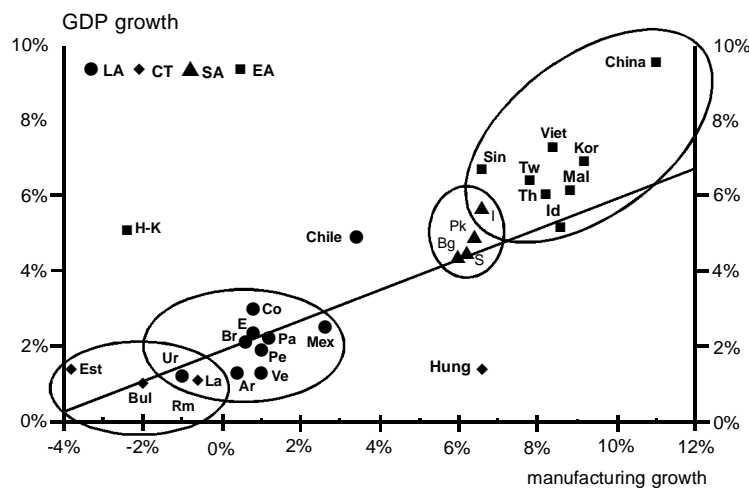
The story of East Asia's rise and Latin America's fall is complex, and I will not have time today to do it justice. But I would like to make one key point. In much of the popular literature East Asia's economic success is seen as vindication of the 'export-led growth' model. It is certainly true that East Asia's successful industrializers have experienced phenomenal export growth. But what is less widely appreciated is that many Latin American countries, particularly Brazil and Mexico, have also recorded exceptional rates of export growth since 1980. As shown in Figure 3, the difference is that East Asian countries have managed to convert export growth into economic growth, while most Latin American countries have not.

The relative success of East Asia in converting export growth into economic growth can be explained by the special role of manufacturing in the development process. Figure 4 illustrates the close relationship between the growth rate of manufacturing and economic growth over the same period. In the 1960s and 1970s, Nicholas Kaldor put forward three laws of economic growth that provide a theoretical explanation for this observed relationship (Kaldor 1975; 1978).



- The growth rate of GDP is a function of the growth rate of manufacturing;
- The growth rate of productivity in manufacturing is positively related to the growth of the manufacturing sector itself. This relationship, also known as Verdoorn's Law, posits increasing returns to scale in manufacturing, which suggests why access to large export markets for manufactures is so important to economic growth;
- The rate of growth of output depends on the rate at which labor is transferred from low to high productivity employment. This law largely explains Vietnam's rapid economic growth to date, as labor is shifted from subsistence agriculture to more productive occupations.

Figure 4. Growth of Manufacturing and Economic Growth, 1980-2004.



Source: World Development Indicators, author's calculations

Kaldor's laws have important implications for world inequality and for Vietnam's development process. East Asia's superior performance has in fact been 'manufacturing led' rather than export led, in the sense that manufacturing has led exports rather than exports leading manufacturing. Access to large external markets is crucial in that it enables developing economies to achieve economies of scale in manufacturing, and hence drive



productivity growth in manufacturing, making them still more competitive. Globalization supports this process to the extent that successive multilateral trade rounds have opened up OECD markets for manufactures to a larger group of developing country exports. At the same time, liberalization exposes domestic manufacturers to international competition. Latin American manufacturers, protected from competition during the years of import substitution, have not only failed to penetrate OECD markets, but have in fact seen their favored position in domestic markets erode with trade liberalization.

Vietnam is following the footsteps of the region's successful developers in recording rapid growth of manufactures and exports. The challenge for the future will be to move beyond traditional manufactures like garments, shoes and furniture to higher value added products such as electronics, chemicals and in particular resource based commodities. As a late developer, Vietnam will not have at its disposal many of the instruments of industrial policy used by the region's successful developers, and will therefore have to come up with new strategies consistent with the country's international commitments under multilateral and bilateral agreements. This will not be easy, but it is far from impossible. What is required is a single-minded commitment to technological upgrading, capacity building and international competitiveness.

2. Within country inequality

The promotion of equality within countries is essential to the fight against poverty. As inequality rises, the impact of economic growth on the incidence and depth of poverty decreases (Ravallion 2004). Severe inequalities in access to productive assets such as land and credit reduces the poverty reducing impact of growth and can slow down growth itself if the poor are prevented from seizing economic opportunities and raising productivity levels. Unequal access to education, for example gender inequality in educational attainment, represents a waste of the talent and intellect and a drain on national productivity. Educational inequalities are particularly pernicious in that they have inter-generational effects, as educated mothers tend to place greater emphasis on the education of their children, increasing the likelihood that the next generation will earn higher incomes and escape from poverty. Women with higher education levels also have lower fertility rates, healthier children and longer life expectancy (United Nations 2005). Equal access to health care not only affects quality of life, but can also affect access to economic opportunities and productivity for individuals and for other household members who must redirect their time and energy to care for loved ones who have fallen ill.



The benefits of equality are not limited to the economy. A minimum level of economic well-being and equal access to basic services is necessary for the development of social solidarity and stable, democratic institutions. Writing in 1950, the eminent sociologist T.H. Marshall captured the relationship between civil, political and social rights is his notion of 'social citizenship' as 'a status possessed by those who are full members of a community' (1992[1950], 18). Echoing the Universal Declaration of Human Rights, Marshall linked basic social security to the duty to contribute to the community through work and other means. Social citizenship is a useful concept that underscores the fundamental prerequisites of shared membership in the community and the role of community in promoting social and political cohesion. For countries like Vietnam in which youth make up a sizeable proportion of the population, equality of opportunity and access to quality education are essential to the development of a sense of shared identity among young citizens.

Several recent studies have detected an increase in within country inequality since 1980. Historically, Latin America and sub-Saharan Africa have recorded the highest levels of inequality, and inequality has probably intensified in these regions, particularly in the former, in recent years. Income inequality increased moderately in the transition economies of Central Europe during the 1990s, and more sharply in the countries of the former Soviet Union (Milanovic 1999; Cornia and Kiiski 2001). A worrying trend is the increase in inequality in South and East Asia, countries that had won praise in the past for combining rapid economic growth with equity (Cornia, Addison and Kiiski 2004). The most significant rise in inequality among the OECD countries has occurred in the United States and United Kingdom (Atkinson 2003).

The relationship between globalization and within country inequality is complex, and not well understood. I will discuss some of these complexities in a moment. However, economists agree on a few factors that are closely associated with rising inequality. Financial crisis is one such cause. Evidence from Latin America and East Asia suggests that wage inequality has increased in the wake of financial crisis, as slack labor markets drive down wages for unskilled workers. This is particularly true in countries with patchy or non-existent social security systems (United Nations 2005). Similarly, standard macroeconomic adjustment programs involving exchange rate devaluation, interest rate rises and fiscal contraction have generally favored capital over wage earners and have increased wage inequality (Bourguignon and Morrisson 1992). However, hyperinflation is also closely associated with an increase in wage inequality (Bulir 2002).

A major obstacle to sorting through these issues is the quality of national-level income and consumption data. These are produced on the basis of household



surveys of varying quality and coverage, and despite some Herculean efforts we still do not have internationally comparable data. Differences exist across countries in terms of representativeness, sampling methods, the definition of the household and the unit of analysis. Some countries track (pre or post tax) income and others expenditures, and surveys are not consistent in their approach to calculating the value of household production, income from self-employment and adjusting for seasonality. Thus it is not surprising that the results of different surveys conducted in the same countries produce inconsistent results (Atkinson and Brandolini 2001). Summarizing the quality of the evidence in Latin America, Szekely and Hilgert conclude that inequality rankings in that region have more to do with methodological issues than the actual extent of economic inequality:

Surprisingly, our analysis shows that the impression obtained about the ranking of countries in terms of inequality, and that our ideas about the effect of inequality on other development indicators, can be a mere illusion caused by differences in the characteristics of household surveys, and by the way in which the data are treated (1999, 43).

We therefore need to approach claims about the relationship between inequality, growth and globalization with a good deal of care.

Nevertheless, the poor coverage and lack of comparability of these data have deterred some of the more intrepid observers from formulating propositions about these relationships. Perhaps the most well known among these is the World Bank's 2002 report entitled *Globalization, Growth and Poverty: Building an Inclusive World Economy* (World Bank 2002). The report ranks countries according to the rate of change in their trade to GDP ratios. Countries in the top third are 'more globalized' and in the bottom two-thirds 'less globalized'. The main empirical finding is that more globalized countries, according to this definition, have grown faster with no increase in inequality.

As numerous critics have pointed out, the trade to GDP ratio is a rather poor indicator of trade openness since very small countries and countries rich in natural resources generally record higher ratios regardless of the trade regime (Wade 2004). The relative change in the trade-GDP ratio makes even less intuitive sense, since it groups relatively closed economies like India among the globalizers while Indonesia, previously feted by the World Bank for its wide-ranging liberalization programs, becomes 'non-globalizing'. Combining this classification with growth and distribution data, the report concludes that globalizers grew faster and reduced poverty more quickly because openness is not associated with worsening income distribution. According to the World Bank, countries should therefore

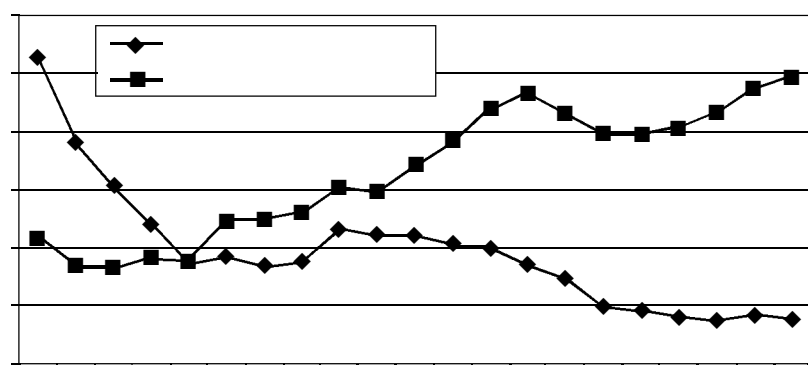


liberalize their trade and investment regimes to achieve rapid economic growth and poverty reduction.

Aside from the problems of definitions and data consistency, it is interesting that the strongest empirical argument is that trade liberalization bears no systematic relationship to income inequality. This is some distance from the confident prediction found in most economics textbooks that free trade is a powerful force for equality. The case of China is important in this respect given the coincidence of unprecedented rates of economic growth and a pronounced trend towards income inequality. If liberalization is good for equality, why has the 'workshop of the world' moved from its position in 1978 as one of the most equal countries in the world to its present status as one of the most unequal societies in Asia? The rise in inequality in China has also slowed poverty reduction, with some observers concluding that absolute levels of urban poverty actually increased during the period 1988 to 1995 (Khan and Riskin 2001).

The World Bank report explains the rise of inequality in China as a product of uneven development, of rising inequality 'between the rural areas and the rising urban agglomerations, and between those provinces with agglomerations and those without them' (World Bank 2002, 48). These factors have certainly contributed to growing inequality in China. Rural-urban income disparities are larger in China than in other countries in the region, and there is a pronounced east-west divide in per capita incomes (Yao, Zhang and Hanmer 2004). But as 60 percent of the population resides in rural areas, intra-rural inequality remains an important factor in overall income distribution. Dramatic reductions in poverty were achieved in the early years of reform through an egalitarian redistribution of land at the time of decollectivization. As shown in Figure 5, the first half of the 1980s was characterized by a sharp drop in poverty and almost no change in recorded inequality as agricultural productivity and incomes rose. But inequality rose sharply over the ensuing decade as public investment was redirected to industrial areas and price controls discriminated against agriculture. During this period wage employment has emerged as the second largest income source in rural China. However, as access to waged jobs is unequal the growing importance of wages has resulted in a sharp increase in rural inequality (Khan and Riskin 2001).

Figure 5. Poverty and Inequality in China, 1981-2001



Source: Ravallion and Chen 2004

Inequality in China is not 'natural' or inevitable, but is the outcome of explicit policy choices made by the Chinese leadership. Policies that restrict rather than spread access to wage employment reinforce existing economic and social inequalities and reduce the poverty-reducing effects of growth. Public investment in rural infrastructure directly creates employment and has multiplier effects as private investment flows into regions with good roads and rail links and reliable telecommunications, power and water supplies. The rise of inequality in China has also been accompanied by a substantial reduction in the access of the poor to education and health services and to pensions. Household income is now the dominant factor in health and education spending, which amounts to the *de facto* privatization of these services. Low educational attainment in rural areas places strict limits on opportunities for rural people to enter into wage employment (Liu 2005). The erosion of enterprise based social security mechanisms has not been replaced by universal provision, with the result that illness, disability and old age are increasingly associated with poverty (Khan and Riskin 2001).

Another important factor is the *hukou* or household registration system. Like Vietnam, China attempts to regulate migration and access to urban jobs through a residential permit system. Although the rules have been relaxed in recent years, the system is still an obstacle to rural people seeking urban wage employment. Once in urban employment, unregistered migrants are subject to manipulation, exploitation and abuse because of their lack of legal rights to urban residence. Temporary urban residents also have to pay more for education and health care. The *hukou* system thus contributes to rural-urban inequality and intra-urban inequality, as temporary rural residents



increasingly form an underclass of low wage workers who do not enjoy the legal rights of other urban people.

Recorded inequality has changed little in Vietnam during the reform period. The national Gini coefficient calculated on the basis of the Vietnam Household Living Standard Survey was 0.37 in 2004, up from 0.34 in 1993. Yet most observers agree that Vietnam's policymakers cannot afford to be complacent. Vietnam is still at the relatively early stages of industrialization, and it is possible that the factors that have driven inequality in China will grow in importance in Vietnam as the process unfolds. As in China, a shrinking proportion of the workforce is covered by enterprise-based social security mechanisms, and universal mechanisms have not been put in place. Vietnam increasingly relies on user fees to finance health and education spending, and the quality of education has emerged as a major concern. Like China, wage employment in Vietnam has grown rapidly, and has emerged as a major source of employment within rural as well as urban areas. Vietnam also retains its own household registration system, which still imposes costs on migrants and limits the access of rural people to better urban jobs. We can therefore expect intra-rural and intra-urban inequality to increase in Vietnam unless policies are put in place to spread access to wage employment more evenly and to moderate the impact of health and education costs on the welfare of the poor.

3. Policies to promote equality

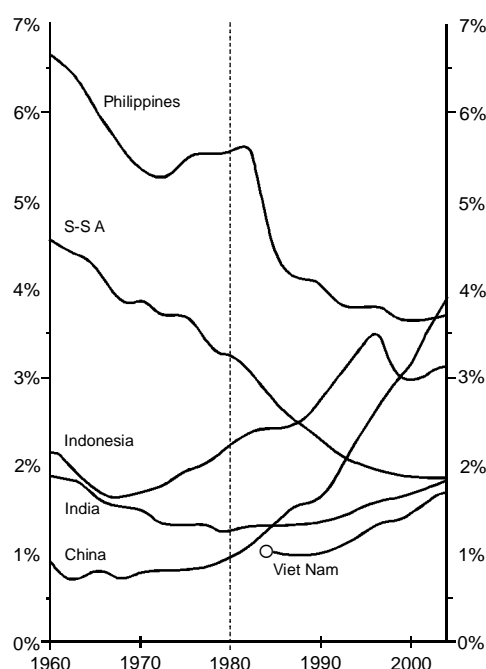
Thus far I have argued that the relationship between economic growth, liberalization and inequality is more complex than either the pro or anti-globalization camps suggest. I have also indicated that the level and trends in world and within country inequality are sensitive to policy choices. Although I do not have time today to provide an exhaustive list of policies to address the problem of inequality, I would like to draw your attention to a few areas that I believe, based on my limited knowledge of Vietnam, are relevant to the reform process in this country.

Vietnam has had an unusual degree of success in moving up the international wealth rankings on the basis of sustained, rapid economic growth (see Figure 6). But we should not lose sight of the fact that Vietnam began from a low base due to the prolonged national struggle for independence and unification. Earlier I discussed the importance of manufacturing in harnessing exports to growth, and Vietnam's excellent



performance in this regard during the *doi moi* period. As a small economy, access to major global markets is essential to maintaining a high rate of export growth and achieving economies of scale. World Trade Organization (WTO) accession will regularize the country's access to country's representing 97 percent of global trade. But it will also open up the domestic market to import competition, forcing national firms in non-traditional export sectors to accelerate the process of technological upgrading and learning. Foreign Direct Investment (FDI) can help in this effort to the extent that foreign firms bring with them superior technologies and management practices. Yet FDI itself will not be sufficient. Vietnam will need to consolidate national strategies to develop domestic technological capabilities, including a strong emphasis on improving the quality of higher education, incentives and state support to stimulate research and development activities and innovative policies to integrate domestic firms into international supply chains.

Figure 6. GDP Per Capita as Share of OECD



Source: World Development Indicators, author's calculations



Vietnam's WTO trading partners could facilitate this process by making the current Doha round of global trade negotiations a real 'development round'. In 2002, industrial countries' subsidies to their own farmers were larger than overseas development aid by a factor of six (Stiglitz and Charlton 2005). Escalating tariffs, which tax primary commodity imports less than processed foods, still represent a major obstacle to natural resource based industrialization in the developing world. The Trade Related Intellectual Property Rights (TRIPS) Agreement should be reviewed and provisions that impose large costs on public health provision in the developing world should be adjusted or removed. Clearer international standards on the use of safeguards should be agreed to prevent rich countries from using anti-dumping provisions as a non-tariff barrier against the developing world.

Financial liberalization increases the risk of crisis in developing countries. In many cases liberalization has been followed by massive capital inflows, real exchange rate appreciation, inflation and higher interest rates, leading to yet more capital inflows. As the flood of capital and credit chases a limited supply of domestic investment opportunities, asset prices are pushed up, leading to 'wealth effects' and even more lending. Unless corrective action is taken to control capital inflows and credit, the speculative bubble eventually bursts with serious repercussions for growth and distribution (Ocampo 2002). The structure of the international financial architecture needs to be revisited to minimize the risk of financial crisis and to provide countries with the policy space that they need to undertake counter-cyclical macroeconomic policies. This would entail increased surveillance and regulation of international capital flows and ensuring that adequate attention is given to the social dimension in adjustment programs.

Earlier I introduced T.H. Marshall's concept of social citizenship as civil, political and social rights combined with the duty to contribute to the community. Social citizenship emphasizes the close relationship between equal rights before the law, in political life, and to a level of economic well-being consistent with health and human dignity. Social citizenship implies solidarity and the development of democratic institutions as a product of universal rights to basic services and social security.

Social citizenship is certainly a worthy aspiration, but is it realistic to advance such an idea in a developing country like Vietnam? Can Vietnam aspire to universalism or should the government target its limited resources to the poorest and most vulnerable?

Targeting is an appealing notion, and one often favored by budget-conscious economists. But as Amartya Sen once wrote, 'Benefits meant exclusively for



the poor often end up being poor benefits' (Sen 1995, 14). Poor and vulnerable people generally lack political power and status in the community. If they are the only recipients of public services and public assistance, the quality of these services and assistance will necessarily deteriorate because no one with status or power is much concerned with them. This resonates with Marshall's social citizenship. In the absence of shared rights and duties, society will fragment along the lines of class, ethnicity or other sources of identity. Social solidarity must be created on the basis of shared rights and duties.

This is certainly true in the case of social health insurance. If social health insurance is only for the poor, it is poor insurance. If the only subscribers are high risk, low contributing households, the system will not pool risk in a sustainable manner. It would be far better to include everyone, rich and poor, in a compulsory social health insurance scheme. If better off households would like to buy additional insurance to supplement the public scheme that would be up to them. But they would also have the duty to contribute to the shared program.

Another problem with targeting is that it is inefficient. Too much money is spent collecting and sorting through information to decide whom to target, and running bureaucracies to deliver benefits to the select few. Peter Lindert, in his excellent book *Growing Public*, concludes that the most successful social policies have combined universalism with relatively flat taxes that encourage enterprise and labor. In fact, he sees these two sets of policies as a single package:

The two principles, the budget-stakes principle and the efficiency of universalism, are probably linked politically. Having committed themselves to universal entitlements, social democrats have had both the political need and the political chance to favor pro-growth tax mixes. It is easier to pass pro-growth, relatively regressive changes in the tax structure if the left opposition can be calmed by a commitment to spend tax proceeds on universalist safety net transfers (Lindert 2004, 36).

In other words, universal entitlements remove the need for complicated progressive tax regimes that either discourage people from working harder or encourage tax payers to spend their time trying to find ways to avoid tax. It also creates a need to make sure that everyone pays their fair share.

So universalism is more efficient and sustainable than targeting. Take pensions as an example. In Vietnam, poverty is increasingly associated with old age, as traditional support mechanisms teeter under the weight of social and economic change. One solution would be to provide cash benefits to older people whose incomes fall below a certain threshold. But carrying out such a



means test would be expensive, and in the end we would miss some of the poor. Other countries have decided to provide small universal pensions in the first instance to people of a very advanced age, say 75 years old. Finding these people is not difficult as everyone has an identify card. Administration of the program would be cheap, and it would help build social solidarity and the sense that society respects older people. Research has shown that older people in developing countries consistently use social pensions of this sort to support their children and grandchildren, contributing to education expenses and helping families cope with unexpected life events (HelpAge International 2004). So the program would provide a universal, effective means of tackling poverty and increasing social security.

Some might argue that in the globalization age national governments can no longer provide social security. They argue that international competition forces countries into a 'race to the bottom' to cut wages, taxes and hence social spending. But the evidence runs in the other direction. After surveying the experiences of Europe and North America, Lindert concludes:

Greater openness to international trade (and investment) makes a country use more, not less, taxes for social transfers...Surprising as it may seem, countries that have chosen to remain more open to international trade competition have also chosen to channel more taxes into social transfers (Lindert 2004, 186).

Dani Rodrik reaches a similar conclusion (Rodrik 1998). The logic is that successful globalizers help their citizens cope with the risks that international economic integration necessarily brings with it. Failure of the state to help in this way undermines the integration process itself, leading to less openness.

Finally, policies to reduce inequality must have a civil and political dimension. Promoting respect for democracy, the rule of law, accountability and transparency sweeps away institutionalized inequalities and builds solidarity. It is essential that women and ethnic minority groups enjoy the same political and civil rights, and that a special effort is made to enable vulnerable groups to take part in the political process. Social citizenship will not build stable democratic institutions if these rights are not universal.

4. Conclusion

The title of my presentation today includes a question: 'economic reform for whom?' I am sure that by now you will know how I would answer this



question. Economic reform must be for everyone. Vietnam has made great progress in building the economy, society and democratic institutions during the period of reform. But I do not have to tell you that the hard part is yet to come. There will be many challenges to face, some of which you will be ready for, and others that will take you by surprise. The main message that I would like to convey to you today is that meeting these challenges will be easier if you have used the opportunity that you have now to cultivate a strong sense of solidarity among all Vietnamese people. A have proposed that that next phase of *doi moi* will consist of the development of social citizenship based on universal civil, political and social rights, combined with a shared duty to contribute to the community.

And what of this process of economic integration that we like to call globalization? Pranab Bardhan put it well when he said, 'globalization is often not the main cause of [our] problems, contrary to the claim of critics of globalization; just as globalization is often not the main solution of these problems, contrary to the claim of some over-enthusiastic free traders' (Bardhan 2005).

Globalization is like a beautiful new automobile. It is sleek, shiny and can be captivating. Steered carefully, it can be a very useful device for taking you from one place to another. But in the wrong hands it can be very dangerous indeed, even deadly. Operating it needs maturity, patience, and especially in Hanoi, a considerable amount of courage.

Based on your past performance, I have every confidence the Vietnam will be an excellent driver of the globalization vehicle in the years to come. My only advice would be: let's make sure we take everyone along for the ride.

Thank you very much for your kind attention.



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SUMMARY OF THE PLENARY DISCUSSION

The plenary discussion was started by Dr. Vo Dai Luoc, Dr. Le Dang Doanh, and responses by Prof. Jomo. Due to time constraints several other participants could not contribute to the discussion of the panel.

Dr. Vo Dai Luoc

First, he thanked the author for his interesting presentation which mentioned many issues of development in various countries. Dr. Vo Dai Luoc then raised a question concerning inequality. He wondered whether all sorts of inequality are bad and hence should be eliminated? He gave an example of China in 1978 compared to today. In 1978, the country was much better off in term of equality and equity than nowadays but it was also much poorer. Dr. Vo Dai Luoc asked the question of which society – more equal and poor or more unequal and rich – is better off? He concluded that inequality is a price of development and a market economy. He argued that if the talented have the same salary as everybody else, there would have no motivation for to contribute more and hence would hold back the development of society as a whole.

He further noted that there are two types of inequality: one that promotes development, such as the gap between the talented and the ordinary people, and one that is negative for development, such as corruption. The first type of inequality should be accepted while the second type should be eliminated.

He also emphasized that Vietnam does not prioritize equalizing everything except poverty alleviation and hunger eradication.

Dr. Le Dang Doanh

The relationships between inequality and globalization, the concept of social citizen, and household registration policies in Vietnam and China that were



presented in keynote speech were acknowledged and appreciated as remarkable findings of the authors.

He expected that the author would push it further by prioritizing activities and identifying the route of development. For instance, should the order of prioritization be globalization, social security, social citizen, jobs, and political institution or can it be done in any order?

Prof. Jomo Kwame Sundaram

Prof. Jomo disagreed with Dr. Vo Dai Luoc and expressed his opinion that rapid increase of inequality is not requisite nor desirable for development. He gave examples and lessons from neighboring countries like Japan, South Korea, and Taiwan. Specifically, inequality remained low in Japan in the 1990s and the country did not have any sign of increased inequality until the 'big bang'. Similarly, no sign of increased inequality appeared in Taiwan. This viewpoint was strengthened by the argument that social conflict is very expensive and it is not good for the economy.

In response to Dr. Le Dang Doanh's question on prioritization, Prof. Jomo raised an additional issue of long-term versus short-term vision. He warned that target programs are good, effective and should be prioritized in some situations, but they should be used only as supportive programs. He suggested that a country should not count on such programs for long-term development because they are not sustainable. He suggested that financial liberalization should be prioritized for sustainable development. He also underlined that from the macroeconomic point of view, it is not employment but inflation control that should be prioritized.

Finally, he agreed that Vietnam cannot afford everything at once. In his opinion, the country could in fact afford much more than one thinks. He noted that orientation, commitment, and political will are much more important than ever when one wants to look at social policies seriously.



PANEL 1:

Keynote Presenter:	Prof. David Dapice	John F. Kennedy School of Government, Harvard University
Panellists:	Mr. Seth Winnick	Consul General of the United States, Ho Chi Minh City.
	Mr. Omkar Shrestha	Deputy Country Director of ADB in Vietnam.
	Mr. Dinh Hinh	The World Bank, Lead Economist.
	Dr. Le Dang Doanh	Ministry of Planning and Investment.

FEAR OF FLYING: WHY IS SUSTAINING REFORM SO HARD IN VIETNAM?

Prof. David Dapice

1. Background

It has been twenty years since the *doi moi* reforms were launched in Vietnam and the economy has been transformed in that time. The well-known turnaround in agriculture – from hyperinflation and food shortages to price stability, higher rural incomes, and top-tier global rice exporter – has often been told. On top of this have come successes in coffee, rubber, seafood and fish, and many other agricultural products. “Going private” in agriculture was an astonishing success that reduced poverty more than anything else in the first decade of reform. Poverty declined from about $\frac{3}{4}$ to under $\frac{1}{4}$ in two decades, in spite of the collapse of the Soviet Union, the major aid giver and trading partner of Vietnam.



Then there was the striking decision made in 2000 to allow easy registration instead of licensing of most formal private business. The result was over 120,000 new firms, millions of jobs and billions of dollars of investment capital mobilized. In terms of gross industrial output, the share of the domestic private sector has risen from 1/4 in 2000 to 1/3 in the first quarter of 2006, taking more or less equal shares from both the state and foreign sectors. The state's share in industrial output growth is now only 15-20 percent, in spite of taking higher levels of capital and educated workers than the private sector. Here again, relying on the private sector has paid off incredibly well, helping to extend the reductions in poverty and accelerate GDP growth from an already healthy level.

There has also been an open door policy to most forms of foreign investment, and after an initially slow period after the Asian crisis, it appears that foreign interest in Vietnam is growing strongly. Part of this might be due to increasing tensions between Japan and Taiwan (two major investors) and China. Increasing reluctance to put all their FDI eggs in the China basket has helped Vietnam, but improving policies, infrastructure, and productive and fast-learning literate labor have also contributed. Certainly, the interest of Intel and Microsoft comes not only from cheap labor! Approved licenses for new investment and higher allowed reinvestments in existing projects exceeded \$5 billion in 2005, and realized FDI should be \$3 to \$4 billion in 2006. Inflows in 2000 were under \$1 billion. This is a high level of FDI, higher even than China's on a per capita basis.

The growth in exports is another indicator of success. Exporting requires efficiency – one is competing against the lowest cost suppliers in the world. From \$2.1 billion in 1991, exports grew to over \$32 billion in 2005. This is a compounded growth rate of 21 percent a year over fourteen years. Moreover, there were many products that exceeded \$500 million in export value – crude oil, coal, garments, footwear, seafood, rice, coffee, rubber, electronics and furniture. Vietnam is proving its competitive ability in agricultural raw materials, minerals, labor-intensive goods, and even some higher value-added goods. It is significant that export growth continues even into 2006 at a rapid rate (25 percent), and entry into the WTO should help maintain future progress.

Indeed, given the declines in poverty, growth in real GDP, exports, and industrial output, improvements in education and health, and obvious signs of prosperity in the cities, some might simply give Vietnam a grade of "A" and be done with it. Those familiar with the author's habit of analysis will not be surprised to find this is not his conclusion. Not only in spite of but because of the very successes outlined above, it seems to be difficult for Vietnam to



move decisively in the direction that its past remarkable successes clearly indicate. Vietnam's leadership is not stuck, but it is torn. Parts of it fear that giving ground too quickly on state owned production would be dangerous politically, even if sound economically.¹ Because so much of the legitimacy of the government and Party is built not only on the resistance struggles, but also on more recent and very positive social and economic accomplishments, this position might be hard to understand. The paper will analyze it from a foreign economist's perspective. Its conclusions may inform future discussion concerning the right mix of policies going forward.

2. The first decade

Vietnam tried to graft central planning on top of a poor, rural economy after the 1975 unification of the country. In the north, the ending of war and familiarity with collective agriculture allowed for little progress – a 22 percent rise in food output from 1974 to 1986, which was slower than population growth. This approach also worked poorly in the south, where the drive to collectivization was passively resisted. However, increasing cultivated area for annual crops by 30 percent via irrigation investments and introducing improved varieties helped boost 1986 rice output by 39 percent over 1975.² Even so, there were food shortages and hyperinflation. (The latter was a monetary phenomenon, but it could not have helped to improve the allocation of resources.) Output of paddy in all of Vietnam rose from 11.8 million tons in 1976 to 15.1 million in 1987, a 28 percent increase. But since population grew 27 percent in the period, there was virtually no improvement in per capita rice availability. It was not impressive for a country recovering from war.

After the *doi moi* reforms, food output rose to 25 million tons by 1995, a 65 percent jump over 1987, or about 40 percent per capita. This jump, along with a loosening up of labor movement, helped to push poverty rates down sharply. Poverty rates described as “well above 70 percent” in the mid 1980's³ fell to 58 percent in 1993 and 38 percent in 1997-8 – a probable halving in 12 years.⁴ Output of real GDP rose in a similar manner, with growth of 7-8

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1. Some others think that state-led heavy industry is needed – both politically and economically.
 2. Rice output in the South had grown 45 percent from 1965 to 1975 in spite of the war. See Appendix to *The Rice Economy of Asia*, Beth Rose, 1985 *Resources for the Future*, p. 156.
 3. This comes from p. 35 of *Doi Moi and Human Development in Vietnam, 2001*, National Centre for Social Sciences and Humanities, Hanoi, 2001. Poverty estimates in the 1980's are educated guesses.
 4. The 1993 and 1997 poverty estimates come from the Vietnam Living Standards Surveys, supported by the UNDP and the World Bank. They are generally regarded as reliable.



percent a year in the 1987-96 period. Estimates of real output growth in the earlier 1980's are unreliable due to many factors, but electricity output rose 56 percent from 1980 to 1986, 73 percent from 1986 to 1992 and 115 percent from 1992 to 1998. Taken together with the progress in agriculture, there is every reason to believe that real output also saw a 50-100 percent faster rate of growth under *doi moi*. Indeed, it was not just that output grew faster – it was also more attuned to the market. If exports are any indication of ability to respond to market opportunities and tastes, then the progress is nothing short of astonishing. In 1986, exports were about \$500 million, or less than ½ of imports of \$1.1 billion. By 1997, exports of \$9.2 billion were equal to 80 percent of the \$11.6 billion in imports. This 18-fold jump in exports created a huge opportunity to buy both capital goods and consumer goods. Because of aid, remittances and FDI the trade deficit was easily financed. Inflation remained low and the exchange rate depreciated at a controlled rate that reflected a desire to maintain competitiveness.

The social indicators also improved during this decade. Enrollments in primary and middle schools, already high for a low-income country, grew more or less in line with student-age populations, but the enrollments at secondary and tertiary levels showed sharp gains. Secondary students actually dropped from 911 thousand in 1986/87 to 564 thousand in 1992/93 as subsidies were cut back, but then jumped to 1390 thousand in 1997/98. (The population of 15-17 year olds rose 17 percent from 1986 to 1997, but secondary enrollments rose 53 percent.) The collapse of the subsidized education system was overcome by increased spending from private sources, and also from public sources after an initial period of austerity. In tertiary education, the students dropped from 126 thousand in 1986 to 107 thousand in 1991 but then rose to an astonishing 663 thousand by 1997! While quality issues remained a concern, the raw numbers showed impressive gains.

The health data also show gains from an already impressive level. The under-five mortality rate was estimated at 82 per 1000 in 1979-83, falling to 69 in 1984-88 and 55 in 1989-93. (These estimates are based on intercensal demographic surveys from the General Statistics Office (GSO) – different sources show different estimates.) By 1997, the rate had fallen to 40 per 1000, similar to the 38 of Thailand with more than triple Vietnam's per-capita income. Improvements in nutrition and an ability to buy medicines, along with an aggressive vaccination program helped to bring life expectancy up to levels typically associated with middle-income countries. By 1997, men had a life expectancy of 66 years and women of 71, again virtually identical to Thailand's level, close to that of China and actually better than that of Brazil.



However, the very successes of the economy and the society gave rise to a perverse caution and even reaction within the leadership. Highly dubious and low-return government investment projects were initiated. (The north-south power line was rushed through, reportedly against the advice of technical specialists. It delayed the development of adequate thermal generating capacity and contributed to uncertain power supplies.) Import-substituting industrialization, often in forced combinations of foreign investors and state enterprises, created bad feelings and high costs. There was glacial reform in privatizing (or even equitizing⁵) state enterprises⁶ and the financial system. The regulatory system was heavily stacked against formal private sector businesses of any but the smallest sizes. One World Bank study found most of the reform in Vietnam up to 1996 came before 1991 – that is, before significant aid flows!⁷ As aid increased, the share of the state in total investment actually increased. By 1997, the state sector accounted for over 47 percent of gross industrial output, while households had 14 percent and mixed and foreign-connected output (including oil) covered another 36 percent. Formal (larger) private and collective industrial output accounted for all of 3 percent of total industrial output!⁸

It was almost as if there was an ideological preference for inefficient investment and policy. This preference was indulged in good economic times but was adjusted when economic hard times or disaster threatened. This approach was not likely to produce the fastest poverty reductions or the most equitable outcomes, but it did create a kind of political equilibrium within the various elite groups. While the increase in oil, aid and over-enthusiastic FDI did provide a period of high growth in the 1990's, the growth was not self-sustaining. While the momentum of agricultural and price reforms created real progress and helped to reduce poverty, the lack of deeper reforms in the first decade set the table for a slowdown following the Asian financial crisis. This is in spite of rapid advances in electricity, roads, and other infrastructure. The problem was not “hard” but “soft” infrastructure – the lack of institutions and policies that recognized constraints to production and acted to reduce them, and thereby liberate and regenerate even more productive forces. The economy was still somewhat inward looking.

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5. Because of aversion to “private” firms of any size, the solution to inefficient state enterprises was to turn them into joint-stock companies with state entities owning a controlling share. This is called “equitization.”
 6. The often-quoted reference to “thousands” of SOEs being privatized in the early 1990's is misleading. They were mostly small, local enterprises outside of the central planning system, accounting for little employment, capital or output. The resources were easily redeployed locally as the economy grew.
 7. *Assessing Aid, What Works and What Doesn't*, World Bank, Oxford, 1998, p. 107.
 8. *Statistical Yearbook, 1999*, Statistical Publishing House, p. 168.



The limited positive role of the state shows up in changes in employment over the 1990's. State sector employment, including government and state enterprise workers, dropped from 4.1 million in 1987 to 3.1 million in 1991. It briefly dipped a bit more (2.9 million in 1993) and then crept back up to 3.27 million in 1997. (In 1987, total labor force was 28 million and in 1997, it was 37 million.) *So, over 100 percent of all new jobs created from 1987 to 1997 were outside of the state sector.*⁹ The state share in 1997 was only 9 percent of all jobs. This is a negligible role for the state in a critical variable. Without new job creation, there is no equity or stability.

In comparison, investment outlays from all state sources compared to total investment fluctuated at around 50 percent during the 1990's, with a distinct rise in the second half. It has to be said that only state and foreign investment estimates are even somewhat reliable – the domestic private sector was not only small, but was also often invisible to the statisticians – or at least was for much of this period up to 1995. Starting in 1995, when there was an industrial census, the coverage improves somewhat. In any case, the state share of investment was 42 percent in 1995 and 58.6 percent in 1999, a real increase of over 110 percent. The private sector grew 34 percent in the same period and the foreign sector actually declined 12 percent in real terms. By 1999, the foreign share had fallen to 17.3 percent (from 30 percent in 1995) and the private domestic share was 24 percent in 1999, down from 27.6 percent in 1995.¹⁰ While some of the state investment jump was due to needed increases in roads and other infrastructure, much of it went to ill-chosen projects or inefficient state enterprises that created few jobs. It is hard to have reform when the state takes a large, growing and inefficient role in investment, and that is where Vietnam was by the later 1990's.

2.1 Regional equity?

An important political and economic factor in growth is regional balance. That is, all of the growth should not take place in and around one or two cities. The *doi moi* agricultural reforms were notable in their wide impact – thus the rapid and large poverty reduction. Most FDI is concentrated in a few provinces – Hanoi, Ho Chi Minh City (HCMC), Dong Nai, Binh Duong and Ba Ria – Vung Tau.¹¹ Therefore, there is political pressure to use state

9. Growth of state jobs from the low point in 1993 to 1997 still accounted for only 8 percent of all job growth.

10. The investment data change over time with revisions. These are taken from Table 174 of the 2002 Statistical Yearbook.

11. In The Real Situation of Enterprises, Table 14, the 2003 capital data of operating foreign enterprises shows 85 percent of capital in those five provinces. Licensed FDI is somewhat more evenly spread but still quite concentrated in and around the two major cities, even in 2006.



investment as an “equalizer” and ensure that growth spreads beyond the two major metro-areas. One notable investment decision, the Dung Quat oil refinery, was made with the justification of regional balance. Of course, it made no economic or financial sense. Many foreign oil companies, interested in participating in building a refinery, exited when that location was required. Why build a refinery far from either raw material sources or major markets in a typhoon area? Even Petro-Vietnam wanted to build it in a commercially sensible place, at least as expressed in private conversations with the author. However the decision was made to proceed in Quang Ngai.

The delays and cost increases that followed were predictable. High refining margins now¹² would allow an operating refinery to recoup part of its expense, but by the time Dung Quat is operating, the margins will probably again fall towards the \$4-5 per barrel (\$35 per ton) level that is more typical of most operating experience. In normal times, the higher transport and capital costs will simply mean either higher prices of petroleum products for consumers or subsidies from the government to cover losses or low returns. This will hurt all enterprises and consumers. Ironically, it will help Quang Ngai very little. In spite of putting large investments into infrastructure, there will be few jobs or linkages into the local economy not driven by further state investment. The neighboring province, Quang Nam, has a better chance to develop FDI and local industry and a sustainable and growing economy if it can implement its “open door” policy.¹³ Successful regional development is seldom achieved by uneconomic and capital-intensive heavy industry investments. A combination of smart infrastructure and a better operating environment, combined with training and targeted marketing, is far more likely to succeed. But the old system stays alive, using up capital and providing few of the equity benefits used in justifying itself, or doing so at a very high price.

If we take the period from 1993 to 1998 and use the two Living Standards Surveys, we find that real per capita spending jumped 79 percent in the Southeast, 57 percent in the Red River Delta, and only 19-33 percent in the Northern Uplands, Mekong Delta, Central Highlands or South Central Coast. So, while all regions were rising, the regional concentration began exactly in the period when state investment was increasing as a fraction of the total.¹⁴

12. The difference between the value of refined products and the cost of crude oil input is the “crack spread” and this tends to be cyclical. It can go as low as \$2-\$3 a barrel (159 liters) and as high as \$10 to \$15, but tends to average out to \$4-5 or so a barrel. The term is primarily used in commodity hedging.

13. A positive development is that Quang Ngai has asked for many of the same degrees of policy freedom and received them. However, proper implementation in either province will be complicated.

14. From Living Standards During an Economic Boom – The Case of Vietnam, Haughton, Haughton and Phong (editors), 2001, Statistical Publishing House, Hanoi, p. 41.



3. The second decade

Part of the large *relative* increase in state investment was due to aid and rapidly rising credit to state enterprises. But another part of the reason was due to actual declines in foreign investment and sluggish private investment growth. Part of the foreign decline can, of course, be tied to the Asian financial crisis, and the dire financial circumstances surrounding many of the firms that would normally have been investing. But it was not only that. As Vietnam expanded credit, it had its imports grow much faster than its exports. In 1992, exports and imports were about equal at \$2.5 billion each. By 1996, exports had jumped to \$7.3 billion but imports had soared to \$11.1 billion. The trade deficit in 1996 was more than the export or import *level* of 1992! The response to this was to impose various controls, including making it more difficult for import-competing firms to turn their *dong* profits into dollars and take them out of the country. In fact, a rule was made that most foreign exchange had to be converted to local currency, and the foreign exchange earned by the foreign firm had to be approved for their own external use. This did not impress foreign investors who backed away. FDI inflows (not just the amount licensed) had averaged \$2 billion from 1995 to 1997, but fell to under \$800 million in the next few years.¹⁵ That is a 60 percent decline.

In addition, the domestic private sector was weak and subject to demands from officials for payments for registration, permits and other necessary permissions. Private investment – more likely to be spread out among poor provinces than FDI and more labor intensive than state enterprises – was growing very slowly. In addition, the size of private firms was small and their level of technology was low. In 2000, there were exactly *ten* domestic firms without state or foreign capital that had total worth of at least \$33 million.¹⁶ The lack of supplier industries and FDI meant slower export growth and FDI inflows too, though the Asian crisis also hurt. Exports had tripled in dollars from 1993 to 1997, an annual growth of 32 percent. From 1997 to 1999 they grew at 12 percent. With a weak private sector, low and declining foreign investment, and an inefficient state sector it was not surprising that GDP growth faltered. From the 8-9 percent rate up through 1997, the official GDP growth rate (thought to be overstated by many) was 5.8 percent in 1998 and 4.8 percent in 1999.¹⁷ Of course, this is much better than the crisis-affected

15. Table 3.1 from Vietnam 2010: Entering the 21st Century, World Bank Report 21411-VN, 2000.

16. The Real Situation of Enterprises Through the Results of Surveys Conducted in 2001, 2002 and 2003, Statistics Publishing House, Hanoi, 2004, Table 3. It should be emphasized that \$33 million is not a large amount considering the (much larger) cost of even one medium sized cement plant.

17. World Bank Report 21411-VN, Table2.2B. The IMF estimated GDP growth in 1998-99 at under 4 percent a year, and in 2000 the official GDP growth figure of 6.8 percent contrasted with the IMF estimate of 5.5 percent. Note it is possible to underestimate the level of GDP and yet to overestimate the growth of real GDP.



economies, but Vietnam did not have a convertible currency or an international currency market in which banks or businesses could operate, so it was less vulnerable to capital flow shifts.

4. An aside: slowdowns, socialism and corruption

The slowdown caused some introspection among the leadership. Some had drawn the lesson from the Asian crisis that a more closed and controlled system was safer than a more open one. Capitalism caused crises and who wanted to be like Thailand or even Indonesia? On the other hand, slow growth was not acceptable either. Young people needed jobs, and many did not want to work in the low-income farm sector, which had been forced to absorb 74 percent of new labor force entrants from 1997 to 1999, compared to only 58 percent from 1994 to 1997. Such low non-farm job creation was not tolerable for a sustained period. Fundamental decisions had to be made. Would Vietnam negotiate a bilateral trade agreement with the US or not? (This was effectively a necessary prelude to joining the WTO and moving towards a more open economy.) Would it allow private firms to be created and grow with less interference? Some feared that doing so would undo socialism and give rise to instability. Others argued that instability would result from sluggish growth.

One of the more durable debates within some parts of the Vietnam establishment is about the correct definition of socialism. There are a variety of views. Some use the “classical” definition in which the state owns the means of production. Others say it is a philosophy, and others still say it is a political system with a single party that has essential control over the distribution of production. Those that might be called conservatives view a strong and large state sector, especially in industry, as critical to the strength of the Party. Those that might be called reformers or perhaps pragmatists are more willing to let efficiency dictate productive outcomes, which in practice means a relatively larger private and foreign share of output. This latter group argues that success is what creates stability and the Party will stay in power longer if it raises incomes broadly and creates a dynamic economy and fair society with basic social goods for all. In practice, these views overlap somewhat, and the usual overlay of ministry, provincial and personal competition will often determine the exact position of a person or group.

In addition, there is the force or factor of corruption. The Thai Binh troubles in 1997 illustrated the importance of reining in local officials who became



too oppressive.¹⁸ The case was not unique – in other cases the central government has had to set aside local leadership because of questionable activities. The PMU-18 scandal in 2005-06 shows that sometimes quite large amounts of funds are diverted from their proper uses, and few believe these are the only example of such activities, especially if land deals are included. To the extent that offices or positions are bought, and corruption is necessary to rise within the ranks, the very existence of someone who is not corrupt threatens those who are. Thus, those who are corrupt will often try to sideline or eject those who are not equally vulnerable. If everyone has dirty hands, no one will demand that others take off their gloves! To the extent that this is true, it makes it difficult for honest and competent people to rise in organizations that have become corrupt. To the extent that it is widespread, it makes it less likely that the state will be capable of doing those necessary things that help to create a competitive and open economy. If roads and infrastructure are poorly built or much too expensive or too elaborate, if international loans are used for poorly planned and overpriced state enterprise investments, or if many positions go to those with connections rather than talent, then the economy will not work very well, at least over time. Corruption threatens long-term stability and success. In extreme circumstances, it even leads to immediate discontent.

Thus, the debate in 1999 about the role of the private sector (above the household level) and of foreign investors was a difficult one. Was it safer to be more closed or open? Did a large and expansive state enterprise sector make it more or less difficult for the Party to remain in power? Did a more open system reduce or increase corruption? In effect, the answer was a compromise, but one skewed towards allowing foreign and private interests more of a role. The decision of China to enter the WTO was one factor, but the need for more job creation was also a consideration. However, there was still a commitment to have the state enterprise sector play a “leading role,” which can be understood as having a number of heavy industry “pioneer” state firms. It did not and does not mean that export, output or employment growth is mainly due to the state sector. Instead, it is a kind of industrial policy that seems to look at sectors that Japan or Korea developed in their earlier days, but tries to use state rather than private firms to implement the plans.

18. Briefly, Thai Binh is a northern province close to Hanoi with a proud tradition of supporting revolutionary struggles. Veterans and mothers of soldiers who died in war marched on government and Party officials they regard as corrupt and “arrested” them. The matter was resolved peacefully.



5. The enterprise law

The decision in 1999, implemented in January of 2000, to reduce regulatory barriers to private firms was a major decision, perhaps the largest since the agricultural reforms of the late 1980's. No longer did a business person need approval of an official to start a legal business – it was a matter of registering and submitting the form. Of course, it was not quite that easy, but surveys indicated that the time, money and uncertainty surrounding the registration of a new business dropped considerably.¹⁹ There had been fewer than 5000 new private business registrations a year from 1991 to 1999, and only 5000 in total prior to 1991.

The response over the next few years after the law was passed outstripped the expectations of nearly everyone. By 2005, over 120,000 new firms had registered – an annual rate of six times the 1990's!²⁰ While some businesses had existed as household firms and chose to “emerge” once it was safer²¹, most were really new. Of course, many of them died too. Estimates of gross industrial output growth from private domestic firms were typically 18-24 percent a year after the Enterprise Law took hold. Their share of industrial output was 33 percent in the first quarter of 2006, larger than the 30 percent state sector share. In terms of employment, there were about 1 million employed in both formal private and collective firms in 2000. (Collective and private are hard to separate in fact if not in theory; “private” includes single owners, partnerships and joint-stock companies.) By 2004, the labor force survey showed 3.3 million workers in collective and “private” (not household) firms. That is more than a tripling in five years. In the same time period, state enterprise employment in the economic sectors²² rose from 1.9 to 2.1 million, while total workforce rose from 37.6 million to 41.6 million. Thus the total workforce rose by 4 million or 11 percent. So, of the total increase in workers, the formal private sector had absorbed nearly 60 percent and the state

19. One Vietnamese expert, Madam Chi Lan, estimated that it still took 50-60 days and ½ of Vietnam's per capita income to register a private firm. However, this is much less than previously!

20. Surveys of firms do not show nearly so many actually operating. Even so, The Real Situation of Enterprises show the non-state firms to have numbered 35 thousand at the end of 2000 and over 64 thousand at the end of 2003. There were 14.5 thousand private firms registered in 2000 and 69 thousand more in 2001 to 2003. Aside from those really operating but missed in the survey, some may not yet have started up and others had gone out of business. This is one reason to prefer employment or output to registration data.

21. A World Bank survey estimated that 45 percent of the firms had informally existed before 2000. It is unclear if these and the really new firms were growing as fast before and only now are being measured, or if the more liberal registration procedures also allow faster private growth. The latter is likely given labor force data.

22. These include agriculture, industry, construction, trade, transport and communications.



enterprise sector only 5 percent. Agricultural workers and farmers remained stable, and workers in foreign-invested companies rose by perhaps ½ million, or 12-13 percent of the total increase in workers.²³ Those remaining, equal to one million or 25 percent, were absorbed in non-farm household or informal sector work.

If the formal private sector continues to grow above 18 percent a year and the foreign sector in the 12 percent to 18 percent annual range, it is likely that they will be able to absorb an even higher fraction of workforce growth in the next few years than the last five, given their now larger share of the total workforce. (State owned enterprise (SOE) industrial output growth is typically less than 10 percent a year, while total industry grows about 15 percent.) Since agriculture and much of the household and informal sector is often viewed as a “sponge” that provides livelihoods but not much of a future for young workers, it would be desirable to offer formal sector jobs to all new entrants. While some will choose to stay on the family farm or work in a household job, most would probably prefer to switch to higher paying formal sector jobs. There are also those workers who are now in agriculture or household jobs that would prefer to switch, even if they are not new entrants to the labor force. If the labor market can be tightened with sustained and rapid growth, then real wage rates would be forced up as they were in South Korea and Taiwan. Indeed, there are already signs of this. This would allow further progress in poverty reduction, but would also necessitate better technology and management so that productivity would rise in line with real wage rates.

5.1 The weak private sector

In spite of quite rapid growth, the private sector in Vietnam is still weak. In its current condition, it would have to improve considerably to deal with rising real wage rates. Using data from 2003, the wages of workers in private firms were only 50-60 percent of central-state or foreign firms. In terms of number of employees, only 144 private firms had over 1000 employees, compared to 446 state owned firms. In terms of capital, in 2003 there were only 44 private firms with assets over \$33 million, including 17 joint stock companies with some state capital invested.²⁴ Note that these are the very largest out of over 60,000 firms covered in the survey – less than one firm in 1000 for the capital size of \$33 million. The *average* private firm

23. Because of oil, the output share of the foreign sector is Q1, 2006 was 37.4 percent.

24. The Real Situation of Enterprises Through the Results of Surveys Conducted in 2002, 2003, and 2004, various tables.



has a few dozen employees and about \$3300 in capital per worker. These small and medium firms are not in a position to undertake research and development, or even serious technology surveys and acquisition. They find it difficult to penetrate foreign markets or even to qualify as suppliers in higher value-added supply chains. They are usually not well versed in using the Internet and their personnel often lack critical skills needed to compete in world markets.

This weakness is one reason why non-oil exports are growing much faster from foreign enterprises than from domestic firms. Indeed, non-oil exports from foreign firms were \$3 billion in the first quarter of 2006 while non-agricultural and non-oil exports from domestic firms were \$2 billion.²⁵ It is, of course, possible to have foreign firms be the “leading sector” and this has worked well so far. But unless local firms develop low-cost supplier chains (and these local firms will almost certainly be mainly private), it may be difficult to compete with countries where this advantage exists. Moreover, if Vietnamese firms export themselves, rather than through other foreign firms, they will certainly become more familiar with foreign tastes, trends, and necessary technologies. It would be highly desirable to find ways to help the private sector grow stronger, both for deepening domestic supply chains and for direct exports. How would this be done?

There have been many surveys done asking private firms questions about constraints to growth. Many items are mentioned – capital, land, technology, markets, skilled workers, and – especially – unfair or excess competition. Interestingly, corruption is **not** often mentioned by the private sector, even though international surveys find it is growing. A skeptic will say that any sector growing at 20 percent or so each year is finding ways around the barriers that exist. So long as private sector output and employment grow quickly, and overall exports are strong, why should it matter if private firms have barriers?²⁶

Prof. Ari Kokko, a specialist who studies private firms in Vietnam, argues that even if corruption is predictable and of relatively small amounts, it may still be a barrier. Bidding on construction and procurement is difficult or costly. Rules are set so that state enterprises get the primary contract and

25. This is from Intellasia, April 7, 2006. It provides data for a limited number of export products and it is assumed that all enumerated agricultural and seafood products are exported by domestic firms. It also shows exports by ownership. There is nothing wrong with exporting agricultural products, but they do not constitute “manufactured” products that have a capacity for rapid growth.

26. A recent paper by Katariina Hakkala and Ari Kokko, “The State and Private Sector,” February 2006, surveys the state of constraints and state policy nicely.



then dole out subcontracts to private contractors that do the work at a lower cost for little profit. Land development deals are often effectively reserved for state firms or officials. If the land issue is “solved” by renting in an industrial zone, there is no collateral for buying capital equipment. In short, as Kokko points out, there is a “missing middle” (and one might say, also a missing top) of the distribution of firms. “Most of the registered enterprises fall into the SME category: 95 percent [if] defined in terms of employment (less than 300 workers) or registered capital (less than VND 10 billion (\$630,000),”²⁷ Meanwhile, the number of SOEs continues to number into the thousands, and the larger ones by capital or output have not been equitized. The development of a legal system that would provide real security is proceeding very slowly. The new Unified Enterprise Law is supposed to create a “level playing field” but if comments on drafts are accurate, it falls far short of doing that. It could well be that SOEs retain a favored position for some time. Given their small share of industrial output growth this might not matter, if they did not also absorb considerable capital and educated manpower and use them poorly.

6. *Vinashin*: industrial policy or wasteful spending?

One example of how supporting SOEs can undermine efficiency comes from *Vinashin*. This is a state shipbuilding firm that has signed a contract to build 15 ships of 53,000 tons. The price per ship is reportedly \$26.5 million, an amount very nearly equal to the variable costs of labor, materials, supplies, power and insurance. Excluded from the amount is any significant return to the shipyard in which the ships will be built.

How much should a modern ship yard cost? In India, a modern shipyard with dual dry docks for 120,000 ton ships is being built for \$90 million.²⁸ Reports in Vietnam put the cost at about \$150 million. If two ships can be built side-by-side and if it takes 18 months to complete a ship, then (at 10 percent cost of capital a year²⁹), about \$10 million in fixed costs is *not* covered for each ship built.

27. Hakkala and Kokko, Op. Cit., p. 6

28. The data come from ABG Shipyard Limited, an Indian private firm which provided the data as part of an initial public offering in late 2005. How many Vietnamese private firms raise new funds this way?

29. It is true that the cost of the loan was only 7.25 percent, but that was a sovereign debt taken on by the government. Onlending to a company should result in a higher cost of capital, and most companies would feel very lucky to get long-term hard currency finance at 10 percent a year, if it were available at all.



Vinashin was at first reported to have been allocated all of the \$750 million commercial bond issue that was floated last year. They have an overall plan to invest \$3 billion in shipyards, steel mills, and other supplier industries. This investment would make *Vinashin* equal to $\frac{3}{4}$ the size of Hyundai, the world's largest ship builder with a 15 percent global market share. There is no indication that *Vinashin* has the technical or managerial capacity to justify such a large market share.

There is a plan for ship building in Vietnam to reach 5 million tons a year (about 10-12 percent of current global output) by 2015, with an export value of \$1 billion and exports equal to 30-40 percent of total output. This plan seems to focus more on sales than return to capital. In general, other governments subsidize shipbuilding so profit margins are often thin or even negative. Thus, the ability of Vietnam in general and *Vinashin* in particular to compete with more established nations like South Korea or China is uncertain at best.

It is not hard to understand the thinking of the Vietnamese government. Shipbuilding is an industry that other Asian nations have entered successfully. It involves large amounts of money. It can be considered a "critical" industry. State support is common. Why shouldn't Vietnam follow the same path? Perhaps it should, but probably not in the way it is doing it. If a foreign ship builder wanted to invest and bring its own capital to the project, along with its technology and management that would certainly improve the chances of success. Or, perhaps there should be *some* competition for subsidies, if any will be allowed under the World Trade Organization, which is doubtful. Indeed, the entire idea of setting a physical target over a decade and using subsidies to reach it while also wanting to enter the WTO betrays a certain confusion. It is simply inconsistent to try to mix gaining access to global markets with plans and subsidies of this magnitude and nature. There is no doubt, if one or the other had to be chosen, what would be of most benefit to the national economy and to workers. There are over one million jobs now in export industries, but only a few tens of thousands at most in shipbuilding and its supplier industries.

6.1 State industry for what purpose?

State enterprises are used for different purposes in developing nations. A common use, though one that had been declining but is now coming back, was to exploit national mineral and oil and gas deposits. The prices of these commodities tend to fluctuate and large amounts of capital and often technology are needed to exploit the deposits. Since a government tends to



want high and stable revenue flows, it is hard for a nationally owned oil company (for example) to invest at a profit-maximizing rate while also being asked to provide high payments to the government and often to provide jobs as well. Vietnam has not, in general, established production facilities through state enterprises except in coal. However, the “downstream” activities including refining and distribution are being assigned to state firms. The placement of the Dung Quat refinery was clearly political, and this does not augur well for competitively priced fuel products. If the state oil company is not efficient, then the entire economy will suffer from high costs.

Another common reason to establish a state enterprise is to develop high technology. The FPT company illustrates this impulse. The question with high technology is, what kinds of firms induce high technology FDI, especially in joint ventures or tight supplier relations? While much remains to be seen, the biggest success thus far is in the “technology park” in HCMC in which both foreign and domestic, but overwhelmingly private, firms have invested. It was in HCMC that Intel has decided to invest. Can a firm like FPT truly promote high technology in Vietnam? Its favored status will lead firms like Microsoft to consider working with it, but primarily to localize Microsoft products into Vietnamese, and to provide “help desk” and updating support for them. This is a useful function, but not really more than supporting a necessary local service to sell their software. It is not a way to get into the outsourcing and export of services that has been so successful in India. (Probably the best thing that the government could do for outsourcing is to improve the quality of IT education in the universities and support any firm that emerges with few requirements in terms of registration, paperwork or inspections. Improving the capital markets might help too, though the IT services business is not terribly capital intensive.) If FPT gets a large fraction of government IT work, it will be able to hire large amounts of local talent, making it more difficult for other firms to compete on other large projects. This might stifle competition in the sector and actually retard the development of outsourcing in Vietnam. There can be costs to having one national champion, especially if it is not the most competitively managed firm.

A third reason, and this seems to predominate, is to have certain heavy or strategic industries run by the state. It is hard to know exactly what causes this desire. It could be a kind of leftover fascination with heavy industry, harking back to the time of Lenin and Stalin. It might reflect a desire to do what Japan and South Korea did with their industrial policy some decades ago, though those nations did it with private firms and far more competition. Finally, it might simply reflect a desire of SOEs and ministries to have a larger role. Big contracts can be lucrative to award and jobs for friends and relatives



are always welcome. Whatever the mix of motivations, the cascade of decisions in oil refining, ship building, fertilizer, petrochemicals, steel and (earlier) sugar and cement seem to suggest a strong attachment to this form of industrial policy.

It has already been established that state enterprises provide a very small and falling share of job growth³⁰, a falling share of industrial output growth, and that they probably play a modest role in exports of manufactures.³¹ They do employ 1.5 million workers in industry and construction (out of 7.2 million workers in those sectors in total), and account for a large share of nonperforming loans. Their stated profit rate to capital in enterprise surveys is under 3 percent.³² None of these facts are compelling reasons to *increase* the investment in state enterprises. The chance of creating a competitive firm or industry with management having to be skillful in dealing with ministries and bureaucratic issues while also dealing with brutal global economic competition is nil. The announced trade strategy is to become more integrated with the global economy, while the industrial strategy seems to indicate continued large infusions of capital into firms likely to “earn” low or negative returns. This cannot help but to slow down growth, reduce equity, and increase friction with trading partners.

So, looking towards the future, it is likely that Vietnam will continue to try to have it both ways. It will try to establish or expand companies like Vinashin that enter into loss making contracts, while joining the WTO, ASEAN Free Trade Area (AFTA) and the Bilateral Trade Agreement with the U.S. If these SOE efforts are isolated and small in magnitude they will not upset very much. They will cause trouble and irritation, but not stop the larger development of a dominant and competitive private sector, which is already well under way. If the volume of SOE investments is large, it is likely to drain capital away from more efficient firms (that also create more employment) and also cause trading partners to retaliate by limiting exports of goods in which Vietnam is competitive. One question to ask is if the political needs that these

30. To repeat, state employment in industry, construction, trade, transport and communications rose 13 percent from 2000 to 2004 while total non-state non-farm employment rose 55 percent in the same period.

31. Non-oil export growth in 2004-2006 was twice as fast in FDI firms as from domestic firms. Many of the successful exporting firms were private. Aside from processing and trading companies, the contribution of the state sector to manufactured exports may be quite modest. It is surely smaller than FDI firms.

32. It is true that private firms show almost no profits, but this is widely viewed as under-reporting. The FDI firms that are jointly owned show profit rates of 15-20 percent, but not those that are 100 percent owned. The latter could be due to transfer pricing, whereby profits are shifted to low-tax jurisdictions. See Table 7 in The Real Situation of Enterprises for specifics.



investments reflect could be satisfied by less costly means. Could sensible infrastructure investment satisfy provincial desires for more local economic activity? Could better pensions, severance payments or job training relieve concerns of state enterprise workers? The answer to these questions is “probably.” The problem comes more from the ministries and upper management. They want empires, not a comfortable retirement. They will fight to maintain the share of state investment.

6.2 When to say enough?

Every nation has some wasteful spending. Politics is a fact of life everywhere, and Vietnam is in no way unique. The question is if the system is able to detect when the waste is reaching unacceptable levels and a self-correcting mechanism cuts in and reduces the waste to a level that prevents severe damage. The strong economic and social growth in Vietnam might seem to argue that, whatever the problems, they are not severe. However, the high level of inflows from oil, remittances, FDI and aid suggest that the supposition might be turned around. Crude oil exports in 2006 will probably equal about \$8 billion and net revenues about \$5 billion. Remittance estimates vary but they could easily be another \$5 billion – many estimates go much higher. FDI inflows are also debated – the International Monetary Fund (IMF) data suggest \$2-\$3 billion while government sources (which are not quite conceptually the same) suggest \$4 to \$5 billion. ODA disbursements less repayments are \$1.5 to \$2 billion. This totals perhaps 25 percent to 30 percent of 2006 GDP³³ from foreign flows or natural resource rents. If non-oil savings added 10 percent (of GDP) to savings and investments, and if the total were invested wisely, we would expect to see real GDP growth of 9-10 percent as in China, not 7-8 percent. If this reasoning is correct, the waste is costing Vietnam over \$1 billion a year in lost growth – and that is just from this year. If this has been true for several years, the difference becomes very large, amounting to many billions of dollars each year as yesterday’s waste depresses next year’s output.

Even if the “lost” growth is less than \$1 billion a year, there are still serious questions. Stability is necessary and less growth and equity reduces stability. If corruption were increased by this kind of industrial policy (as was true in Korea), that would create additional problems. There is some disagreement within the leadership about the best policy choices, and even about the degree to which news media should be allowed to report on the corruption and other issues that arise. These disagreements are normal and not a threat to stability, but they do frame the right questions. If there is to be a *systemic* check on

33. The IMF projects 2006 GDP for Vietnam at 890 trillion dong or about \$55 billion.



excess waste, it is likely to be from a more open discussion and airing of facts. As the saying goes, “sunlight disinfects.” Sunlight by itself does not prevent large errors, but it makes them less likely and increases the probability they will be caught earlier. The future stability and efficiency of policy probably depends on the ability of the leadership to allow this kind of reporting and discussion. Only if outside analysis and information can inform those who are not already decided can the system learn to say “enough!” Without this airing, one group or another might be able to gather massive illicit resources, buy off those supposed to oversee them, and create a seriously inefficient set of policies. Avoiding this is a key to sustaining the past successes.

6.3 One more example: education

Vietnam has done a good job of increasing enrollments in education. Primary enrollment is very nearly universal and secondary enrollments have risen to over 65 percent. These are very good levels for a low-income country. Enrollments at the tertiary level have risen from 137 thousand in 1992 to 1320 thousand in 2004 – nearly a ten-fold increase. (But college and university teachers have only risen from 21 thousand to 48 thousand in the same period.) Even where the number of teachers has risen more or less adequately, as in secondary schools, there is still a deep and probably justified fear that the quality of schooling is well below the standards needed to compete in a global job market. Many families try all sorts of strategies to get their children out of Vietnam even for secondary school and certainly for college. Stories of grade buying via “tutoring” by the same teacher who grades the student and of other abuses are common. Those who knew the system prior to 1990 complain that standards are lower in both an ethical and intellectual sense. In the colleges, it is widely accepted that levels of research and the quality of the curriculum, with some exceptions, is lagging badly³⁴. Not one Vietnamese university is listed in the top Asian university lists created by various magazines or lists based on published research. This is in sharp contrast to China, India, Thailand, Indonesia, and the Philippines which have universities that are listed.

Why should it be so hard to find a way to create universities as strong as those in Indonesia or Thailand? Vietnam has a proud history of distinguished writers, intellectuals and scientists. It has a culture that has respected learning.

34. The Vietnam Education Foundation, a US sponsored scholarship group, has had success placing numbers of Vietnamese in IT and electrical engineering graduate programs in the US. This is probably based on the strong historical foundation in mathematics, partly from Russia, and the low capital requirements for successful work in this field. On-line training and communication also help in this field.



It has a literate people and wide access to education, which is currently seen as very important by most families for their children. Yet in spite of this high demand, there is thought to be a poor quality of supply. (Vietnam does not allow standardized international testing of secondary students, unlike Thailand, Indonesia, Malaysia, the Philippines, Singapore and South Korea so direct comparisons are not possible.) With so much demand and so much capacity, why is it so hard to produce better results?

The answer has to do with the slow pace of institutional change in Vietnam. The Ministry of Education has tended to delay fundamental reform and discourage competition from “freelance” or private schools. It tended to insist (at least in the past) on a standardized curriculum when experimentation might have allowed better materials for different types of students. This inefficiency and lack of internal reform is a huge problem in education, but is also true elsewhere. Note that no argument is made that “the free market” will solve all problems. Standards are needed and professionalism needs to be nurtured. But the quality of state oversight and supervision needs to be improved, as does the freedom to try out different approaches. Pressure on the bureaucracy from either elected officials or parents of students or the press needs to be focused in a way that better results are created. Right now, many want change but few know how to get it productively.

This lack of effective reform is a huge long-term stumbling block for Vietnam. It curtails the development of local centers of excellence, R&D capacity, and an ability to move to higher value-added activities. It creates political tensions, as normal families feel trapped and angry that some are able to “exit” and send their children abroad. It can even have an impact on the ability of Vietnam to attract its brightest workers back to the country. If only poor jobs are available in small and weak private firms, with few other well-trained workers, why not stay abroad? If good SOE jobs (or promotions) go mainly to the well connected, why not work for a multi-national that will train its workers and treat them fairly? The lack or slow pace of institutional reform will only become a larger burden as Vietnam opens up itself more in economic and cultural terms. The ability of Vietnam to design a “top tier” university and use it to promote reform throughout the educational system will be a litmus test of its ability to accelerate needed educational reforms.

6.4 Some bright spots

This paper has focused on critical comments and problems facing Vietnam. Some might argue that any country increasing exports at 25 percent a year and growing at 8 percent is not doing so badly, especially if this progress



is accompanied by tolerable to rapid progress on social and poverty indicators. That is a fair comment. The point is not that the present is so bad, but that it will take efforts to make the future equally good. As per capita output rises, it gets harder to continue rapid growth without improving all around. But it is useful to consider some areas of exceptional success and the reasons for them.

The SARS epidemic and the current bird flu situation allow a contrast between Vietnam and some other nations. In both cases, Vietnam's response was better than many others. With SARS, Vietnamese leaders brought international experts in quickly, and needed precautions were taken with little delay. In contrast, the disease reportedly festered for months in China amidst cover-ups and suppressed information. It was only when a famous Chinese doctor "broke" the story about cases in Beijing that the full scope of problems began to be addressed. It required the resignations of major Chinese officials. With bird flu, after some initial stumbles, an aggressive campaign that included vaccinations and culling helped to reduce the incidence of the disease in birds and seems to have eliminated it this year in people. In Indonesia, the response has been more fragmented and cases in both birds and humans continue to mount. While it is too early to evaluate the ultimate success of the bird flu efforts, the initial consensus is that Vietnam has been open and effective.

While many problems persist with health care, the decline in mortality rates is striking especially compared to other nations with much higher incomes. The following data are taken from the 2006 World Development Indicators of the World Bank. (Tables 1.1 and 2.19) Life expectancy is in years; mortality rates are per 1000; and income is per capita.

	Life Expectancy		Child Mortality Rate		
<u>Country</u>	<u>1990</u>	<u>2004</u>	<u>1990</u>	<u>2004</u>	<u>PPP Income 2004</u>
Brazil	66	71	60	34	\$7940
China	69	71	49	31	\$5890
Thailand	68	71	37	21	\$7930
Vietnam	65	70	53	23	\$2700



It is not just that Vietnam is about equal to or better than nations with two or three times their income per capita, but that it is improving as fast or faster. No other nation in this group had child mortality declines as large in either relative or absolute terms.

Similar comments could be made about HIV-AIDS. While it remains a serious disease, the 2003 prevalence, even using unofficial (and higher) numbers of 300,000 infected cases, is only 0.4 percent. Most cases are in injecting drug users and sex workers. While cases are rising, the mobilization has begun and levels are well below the worldwide prevalence rate of over 1 percent or regional (South and Southeast Asia) levels of 0.7 percent. Vietnam appears to be one of the nations that caught the disease early enough and is acting to contain it before it becomes a major cause of mortality. Similar successes have been achieved in the control or treatment of malaria, TB, child malnutrition, and vaccinations.

What explains this success? Part of the explanation is timely public health programs, utilizing a well-organized apparatus down to the village or block level along with a serious commitment to actually executing the plans. In addition, there has been a loosely regulated, overlapping, and not entirely efficient mix of providers from traditional herbalists and healers to pharmacists to retired military medical workers and nurses to private doctors to public clinics to hospitals. Sometimes pharmacists sell inappropriate, out of date or counterfeit medicines. Sometimes doctors insist on mixing their own medicines and charging more for them – even to the point of not informing their patients what they are getting. But people have choices and there are many sources of service. Increasing the variety and level of expertise of different types of medical personnel while also providing as much information as possible to patients and the general public, while continuing to give them choices about where to go, is likely to improve health care. A combination of appropriate government spending and policies, regulation of providers for knowledge and ethical behavior, and competition helps to provide these outcomes. There is no doubt that health care at existing spending levels (5.4 percent of GDP – about the same as China) could achieve even better outcomes, but it is already doing as well as much richer nations that started out healthier even a decade ago.

Switching sectors, the rise of trade is another bright spot. It would not be surprising if exports and imports in 2006 equaled \$72 billion, or about 130 percent of GDP, up from 75 percent in 1995. By lowering tariffs and allowing easier licensing of trade, Vietnam has accelerated the specialization of its production. So long as this process continues, it will be very difficult for seriously inefficient sectors (outside of non-traded services) to remain



untouched. While some observers, such as Oxfam, have attacked the WTO conditions³⁵, most conclude that the gains are likely to far outstrip the costs. The critics may be correct that the world in general and trade negotiations in particular reflect power realities, but that is a separate point from whether or not an economy and the poor on balance will benefit or not. In other words, if there are significant gains from trade and investment flows, how are they to be distributed among nations and within them? If increasing trade is so dangerous, why has poverty plummeted, social indicators soared and incomes broadly gained so much over the last decade? Apparently, the flexibility of farmers and the private sector, the responsiveness of FDI, and the ability to learn quickly have resulted in many more winners than losers. A continuation of this trend is likely to continue to be beneficial, though sudden and severe instability in the global economy remains a threat to all but the most closed of economies. Still, Vietnam appears to be more flexible than most and is fairly well diversified by product and country market.

6.5 The financial sector

Turning from bright spots to less certain sectors, the future development of the financial sector is a major question. The relative size of the financial sector has grown rapidly. Domestic credit grew from 35 percent of GDP in 2000 to 68 percent in 2005. While this level is still well below those in other developing Asian economies, it is certainly rapid growth. Indeed, the IMF has expressed concerns about the pace of credit growth, the inability of (especially) state owned commercial banks (SOCBs) to control loan quality, and generally weak balance sheets.³⁶ The legal system is also questionable, so even if a borrower *might* have the assets or capacity to repay, it is less than certain that they actually will do so, or could be compelled to at a reasonable cost. Yet, bank credit to non-state borrowers rose at 45 percent in 2004, suggesting remarkable optimism. (Bank credit to state enterprises grew 36 percent in 2004, but they also were able to access non-bank credits, such as the Development Assistance Fund, growing about as fast as overall bank credit.) If credit grows at 25 percent a year for five years and current price GDP at 15 percent a year, credit/GDP would exceed 100 percent. That would put Vietnam in the same range as other Asian economies.

The recent conclusion of WTO negotiations with the United States resulted in an agreement to let foreign banks own 100 percent controlled subsidiary banks. While it remains to be seen if these banks are regulated in an even-

35. Do as I say, not as I do: The unfair terms for Vietnam's entry to the WTO, Oxfam, May 2005

36. "Vietnam: 2005 Article IV Consultation," IMF Country Report 06/22, January 2006.



handed manner, the direction of this policy change would be to “regularize” the banking system. Foreign banks are generally acknowledged to be better at credit analysis and less prone to political pressure than state owned commercial banks – though even the SOCBs have improved in recent years³⁷. If banks were able to provide private firms with credit more readily, it could only help them to expand more rapidly and perhaps with the help of specialist expertise that foreign banks often provide small and medium businesses. Certainly, the creation of more effective competition would help make the banking system a more effective accelerator of private sector expansion. (Efficient state enterprises would also benefit.) The concern, of course, is to prevent excessive risk taking and to avoid credit crashes that create contractions in economic activity, or expensive government bailouts. Dealing with the remaining bad loans and controlling corrupt or inefficient lending will remain major goals of the monetary authorities.

The other end of the financial system is the stock exchanges. The HCMC exchange, with a few dozen companies, has yet to prove itself much more than an exit mechanism for established companies (mostly equitized state companies) looking to offload shares. It is not yet a serious source of finance for new investments, and it will probably be some time before it becomes one. It lacks the depth and liquidity needed for general Asia-centric or emerging market funds, but has attracted Vietnam specific funds in limited amounts³⁸. The over the counter (OTC) market in Hanoi is even younger. The informal or dealer market is perhaps the most interesting but is hard to follow or readily analyze. The reasons why many companies choose not to list, but are still actively traded, is worth a special study by itself. Some have guessed that the value of trading on this dealer market is several times that of the official exchanges. With the accession of Vinamilk, Kinh Do and some banks, this is less likely than it had been a year or two ago. Still, the development of this institution has a long way to go before it takes an important place in the overall portfolios of Vietnamese (who still prefer land, gold or cash for the most part) or in the plans of company executives looking for finance. Until corporate and overall legal governance improves, it will be a risky place to put more than a fraction of one’s savings. And, if it remains a risky place to invest, the cost of floating shares will be higher than many companies wish to pay. Progress has been made, but it is a few steps on a long road.

37. The “big four” state owned commercial banks control over 2/3 of all bank credit. If the Development Assistance Fund is added in, these five control nearly ¾ of all credit, including the Development Assistance Fund (DAF). The DAF lends about 90 percent of its assets to state enterprises according to a 2006 IMF Report.

38. A typical day’s trading has a total value of about \$10 million. This amount is often a minimum for general equity funds that wish to establish or liquidate a position. The total value of all assets is \$1.5 billion.



7. Tentative conclusions

The authors were asked to look both backward and forward with respect to the *doi moi* reforms. Looking back, they have been a great success, propelling Vietnam from a poor backwater to a leading developing country. They have liberated productive forces throughout the population and across the country, improving most aspects of life for most people. Where serious reform has been allowed and pursued, it has succeeded. Where it has been avoided or curtailed, there have been setbacks. Looking to the future, more reform is likely to pay more dividends in purely economic terms. The question for this paper might be if there is a political consensus to pursue reforms. That probably depends on how further reforms are pursued.

Vietnam is a paradox right now. It has a good deal of corruption and also a relatively open society and competitive (if still somewhat controlled) press and mass media. It is not an equilibrium to have people stealing money and to have many others knowing about it. Something has to give. Either there is a movement towards a stronger and more serious rule of law and less corruption, or there will have to be serious retrenchment and reduction of press freedom to report on problems. As argued, if the second option were to be followed, this would increase the prospect of instability and slower progress. If the former, then Vietnam would have an extended period during which political options could be worked out amidst a generally vigorous economic expansion. As Professor Benjamin Friedman argues in his recent book, *The Moral Consequences of Economic Growth*³⁹, there is a greater chance of social and political inclusion and progress when times are good than when they are bad. If these arguments are accepted, that alone would argue for a continuation of reform. Adding to this, the examples of sugar, Vinashin, and Dung Quat vs. rice and coffee, the Enterprise Law and FDI, there would seem to be both a political and economic case for deepening reform.

Yet these are not reason enough for the system to move quickly. Many provinces will remain skeptical that they have much to gain from reform. They see rapid progress in some major cities, but wonder if that means they will be left behind. In order to induce them to support reform, a different set of incentives is needed. Public investment should be more responsive to provincial reform rather than to provincial backwardness. Where measures

39. Prof. Friedman is a macro-economist at Harvard University. His book has been widely acclaimed as a cogent defense of the moral benefits of economic growth, not merely the (considerable) material benefits.



such as the provincial competitiveness index⁴⁰ find improving governance, there should be flexible support aimed at improving hard infrastructure where soft infrastructure has also improved. If pro-reform behavior is rewarded by Hanoi⁴¹, and if it also results in more private and/or FDI activity, it is likely that more provinces will become supportive of more reforms. While this is not absolutely assured, it is likely.

Beyond this aspect of political support, there is education. If the state manages to switch from trying to control all education to fostering the growth of diverse but quality educational institutions, it will reap large political benefits. A better educated populace will earn more, attract more investment, start more productive firms, and generally be more supportive themselves of further reform while also supporting the government. It may be that Singapore is an example of this scenario – some limited political competition, but an effective one-party system with wide general support. So long as the state provides quality public goods such as health, education and housing, it is viewed as legitimate. Of course, Singapore is viewed as one of the least corrupt nations in the world.⁴²

The third forward-looking challenge is to either reduce the ambition of state industry investment or to attempt to improve the efficiency of what is undertaken. This author is not optimistic that competent managers will often be allowed to run efficient state enterprises. It is possible that this could happen, as is true now in Singapore and a very few other places. But unless the pressures on managers change significantly, the state would be better advised to be modest and focus its energies on running a very few state enterprises that it really believes need to be public, rather than to expand aggressively. If SOEs expand aggressively, controlling corruption will be harder. There would be more frictions with trading partners, and useful private or FDI investment would be suppressed as capital and skilled workers are siphoned off.

40. This is an index developed by the Vietnam Competitiveness Initiative (VNCI), a group supported by USAID. The Vietnam Chamber of Commerce and Industry (VCCI) and the Asia Foundation have played a leading role in VNCI, and Dr. Eddy Maleski is the lead author who developed the index. It reflects both structural and policy factors such as entry costs and access to land in arriving at evaluations of 42 provinces.

41. An obvious danger is that if the score really matters, there will be attempts to make it look better than it really is. This may already have occurred and is certainly something to guard against. Using performance-based indicators such as the amount of private employment or output growth is one way to deal with this.

42. Transparency International, a European non-governmental organization (NGO), ranked 159 countries in 2005 by perceived corruption. Singapore was the fifth most honest. Vietnam was tied with Belarus and Zimbabwe in the bottom third.



The fourth challenge is to find a way to incorporate input from the private sector without letting it dominate policy making. Given the weakness of the private sector, this may seem to be an idle concern. But many private firms are run by well-connected people with close ties to leaders. It is quite likely that they would ask for, and possibly receive, various advantages which would be hard to identify and thus elude legal or WTO challenges. Diminishing public monopoly and inefficiency will have only modest benefits if it is replaced by private monopoly and inefficiency. This will become an ever-larger concern over time. It has proven to be the bane of several Asian economies.

Overall, though, most countries would like to have Vietnam's problems. Few have the chance to do so well. Good choices will continue to produce great results.





PANELLISTS' PERSPECTIVES

Mr. Seth Winnick

Recognized that Vietnam is currently one of the most successful examples of economic growth and development and has already achieved several Millenium Development Goals (MDGs). However, concerns about economic growth and development remain.

Mr. Seth Winnick posited that the current rate of economic growth is a result of a deliberate policy. He argued that the growth rate is a policy decision which works as a "switch." In other words, the growth rate is decided and it could be switched from 4 to 12, while now it is set at around 8 per cent. He gave the example of the growth rate in the agricultural sector where the real growth rate could be at least 5 per cent higher than the reported one.

An additional concern for the development of Vietnam is the gap between Vietnam and more developed countries. Mr. Seth Winnick agreed that Vietnam currently has a high growth rate. However, at this rate the country cannot catch up with other economies. As an example he compared Vietnam and China where the gap between the two countries is getting wider. Furthermore, from the experience from other countries Mr. Seth Winnick warned that economic growth or development will slow down sooner or later and it does seem that Vietnam possesses any clear solution to deal with development (slowdown) in the long-run.

As a conclusion to this point, he feared that the current growth rate of Vietnam is miscalculated and the country needs to target a higher growth rate.

Mr. Omkar Shrestha

Noted that the current high rate of economic development requires more energy. In his opinion, there are several points that should be considered while making development policies in Vietnam. He suggested that the country



needs to prioritize several issues including poverty, environment and infrastructure. He also pointed out the fact that, different from other countries, in Vietnam development is spurred by heavy investments (i.e. the investment rate of 40 percent in Vietnam is far greater than the rate in China).

Dr. Le Dang Doanh

In response to Prof. Dapice's paper on "fear of flying", Dr. Le Dang Doanh argued that there is no fear. In fact, Vietnam has made many efforts of reform and this is a thorough reform. He found that the paper has raised important issues but more discussion of solutions for those issues is expected. He pointed out that there exist many paradoxes in contemporary society; beside great socioeconomic achievements, for example in health and education, are many problems in the same field. Greater efforts and discussion are needed to deal with those problems.

Dr. Le Dang Doanh also gave a comment to the keynote address. He agreed with Prof. Sundaram that Government needs to focus on capacity building of people, greater transparency, higher responsibilities and greater voices or influence of people to local authorities.

Mr. Dinh Hinh

Mr. Dinh made an important comment, suggesting that the second reform (*doi moi* 2) is dealing with institutional reforms which are much more difficult to achieve than the first reform (*doi moi* 1) and must therefore be well prepared.



PANEL 2

Keynote Presenter:	Dr. Thaveeporn Vasavakul	Center for Southeast Asian Studies, University of California, Berkeley
Panellists:	Dr. Felix Schmidt	Chief Representative of Friedrich Ebert Foundation in Hanoi.
	Dr. David Koh	Institute of Southeast Asian Studies, Singapore.
	Prof. Yu Keping	Director of China Center for Comparative Politics & Economics.
	Dr. Vo Dai Luoc	Prime Minister Research Commission.

LENINISM TRANSFORMED: THE VIETNAM EXPERIENCE FROM A COMPARATIVE PERSPECTIVE (1986-2006)

Dr. Thaveeporn Vasavakul

I first visited Vietnam in 1987, one year after the Sixth National Congress of the Vietnamese Communist Party (VCP) endorsed the policy of socialist reform known in Vietnamese as *doi moi*. I later had a chance to stay in Vietnam from 1988 to 1990 to carry out a research project. I remember that during that time, three key events took place: the promulgation of Resolution no. 10 which decollectivized agriculture, the withdrawal of Vietnamese troops from Cambodia, and the abolition of the two-price system. I am honored to have been asked to share with you my observations on the transformation of Vietnamese politics in the era of *doi moi*. This gives me an opportunity to revisit the questions of how far Vietnam has come and what its future path may be.



On one level, it is apparent that Vietnam's one party rule has, in 2006, departed substantially from that of 1986 when *doi moi* was officially announced. During these past two decades, the VCP has adopted a series of institutional frameworks that have given one-party rule a new character. While recognizing the leading role of the VCP, the 1992 Constitution (amended in 2001) also strengthened the role of other political institutions. The National Assembly began to assume responsibility for making laws, decide on important issues, and supervise some of the government's activities. In 1995, the Eighth Plenum of the Central Committee of the VCP (VII Congress) endorsed the reform of the public administration, considering it a necessary step toward building a bureaucracy capable of developing the national economy, maintaining social equity, preserving the national cultural essence, and preparing Vietnam's integration into the regional and international community. In 1998, the party and the government promoted direct popular participation within the framework of a grassroots democracy based on the principle that "the people know, the people discuss, the people act, and the people monitor." Throughout the 1990s, the rule of law was recognized as an element of the political reform agenda, and by 2004, the scope of the law had grown to also cover the different aspects of legal reform. This political reform project also involved the expansion of the role of society and its organizations. In 2003, the Ministry of Home Affairs issued a framework document to govern the operation of non-governmental associations, and in 2006, the National Assembly is scheduled to pass the Law on Associations. Many Vietnam watchers consider this move a form of inclusive "corporatism."

On another level, the record of Vietnam's commitment to political reform and its plan for political renewal should be observed in light of some rather "peculiar" phenomena which developed between 1986 and 2006. When I returned to Vietnam in the 1990s for further research, I noticed local newspapers and some intellectual circles were discussing "hot spots" (*diem nong*) that had erupted in rural areas. I noticed the lack of a clear hierarchy within the state administrative system. This lack of hierarchy was generally referred to by local newspapers with the expression "the emperor's edicts stop at the provincial gate" (*phép vua thua lệ tỉnh*). I found numerous other cases of problems regarding authority relations in Vietnamese newspapers, especially between ministries and provinces or provincial and district officials. This hierarchical discord seems to be a continuing phenomenon; very recently, Prime Minister Phan Van Khai himself stated that the Prime Minister did not have the power to appoint or dismiss ministers. In the late 1990s and early 2000s, the close connection between public officials in various branches and businesses, which in many cases manifested themselves through the phenomenon called "corruption", was brought to my attention. In fact, it is



not an exaggeration to say that the arena of the state itself has become a big marketplace where various types of unconventional economic transactions take place. I noticed that the terms “mafia” or “godfather” (*bo gia*) were being used to describe certain controversial high-ranking government officials, making the Vietnamese political system resemble politicians in the Philippines or Thailand. I also noticed the way in which the Vietnamese played with words to express their attitudes toward the public administration, with such phrases as “the public administration mainly mistreats people” (*hanh chinh chinh la hanh dan* or *hanh dan la chinh*). I have recently noticed, during debates on the draft Law on Associations, that although Vietnam has been very successful in alleviating poverty, there is no Association of the Poor like in Thailand. Finally, during the Tenth Party Congress of the VCP in April 2006, I noticed a local magazine publishing an article suggesting that “there should be party members like Bill Gates.”¹

The title of my essay is “Leninism transformed: the Vietnamese experience from a comparative perspective.” In this essay, I examine changes in the state socialist system during the twenty-year period from 1986 to 2006. I attempt to make sense of some of the peculiar phenomena mentioned above and the reform measures developed to address them, with an emphasis on what is happening in key political institutions. This focus is not new. Both scholars and policy makers studying the development of socialist and post-socialist countries have paid considerable attention to the state structure.² I divide the discussion into four parts. The first briefly examines the features of the state socialist system that developed prior to the reform period. The second focuses on the political implications of the economic reform process. The third focuses on key political features that have developed under *doi moi*, while the fourth examines a series of political reform measures that have been put forward and the challenges of implementing them.

I argue that the process of transition to a market economy has brought about fragmentation and commercialization within the state structure. The VCP and the government have launched a series of reform measures to address these “transitional” phenomena. However, as of 2006, this political reform process, although crucial in its own right, has not yet generated a class, group, or a coalition of groups that may serve to further push the reform forward.

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1. These observations are drawn from local newspapers, including Tuoi Tre, Thanh Nien, Lao Dong, Dai Doan Ket, and Tien Phong.
 2. Some useful studies of China and the Soviet bloc countries include Vivienne Shue, *The Reach of the State: Sketches of the Chinese Body Politic* (Stanford: Stanford University Press, 1988); Ken Jowitt, *New World Disorder: The Leninist Extinction* (Berkeley: University of California Press, 1992); and Larry Diamond and Marc Plattner, eds. *Democracy after Communism* (Baltimore and London: The John Hopkins University Press, 2002).



1. State socialism prior to *doi moi*

In discussing the transformation of Leninism in Vietnam, it is appropriate to begin with a brief outline of what the “old regime” was like. A number of concepts and terms have been used to name the political system that developed under the Democratic Republic of Vietnam (1945-1975) north of the seventeenth parallel and which extended to the liberated south after 1975. The Vietnamese called this system the “bureaucratic subsidy system” (*quan lieu bao cap*). Adam Fforde, in his work on the agrarian question in Vietnam, used the term “DRV model” while Gareth Porter called it “bureaucratic socialism.” Carl Thayer calls it “mono-organizational socialism,” a concept borrowed from T. H. Rigby, who used the term to characterize the Soviet-type system in general. In my writings, I have used the term “state socialism” to distinguish it from the populist strand of socialism.³

The political structure of the Vietnamese state socialist system was characterized by one-party rule under the leadership of the Vietnam Communist Party. The Party-state adopted the Stalinist model of economic development, a central planning system. The social structure was transformed by the socialist economic arrangement, with peasants being organized into cooperatives and workers into enterprises. Mass organizations were formed to communicate, at least in theory, the constituents’ opinions to the VCP as well as convey party directives to the populace. Culturally, the family as an economic unit did not play a prominent role, although the concept of the family was extended to cover the relationship among different ethnic groups.⁴

Despite some influence from the Soviet bloc and China, the socialist model that developed in Vietnam differed from the Soviet or Chinese models. Politically, the VCP leadership was quite cohesive. There was no purge of key party leaders, although internal party conflict did exist, as manifested, for example, through the prolonged internal debate in the 1960s known as “revisionism” (*chu nghĩa xet lai*) and the defection of a top party member in the 1970s. Although the regime-society relationship was somewhat strained,

3. See Adam Fforde, *The Agrarian Question in North Vietnam, 1974-1979: A Study of Co-operative Resistance to State Policy* (Armonk, New York: M.E Sharpe, 1989); Gareth Porter, *Vietnam: The Politics of Bureaucratic Socialism* (Ithaca, New York: Cornell University Press, 1993); and T. H. Rigby, *The Changing Soviet System: Mono-Organizational Socialism from Its Origin to Gorbachev’s Restructuring* (Brookfield, Vt: E Elgar Pub, 1990).

4. For an analysis of the state socialist system that developed prior to 1986, see Thaveeporn Vasavakul, “Vietnam: The Changing Model of Political Legitimation”; Muthiah Alagappa, ed. *Political Legitimacy in Southeast Asia*, Stanford: Stanford University Press, 1995, pp. 257-287; and “Vietnam: Sectors, Classes, and the Transformation of A Leninist State”; James W. Morley, ed., *Driven By Growth: Political Change in the Asia-Pacific Region* (revised edition). Armonk, New York: M.E. Sharpe, pp. 58-82.



especially with the peasants during the land reform period from 1953 to 1956 or with the intellectuals from 1951 to 1958, the Party was able to mobilize various strata of the society to contribute to the American war effort. Economically, compared with the Soviet bloc and China, “forced modernization” in the Democratic Republic of Vietnam did not lead to forced and rapid collectivization or the Great Leap Forward as was the case in the Soviet Union and China.

The state socialist system in northern Vietnam suffered from a number of shortcomings. While state socialism fulfilled the task of mobilizing resources for war as well as industrialization and provided basic economic and social security for northern Vietnam, it contained the seeds of chronic systematic crises. Its reliance on central planning and administrative mechanisms to manage the economy dampened the enthusiasm of producers in all sectors. As White, Fforde, and Kerkvliet argue in their studies, everyday resistance came from producers within the rural sectors themselves.⁵ My own analysis of the period maintains that these sectors were neither synonymous with nor part of “society”. Nor were they synonymous with interest groups or classes as understood under capitalism. They were largely a product of central planning policies, their power base rooted within the socialized economic sector, and their bargaining power derived from the fact that they were part of the state itself.⁶

The crisis of the administrative state became uncontrollable after 1975 when the state socialist model was imposed on South Vietnam, whose rural conditions, especially in the Mekong Delta, differed markedly from those in the North.

2. Economic transition and political implications

The process of economic transition in Vietnam had at least two crucial implications for the subsequent development of its political system. The first deals with the agents of change, and the second deals with the impact of economic reform on the state and social groups created under state socialism.

5. Christine White’s short article examining at the state-peasantry relationship through the change in agricultural price policy is one of the very first insightful writings focusing on “conflict” between the state and the Vietnamese peasantry. More elaborations can be found in Fforde, *The Agrarian Question in North Vietnam*; and Ben Kerkvliet, *The Power of Everyday Politics: How Vietnamese Peasants Transformed National Policy* (Ithaca: Cornell University Press, 2005).

6. Vasavakul, “Vietnam: Sectors, Classes, and the Transformation of A Leninist State.”



Some of the existing literature on the economic transition in Vietnam highlights a top-down approach, assuming that the state's reform policy was central to the process of economic change. A close look at the process allows us to argue that "*doi moi*" was a bottom-up movement which was later supported by a broad-based coalition of production units, the political leadership, and certain segments of intellectuals. First and foremost, in rural areas, Vietnamese peasants were key players in the coalition, as their "everyday politics" brought the leadership's attention to the severity of the inefficiency of the old system.

Second, Fforde and de Vylder observe that the economic reform policy that was implemented between 1979 and 1989 gave rise to decentralized "commercial interests" within the state economic sector and provinces, which mainly comprised secondary party cadres (provincial party secretaries, economic specialists, and technocrats) who put pressure on the central leadership for further economic reform. These commercialized interests played an important role in pushing reform forward at the Sixth Party Congress in 1986.⁷

Finally, unlike its socialist counterparts in the Soviet bloc, the VCP survived the economic reform process and continued to remain a dominant political force. The VCP top leadership, however, had to readjust itself, its ideology and policy during the disintegration of the Soviet bloc, the process of economic integration, and globalization.

Yet, over the long run, this economic reform process had the unplanned effect of redefining the political position of certain sectors or groups created under socialism. The reform brought about a major change in the position of the peasantry, which gained economically but were weakened politically. Decollectivization led to the household as an economic unit outside the state, turning peasants into individual producers. As Vivienne Shue argues in her study of Chinese peasants, under socialism, peasant resistance to socialist economic policy occurred within the cooperative sector and during the production process itself. The uniformity of the system made individually orchestrated acts of non-compliance powerful. After decollectivization, the peasants are likely to lose politically as they lacked organizational support to help them advance their particular interests.⁸ Many observers also note that, during the economic reform period, workers' bargaining power *vis a vis*

7. See Adam Fforde and Stephen de Vylder, *From Plan to Market: The Economic Transition of Vietnam* (Boulder, Colorado: Westview Press, 1996).

8. Vivienne Shue describes this process well in her analysis of Chinese state-peasantry relations from the Maoist to the post-Maoist era. See Shue, *The Reach of the State*.



management declined. In the past, the power of enterprise managers over workers was constrained by the Marxist-Leninist discourse. Under a market system, the working class has become sociologically less homogeneous. Rural-urban migration has exacerbated the situation, as it has provided enterprise managers with a pool of first generation workers from rural areas.⁹

3. The foundation of the *doi moi* state

The economic reform process had a major impact on the structure of the state inherited from the central planning system. In this essay, I highlight the two sides of the state, its changing political economy and its political culture.

3.1 The political economy of the state

The disintegration of the central planning system has transformed the nature of the Vietnamese socialist state. This can be detected in the changing authority relations within the state administrative structure, and the illegal capital accumulation process that has emerged within the state itself.

In earlier articles, written in the mid-1990s, I discussed the changing authority relations within the state administrative structure, arguing that with the breakdown of central planning in the 1980s, the vertical administrative and economic ties developed during the socialist period had disintegrated. Economics and politics became decentralized, devolving into middle level cadres and the grassroots levels.¹⁰ I discussed a number of features of the so-called new politics, including the formation of fixed and fluid alliances among middle-level government agencies, which advanced economically at the expense of central government; the development of mutually beneficial relationships between government agencies and businesses at the expense of central government; and the deteriorating relationship between government and society. Specifically, this process gave birth to the phenomenon often reported in local newspapers as "*phep vua thua le tinh*" (the emperor's edict stops at the provincial gate) or the phenomenon of "*tren bao duoi khong nghe*" (the upper echelon directs but the lower echelon fails listen). This situation

9. A well-argued article on this issue is Gerard Greenfield, "The Development of Capitalism in Vietnam," in Ralph Miliband, *Between Globalism and Capitalism*, in *Socialist Register* 1994 (New York: Monthly Review, 1995).

10. See Thaveeporn Vasavakul, "Politics of the Reform of State Institution in the Post-Socialist Era," in Suiwah Leung, ed., *Vietnam Assessment: Creating a Sound Investment Climate* (Singapore: ISEAA, 1995), pp. 42-68. An insightful discussion of intra-bureaucratic politics is found in Martin Gainsborough, *Changing Political Economy of Vietnam: The Case of Ho Chi Minh City* (London: RoutledgeCurzon, 2003).



developed across varying administrative levels and was evident in the relationship between the Prime Minister and his ministries, the Vice-Minister and the provinces, the province and the commune, the specialized provincial agency and the district, and the commune and its officials, to name some key examples.¹¹ This lack of clear authority relations within the administrative system in Vietnam is not unique. In Eastern Europe, state administrative power over the provinces collapsed. Literature on this phenomenon in Ukraine, Hungary, and Poland abounds. In Hungary, for example, sociologists have noted the growing autonomy of local governments and their transformation into “corrupt vehicles for job creation and dissemination.”¹²

The second feature is capital accumulation within the state. Although it has existed throughout the two decades since *doi moi*, it became more prominent in the late 1990s and early 2000s. This phenomenon was precipitated by three related factors. The first was the continuing dominant role of the state in the economic realm. The second was the state’s ability to recover from the shortages of the early 1990s; that is, it was able to remobilize and distribute resources. The third was the lack of a new administrative system suitable for a market economy. Together, all these factors provided public officials with the opportunity to pursue their “private interests.” The key result was the rise of state capitalism within the state structure itself.

Ken Jowitt in “New World Disorder: The Leninist Extinction” describes political corruption as “an organization’s loss of its specific competence through failure to identify a task or strategy that practically distinguishes between particular members’ general organizational interests.”¹³ In Vietnam, the link between the state and business or capital can be seen in a number of areas. One is the abuse of the official position for private gain, with state officials offering better or more expeditious public services to citizens cum clients in exchange for “grease” or “speed” money. “Speed money” reduces delays in moving files through administrative offices and moves paperwork ahead in slow-moving queues for public services. Another way this corruption takes form is in the privatization of state property. The most common cases have been those in which public officials have used their position for private gain through graft, fraud, embezzlement, extortion, smuggling, tax evasion and illegal tax collection. In both urban and rural areas, land management has become a key “hot spot” despite the promulgation enactment of various versions of the land law between 1993 and 2003. Finally, in some instances, there are cases of state officials selling state power to non-state sectors, which

11. Information drawn from local newspapers.

12. Karparti, 1993.

13. Jowitt, 1992.



is called “buying mandarins” (*mua quan*) by local newspapers. The Nam Cam scandal, which attracted the attention of the public in 2002 and 2003, was the first in which the police were involved in the business of selling their services to organized crime on a large scale.¹⁴

The development of institutionalized corruption placed Vietnam in a similar position to some of its counterparts in Southeast Asia, like Thailand, the Philippines, and Indonesia. The key difference is where these “corrupt practices” take place. In Thailand and the Philippines, corrupt practices are committed by elected deputies with top positions in the state structure. In Indonesia, corrupt practices took place in the local government structure as the system was highly decentralized to the local level after the fall of the Suharto regime. In Vietnam, it occurs extensively within the state administrative structure but at the moment focuses on the central level as resources are concentrated there.

3.2 The political culture of the state¹⁵

The second aspect of the *doi moi* state that I would like to discuss is cultural. The disintegration of central planning has raised the question of the cultural foundations of the new state. Prior to *doi moi*, while waging the war of national liberation, the DRV regime had adopted a peasant-based socialist ideology whose cultural discourse connected the past to the present and tradition to socialism.¹⁶

The cultural and ideological foundation of the *doi moi* state, however, is different. During the past twenty years, the *doi moi* state has drawn cultural capital from two key sources: the old values inherited from the socialist period and the traditional values reemerging in rural Vietnam. The key values inherited from the socialist period were related to the political principle of collective leadership, the idea of patronage based on the relationship with “owing/line ministries” (*chu quan*), and the culture of asking and giving.¹⁷ Under *doi moi*, the economic reform has precipitated the reemergence of traditional Vietnamese cultural practices. With the collapse of the collective economy, household, family and clan relations have become important social

14. See Thaveeporn Vasavakul, “Mapping Vietnam’s Legal Cultures: Reflections on Corruption, Organized Crime, and State Building in the Post-Socialist Era,” Paper presented at the symposium “Mapping Vietnam’s Legal Culture: Where Is Vietnam Going?,” University of Victoria, British Columbia, March 27-30, 2003.

15. I have benefited from Jowitt’s discussion of neo-traditionalism.

16. See Vasavakul, “The Changing Model of Legitimation.”

17. This discussion is based on personal observations and is a work-in-progress.



institutions. Cultural practices such as ancestor worship, the rediscovery of family records, the organization of lineage rules, and individual life cycle rituals, have mushroomed.¹⁸

These social values have merged with the old socialist values, serving as a foundation for personal and social relations that support political patronage networks. In this sense, social relations emerging in the non-state/ private sector have intruded into the public realm.¹⁹ Nothing is more illuminating than the content of the Anti-Corruption ordinance and the Law on Anti-Corruption passed in 2005. The Ordinance of 1998 included stipulations to neutralize nepotism. Heads and deputies of state agencies (and their family members) are not allowed to invest in enterprises under their jurisdiction. In the case of state owned enterprises that have been corporatized, leading cadres, their spouses and family members are not allowed to buy more shares than a stipulated number. Heads of state agencies should not arrange for family members to work in their units' personnel, accounting, and material supply departments.²⁰

The persistence of the values from the pre-*doi moi* period and the rule of social relations developed under *doi moi* do not rule out the emergence of new political cultural values. To foster a moral work ethic among state officials, the VCP and the government have emphasized the teachings of Ho Chi Minh, especially the teachings regarding integrity such as "*can kiem liem chinh, chi cong vo tu.*" New political values such as the rule of law, efficiency, meritocracy, accountability, and transparency have also begun to enter Vietnam's political consciousness through contact with outside ideas and models. These alternative political cultural values, however, have to compete with neo-traditionalism based on the old socialist values and rural-based traditions to become hegemonic.

4. Reinventing Leninism – A work in progress

In the era of *doi moi*, the VCP and the government have put forward measures to reform the political system. These measures have included party reform,

18. For discussion on the revival of certain cultural practices, see John Kleinen, *Facing the Future, Reviving the Past: A Study of Social Change in a Northern Vietnamese Village* (Singapore: ISEAS, 1999). On cultural change, see Philip Taylor, *Fragment of the Present: Searching for Modernity in Vietnam's South* (Allen and Unwin: Asian Studies Association of Australia, 2001); and Shaun Malarney, *Culture, Ritual and Revolution in Vietnam* (Honolulu: University of Hawaii Press, 2002).

19. I cite some examples when discussing government-government and government-private sector relations in "Political of Public Administration Reform."

20. See Vasavakul, "Mapping Vietnam's Legal Culture."



public administration reform, the granting of power to the National Assembly and local councils, the liberalization of political space, and the promotion of popular participation in various forms.

Regarding the reform of the party leadership, the VCP has switched its leadership style from rule by decree to rule of law. It has relied on party affair committees to work with party members within the state. The Party outlines general policy directions, which are turned into laws by the government and the National Assembly.²¹

Under *doi moi*, there has also been a move to strengthen the role of elected bodies like the National Assembly and local Councils. Election laws for National Assembly deputies and local councils have attempted to open up the electoral system to some degree, while laws related to the National Assembly and local councils have increased the law-making, decision-making and supervisory roles of these entities.

Another move is the professionalization of the bureaucracy inherited from the central planning era within the framework of the public administration reform.²² The very term “public administration,” although familiar in much of the rest of the world, is quite new to policy makers in Vietnam. During the central planning period, a “public administration” did not exist as a separate entity but was merged into the concept of the “party-state.” From an historical perspective, the term and idea of a “public administration” can be considered a post-central planning invention. Public administration reform (PAR) was first endorsed by the Eighth Plenum of the Central Committee of the VCP (VII Congress) in January 1995. At that time, the focus was on reforming state institutions, simplifying administrative procedures and building a corps of capable administrative officials. In 2001, the central government approved the Public Administration Reform Master Program for 2001 to 2010. This is one of the most comprehensive reform programs ever. It targets four key areas: institutional reform; reform of the public administration’s organizational structure; civil service reform; and public finance reform. The overall

21. One general but useful source in Vietnamese is Dang Dinh Tan, *The che dang cam quyen: mot so van de ly luan va thuc tien*. (Hanoi: Chinh Tri Quoc Gia, 2004). See also Thaveeporn Vasavakul, “Sectoral Politics and Strategies for State and Party Building from the VII to the VIII Congress of the Vietnamese Communist Party (1991-1996),” in Adam Fforde, ed., *Doi Moi: Ten Years after the 1986 Party Congress*, Canberra: Department of Political and Social Change Monograph Series no. 24, 1997, pp. 81-135.

22. See Thaveeporn Vasavakul, “Rethinking the Philosophy of Central-Local Relations in Post-Central Planning Vietnam”, in Mark Turner, ed. *Central-Local Government Relations in the Asia-Pacific Region*. London, Macmillan, pp. 166-95; and “Rebuilding Authority Relations: Public Administration Reform in the Era of Doi Moi,” a paper commissioned by the ADB-Hanoi, 2002.



objectives are to create transparency and accountability, to be more efficient and effective in delivering public services, to reduce corruption, and to promote popular participation.

The implementation of the Master Plan is to be carried out through seven national action plans.²³ During the past five years, Action Program I focused on the improvement of the quality of legal documents and included two primary aspects. The first was the drafting and promulgating of key laws by the National Assembly, and reform of the process of issuing legal documents by both central and local government agencies. The second aspect was the reform of administrative procedures, carried out through the mechanism known as the “one-stop shop” (OSS). Action Program II focused on the roles, functions and organizational structures of agencies within the state administrative system. Its activities centred around two aspects of administrative decentralization: the delegation of responsibilities from the Prime Minister to ministers and central government agencies; and the delegation of responsibilities from central ministries to provincial/municipal governments. Action Program III focused on staff downsizing. This process, which was aimed at reducing staff sizes by 15 percent, in fact had started in the early 1990s as an effort to reduce the number of civil servants in the bureaucracy inherited from the socialist period. Staff downsizing was not successful. Although old administrative units were dissolved, new ones were simultaneously being created. The focus has since been shifted towards “right-sizing” rather than downsizing. Action Program IV focused on developing the quality of cadres and civil servants. Between 2002 and 2005, it focused on four policy areas. The first dealt with personnel management, which included areas such as classifying public officials and civil servants, and redefining the requirements, standards, qualifications, rewards, and remuneration policies for public servants. The second dealt with the introduction of new recruitment methods, and the third with the reform of training institutions, curricula, and training methods. The fourth dealt with the separation of public servants working in administrative units from those working in service delivery units. Action Program V dealt with salary reform. During the past few years, the government has implemented initial salary increases and introduced social insurance policies which indirectly helped to improve the living standards of its public officials. Action Program VI focused on the reform of public financial management. During the past few years, the key focuses have been on budgetary decentralization, the implementation of block grant and block staffing, and the granting of financial autonomy to income-generating public

23. See Bo Noi vu, *Chuong trinh tong the cai cach hanh chinh nhu nuoc giao doan 2001-2010 va cac van ban trien khai* (Hanoi, 2003).



services, all of which were designed to promote the efficiency of administrative units. Action Program VII focused on the reform of work methods and the modernization of administrative offices. It concentrated on the improvement of coordination mechanisms, long considered one of the key problems of Vietnam's administrative system. It also focused on the use of ISO accreditation and of information technology to improve quality.²⁴

The VCP and the government have also promoted direct popular participation through grassroots democracy decrees. The term "grassroots" refers to work units in government agencies, enterprise units, and grassroots-level administrative units. The decrees advocate the principle "the people know, the people discuss, the people act and the people monitor." The concept of grassroots democracy is not new to Vietnam; it was first advocated in 1984 and was possibly the foundation for the launching of the economic reform in the late 1980s. It was re-emphasized in 1998 following the popular reaction to corruption at the local government level. From this perspective, grassroots democracy was a mass line policy to mobilize local inhabitants to help control local government officials when other participatory institutions did not work. The public information and consultation requirements could help facilitate the implementation of local policies, while public supervision could allow limited popular control of policy implementation.²⁵

Finally, civil society organizations have become active. Most of the large-scale civil organizations, however, have retained a close relationship with the state. They have complemented state structures at different levels and in ways that have promoted the state's development goals. These organizations work on issues acceptable to the state and with the state as a partner, although they initiate the ideas. A number of Vietnam watchers have argued that the press *cum* civil society has managed to be critical within the framework of one party rule. Some Vietnam scholars consider the cooperation between the state and social groups as a representation of an inclusive corporatist model of politics. The system, although more democratic and inclusive, is not necessarily liberal and pluralist.²⁶ The central government has established a team to draft the

24. For a review of the PAR implementation, see Ban chi dao cai cach hanh chinh cua Chinh phu, "Bao cao tong ket viec thuc hien giai doan (2001-2005) chuong trinh tong the cai cach hanh chinh nha nuoc giai doan 2001-2010 va phuong huong, nhien vu cai cach hanh chinh giai doan II (2006-2010)," Hanoi, 27 April 2006.

25. For further information see Thaveeporn Vasavakul, "Public Administration Reform and Practices of Go-Governance: Towards a Change in Governance Cultures in Vietnam," a paper presented at the Vietnam-Myanmar round table, Berlin, March 31 and April 1, 2006.

26. See Thaveeporn Vasavakul, "From Fence Breaking to Networking: Popular Organizations and Policy Influence in Post-Socialist Vietnam," in Benedict Kerkvliet, Russell Heng, and David Koh, eds., *Getting Organized in Vietnam: Moving in and Around the Socialist State*. Singapore: Institute of Southeast Asian Studies, pp. 25-61. →



Law on Associations, scheduled to be passed by the National Assembly in 2006. Contentions have remained over whether mass organizations would be governed by the Law; how much the state could intervene in the management and activities of associations; and how simplified the registration could be.²⁷

What has to be done?

The building of a new political framework is a work in progress. Certain aspects of the PAR implementation measures have redefined authority relations among central government agencies and between the central and local governments. These measures also focus on strengthening public administration at the grassroots level, a move urgently needed after the collapse of the cooperative system in the country.

Ten years after its implementation, however, PAR has not yet made a strong impact on the state structure as a whole. The impediments have been both political and technical. Politically, the level of commitment to the PAR project has varied from locality to locality. From the technical point of view, there has been a lack of planning, sequencing, and capacity building for PAR management.

At a structural level, the Party and the government have retained a dominant role in the political system. Party members have assumed key positions in the government, and have also served as deputies of the National Assembly. This phenomenon of holding dual political positions has slowed down progress towards the division of responsibilities and the system of checks and balances. The executive branch still assumes a key role in making both parent and sub-laws. Although elected bodies have been granted more power to monitor the government's implementation of policies, so far, party members make up the majority of deputies, making it difficult for the deputies to represent the diverse and at times conflicting interests of their constituencies. In addition, elected bodies have not fully exercised their supervisory rights. The National Assembly, for example, has not given any ministers a no-confidence vote, although the Law on the Organization of the National Assembly of 2001

è → Getting Organized in Vietnam also contains useful articles that provide the reader an insight into the development of various types of social organizations in Vietnam. Another thought provoking report is "The Emerging Civil Society: An Initial Assessment of Civil Society in Vietnam." Civicus Civil Society Index Shortened Assessment Tool (CSI-SAT Vietnam), February 2006.

27. "Mot du luat sua den lan thu 9 van chang khac lan 1. Vi sao ? » Tuổi Trẻ Cuối Tuần, 9-6-06, pp. 10-11. For the review of Draft 8 of the Law on Associations, see Mark Sidel and Thaveeporn Vasavakul, "Law on Associations", a report to the Vietnam Union of Scientific and Technological Associations (VUSTA) and the United Nations Development Program (Vietnam), Hanoi, February, 2006.



included such a right. A move to clarify and consolidate that right would contribute to the political reform process.

Four key problems have been identified in the implementation of a grassroots democracy. The first was that overall, decrees have been selective regarding the policy areas in which local inhabitants may participate. For example, while local inhabitants have been allowed to monitor the collection, spending, and use of government funds they contribute themselves in the form of indirect taxes, they have not overseen projects financed by general government funds. Second, in order to fully implement the grassroots democracy decrees, there must also be regulations, work rules and procedures, which guarantee and facilitate the various aspects of popular participation. The two problem areas include the method for popular discussion and popular monitoring. Thirdly, grassroots democracy implementation requires strengthening the role of the Vietnam Fatherland Front (VFF), which is comprised of key popular organizations.²⁸ The final problem is a lack of commitment from local officials, who have been selective in fostering this grassroots democracy. There is as yet no sanction mechanism in place to enforce the implementation of the grassroots democracy.

Finally, so far, the debates on the role of civil society organizations have focused on the relationship between these organizations and the state, whether and how much state management is needed or whether and how much autonomy these organizations should have. In the long run, the question should shift to the relationship between civil society organizations themselves, and how their participation may bring about a better quality of governance. Experiences in other democratic countries show that to promote democratic governance, even the subordinate and disadvantaged groups should be allowed to organize. Autonomy is not limited to an absence of state control; autonomy means absence of the dominant interests represented by both the state and society.

5. Moving forward

In 2006, one-party rule has clearly departed substantially from that inherited from the central planning period. Yet, the process of state building has not yet been completed. The rebuilding of authority relationships among administrative units or between the central and local government will be crucial. If such relationships are not set up or cannot be maintained, this

28. "De Mat Tran To Quoc that su la mot tru cot trong he thong chinh tri," Dai Doan Ket, 28-11-2004, p. 2.



fragmented relationship will become a permanent feature rather than a transitional feature in the political landscape.

Nevertheless, the process of political reform has clearly created a new discourse on governance. A number of domestic constituencies believe that further change is needed which values leadership and individual responsibility. Local newspapers comment on the current leadership style, including a lack of openness in communication with the public, and absence of individual opinions, a lack of individual political style, and an insufficient patriotic tone (*giao thoai ve long yeu nuoc*).²⁹ The need for individual responsibility as opposed to collective leadership has been evident for quite some time, but has been more apparent since the PMU 18 scandal uncovered earlier this year. PMU 18 was a major corruption case involving a mismanagement of overseas development assistance funds. A National Assembly deputy was quoted as saying that this mismanagement of funds should not be considered the collective responsibility of the government. The six ministries assigned to oversee the management of these assistance funds, including the Ministry of Planning and Investment, the Ministry of Finance, the State Bank, the Ministry of Foreign Affairs, the Ministry of Justice, and the Office of the Government, should have been held accountable. The new political discourse on individual responsibility has been extended to include the so-called "resignation culture" (*van hoa tu chuc*). In a government meeting in March, the Prime Minister stated that heads of units who allowed violations to happen would have to take responsibility and resign their government positions. There is also an opinion that although those unit heads might not be able to appoint or dismiss their subordinates, they could still voice their opinions on the subordinates' performance to the appointing agencies. Overall, the new discourse calls for the VCP to review its leadership style as well as its personnel management policies.³⁰

The experiences of former socialist countries tell us that the political transition from an old style Leninist regime to a new model, as well as the transition from a central planning to a market economy, may undermine the stability of a regime. The problems that may befall such a new government are many. There is the diminishing cohesion of the political elite due to increasingly diversified economic interests; there is the weak capacity of the state in a new world economic order; and there is the growth of economic inequality and social problems which themselves generate conflict. In the years to come, it seems that the Leninist regime in Vietnam will be faced with two political

29. "Thuong hieu" lanh dao" Tuổi Trẻ Cuối Tuần, 23-4-06, p. 8.

30. "Bo truong Bo GTVT nen xin tu chuc?" Tuổi Trẻ Cuối Tuần, 2-4-2006, p. 4.



options. The first is to follow the models that exist in other developing countries. Here, Vietnam, as a late developer, has both advantages and disadvantages: Vietnam may learn from existing good practices in developing countries, but it may have too many models to choose from. The second option is to creatively adapt Leninism to the new conditions Vietnam faces. The key question is how to institutionalize socialist ideals in a world where there is no longer any ideological competition. Vietnam has been pragmatic and adaptive in using Marxism and Leninism. If successful, Vietnam, a late developer, will contribute to the history of Leninism in an innovative way.

Whatever path the VCP and the government choose, the experience of the economic reform that first unfolded between 1979 and 1989 has shown that while pressure for change may come from a wide range of sources, successful change has only been brought about by a broad-based coalition of various state and non-state sectors.





PANELLISTS' PERSPECTIVES

Dr. Vo Dai Luoc

Dr. Vo found that the presenter in this panel has clearly showed forms and aspects of Leninism but she has not presented their consequences / implications.

In his opinion, reforms are not juts bottom-up or top-down processes. Rather they imply a number of factors and elements. He argued that if one looks at the reforms in the 1970s, it is a bottom-up process. However, if one looks at the 1980s and takes 'khoan ho' as an example, the effect of 'khoan ho' is not as significant as people thought of; 'khoan ho' was accepted in 1980 but the Government still had to import hundred thousand tons of food by 1988. 'Khoan ho' had significant impacts only after the real operation of market. He argued that *doi moi* is a result of various factors:

- Economic crisis in the late 1970s and early 1980s.
- The collapse of the economic models of the former Soviet Union.
- Noticeable achievements of the economic models of the East-Asian economies.
- The decision of Vietnam to pursue reforms.

The term "reinventing" of Leninism used in the paper, in his opinion, is not appropriate since Leninism has never been abrogated. Furthermore, many concepts applying in contemporary Vietnam were never been exist in socialism ideology. Hence, the appropriate term here should be "development" rather than "reinventing".

He further argued that Vietnam is examining, selecting, and applying advanced and progressive values, such as jurisdictive authority and civil society. Those progressive values are not opposing the continuance of socialism orientation, Marxist-Leninism and Ho Chi Minh's ideology.



He raised his concern for the existence of asking-and-giving mechanism which contribute to corruption.

Dr. David Koh

Your Excellencies, colleagues, friends, ladies & gentlemen:

I had look forward to participating in this series of famous meetings on the review of 20 years of *doi moi*. It gives me a chance to revisit the city of Thang Long, a place where my lovely extended family resides and where I have so many wonderful friends. Many of you are sitting here today. But more important for me is the chance to contribute to the review of *doi moi* that could help Vietnam move ahead. I wish to thank the United Nations Development Program, SIDA, and the Vietnam Academy for Social Sciences and Humanities for the invitation.

The country that I come from, Singapore, is not one that is known for a systematic approach to history and a persistent felt need to learn from the past. At least, it is not done in such a big way as what we see here today. In this sense, Vietnam poses a refreshing contrast to Singapore. Our joined effort today reminds me of the occasional emphasis on writing the history of a previous dynasty or a previous emperor in China, right after their end, by the new sovereigns. Some of these dynastic histories are known to be objective, to a certain extent.

Dr. Thaveeporn Vasavakul is one of the foremost political scientists on Vietnam's contemporary politics and we are in good hands. Her essay has covered most of the important issues in the development of Vietnam's political system in the past twenty years of *doi moi*. I shall not attempt to summarize it for you. Rather, I wish to give you some of my thoughts that I had after reading her paper. Let me, of course, remind the audience that it is always easier to criticize than to construct, thus I have an easier task than Dr. Vasavakul. It is, therefore, easier to be an armchair critic than to be a policy maker having to make some real choices for this country.

I want to focus my comments on three issues that I think are important for the future political development of Vietnam. The first is the role of ideology in a political system. The second issue is how to look beyond *doi moi* by looking for the lessons in pre-*doi moi* (in other words, to what extent is the past before *doi moi* relevant to and instructive for the future of *doi moi* 2). The third issue is that of trust, involving the matters of mutual trust between state and society and between the political party and the people in a one-party state.



If the study of politics were the study of the facets of power, then the study of political systems would be about its purposes, objectives, forms, processes, and results. Therefore, the fundamental question about the political system of Vietnam is whether it achieves the objectives via the forms and processes that it chooses to adopt.

The objectives of a political system, unlike more universal and humanistic values, change more easily over time. *doi moi* was a process of change in the objectives of the political system, when the political system under the bureaucratic subsidy system was not fulfilling its purposes but instead was obstructing the achievement of those objectives, to be understood as Rich People, Strong Country, Civilized and Just Society. Are these objectives being achieved by the *doi moi* political system?

The short answer is yes, and Dr. Vasavakul has shown that economic reforms were not the only thing happening in the last 20 years. Political reforms have been aplenty. That the reforms are continuing show determination on the part of the Vietnamese Communist Party to adapt to changing ideas about what politics should be and what the political system should seek to do. Yet, it is noted, there have been fragmentation and commercialization within the state structure. The fragmentation and commercialization should not be considered surprising because *doi moi* essentially brought about the collapse of the idea that central planning must determine everything, even political ideas. Therefore there has been fragmentation. The state can no longer plan for everything and provide the finances for everything. Therefore there has been commercialization. In that sense the *doi moi* political system is serving the objective of the *doi moi* economy by having political power, authority, and decisions defragmented and decentralized. The fragmentation has taken place at the highest places of political power, and to me it means the fragmentation has become part of the structure of political power.

Most things have their negative side, and *doi moi* is not an exception. One such problem of *doi moi* is the challenge to ideology, a sphere that is changing even more slowly than political reforms. Has Leninism in Vietnam been transformed? I am not sure if the ideology as an idea has changed much, although much can be said about whether Leninism was practiced strictly. More recently, I consider the Central Theoretical Council in Vietnam as having failed in its essential task of adapting Marxist-Leninist to the economy sphere. I sense that there is some tension they have not comfortably dealt with. This tension is not between the ideals that both Uncle Ho's ideals and socialist ideals demand. What Uncle Ho wished for the country, Vietnamese theoreticians are quite clear about this. But what exactly should be done? There are policy choices that have to be made to realize those ideals. Can



there be a Leninist party in a market economy? The good news is that it is possible, but only if we do not care too much about the labeling. There is some truth in calling the Singapore's People's Action Party, the one Party that has ruled Singapore since 1965, a Leninist Party because of the Party structure and operations. They were inspired by Leninist organizational principles. They are tight, and they are secretive as regards internal Party workings. Should a Leninist ideology in terms of how the Party behaves on its own not coexist with a market economy that essentially gives the private sector free rein? Until the mid-1980s, the People's Action Party was still defending its name as a socialist party implementing a socialist platform in Singapore. Here, I think, Vietnamese theoreticians have to distinguish whether it is a Leninist State or a Leninist Party that they want. In fact, a Leninist state need not have a Leninist Party so long as this political party is dictatorial. It could well be a military government that adopts a Leninist Structure for the state. It is my view that perhaps Vietnamese theoreticians care too much for coherence between thought and action. As has always been the case, there needs to be a balance between form and substance in terms of what is achievable. This is not just a lesson of *doi moi*. It is a basic lesson taught in Public Administration 101. In this age of globalization, a Leninist state will not take a country very far, but a Leninist Party, strong in internal discipline but taking care in not forcing irrelevant ideologies on society but instead allow as many streams of thoughts to exist and influence its action, can survive for some time and even prosper.

The second issue is, to what extent is the past relevant to the present and the future? Why are we here today? What is the biggest lesson to be learned from *doi moi*? I note with dissatisfaction, if I have read the Political Report of the 10th Party Congress correctly, the absence of mention of the role of bottom-up economic reform experiments in heralding *doi moi*. I wish Dr. Vasavakul had given this bottom-up angle even more emphasis, even though she has given substantial pages to this subject, because I think this issue cannot be overstated. No doubt the Communist Party held power and its authority was needed for *doi moi* to become official. Would the political leaders then, however, have the daring to undertake *doi moi* and then the austere economic reforms of the late 1980s, if not for what they had already seen to be new market ideas that were effective in a number of localities implementing minor and pilot reforms? I would like to challenge the historians of the Communist Party to put this right – that it is possible that Party ideology and Party direction has no role in all these.

But the more important point I want to make is to hark back to more than fifty years of policy making in Vietnam. In this way, we need not see *doi moi* as



necessarily something new. Consequently, therefore, we need not necessarily see *doi moi* as the end point of reforms. Let us examine, as a start, the policies to bring economic production and distribution under socialist norms from 1951-1956. These policies took place after relative peace was restored in the north. The land reform, putting aside its hated abuses for a moment, was popular as a pillar of the Communist Party's policy platform in the resistance struggle. The policy promoted the value of social justice. By the end of the 1960s, bottlenecks of the socialist mode of production were appearing and there were some attempts at breaking out, but these efforts were eventually stopped. When the war ended there was huge Vietnamese confidence about their readiness to work on the socialist values that had been disrupted by the war economy, but this time in a united country. When again bottlenecks and resistance appeared, and conditions deteriorated severely, the conditions for *doi moi* became ripe.

In other words, *doi moi* is the latest step that Vietnam has taken on the high wire of economic and social development that balances between the goals of growth and justice. What is remarkable, however, is that this policy has taken huge pendulum swings. It is definitely not a good idea to swing greatly from left to right and to the left when one is walking on the high wire. Could the magnitude of these pendulum swings be restricted and bearable if they were not pushed in a very deterministic way by ideology? Applying it to the future, when will reforms become too overbearing for the less fortunate and the less able? To prevent huge pendulum swings, *doi moi 2* must incorporate ways and means to accommodate and promote the needs of the lesser able without dampening the enthusiasm of the more capable. In other words, there must be a balance, not necessarily a static equilibrium, between promoting growth and social justice.

Second, another lesson of *doi moi* is a policy need not be popular but it must be appropriate to address the growth-justice balance. Vietnam should have a more systematic way of finding out what people want and conduct better research into best practices, so that big shifts in policy need not occur. Economic problems and downturns will need immediate and urgent counter measures, but building a cohesive nation, that takes many more years.

Finally, I want to address the issue of trust. Business people like a stable political environment. This is not because of any inherent fascination of stability. In fact there are some types of businesses that thrive on political instability. Stability is not wanted for its own sake but instead is wanted because it brings certainty. Certainty is the way that businessmen trust a political environment, save, invest, and spend.



Trust is not just a core principle in the business world. In politics, trust is an applied concept that is linked to social capital and is not new. The gaining of trust from the population by governments could allow authoritarian regimes to thrive, and distrust could topple a democratically elected regime. The success of *doi moi* has earned trust in the current Vietnamese regime, generally. There are political problems and many pockets of dissatisfaction but there is neither general rebellion nor uprising, things that the Vietnamese people are capable of if they do not trust the regime and are pushed over the edge by it. There is some truth, again in the case of Singapore, in saying that Singaporeans do not rebel against the PAP government despite strong controls exercised over society and many issues of dissatisfaction because in general the economy is doing well and the PAP is politically not oppressive enough. There is still a periodic and free but not necessarily fair election. In the Vietnamese case state-society relations have been improving and gained a balanced posture under the political reforms of *doi moi*, and bureaucratic incompetence and corruption gives the ordinary people at the grassroots quite an amount of breathing space. But Party-society relations can hardly be said to be one based on a constant and unchanging reservoir of trust inherited from the successes of the past. Please remember that the governing record of the Communist Party is not all successes and Party historians ultimately have to address these blind spots, in research and print. Worse, it would be hard to understand if a past of mixed successes and disasters is constantly used to justify the present. Instead of using history, why not consider using visions and plans for the future to lead? The Communist Party and the ideology it represents have a fundamental problem of adapting quickly to the times. The Party is not *avant garde* anymore in the sense that it is not at the forefront of the latest ideas that can drive the Vietnamese nation forward so that it can "stand shoulder to shoulder with nations of the five continents." In as much as I find an obsession with history and ideology among Vietnamese fascinating, the lack of a vision of where the nation is going to is the failure of political leadership and the political ideology it spews. In the internal workings of any political party, whether in the context of one-party rule or otherwise, political leadership and political ideology are two aspects of the political system must be constantly updated and regenerated so that no political party ever lead to feel defensive and on the verge of losing power that it would take draconian measures to inhibit and eradicate opposition. The Burmese situation is probably a good illustration of how such a scenario can happen when leaders stay on forever and are wedded to the ideas they once gained many years ago.

That is all I have to say and thank you for your patience.



Dr. Felix Schmidt

Dr. Felix Schmidt found that the forum was a sign for open dialog. He did not agree with the comment that mass-organizations, including the Father Front, have not changed and thinks that they have changed substantially. To prove his point, he gave the example of the Trade Unions and the incidence of strikes and the important role of the Union in that process as an example of substantial organizational changes.. He also noted that workers in Vietnam nowadays are permitted to join International Trade Union and this represents a positive development.

Prof. Yu Keping

Prof. Yu Keping found that there are many similarities between Vietnam and China and hence Vietnam can learn much from China and its development. For instance, the formation and management of civil society in China. Civil society was formed and expanded at a quick pace and today there are about 1 million civil society organizations in China. However, most of them are informal and from the official data, there are only about 300 thousands organizations.





SUMMARY OF THE PLENARY DISCUSSION OF DAY 1

Participants in the plenary discussion at the end of the first day has raised questions, concerns, and discussions mainly around the following topics:

- Government's role and equality under market economy;
- Development of civil society; and
- (What are) The next steps or priorities of the reforms

It is recognized that the Communist Party has made significant progresses and its point of view has changed under the impacts of open-door policy, market economy, and Vietnam's accession to the WTO (Dr. Le Dang Doanh).

Questions were raised about the Government's role in redistribution and protection of the poor and the vulnerable. It was agreed that this is an important role of the Government (Mr. Thang Van Phuc, Dr. David Dapice). However, implementation of this role is difficult and needs further considerations. It was argued that development of a market economy should be accompanied by social stability as well as equality. A follow-up point is the acceptable range of GINI coefficient. It is expected that experience and lessons from other countries be analyzed and applied to Vietnam (Mr. Thang Van Phuc). Another issue concerning the role of the Government is the sensitive issue of taxation since people do not want to pay for tax as they want to spend more. (Dr. David Dapice).

Although the Government has not officially acknowledged civil society, important progresses have been made. Of the Government's suggestions for the period 2006-2010 is to build a small Government in a large society. The Government has handed over some of its functions to associations and NGOs. Such changes have partially appeared in the Association Law. For instance, notarization has been handed over to the private sector, legal supports have been handed over to Vietnam's Law Association, automobile registration and inspection have been handed over to private companies (Mr. Thang Van Phuc).



How to enable people's participation in civil society? This has been one of the questions raised during the discussion session (Mr. Thang Van Phuc). In response to this question, participants found that the Government should deal with at least three issues. The first is ownership which includes both ownership of properties and ownership of ideology. The second is the equality in opportunities to express their opinions for all people in the society regardless of their socio economic status. With more opportunities, should follow more influences or impacts. The third issue is to identify actions for the second reform. Market economy, democratic politics, and concentrate (reduced? small? Less bureaucratic) Government are three areas that should be considered in the reforms. The second and the third points, however, are contradictory. It was suggested that power diversion (delegation?) or decentralization should be promoted (Mr. David Koh).

The experience from China indicates the management of four levels of civil society and its management is a difficult task. The four levels of civil society in China include: 1) high official organizations, such as trade unions; 2) Government organizations; 3) private organizations; and 4) non-legitimated organizations. From the official data, there are 300 thousand organizations, but it actually has at least 1 million organizations if the informal organizations are also included (Mr. Yu).

One recommendation has been that the reforms should be considered as a package including: 1) administrative reforms; 2) organizational reforms; 3) political reforms; and 4) financial reforms. These reforms have so far have been considered separately in Vietnam and therefore a stronger link between them is expected in the next steps of reform (Ms. Thaveeporn).

It was also agreed that the *doi moi* orientation is very clear, but the route to achieve the goals of *doi moi* is still controversial. Market economy, jurisdictive authorities, democracy, equality and equity, and preparation for development of civil society are agreed as important issues of *doi moi*. However, having people to come to an agreement of solutions to deal with such issues is a difficult task.

Furthermore, it was noted that reforms are not a matter of days or months, but are usually a time consuming process, especially when they concern the reform of ideology. For instance, the idea that Communist Party's members can own and run private businesses was approved recently even though this idea was brought up about 10 years ago. Contributed ideas of foreign scholars and guests are highly appreciated since their ideas could be frank and straight forward (Dr. Vo Dai Luoc).



PANEL 3

Keynote Presenter: Mr. Pete Peterson Former US Ambassador to Vietnam

Panellists: Prof. Ari Kokko Stockholm School of Economics
 Mr. Klaus Rohland Country Director, World Bank Vietnam.
 Mr. Ayumi Konishi Country Director, ADB in Vietnam.
 Ms. Anna Lindstedt Swedish Ambassador to Vietnam.
 Dr. Hong Ha Central Theoretical Committee.

VIETNAM'S VOYAGE TO PROSPERITY

Mr. Pete Peterson

I am pleased to participate in this timely review of the impact of the *doi moi* policy on Vietnam's development. This review affords us an opportunity to examine the process of *doi moi* over two decades while taking a brief look into the crystal ball to suggest what may be in store for Vietnam in the future. It is interesting to note how unusual this meeting is in terms of today's modern, fast moving, globalized world. It is so rare these days for anyone, with the exception of a few dedicated historians, to take the time to look into the past for answers to questions relative to future events, but that is exactly what we are doing here today. For that, I congratulate the organizers of this extraordinary meeting and Vietnam's leaders, past and present, who seek an international report card on their performance in enacting the provisions of the *doi moi* policy and their desire to hear our feedback in determining Vietnam's future courses of action.

I suspect that 99.9 percent of the presentations at this seminar will conclude that the *doi moi* policy has been a grand achievement. I agree with that assessment, but *doi moi* could have delivered far greater economic successes in a much shorter period of time had it been enacted more aggressively and with



greater vision. That is my personal opinion and perhaps my comments today will give you a few clues as to why I have arrived at that conclusion.

As reports are read at this meeting, keep in mind that the *doi moi* policy is still a work-in-progress and must continue to grow and be tailored to fit the future challenges experienced by Vietnam's fast growing economy and its increasingly important role in world diplomacy. I am confident that Vietnam's leaders will continue to refresh the *doi moi* policy as they go along to ensure positive growth and development of Vietnam's economic, social, and political structures.

In the past 20 years Vietnam has experienced enormous renovation, reform, renewal, change, newness, transformation, metamorphosis, overhaul, revitalization, conversion – all terms used to define the extraordinary enactment of the *doi moi* policy that was agreed to at the Vietnam Communist Party 6th Party Congress in late 1986. It came as no surprise that the Party leadership decided to reroute Vietnam's voyage to prosperity because by the mid-1980s Vietnam had become one of the world's most impoverished countries. Something had to be done to prevent the potential collapse of the government, its economy and widespread food shortages.

The enactment of the new *doi moi* policy in December 1986 was a practical reaction to the desperate economic needs of the country. The Party leadership had surely observed the results of China's experiment with privatization in dealing with similar economic problems so the idea of combining the strengths of socialism and capitalism to form a "market economy with socialist direction" was neither totally new nor unprecedented. Nevertheless, this was a major political decision that codified an economic process where central economic planning gave way to market-driven private enterprise. I now suspect that *doi moi* was never intended to be a fast paced reform process. Vietnamese officials have repeatedly emphasized that change would occur only "step by step" and at a pace commensurate with social and political stability. Clearly, Vietnam needed time to prepare for the fundamental political, economic and social changes that were to take place. In 1986 there was still much domestic political and economic consensus building that had to take place before *doi moi* could be implemented. Thus, the economic reforms, particularly those involving increased privatization and market access and trade issues, were enacted very slowly, deliberately, and only after a general political consensus was reached at every bend on the road.

The first practical application of *doi moi* was logically directed toward rural Vietnam where the economic situation had become so desperate that many agricultural collectives and state enterprises were failing and had begun to



preempt the *doi moi* process by introducing their own version of economic renovation. Secret contracts were being used in most rural areas between agricultural collectives, private individuals and state enterprises designed to increase production and stave off acute food shortages. The enactment of *doi moi* essentially legalized those existing contracts and established a process whereby everyone was able to join in to improve the efficiency and productivity of farms all over the country. Food security was clearly the first and foremost objective of the *doi moi* policy and it proved to be the right policy at the right time, perhaps just in the nick of time. Its immediate success saved the country from near starvation and Vietnam quickly recovered its ability to produce rice and other essential foods at rates never before experienced in the country. Food security was pretty well assured by the early 1990s.

My first personal encounter with *doi moi* came during my return visit to Vietnam in 1991. At first glance, I witnessed a very backward country that appeared to be frozen in time. I saw little in the way of economic renovation for it was apparent that the country and its people were experiencing a very tough time. I saw primitive agriculture methods, yet I do remember visiting several markets and found that food appeared to be generally plentiful, but I'm not so certain that everyone had sufficient funds to purchase what they needed. I also recall that the general population was poorly clothed in drab, single fashion clothing and few had footwear other than the famous Vietnamese rubber tire sandals. Bicycles ruled the streets, literally thousands of them – very few vehicles were to be seen and all of those you did see were government or military vehicles. There was evidence of some very small private enterprises along the streets. Bicycle repairmen were present at nearly every street corner; there were numerous small street food vendors, shoeshine kids roaming the streets and since there were no fuel stations anywhere, petrol was distributed in one liter drink bottles from vendors along the streets or from tankers stationed at strategic locations in the cities and countryside. Hotel accommodation was quite rustic and limited in those days and it was virtually impossible to find a decent restaurant outside of those associated with the hotels (but there were some good pho stalls along the street). State stores with limited goods on their shelves were the primary shopping source for everyone. In 1991, Vietnam indeed had all the attributes of a very poor country.

I briefly visited Vietnam again in 1993 and of course returned to live there in 1997 as the American ambassador. On the 1993 trip I saw significant economic progress in Vietnam which suggested that *doi moi* was beginning to have the desired impact. Things throughout the country remained incredibly rustic, but



one could see that progress was being made. Bicycles were giving up space to motorbikes, many owned by the relatively wealthy recently returned Vietnamese overseas laborers, an offshore employment opportunity spurred along by *doi moi* policies. There was evidence of recent foreign investment with some recognizable name brands appearing along the streets. In 1993 my wife to be was already there setting up one of the first foreign banks in Vietnam and I found that the diplomatic community had grown significantly over the past couple years.

By 1997, there was evidence that *doi moi* was truly beginning to take hold. The streets now were full of motorbikes (I bought one just a couple days after my arrival), there was much more evidence of small private enterprises and the streets were full of durable goods that I had not seen there before. Yet I found myself greatly frustrated with the pace of the reform process. The business climate remained opaque and the burdensome legal and administrative regimes were extremely difficult to navigate. It seemed that we were always waiting for a critical government decision that would move things forward. As I have stated earlier, I think *doi moi* has been a great success overall, but the reform process should have been implemented more effectively and in a more timely manner. There is no doubt a certain amount of political courage was lacking when it came to hard decisions such as SOE privatization, licensing and the removal of trade barriers.

I was particularly disappointed with the virtual standstill of the reform process during the Asian economic crisis in mid-1997. While many of Vietnam's neighbors suffered great economic upheaval at that time, Vietnam was virtually untouched with the exception of a reduction in regional exports. There was no fear of a collapse of the Vietnamese Dong as it was not market driven and a stock market did not exist. Unlike its Asian neighbors, Vietnam's economy was not yet deeply dependent of foreign investment so when FDI began to dry up during this period it was not an immediate disaster. I thought at the time that had Vietnam accelerated its reform process then and created a more attractive investment climate, it would have been well placed to lure foreign investment from its neighbors during the crisis. Vietnam was still enjoying relatively high growth rates (with a lot of help from ODA, Viet Kieu remittances and the black economy) and was perceived at the time as one of the more economically and politically stable countries in the region. Unfortunately, the Asian financial crisis deepened the lingering doubts and fears the Vietnamese leadership had with respect to the fundamental economic, political and social changes unleashed by the forces of *doi moi*. They were extremely frightened by what they believed "market forces" had done to neighboring economies and decided to just "wait and see". I remain convinced



that had Vietnam's political leadership been less risk-averse and had they quickly moved to establish a more open, business friendly environment, they could have actually capitalized on the Asian financial downturn and benefited from the FDI exodus that was occurring elsewhere in the region. I think this was an opportunity missed. The momentum of *doi moi* quickly evaporated during that period and it took years for foreign investor confidence to return to pre-crisis levels.

Frankly, foreign investor sentiment toward Vietnam had already begun to turn negative by mid-1997. Whether motivated by the Asian financial crisis or not, many investors were preparing to abandon their investments in Vietnam. Where Vietnam had earlier been international investors' "flavor of the month", investors were getting fed up with the incredibly long and costly licensing processes, the entrenched bureaucracy, the lack of a clear and transparent legal framework, the ever increasing cost of doing business generally and the uncertainties for returns on their investments. The failure of the government to reasonably address these grievances compounded the country's economic problems and in effect helped to create Vietnam's own local version of the Asian financial crisis.

Perhaps the greatest missed opportunity since the enactment of *doi moi* relates to Vietnam's failure to move more quickly to complete the U.S./Vietnam Bilateral Trade Agreement (BTA). Bilateral trade talks began in 1995 - negotiations were slow and difficult from the outset, but they came to a virtual standstill in 1997 and the process very nearly died when the Vietnamese side essentially terminated negotiations. I was deeply involved in the negotiations and helped to revive them a couple times while constantly urging the Vietnamese leadership to accelerate its decision-making process so that the BTA could be enacted during the Clinton Administration. I pointed out that the BTA was exactly what Vietnam needed to kick start the economy following the serious economic erosion that occurred in '97, '98 and '99. But, the Politburo was totally deadlocked and a multi-billion dollar opportunity was missed.

An agreement in principle on the BTA was finally reached in July 1999 and the documents initialed, but still the Vietnamese side balked and refused to sign the official agreement, again due to internal political disagreement. Had the Vietnamese Government completed negotiations earlier and had they signed the BTA at the September 1999 APEC meeting in New Zealand, as was strongly recommended by the American negotiating team, the BTA would have sailed through confirmation in the U.S. Congress and the Vietnamese National Assembly. Furthermore, completion of the BTA would have stimulated immediate U.S./Vietnam WTO negotiations, a point that I personally and strenuously stressed to the Vietnamese officials at the time.



Vietnam's bid to join the WTO would have without a doubt been greatly accelerated. I am convinced that Vietnam would have been granted membership in the WTO several years ago if the Vietnamese leadership had seized the opportunity presented to them and moved quickly to close the BTA deal. The Vietnamese side finally formally signed the BTA agreement in July 2000 (a full year after the agreement in principle), but by that time it was too late for the agreement to be taken up by the U.S. Congress that year. The BTA subsequently fell victim to trade squabbles between the new Bush administration and Congress which caused further delays in its final approval. Today Vietnam is still not a member of the WTO (although we hope it will be allowed entry soon) and Vietnam is still paying a huge price for its lack of vision and failure to understand the US political dynamics that existed at that time and as a result, another multi-billion dollar trade opportunity was missed.

As noted earlier, life was difficult and unpredictable in the '90s for Vietnam's early foreign investors. There was little understanding of market economies and international business principles. Key financial intermediaries either did not exist or were very weak and Vietnam's legal institutions were not equipped to deal with the complexities of the emerging private sector environment. Vietnamese laws at the time were based on "authorization" rather than "exception", and were open to inconsistent interpretation and enforcement. Further, Vietnam was still very suspicious and fearful of "foreign exploitation", an attitude that has not completely disappeared even today. *doi moi* provided the Vietnamese leadership an excellent macro-economic platform to address these early deficiencies and implement the necessary economic reforms. However, while *doi moi* was accepted in principle by the leadership, in practice the actual implementation of *doi moi* policies was a stop/start process (two steps forward coupled with one step back). As a result, the reform process has been jerky and much slower than it could have been and was plagued by indecision and a lack of political courage and vision in the face of rapid economic, social and political changes attributed to *doi moi*.

If I was asked to nominate a time when I thought *doi moi* made its most significant mid-course correction I would say in 2000 (14 years after its enactment). It was in 2000, in a bid to promote economic recovery, that the government put into place a series of decrees aimed at improving the investment climate and to create a more attractive business environment. This included the passage of the new Enterprise Law, an amended Foreign Investment Law and the signing of the BTA. The Enterprise Law set off the equivalent of a domestic gold rush in Vietnam. The new law streamlined



domestic private business licensing procedures and legalized thousands of “mom and pop” businesses that were operating illegally or without full accreditation, and served to create thousands more. Not all of those businesses survived, but Vietnamese entrepreneurs sharpened their business skills quickly and set up innovative operations resulting in some great success stories. Some of those little “mom and pop” businesses are now listed on the Vietnam stock exchange. Entering private business however was not always without its perils. In the early days, the government was very suspicious of private business owners often subjecting them to ten or more inspections of their businesses each year. Private businesses found it very difficult to compete with highly subsidized state enterprises and many sectors of the economy were simply off-limits to them. Nevertheless, the new Enterprise Law gave the economy a great lift and continues to be a major factor in sustaining the Vietnamese economy today. Subsequent amendments to the Foreign Investment Law also streamlined many of the complex procedures governing FDI and effectively addressed a number of the grievances foreign investors frequently aired.

Yes, *doi moi* has been a success (but as I have suggested, not as big a success as it should have been) – last year Vietnam’s economy grew at a rate of 8 percent with an average GDP of roughly 7 percent over the past decade. The private sector contributed roughly half of the nation’s GDP in 2005. Today Vietnam is the world’s second largest exporter of rice, a major exporter of coffee, crude oil, textiles, marine products, footwear and black pepper. Tourism has flourished with Vietnam becoming one of the world’s favorite places to visit. Vietnam is rare in the mix of developing countries in that it is both an exporter of energy and food thus giving it an economic base often missing from other developing nations. The per capita income in Vietnam has risen from a couple hundred dollars per year in the ‘80s to over \$3000 today and the quality of life in Vietnam is now perhaps the highest in its history, albeit there is a significant division of wealth between the rural and urban communities. Poverty rates have been reduced to below 20 percent, but the poverty cycle has not been completely broken, particularly in remote rural areas. On the positive side, the people of Vietnam live in an increasingly secure and a relatively crime free environment.

The success *doi moi* has enjoyed is fundamentally due to the existence of strong Vietnamese family units, a well educated and youthful population possessing a hard work ethic, and by the long-term domestic investments by the government in education and to a lesser extent, public health. Without these cultural and social strengths, the *doi moi* policy would have either failed or would have experienced even more serious delays. *doi moi* has continued to



will recall that there are two major parts to the stated *doi moi* policy - to form a "market economy with socialist direction". The "market economy" renovation process is well underway, but Vietnam's slow progress in the privatization of key state enterprises (many of them unprofitable) remains a serious impediment to achieving the full benefits of that aspect of the policy. A genuine, accountable commitment should be made to privatize as many of the state enterprises as possible within a reasonably short time. This effort should be viewed as the first step to release ministries from their current burden and dependence on ministry owned and operated businesses used to fund ministry operations. Ministries, like all other government entities should ultimately be funded from the national treasury to assure proper accountability and independence. With an improved tax collection policy, more effective procedures and a concerted effort by the government, this is more doable than anyone in the government would now agree. One thing is clear, privatization must take place before a true market economy can be developed and with Vietnam's eminent accession to the WTO, the pressure to accelerate privatization will increase.

The "social direction" component of the *doi moi* process must undergo further modification as well. There has clearly been a move to improve the government's role in directing the development of the market economy, but the process is still in its infancy. Happily more government officials are versed in modern business economics and national institutions are better prepared to deal with the complex nature of a free-wheeling private sector, yet government obstacles still loom in the way of the exercise of "good business practices" thus greatly reducing economic effectiveness. Laws are not enforced equally and there still exists a wariness of private businesses. In an effort to "level the business playing field" and ensure greater consistency, the government must place a high priority on the creation of a strong, transparent business regulatory system. I understand an attempt is underway to address this void which I heartily applaud. While the system of regulation should fall somewhat short of a pure "laissez faire" policy, it should be broad enough in scope to allow the exercise of a relatively open market process that stimulates competition, productivity and efficiency. The legislative and government decision making processes must be streamlined to ensure that Vietnam is able to respond to political and economic opportunities as they arise. The government must also seriously address the problems associated with the current widespread corruption that continues to cast a huge black cloud over the government and the business community. The Government must ensure greater transparency within its agencies and it would be wise to begin efforts to raise civil servant salaries to levels commensurate with community standards. The further development of a free press will help



strengthen educational opportunities for Vietnam's citizens and its public health statistics are now comparable to many more advanced nations, a condition Vietnam can be justifiably proud of. However, because of Vietnam's rapidly changing economic circumstances, the Vietnamese family unit is sustaining transitional pressures with heavy family work cycles resulting in a reduction of shared quality time compared with families in the past. The children too, are under pressure – pressure to succeed academically, technically or artistically. Furthermore, the success of *doi moi* has not visited each region or household equally.

doi moi is first seen as an economic policy, but it has had a huge political and diplomatic impact on Vietnam as well. It's most important political attribute in my view is that it provided Vietnam a roadmap to confidently transform the country into a world class economy and at the same time, become a respected player in the world diplomatic community. The Party leadership has attempted to follow the *doi moi* policy to accomplish those goals, but it has done so under enormous pressure and in a period of significant internal political conflict. With respect to their diplomatic situation, with the exception of becoming a member of the United Nations in 1977, Vietnam was quite isolated internationally in the '80s. Following the establishment of *doi moi* Vietnam put its hand out in friendship to all nations of the world and not surprisingly, most countries responded positively and many have posted diplomats to Hanoi. By the time I arrived in Hanoi as ambassador, the diplomatic community numbered over 50 and it keeps growing. It is also likely that *doi moi* had something to do with Vietnam's decision to withdraw its troops from Cambodia in 1989 which greatly enhanced the prospects for normalization of relations with the U.S, an oft stated high priority diplomatic goal of Vietnam. And certainly, *doi moi* was at the core of Vietnam's application for membership into ASEAN, AFTA, APEC, WTO and other notable international organizations that have proven to be so important to its economic well-being and its increasing international prestige. It is my view that *doi moi* helped measurably to broaden Vietnam's political spectrum, strengthen its legislative processes and substantially stimulate healthy, constructive debate within the Party, its legislative bodies and within the society in general.

Given the general success of the *doi moi* policy over the past two decades – where does Vietnam go from here? I certainly cannot answer that question precisely, but I can make a few observations, predictions and recommendation that might help present and future Vietnamese decision makers.

First of all, Vietnam's economic liberalization and its international integration must continue at a pace equal to or better than in the past two decades. You



greatly to assist in the fight against corruption and would help spur competitiveness as well.

As noted, Vietnam's impending membership in the WTO will help drive the *doi moi* process, but real privatization of state enterprises must quicken in order to capture the strengths and business opportunities afforded by WTO membership and economic globalization in general. Vietnam will experience ever increasing world competition in the future and it must create a political, business and industrial environment that is able to react quickly, effectively and efficiently to the competitive challenges it will face. In that regard, quality control will become increasingly important for Vietnam's industries. Within the global marketplace not everything is driven strictly by price – quality is what sells and what brings back repeat business. The Ford Motor Company once had a motto: "Quality is Number 1". I think it is a good one and I suggest it or something like it be widely adopted throughout Vietnam.

Judicial and financial institutions must be significantly strengthened to meet the needs of an ever growing sophisticated economy. Trading partners and new investors in the future will demand that strict international standards be present in those key institutions before making commitments in Vietnam. The legal system can be greatly enhanced through the empowerment of the judiciary, better judicial training and development of a more efficient system of arbitration. Financial institutions will have to quickly improve their standards of service, accountability and efficiency in order to compete as the financial sector is opened to more foreign investment.

Education will require continued major investments to ensure a viable workforce to support the projected economic growth in Vietnam. Free primary and secondary education should be a national goal. Curricula should be heavily focused on maths, science, language and economics. Currently, Vietnam's major academic advantage over many of its competing trading partners is its people's skills in maths and science – an advantage Vietnam does not want to lose. Plus, technology is fast becoming one of Vietnam's most important industries and the education system must be capable of meeting the increasing demand for highly qualified technicians.

Health care will require major investments to help prevent historically debilitating health problems like SARS, Avian Flu, HIV/AIDS, and mosquito-born illnesses. A major concentration on injury prevention is necessary to counter the rapidly growing epidemic of accidental death and disability. Accidents are a huge burden in health care facilities nationwide and the costs for providing assistance to those injured, together with the associated loss of productivity, are roughly equal to 3-4 percent of the national GDP. The cost



of doing nothing in Vietnam to prevent accidents is far too high and accident prevention programs must receive high level support.

Inflation will become a dampening factor in the economy in the future if not tamed. In 2005 inflation was well over eight percent which should turn on some alarm bells within the government. Wages are increasing as they should given the increased productivity of the average Vietnamese worker, real estate costs are skyrocketing, the cost of commodities is rising fast and Vietnam has already become known as one of the more expensive places in Asia to live and do business (at least if you're a foreigner) – that reputation could have a damaging impact on Vietnam's future investment prospects and its competitive edge vis-à-vis its Asian neighbors if not contained.

The lack of attention to preserving the pristine Vietnamese environment from the deadly impact of unregulated industry will be one of Vietnam's most challenging tasks in the future. Rampant deforestation was and still is a major problem. The country's drinking water, its waterways, rivers, streams and coastline are being polluted everyday by unfriendly environmental activity and Vietnam's air quality is deteriorating at an alarming rate. The excessive use of agricultural chemicals also poses an environmental problem. Historic sites and sensitive lands are being ruined by uncontrolled tourist and industrial activity. Huge problems exist in disposing of hazardous substances and ordinary domestic and industrial waste. To date, few formal recycling programs exist and there is a question of whether dumpsites or landfills are adequately designed to prevent future soil and water contamination. Vietnam would be wise to engage in serious, practical environmental protection early in its industrial development process, for trying to clean up an environmental disaster is far more costly than investing in its prevention.

Infrastructure growth management is already a problem and one that can only become more difficult in the future. Up to now, Vietnam's growth management has been generally weak, but there are signs that things are getting a little better. Currently, Vietnam has a luxury not found in many developing countries – i.e. whole new cities or satellite towns can be created to accommodate the country's rapid population growth, its migration and industrialization norms. But, future development must be "smart development" that considers all the major requirements of a modern society. As noted above, environmental protection should be at the heart of that planning with an added emphasis placed on energy conservation. Preservation of historical sites, traditional architecture and cultural relicts must be a priority. Transportation infrastructure will be one of the most expensive activities, but it must be a high priority for government, for the lack of convenient, safe, accessible, functional transportation facilities will become a



serious drain on the country's economic development. I am a firm believer in the early investment of mass transit systems. Investments made now in mass transit will prove to be much less expensive than those delayed by even a few years. Ultimately, mass transit systems will have to be built in all of Vietnam's urban areas to keep up with local transportation demands, for energy conservation and to help eliminate paralyzing traffic congestion.

Protection of the Vietnamese people's human rights and religious rights will require increased and constant government attention. First and foremost, Vietnam must take ownership of these issues. External forces should not drive Vietnam's efforts to improve conditions for its own people – that is an internal responsibility and by doing so external interests will quickly take note of improvements and more likely become supportive of domestic action on these issues. Vietnam has made significant positive strides to address its human rights and religious rights issues over the past two decades, but no country can achieve perfection in this area – the goal should be to continue to make steady, positive progress to protect citizen's rights - this is an ongoing task – it is never completely done, but Vietnam must demonstrate that it will continue to strive for improvement in this area.

I acknowledge that I have offered here a list “too long” and at the same time a list “not long enough” of dos and don'ts and some of my thoughts may be dated or simply incorrect. Nevertheless, I present them as one person's constructive feedback, based on my personal experience in Vietnam during a period of unprecedented and historical economic, political and social change in the country. As many of you know, I have been and one of Vietnam's biggest cheerleaders and I remain confident that Vietnam's future is extremely bright. I fully intend to be a key witness and participant in Vietnam's continuing voyage to prosperity.



PANELLISTS' PERSPECTIVES

Plenary discussion in this panel focused on the opportunities, including missed-opportunities, and challenges of *doi moi*. All contributors to the panel agreed on one point: that although *doi moi* has resulted in many achievements the country is also facing many challenges. Disagreements were observed in the discussion of missed opportunities during *doi moi*.

Since what happened in the past cannot be fixed, it was suggested that participants should have a forward looking vision and look to the future and try to determine the country should do in order to achieve greater results (Prof. Do Hoai Nam).

Trade and “getting the prices right” were highlighted and emphasized as things Vietnam has done well. The biggest difference between the mid-1990s and the situation today is trade. Vietnam’s exports are 50 to 100 times greater than anybody imagined ten years ago. This is important for Vietnam in terms of employment, export capacity, and the ability to import technology and products that Vietnam cannot produce itself. Another dimension of increasing levels of trade is that it is now even more important for Vietnam to get the prices right and encourage competition. This is important because it provides opportunities to access improved performance of different actors to find rules for resources allocation between sectors and industries on the basis of good performance and competitive advantage (Prof. Ari Kokko).

It was argued that *doi moi* in Vietnam is unique and a difficult process. Economic reforms do not only involve the transformation from a state to private sector, but also complex changes to various components (Dr. Hong Ha).

It is much easier for an entrepreneur to make productive use of every opportunity than it is for a country. In response to the missed opportunities of Vietnam during the Asian crisis in 1997, it was argued that the country was not in the heart of the ‘storm’, i.e. it was not as heavily affected by the crisis as many other Asian countries. However, Vietnam as lies in the area affected by the ‘storm’ and has been affected to some extent. But it was not easy for



Vietnam to make use of the 1997 Asian crisis to promote its own development (Dr. Hong Ha, Mr. Ayumi Konishi).

Reforming the decision making system was emphasized as an important step in Vietnam's coming reforms. However, they faced several challenges summarized in four 'axes':

1. Information: the decision making system should be based more on information and knowledge than learning-by-doing, which has been the basis of many decisions in the past;
2. Inclusion: the decision making process must include the view of all parties involved;
3. Accountability: decision makers at different levels need to have a clear mandate to actually make decisions about the area for which they have responsibility; and
4. Transparency: allow everybody to take part in the process and make informed decisions to hold decision makers accountable for their actions. The process has to be transparent as people who are affected might not be committed if the decision is made behind a closed door (Prof. Ari Kokko).

Efficiency was raised as another challenge of the country. It was argued that the issue is not whether State enterprises are necessary or good, but whether they are efficient. In other words, the problem is not the ownership but the quality of services delivered to people and the costs of inefficiency. The question then is how to accelerate reforms and how to make the system more efficient (Mr. Ayumi Konishi). The issue of efficiency and transparency was also raised when discussing privatization in Vietnam. It was agreed that the privatization process in Vietnam is slow. The question is, therefore, how fast should it be? (Dr. Do Duc Dinh)

The independence of the media was also raised as an important factor. It was expected that the media should be able to hold leaders and decision makers accountable (Ms. Anna Lindstedt).

It was also suggested that Vietnam should look at systematic changes. Several areas have been suggested for consideration:

1. Move from quantity to quality: the quality of development should be considered as there is always a limit to quantity.



2. Move from trust to contracts: economic relationships should be based on contracts rather than personal ties
3. Move from answers to questions
4. Move from service provision to system provision: for example, the Government now provides unemployment insurance rather than employment and pension funds rather than pensions. (Mr. Klaus Roland)

To close the discussion Prof. Do Hoai Nam, President of VASS, gave a speech expressing the sincere thanks of VASS to Ms. Anna Lindstedt, Swedish Ambassador to Vietnam, for her great contribution to the project and the cooperation between VASS and Swedish organizations and development projects in Vietnam. In recognition of Ms. Lindstedt's significant contribution Prof. Do Hoai Nam presented her with VASS' memorial medal and flowers.





PANEL 4

Keynote Presenter: Mr. Andrew Wells-Dang Catholic Relief Services, Hanoi

Panellists:	Dr. Joerg Wischermann	Research Associate at Freie Universität Berlin.
	Prof. Yu Keping	Director of China Center for Comparative Politics & Economics.
	Mr. Jesper Morch	UN Resident Coordinator a.i. & UNICEF Resident Representative.
	Dr. Trinh Duy Luan	Vietnam Academy of Social Sciences.

THE DYNAMICS OF SOCIAL CHANGE IN VIETNAM: CAPTURING THE BUTTERFLY EFFECT

Mr. Andrew Wells-Dang

Vietnam is one of the fastest-changing societies in the world today. This statement is true if we look at the numbers: per capita GDP growth, turnover in export markets, number of televisions per person. It's also true at a deeper level. In part due to the after effects of war and revolution, in part from external obstacles and opening, and in part from deliberate decisions taken by Vietnamese leaders to engage in a process of *doi moi* ("Renewal"), Vietnam is experiencing almost within a single generation changes that took other countries centuries: from rural to urban, from agricultural to industrial, from rule of man to rule by law. Are these changes irreversible? Predictable? Can Vietnamese society, or external actors, influence their direction or affect their outcomes? Each of us may have our own answers, or partial answers, to these questions. Consciously or unconsciously, we put together mental constructs to explain



what is happening, how and why. That is, we construct our own theories of change.¹

Part of the fascination of living in Vietnam as both an outsider and an insider is that this process of understanding can never be complete when so much change is occurring. I've spent the majority of the last nine years here, working mostly for international non-governmental organizations, with additional experience leading a study abroad program and as an editor and translator for a Vietnamese publishing company. I've given plenty of presentations and papers over this time, usually about specific topics in development and international relations, and often with limited space and time. So I am delighted to have an opportunity to take several steps back and look at some broader questions of what changes have been occurring in Vietnam, and how we attempt to understand them.

These questions cut to the core of several disciplines: of sociology, political science, economics and history. I'm not an academic expert in any of these, though I have some background in each of them. What I'd like to offer is my own personal observations as a development practitioner and as a foreign resident of Vietnam. I will do this through examining and critiquing four different theories of social change. I'm using the concept of "theory" in a philosophical, not a physical sense: that is, as one possible mental construct among many for understanding the world around us. (It's interesting to note, however, that several of the theories have natural science origins or claim to represent scientific truth.) Three of these theories are *linear* in nature: that is, they describe change as progressing in a more or less orderly fashion from a beginning to an end point, passing through distinct stages along the way. The fourth theory is *non-linear*, meaning without a clear beginning, end point, or stage distinction. Before entering into a description and analysis of theories, however, I would like to consider more clearly what we mean by "social change."

1. The times are changing

When I hear both Vietnamese and international friends comment on the speed and quality of change here, many of the observations have to do with one of

1. The term "theories of change" is currently popular in the literature on conflict resolution and peacebuilding, such as the work of John Paul Lederach (Building Peace: Sustainable Reconciliation in Divided Societies, 1997), who provided initial stimulation for this paper. I am also indebted to two mentors, Henry Rosemont Jr. (currently of Brown University) and Grace Goodell (Johns Hopkins University) for their work on development ethics and social change/continuity, respectively. See in particular Rosemont's comparative analysis in *A Chinese Mirror* (1991).



two related areas. One is superficial, the way the city and country look. There's so much more traffic, so many more motorbikes and cars, so much construction and new facilities. The second area is economic: there is so much buying and selling going on everywhere, so many more stores and restaurants, so much visible wealth in what is sometimes hard to remember still a poor, developing country by world standards. A recent discussion on the lively and indispensable Vietnam Studies Group list serve has reminisced about milestones such as the first traffic light and first plastic bags in Hanoi, while remembering to place the "incredible stories of reconstruction and change" in the context of Vietnam's postwar devastation.²

Along with these material and economic changes have come many less obvious, but equally pervasive, social changes —although it's true that material conditions have an impact on societal relations. Let me give a few personal examples. I visited Vietnam for the first time in 1994 and came to live in Hanoi in 1997, so my memory is comparatively short. But still at that time, I felt that the pace of life and work here was noticeably slower than in the United States. The workday was from 8:00 to 5:00, and everyone arrived at eight and left exactly at five. These days, I usually leave the office around 6:00, and I am rarely the last person there. By 9:00 or 9:30 in the evening, the streets were virtually deserted. Over the past decade, I've seen the end of the evening move back to 10:00, then 10:30, and now about 11:00—later on weekends. In 1997, there was still less weekend, because government offices were open on Saturday. The two-day weekend was instituted the following year. As a result of these and other changes, the way that people use their time has shifted dramatically, at least in urban areas. Clearly, available personal disposable income plays a role in leisure time and recreation. But at least in my observation, poorer people also go out more and stay out later than they used to.

Technology also plays a role in changing social relations. In 1994, few houses had their own telephones. To make an appointment with a friend, you went to their house and agreed to go out at a later time—or immediately then, with no advance notice. By the late 1990s, more people had telephones in their homes, so you called first and made an appointment with a day or two of advance notice. Then came mobile phones—at first a luxury, now a necessity. (I resisted for several years, then gave in by 2002.) There are still a few

2. The VSG listserve is managed by the Vietnam Studies Group of the Association of Asian Studies (U.S.) Postings are archived at <http://mailman1.u.washington.edu/mailman/listinfo/vsg>. The sections cited above come from messages by Diane Fox and Michael DiGregorio on May 25, 2006, part of a longer thread about postwar and post-Doi Moi changes in Vietnam.



Vietnamese friends I know without cell phones, and I admire them greatly. But like time schedules, mobile phone use is not determined solely by income. *Xe om* drivers and trash collectors own mobile phones. Everyone is texting and calling everyone else all the time. As a result, we all have less time, and people I know are starting to develop the same over-booked personal schedules as many Americans have.

One subset of social change that I do hear Vietnamese friends discuss frequently is generational. In particular, the generation born since around 1980 has not experienced the hardship of the war and immediate postwar years, but instead has grown up in a context of expanding opportunities and might feel entitled to a share of the good life, rather than fortunate to have escaped poverty. Add to this that with smaller family sizes and longer life expectancies, children born in the last several decades receive proportionally more care from their parents and extended families than those born earlier.

These changes can be seen, once again, in both superficial and profound ways. On the surface, clothing and dress styles have loosened since even the late 1990s. What was inappropriate or risqué then is now commonplace. Music tastes have also shifted. One market research firm in Ho Chi Minh City divides consumers by, in part, what music they like to listen to. Those born before 1970 listen almost exclusively to Vietnamese music (both classical and popular). Those born during the 1970s favor Vietnamese pop divas and some international music. Those born since 1980 listen almost exclusively to international music.³

At a deeper level, the way that young people interact with their elders has also shifted. Youth have more independence; they are less likely to favor living with their parents (or their future husband's parents) when they are older, though this remains a dominant social model.

Another subset of social change is more political: that is, how citizens relate to their leaders and the state. I will leave an analysis of state-society relations to those more practiced in political science than I, but I'd like to point out that significant change has also taken place in this area. There is more public discussion of what might have previously been sensitive issues than when I first arrived in Hanoi. The National Assembly has gained in importance. Since 2001, its debates are televised, with some rather intensive grilling of government ministers, and people do watch this coverage (unlike, for instance, C-SPAN cable television coverage of the US Congress, which hardly any

3. Cited in a presentation to the American Chamber of Commerce by Ralf Matthaes, Managing Director, Taylor Nelson Sofres Vietnam, 2004.



Americans watch). The press, while still under state ownership and thus not considered “free” by Western standards, has become more professional and assertive in its investigative reporting, most noticeably on charges of official corruption. The state still plays a fairly large role in society compared to elsewhere in the world, but non-state sectors have been growing in size and importance, including domestic private business, non-governmental organizations, and religious organizations, among others. The legal status, rights and responsibilities of these groups are increasingly recognized and regulated in the formal legal structure, with its ever-expanding numbers of laws, ordinances, regulations and other instruments.

In sum, the past 20 years since the *doi moi* process began have brought about economic, social and political changes, of which the above description gives a small taste. Not all of these changes, of course, are directly attributable to *doi moi*; it is not as if the Sixth Party Congress developed a plan for cell phone use or generational relations. But I would argue that the opening and reform process have been at a minimum a necessary condition for social change; without *doi moi*, this wouldn’t have happened.

This analysis may seem uncontroversial, even simplistic. But I’d pause here to note that it differs from many outside observers’ perceptions of what *doi moi* is about. In this common version outside Vietnam, there is substantial economic change going on but less or no political change. Part of the explanation for this, I will argue, has to do with the particular theory of change being applied by these outside observers. Another explanation is that the economic changes are more apparent on the surface, while the social and political ones take more time to appreciate and learn about. Thus, the foreign tourist, journalist or business traveler sees only the tip of the iceberg.

On the other hand, many changes are the most noticeable when one has been away from Vietnam for some time and then returns. Several terms describing this effect are “creeping normalcy” and “landscape amnesia,” that is forgetting what the past used to be like because change happens gradually over time.⁴ Living here permanently, one may be aware that a lot of construction is happening or that social relations are shifting, but appreciating the magnitude of the difference requires going away and coming back again. When friends outside Vietnam ask me why I am (still!) living here a decade later, I often give this answer, that if I lived anywhere else there is no way I could possibly keep up with change here—while it is entirely possible to stay abreast of changes in the U.S. or Europe while only visiting once every year or two.

4. Jared Diamond, *Collapse: How Societies Choose to Fail or Succeed* (2005).



External perceptions, though, also take time to adjust. Up until as recently as four or five years ago, Western media frequently used adjectives such as “stagnant,” “crumbling,” “totalitarian,” or “repressive” to describe Vietnam. This at a time when economic growth rates here were among the highest in the world and pathbreaking social and political changes were occurring. Some of this is pure political bias based on no actual knowledge of Vietnam: since Vietnam is ruled by a Communist Party, all of the above must be true. In some cases, perhaps, geopolitical ignorance on the part of people who confuse the positions of Vietnam and North Korea on a map. Or perhaps some of these negative perceptions were true at some point in the past, but are now no longer true, yet thinking and judgments take more time to adjust than reality. I will come back to this time lag issue later in the paper.

Happily, in the last several years I’ve witnessed substantial improvement in external impressions of Vietnam, as more and more visitors come here to see the changes for themselves, and as relations with the U.S. and other countries continue to improve. When I go back to visit family and friends now, they have a much more accurate (and generally positive) view of Vietnam than when I first started living here. That’s a significant social change, too.

Going back to changes in Vietnam, I am not evaluating whether any of these changes are necessarily good or bad. I’ll leave those judgments to you. You might expect that Vietnamese are more likely to judge these changes positively, since their living standards and levels of personal freedom have improved compared to previous generations, while international observers would be more critical, since they would be likely to compare Vietnam to more developed countries. And surveys do show that Vietnamese people are, by and large, optimistic about the country’s future and satisfied with their lives.⁵ But my personal observations among friends in Hanoi and some other cities is actually the opposite of this. Expatriates living in Vietnam tend, in my experience, to be very positive about changes. They see Vietnam as a good place to raise a family, a stimulating working environment, and a place with more and more of the comforts of their home countries. Meanwhile, some Vietnamese I know who are more critical, or nervous. They face a lot of stress from family and work. Are things changing too fast? Can they keep up? In the process of economic development, is Vietnam losing something distinctive

5. The Pew Global Attitudes Project has ranked Vietnam as among the most optimistic countries in the world. In 2002, two-thirds of Vietnamese survey respondents were satisfied with “how things are going” in the country. 92 percent felt the economic situation was “good.” 98 percent felt increased international trade is good for the country. See <http://pewglobal.org/reports/display.php?ReportID=165>, <http://pewglobal.org/commentary/display.php?AnalysisID=68>, <http://international.ucla.edu/asia/article.asp?parentid=2748>.



about its culture and political system? When one is on the inside of rapid social change, it can be an insecure and threatening experience, even when the potential rewards are great. This insecurity might be one factor fueling a heightened interest in religion, on one hand, or consumerism and materialism, on the other.

So far I've focused mostly on the first component of *doi moi*: *doi* or "change." The second component, of course, is *moi*, "new." Which begs the question: how new is all this really? How much from the past is continuing? I can't give any definite answers to these questions. But they are important to consider as we review 20 years of *doi moi*. Both proponents and critics of "globalization" sometimes claim that current changes in the global economy and society are unprecedented and far-reaching. This may well be the case, but wasn't European colonialism also unprecedented and far-reaching for Vietnam? The 1945 revolution and the intense war of attempted reconquest which followed? Going back even further, Chinese occupation in the first millennium CE? And yet Vietnamese culture survived and adapted through all of these changes. Why should today's be any different? What is the relationship between social change and cultural continuity, between the old and the new?

On one extreme of this question are social revolutionaries—those who want to forget the past and focus only on the future. I think of a Chinese phrase that captures this attitude: *jiu de bu qu, xin de bu lai*. "If the old doesn't go away, the new can't come." This mindset leads to a type of development in which entire historic neighborhoods of cities are flattened in the name of "urban renewal." And even worse, entire past philosophies and religions are suppressed in the name of becoming "scientific" or "modern." These sorts of aggressive modernism have been attempted in a number of countries around the world, including in my own, and the results have not been good. To the credit of Vietnam, I don't see much of this uncritical destruction of the past happening here. There is, I think, a general understanding that becoming "modern" does not require giving up tradition or one's own culture, but that these are at a minimum compatible with change and can be negotiated, or perhaps even that cultural preservation and awareness are prerequisites for benefiting from development.

I'd like to offer here an alternative definition of "modernity." In a linear model of social change, "modern" is the desired end point, the opposite of "traditional" or "backward." In a non-linear view, however, there is no fixed end point. Modernity is thus not a location or a stage of development, but

6. Similar versions of this definition are outlined in Rosemont's *Chinese Mirror* and Jonathan Spence's *Search for Modern China* (1990).



rather a state of being, an awareness of who one really is in relation to others. A modern person (or nation), therefore, is aware of his or her traditions while fully at ease in the present.⁶ This definition allows us to say some things that the linear one does not, for instance that some historical figures can be considered truly modern in thinking, while some present-day figures are not. Or that a nation can be considered modern at some points in its history but not at others.

These alternative conceptualizations are some of the benefits of non-linear thinking. I hasten to add that this does not mean that linear theories of change are necessarily wrong; all theories explain some things and not others. In attempting to understand social change in Vietnam over the past two decades, we need as many theories as can apply. Here are four to begin with.

2. Marxism: the transition to socialism?

This theoretical tour begins with Karl Marx, since his thinking, along with that of Lenin and other twentieth-century Communist theoreticians, forms the ideological basis for the Vietnamese Communist Party and the *doi moi* process itself. That last phrase may sound surprising to some international listeners and maybe even some Vietnamese, since there is a common impression outside Vietnam that *doi moi* is a process of moving towards a market system, hence away from socialism. But that wasn't the original intention.

I don't presume to lecture people who have studied a lot more Marxism than I about Marx's theories of change, so I will keep this brief and am willing to be corrected if it is oversimplified. Marx follows a progressive stage model, adapted from Hegel's dialectic of thesis-antithesis-synthesis. Each stage represents a synthesis of preceding forces and as such is superior to what came before. Capitalism involves the bourgeois classes in ownership, hence is superior to feudalism, which concentrated ownership in a hereditary aristocracy. When capitalist development has run its course, the working classes will rise up and seize control of the means of production, ushering in the stage of socialism.

A few comments on this model. First is that the stages are fixed and distinct; it's clear which stage one is in at any time. The transitions between stages are not gradual processes of evolution, but violent uprisings as one class struggles against another. The main arguments within Marxism in the twentieth century came between those "orthodox Marxists" who believed each of the stages had to be followed in order, and those who believed stages could be skipped (Lenin) and sped up (Mao). Marx himself set no timeline for when a



communist revolution would occur. When the proletariat was organized and capitalism fell into decadence, they would revolt organically. In his lifetime, Marx believed that these conditions were ripe in developed Western European countries with large industrial classes, such as England or Germany. Eastern Europe was still ruled by czars and emperors at the time, hence at an earlier stage, and Asia was characterized by a form of “oriental despotism” that might take a very long time to progress to capitalism.

Thus, I think Marx would have been greatly surprised to see the first successful communist revolution in Russia, and then some thirty years later in China. Lenin’s innovation was to accelerate the process of revolution through a well-organized party as the vanguard of the working classes. Mao Zedong took this creativity one step further and attempted to skip directly from colonial feudalism to pure communism through the Great Leap Forward and the Cultural Revolution. The results were disastrous and led to a discrediting of Maoist “ultra-left deviationism” in China and elsewhere, with the nadir coming in Pol Pot’s Democratic Kampuchea.

Orthodox Marxist stage theory thus emerged as a more credible alternative to Maoist “continuous revolution.” Society cannot change overnight; it takes time for a national democratic revolution to develop to a point that the working class can take full power and the state wither away. In the meantime, a strong state is needed, and market mechanisms can be a stage on the road to communism. After all, some of the greatest successes of the Soviet Union came during the early years of the New Economic Plan, before Stalin’s purges and World War II weakened the system.

I can’t say if this is a valid representation of the thinking of some of Vietnam’s leaders in 1986; probably an incomplete one at best. But it does offer a compelling Marxist rationale for why *doi moi* might be an effective policy towards the ultimate goal of a transition to communism.

Where this theory is less strong is in explaining changes in Vietnam since the 1980s. Simply stated, no other country has succeeded in moving to the stage of communism to offer a positive example. Vietnam has sought to maintain some of the positive features of socialist ideology, such as equitable provision of public services, in an environment where many formerly socialist countries have abandoned them. After the disintegration of the Soviet Union, China remained the largest country ruled by a Communist party, and it has dismantled its system of state ownership and social services to a much greater degree than has Vietnam. European societies that have followed a social democratic model, combining some of the best features of capitalism and socialism into a hybrid stage, are also having difficulties maintaining the



welfare systems they have built over the last century. Meanwhile, international capitalism has proven remarkably resilient to crashes and depressions, beyond what Marx had expected. The “creative destruction” of capitalism described by Joseph Schumpeter shows no signs of weakening, and indeed makes increasing demands and pressure on countries like Vietnam that seek to maintain a socialist orientation. Recent electoral victories for leftist parties in Latin America, India and Europe might offer some possibilities for a socialist resurgence, but in order for Marx’s stage model to hold, the time frame between stages would have to be very long indeed.

3. Democratization: the transition away from Socialism?

After the end of the Cold War and the breakup of the Soviet Union, a number of countries that had been Communist transitioned into new political systems, whether multi-party democracy, single-party authoritarianism, or dictatorship. Many Western observers focused on the first result and viewed this as a triumph of democracy over totalitarianism that confirmed their existing ideologies and offered a retrospective justification for the Cold War. In this self-congratulatory vision, Western democracy forms the “end of history” towards which all nations are moving, at various speeds, with the United States as the sole remaining superpower and the “world’s policeman.”⁷

This worldview will be recognizable as that of the neo-liberal “Washington consensus” of free-market economics. With slight variations, it is shared by President Bush and the neo-conservative wing of the U.S. Republican Party—and a good number of U.S. Democrats and other Westerners as well. Surprisingly, democratization as a theory of change is not so different from Marxist stage theory in its construction. There are firm stages and a desired end point. The only difference is the name of the end point. In this theory, communism is not really a stage at all but an interruption between two other stages, say colonial pre-capitalism and capitalist democracy. Once the experiment with Communism ended, countries reverted to their pre-revolutionary societal starting points and became “societies in transition.” Left unsaid is what stages the transition begins from and leads to—these are assumed to be understood and inevitable.

Consciously or unconsciously, I think that most Western observers apply this view to changes in Vietnam and equate *doi moi* with a move away from

7. The “end of history” phrase comes from Francis Fukuyama’s *The End of History and the Last Man* (1992). Fukuyama has since moderated his views and abandoned neo-conservatism to become a critic of the US war on Iraq.



socialism. Far from lamenting this perception, the media and public applaud it as a clear step forward. At times the expressed feeling is one of relief, that “they” want the same things that “we” want after all and are ostensibly becoming more “like us.” Occasionally one hears a stronger and more worrisome version from U.S. veterans or politicians: “We lost the war, but we’re winning in the long run.”⁸

Scholars use more neutral language, but increasingly include Vietnam (and China) in the new field of “post-socialist studies.” Though recognizing that the concept of “post-socialist” can be problematic for countries still ruled by communist parties, they note that many comparable socio-economic changes have taken place in Vietnam as in the former Soviet Union and Eastern Europe. After all, *doi moi* has allowed a role for private enterprise, personal property ownership, and greater individual freedom. Vietnamese are becoming consumers, investors and owners. As one academic summarized in a recent posting to the Vietnam Studies Group list serve:

“In line with postcommunist transitions elsewhere, the process of change in Vietnam has followed a marked path of decentralisation and opening up, followed by a process of rationalisation and movement towards the rule of law. This process required a fundamental re-assessment of the belief systems inculcated under the socialist regime, including attitudes towards money, the rule of law, Marxism-Leninism, and the inevitability of historical progress...a transformation from teleological rationalisation based on Marxist-Leninist doctrine, to a legal-rational framework.”⁹

A frequent corollary of democratization theory is an assumed linkage between economic and political change, not just any political change but moves in the direction of Western democracy. Since capitalism is uncritically associated with democracy and socialism with totalitarianism, then market-based reform today will automatically lead to pressure for democratic change tomorrow. More specifically, establishment of a market system with more economic freedom will create a middle class of entrepreneurs (in Marxist terminology, “bourgeoisie”) who will then demand greater political rights and form new political parties.

Needless to say, this theory has been particularly unpopular in Vietnam, where it goes by the name of “peaceful evolution.” This name has always surprised me, since peace and evolution sound like positive values, not forces to be

8. For instance, then-Secretary of State Colin Powell during his visit to Vietnam (2001).

9. The discussion of “post-socialist studies” on the VSG listserve included postings by Patrice Ladwig, Thomas Sikor and Elizabeth St. George (May 5-20, 2006).



resisted. But it has been associated with the end of the Soviet Union and the interventionist models of “shock therapy” that did so much damage to the economies of many countries in the former Soviet Union and in Eastern Europe.

One other major objection to democratization theory is its tendency to ethnocentrism. “Democracy” tends to be associated with Western democracy, and capitalism with Western capitalism, particularly the Anglo-American variety. The idea that non-Western societies might develop other forms of democracy or market economies that are more suited to themselves is not taken particularly seriously. Meanwhile, developing countries that have followed Western advice and established multi-party electoral systems, agreed to World Bank structural adjustment programs, and allowed free rein to multinational corporations do not have a consistent record of success to point to. In fact, in some cases these societies are worse off than those that maintained traditional political systems, imposed controls on capital flight or gave preference to domestic firms. Just as with Marxist stage theory, there is no clear evidence that democratization theory works for developing countries. And with electoral problems in Western countries, the debacle in Iraq, declining political participation and a host of other problems, it’s not even clear that the democratic capitalist system is functioning particularly well in the U.S. or Europe itself.

In critiquing democratization theory, I want to be clear that I am not arguing against democracy or democratic processes. Nor am I challenging the concept of universal human rights, which have been delineated in the U.N. Charter, Human Rights Declaration and Conventions and accepted by the vast majority of countries in the world, including Vietnam. The problem with democratization theory lies in associating these universal principles too closely with one particular culture or political system, and then imposing these values on others. For instance, NGOs such as the US-based Freedom House assign countries yearly ratings on a scale from “free” to “less free,” based on criteria that they themselves decide. The U.S. State Department’s annual Human Rights Report engages in a similar unilateral exercise. These ratings correspond to the stages of development in the democratization theory model. But rather than provide assistance or support to societies perceived to be at lower stages, these organizations and governments often counsel punitive action. Those who do not measure up to the rigid conditions for higher stages become targets for isolation, sanctions or worse, which ensures that these countries remain at lower stages. The most egregious example of the abuse of democratization theory has been the U.S.-led invasion of Iraq, under the pretense of bringing “freedom and democracy” to the Middle East but actually making Iraqis less free and less secure in the



process. Democracy is all too often equated with the formal procedures of multi-party elections, even if the results of these elections do little to advance the interests of the voters.

Democratization theory does little to explain changes in Vietnam over the past decades. The rapid economic and social changes Vietnam has experienced do not appear consistent with a Communist government and a relatively high state role in the economy, yet these changes have happened nevertheless. Political change is also occurring, but not in the direction that democratization theorists would like to see. Comparative regional experience, most notably in China, does not seem to support any linkage between socio-economic development and an evolution toward Western democracy. If anything, the linkage is a reverse one: some of the countries with the fastest growth rates have political systems quite different from Western democracy and economic policies quite different from the "Washington consensus." They have grown following their own implicit theory of change, to which I'll now turn.

4. East Asian developmentalism: catching up with the Zhous?

Leaders of some of the more successful societies in East and Southeast Asia developed a theory of "Asian values" in the 1980s and 90s. Exemplified by former Singaporean Prime Minister Lee Kuan Yew, these thinkers rejected both Marxism and Western democracy in favor of a socio-political system that they believed to be more in line with Asian cultures and more likely to bring about successful developmental results. The Asian developmentalist model combines 1960s modernization theory with belief in a strong state, an export-led growth model, relatively low levels of social inequality, and some degree of Confucian family values. Some version of this theory is espoused by many regional governments, as well as embodied in regional institutions such as the Asian Development Bank, Greater Mekong Subregion cooperation, APEC, or the Mekong River Commission.

This is also a linear model, with a starting point of "poverty" or "underdevelopment" and an end point of wealth and modernity. The stages of this theory can be defined as "less developed," "medium development," and "developed." Since these stages are open to some interpretation and definition, developmental theory is not as rigid as the previous two theories in terms of stages. Transitions from one stage to the next are fluid and gradual, not abrupt. Progress occurs when nations and societies adopt appropriate policies and approaches to allow development to occur. The flexible, pragmatic nature of this approach can be summed up in the motto of Deng Xiaoping, basically a Developmentalist, that "poverty is not



socialism” and “it doesn’t matter whether a cat is white or black, as long as it catches mice.”¹⁰

The main advantage that the East Asian developmental model has over either Marxism or democratization theory is that it actually appears to have worked on its own terms. Countries that have adopted some variety of this theory have succeeded in posting high levels of economic growth and moving up the industrial supply chain to high-tech, capital-intensive products with excellent export earnings. It’s no surprise that South Korea, Taiwan, Singapore and Thailand are now leading investors in Vietnam, or that Communist Party ideology besides, this is probably the most popular theory of change in Vietnam today. I frequently read articles in the Vietnamese press, or hear in conversation, that Vietnam needs to “catch up” to other countries in the region, that is, adopt some of the same policies and approaches as other Asian countries have in order to have sustainable growth and increasing prosperity. Along with this ambition is often a note of anxiety about whether Vietnam is really “good enough” to succeed. The recent series of readers’ articles in *Thanh Nien* on the subject of “Is Vietnam a big country or a small country?” is one case in point.¹¹

From my perspective, Asian developmentalism offers some good news and some bad news for Vietnam. The good news is that yes, Vietnam can succeed at developing along the model of some of its neighbors. In fact, it is already implementing many of these policies through *doi moi*, demonstrating strong growth rates, and becoming more prosperous. These are driving forces behind many of the social changes that I described in the first part of this paper. Vietnam clearly has the human resources, work ethic and drive to succeed, as demonstrated by the progress of *doi moi*.

The bad news is that “success” in the Asian developmental model comes with some significant costs. First, even as Vietnam continues to grow and develop, it is not clear whether it can in fact “catch up” with other countries in the region. This is partly a mathematical problem: even if a small economy grows at a faster rate than a larger one, the absolute gap between the two may still increase, since the smaller percentage of the larger number is still greater than the larger percentage of the smaller number.¹² In order for the latecomer to

10. The “mice” quotation is probably the most famous of Deng’s sayings outside China; it originated in a 1962 speech to the Chinese Communist Party Secretariat, before Deng was purged in the Cultural Revolution. The “poverty” quotation came later, after market reforms started in 1978.

11. Series of articles in *Thanh Nien* during the weeks of May 10-20, 2006.

12. This has been pointed out by Hoang Tuy and Le Dang Doanh, among others, writing in *Tia Sang* (English translation in *Vietnamese Studies* II/2003).



really catch up to the predecessor, the larger country needs to stop growing or even shrink in relative terms. This is extremely unlikely to happen in Asia, since the larger economies in the region are also the leading investors in Vietnam. If they stop growing, so will Vietnam. The more that Vietnam develops and integrates with the region, the more susceptible it will be to external shocks, which should lead over time towards a convergence of economic growth rates. Changing the rules of the game will be more difficult as more rules are set.

A second objection to developmentalism is that it is limited by a fallacy of composition. This is perhaps best illustrated by American writer Garrison Keillor's joke about a village where "all the children are above average." Not every country can produce finished industrial goods with high value added, since someone needs to produce the raw materials and components to feed more advanced production. The fact that South Korea, for instance, succeeded at moving up this chain to become a developed country does not offer any guarantee that Vietnam will be able to follow in the same path (presuming that Vietnam wanted to do this). The main reason for this is that the *initial conditions* were different for South Korea in the 1960s compared to Vietnam today. South Korea was able to protect many of its key industrial markets, while its military budget and many economic needs were taken care of by the United States in return for political loyalty in the Cold War. In 2006, Vietnam is expected to enter the WTO, where it will find its economic and social policy options much more limited.

Perhaps the largest weakness to the East Asian model lies in its social costs. In other words, even if success is possible for Vietnam, is it desirable? Is it worth the cost? So far we have been measuring "success" by the yardstick of GDP—a very limited measurement, even for economic purposes. GDP does not include any notion of environmental costs, sustainability, or quality of life. A more balanced indicator might be something like the UNDP's Human Development Index. Here Vietnam scores relatively well compared to other countries at its income level, but this has been the case for many years. Is Vietnam really progressing in human development terms? Other Asian countries that have shown high economic numbers do not all have the social progress to match. Some have managed to keep inequality low, while others have seen high rises in inequality. Many countries have developed megacities with corresponding problems of traffic, crime, pollution, and social problems.

Even if there were a "right" model to follow, next, would this be appropriate for Vietnam? Take Singapore for instance: a highly developed economy with tall buildings, clean streets, low corruption, and a stable one-



party government. In many ways, an attractive model. But it's a city state of a few million people, vastly different from Vietnam in almost every way. Perhaps Hanoi or Ho Chi Minh City can learn some lessons from Singapore about urban planning or transportation, but it's difficult to see how a city state could be a real model for a diverse, predominantly rural country more than 12 times its size.

The ultimate critique of developmentalism lies deeper than this. For a clue, look at the leading source countries for tourism to Vietnam now: Japan and South Korea. Why do they come here? Because it is affordable, in part. But many other places in Asia are affordable too. The main reason, I think, is that they perceive that Vietnam has preserved something of importance that their countries have lost: traditions, vibrant street life, social cohesion, its *soul*. (There is a lesson here for Vietnamese tourism: it's not about building more and better infrastructure. Tourists don't come here for the infrastructure, they come for the culture and the experience. If there is too much "modern" infrastructure, the tourists will go somewhere else, like Laos. But I digress.)

Finally, "Asian values" in themselves are no safeguard against social problems. "Values" in themselves can be used for good and bad, whether Asian, Christian, Islamic, even socialist values. And "Asian" is such a diverse term as to be almost meaningless. Which Asian values should one use? The strongest versions of the argument limit it to "Confucian values" or "chopstick cultures." But then Buddhist and Hindu cultures have been developing strongly too. And—perhaps the strongest counterargument—if Confucianism is such a benefit for development, why didn't Confucian societies become industrialized centuries ago? Note the irony here, however: in the first two development models, traditional beliefs and practices are associated with lower stages, while here they become a necessary condition to move to higher levels.

Some of the Asian values debate echoes Chinese reformism of a century ago, in what is known in English as the "self-strengthening movement". The principle was that China could adopt Western technology on the outside while maintaining Chinese essence on the inside. The goals of the self-strengtheners were admirable, but they failed in their goals of maintaining China's independence. Some of their mistakes were conceptual, in thinking that Western societies had nothing to offer China except techniques, that technology is value-free, and that Chinese culture provided essential protection against the potential negative effects of technology. None of these assumptions proved true in practice.



Despite these flaws, Asian developmentalism offers a credible description of the results and changes brought about by *doi moi*. The challenge for Vietnam in the future is to sustain growth while minimizing potential adverse social impacts. If other countries' experience is a guide, negative side effects of development cannot be entirely avoided and may involve some level of trade-offs between otherwise desirable goals, such as growth vs. equality, environment vs. energy production vs. ethnic minority land rights, and so on.

5. Chaos theory: the hidden order of social change?

The final theory I would like to discuss is radically different from any of the first three. Chaos theory arose in the 1970s and 80s as an abstract branch of mathematics to describe natural phenomena that occur in identifiable patterns, yet are not predictable. "Chaos" as used in the sense of chaos theory should not be confused with anarchy or complete disorder; the main feature is unpredictability. Chaotic systems are non-linear, meaning they do not progress toward a goal. They may appear to be random, but actually function within defined limits. Some of the natural and man-made systems that exhibit chaotic properties include the weather, plate tectonics, turbulent liquids, stock and commodity prices, and population growth.¹³

Chaotic systems exhibit a number of fascinating properties. One key property is extreme sensitivity to initial conditions. Even the tiniest shift in the starting point of an experiment can result in a completely different result. A "bifurcation" results when a small change in the parameters of a system leads to a qualitative break in the resulting patterns.

A popular example of dependence on initial conditions is the so-called "butterfly effect," whereby a single butterfly flapping its wings in, say, New York could lead to changes in world weather patterns resulting in a dust storm in Beijing. The flapping wings represents a minute change in the initial conditions that creates large-scale divergence in the result; if the butterfly had not flapped its wings, the dust storm would not have occurred. Given the number of butterflies in the world and the complexity of the forces and processes at work, the weather can never be predicted beyond a short period of time ahead.

The relevance of the butterfly effect to social change is rich and intriguing.⁸⁷

13. This is a simplified summary of chaos theory by a non-mathematician. Some of the more accessible published sources include James Gleick's *Chaos: Making a New Science* (1988) and Edward N. Lorenz, *The Essence of Chaos* (1996). Internet sites such as www.wikipedia.org also contain a wealth of information.



First of all, some types of economic systems exhibit direct properties of chaos. Price bubbles and speculation, such as in real estate, stock markets, or commodities such as gold and oil are chaotic by nature. In classical economic theory, supply equals demand, and shocks to the system result in the formation of a new equilibrium. In a speculative bubble, however, demand consistently outpaces supply, leading to unpredictable distortions in prices—unpredictable because no one knows how long the bubble will last or when it might burst. Both price bubbles and the butterfly effect are examples of positive feedback mechanisms, in which a small change leads to a greater change, which leads to an even greater shift until the results are vastly different from what could have been predicted at the outset.

That is a direct application of chaos theory: some economic patterns actually do behave this way. Besides this, chaos can also be applied as a metaphoric concept to describe social and historical events. Some exercises in counterfactual history can verge on the ridiculous, such as speculation as to whether war X or Y would or would not have occurred if politician A or B had or had not been assassinated. But taken as a whole, the fact that such hypotheses are possible indicates that history, like actual chaotic systems, is not inevitable or predictable, and that an extremely large number of butterflies affect history's making. Retrospectively, historians can identify proximate causes and longer-term trends and patterns that explain why a certain change did or did not happen. But no historian has yet been able to predict the future.

Applying principles of chaos theory to the experience of Vietnam since *doi moi*, then, offers the following conclusions. First, the set of circumstances that gave rise to *doi moi* was not predetermined and could not have been predicted in advance. Second, timing is critical in determining initial conditions. The fact that Vietnam began a process of reform and opening after China, for instance, has meant that Vietnam's trajectory has been distinct in being able to study and learn from the Chinese experience. Likewise, the fact that some ASEAN countries had begun a process of regional integration that Vietnam could join has offered numerous opportunities that a country in a different time or place would not have enjoyed. The Soviet experience of *perestroika* and *glasnost*, followed by disintegration and crisis, also acted as a feedback loop, strengthening some Vietnamese policy decisions and limiting others. These are a few examples of external, macro-level determinants of the *doi moi* trajectory that, if any one had not been present, might have led to a vastly different result. A similar analysis could be made of internal conditions in Vietnamese politics and society at the time, from the leaders to the grassroots.



In the previously described linear models, external shocks, cycles and trends, as well as small internal variables, are peripheral to the main stages of development. Here they are central. The examples of social changes mentioned in the beginning of this paper could not have been predicted or controlled in their entirety by anyone, whether political leaders or outsiders. Again, chaos does not equal anarchy; I do not mean to suggest that society or political leaders have no influence or effect on change, merely that results cannot be foreseen in advance. Turning again to the example of the weather, it is usually reasonable to assume that the immediate future will resemble the near past; if it is sunny this minute, it will probably be sunny the next. And the number of possible weather results is also limited: it is extremely unlikely ever to snow in Hanoi. Patterns noticeably exist. There are rainy periods and dry periods, but no one can predict exactly when the weather will change. Finally, there may be a warming or a cooling trend over time, but the weather is not moving toward any fixed goal.

Turning to the future, a non-linear, chaotic model of change assumes first of all that change will constantly occur, that it can be influenced but not predicted or controlled, and that the way to influence change is by making small but crucial corrections in initial conditions. At the same time, the so-called "law of unforeseen consequences" will still apply, and bifurcations in the system might occur just when we expect them the least. What is potentially troubling about this model is the fact that two similar systems can meet very different fates, and contradictory results can be found in the same basin of causes.¹⁴

As with the previous theories, this "postmodern science" is not perfect and is open to criticism on a number of fronts. First of all, the economic behavior of price bubbles aside, it is mainly based on an analogy from the natural sciences that might or might not be accurate. After all, not all natural systems are chaotic, only some of them. Chaos theory itself is also open to interpretation or misinterpretation. Marxist theorists have likened the butterfly effect to Hegelian dialectics, while capitalist apologists have extrapolated from chaotic stock markets to a defense of laissez-faire economics.¹⁵ Neither conclusion seems justified. On the other hand, chaos theory can be used to imply that patterns in society are static and that progress is impossible. This does not fit the available evidence particularly well, as my analysis of social change in Vietnam indicates that in addition to

14. For instance, Euel W. Elliott, *Chaos Theory in the Social Sciences* (1997).

15. T.R. Young, "Chaos Theory and Social Dynamics: Foundations of Postmodern Social Science," <http://www.etext.org/Politics/Progressive.Sociologists/authors/Young.TR/chaos-theory-and-social.dynamics94>.



new renditions of old patterns, new patterns have also been created that did not exist before. In sum, the butterfly effect analogy is useful, but like all analogies it should not be stretched too far.

One possibility worth considering is that change that appears chaotic to outside observers is actually predictable to insiders who understand their own cultural patterns better. A leading retired Vietnamese journalist recently told me that he finds nothing at all surprising in the country's progress since Renewal began, and that these changes were all anticipated by the Party in advance. In his view at least, there is nothing chaotic about the system at all. But it is also possible that insiders' perceptions suffer from the "landscape amnesia" effect described earlier: that is, changes do not feel dramatic to those living through them gradually, but appear so to outsiders who experience them as snapshots in time.

Yet another possibility is that some observers do not actually realize how much change is occurring, either because they are sheltered from it to some extent, or their own theories of change exclude the possibility of chaotic unpredictability. This could happen to insiders or outsiders just as easily. If one is convinced that change is explainable using linear stage models, but the dynamics in question are actually chaotic in nature, eventually reality will step in as a corrective. The cognitive dissonance between theory and actuality will lead to a break in thinking, a "paradigm shift." Thomas Kuhn argues that scientific theories do not evolve gradually, but rather continue in place until the preponderance of the evidence supporting them leans towards another explanation—at which point paradigms change quickly.¹⁶ Thus, there is a time lag between scientific evidence, which does accumulate gradually as discoveries are made, and thinking, which changes in sharp, revolutionary breaks.

It may be that we are all, insiders and outsiders, caught in such a thought bubble now. Change is happening all around us, and our theories of change cannot keep up. Chaos theory offers one possible way to describe processes of social change that transcends the boundaries of linear stages. But it, too, may be insufficient to explain complex social realities, in which case we need yet another paradigm.

6. Conclusions: "capturing the butterfly effect?"

On one level, this paper's subtitle, "capturing the butterfly effect," is impossible by definition. If the butterfly were captured, the system would no

16. "Chaos and Dialectics," <http://www.marxist.com/science/chaostheory.html>; Stephen H. Keller, "Chaos Theory and the Social Sciences," <http://www.hamline.edu/~skellert/sample.htm>.



longer be chaotic. But in another sense, that is exactly the point. Initial conditions can be influenced, patterns described and foreseen to some extent. If internal and external variables can be taken into account, social systems could possibly exhibit less chaotic and more predictable tendencies, though absolute predictability is an illusion that is neither possible nor desirable.

The question I would pose is thus the following: what changes in present conditions would enable Vietnamese society to influence future outcomes in a positive manner?

The first of these is to continue something that Vietnam is already generally doing well, which is to harness the entire population in the process of development. Since no one knows which butterfly might produce an innovation that changes the future, it is wise not to leave any potential source untapped. This includes those groups such as rural women, people with disabilities, remote ethnic minorities, or migrant workers that have historically had difficulty accessing the benefits of *doi moi*. The more participation and involvement of society, the more innovation that will result. This is one area where the efforts of non-profit organizations (such as the one I currently work for) can contribute added value, particularly through education and disseminating successful local development models. NGOs should seek, in essence, to become agents of the butterfly effect, making small and innovative adaptations to initial conditions, some of which will produce large-scale results later on.

Secondly, chaos theory suggests that Vietnam cannot succeed by simply becoming more like other countries. It is actually impossible to recreate the earlier successes of the "Asian dragons," since the initial conditions have shifted and socio-economic change is unpredictable. Instead, Vietnam will achieve the best results by becoming more like itself, promoting its unique identity and cultural heritage, and finding its comparative advantage. In ecological terms, Vietnamese society will find its niche that differentiates it from other societies and allows its particular strengths to grow. This may include so-called niche markets such as handicrafts, fashion, tourism, and computer software, not only traditional manufacturing industries.

Success in these endeavors, of course, does not depend on Vietnamese society alone. External shocks that have nothing to do with conditions in Vietnam could change the future drastically. Some possible shocks currently on the horizon include the spectre of global terrorism and war; deadly health pandemics; a spike in oil prices; global warming and associated natural disasters; or a global downturn in trade that could be caused by any of the above or other unforeseen events. One prediction that can be made with



confidence is that natural resources such as water and forests will be scarcer, hence more valuable, in the future, and that Vietnam can do future generations a large favor by conserving as much as possible of these resources today.

After having considered these four theories of change, you may be now asking yourself, “which one do I really believe?” The answer could be all or none. Each theory has its strengths and weaknesses; each is only a partial description of reality that cannot be captured and is larger and more complex than any of our attempts to describe it. I do hope that the presentation of a non-linear theory of social change, in particular, stimulates your thinking and raises useful questions about Vietnam’s future directions.

All four of the theories I have presented have one thing in common: they each evaluate the process and experience of *doi moi* to be overwhelmingly positive. Renewal is a step towards building an equitable society; it is also a step away from central planning and toward greater democracy; it is also a step towards Vietnam becoming a more developed economy. Finally, *doi moi* is a creative, unpredictable process that has brought a positive loop of feedback to the large majority of Vietnamese people who have taken part in determining its trajectory. If the near future does indeed resemble the near past, this trajectory will continue to be inspiring to people from all theoretical worldviews.



PANELLITS' PERSPECTIVES

Dr. Joerg Wischermann

Since the organizers asked panellists to be practical and not too theoretical I will leave out most of my academic critique. Such criticism would focus on Andrew Wells-Dang's remarks concerning the state of the research on for example:

- Marxism (on purpose or not Wells-Dang left out what Gramsci or, for example, the late French philosopher Nicos Poulantzas had to say concerning the importance of the fight for "ideological hegemony", for example, in the realm of culture as part of the struggle for a democratization of capitalistic and other systems, thus stressing the importance of intended changes in the superstructure, not just relying on the mechanisms of a stage-wise transition to socialism and communism caused by changes in the basis. I will get back to the point: culture as an important area for intended political change and as a "contested area", later on).
- Democratization (Wells-Dang tends to leave out some of the more advanced and theoretically well founded modernization-related approaches, such as those put forward by Rueschemeyer, Rueschemeyer and Stephans, or those put to use in more area-related studies carried out by Gary Rodan and others. Those studies say, basically, that democratization depends not only on "how well to be" those nations are (this is the essence of "Lipset's Law"), but also, or even more, on the specific interests of social classes and strata and their respective power bases; on the cooperation of classes and social strata or how much they differ on whatever issue; on the relationship various social classes and strata have with the state, etc. A point in case for the fruitfulness of those approaches are the cases of Malaysia and Singapore on the one hand and Thailand on the other hand. To make a long story short: if for example the middle classes are dependent on the state they will not strive for participation and democratization of the political system; if not, and here the case of Thailand is intriguing, they - or at least relevant parts of them



- can turn against the state, together with rural and urban poor or without them, and topple at least a government. I recommend reading Kasian Tejapira's just published article "Toppling Thaksin" (2006). In the case of Vietnam one should study Martin Gainsborough's seminal analysis of social classes and strata and their respective interests concerning democratisation.)

- Globalization (I would challenge Wells-Dang's argument and insist on the specifics and singularity of nowadays globalization in comparison to, say, the invasion of Vietnam by foreigners, be it 1000 or 150 years ago. Those events marked a brutal break with traditions and the rest of it, but what today's globalization will bring to Vietnam – after the access to WTO – is much more than that. Ignoring the specifics of globalization might implicitly mean a belittlement of the coming pressure on Vietnam, its economy, politics and policies and culture).¹
- Modernity (Instead of thinking in ways of Wells-Dang potential relativist position I would suggest thinking in terms of "multiple modernities", as suggested by Eisenstadt (2000) or Oommen (2003). Whereas Eisenstadt explains his concept almost exclusively with the logic of varying social developments, Oommen links the spread of various modernities very clearly with the history and the processes of globalization).

But instead of further criticizing and bothering Andrew Wells-Dang I would like to add some aspects which seem to be left out in his analysis and put forward some ideas which in my view seem to be related to our topic "the dynamics of social change in Vietnam".

First, if change (as Wells-Dang puts it) brought about by *doi moi* is "due to after effects of war and revolution, important external obstacles and opening and in part introduced from deliberate decisions by the party" – I wonder where "the people" is, what its place is in this picture of *doi moi*, or to put it even more bluntly: why is "the people" so absent in this analysis of *doi moi*? My thesis in respect to people's role in starting *doi moi* would be that without the practices of "fence breaking", i.e. action taken by the people with or

1. The definition of globalization, which I use here is the one offered by Held et al. (1999): Globalization is "a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions – assessed in terms of their extensity, intensity, velocity and impact – generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power. In this context flows refer to the movements of physical artifacts, people, symbols, tokens and information across space and time, while networks refer to regularized or patterned interactions between independent agents, nodes of activity, or sites of power." (16, emphasis by the authors)



without the backing of cadres; without the experiences from models they initiated and which helped to show that the “old” ways of production and distribution could successfully be overcome and new ones could be successfully put into practice; without the failure of certain policies which led to inflation, distorted economic relations, imminent hunger catastrophes etc.; without all that *doi moi* would not have happened. In my view the party could not but adapt to the necessity of reforms and follow all those examples which showed the way out the crisis.

My thesis in respect to the future of the reform policy would be a bit more cautious and replete with a lot of preconditions: in my view the future of *doi moi* depends basically on the interests of the respective social classes and strata and their respective power bases; their respective relationship (especially as far as the emerging urban middle classes are concerned) with the state; the relationship between the political and economic elite (again: especially the emerging middle classes) and the peasants and the urban working class as well as (what could be called very roughly) the rural and urban poor; the respective social classes’ and strata’s determination to stick further to what I call a “silent consensus”. But there might be some societal forces which find good reasons to change the course they pursue up to now. The epidemic corruption if not drastically reined in could be, as such, a good reason and it could serve as a common denominator for anger aired by various social strata that in turn could endanger the very basis of the real existing power system.

Second, concerning what Wells-Dang called effective policies towards the ultimate goal of a transition to communism: I would prefer and recommend thinking about and discussing concepts which could help to keep or restore a certain degree of social equality, social security, the building up of social safety nets etc. I highly appreciate UNDP’s suggestion of carrying out a social audit. I would suggest including in such an audit an evaluation of the various contributions provided by the whole ensemble of civic organizations. It is in this context that my bold thesis would be that the contributions of those organizations in terms of social and other services is comparable to the contribution provided by non-state actors which helped Vietnam to reach the impressive GDP growth rates within the last decade. Furthermore, discussions should be organized concerning the role that the state should play in the future (not just in terms of social security, but one could start with this subject) and the role civic organizations could play (in terms of social and other services those organizations perform). Additionally, studying carefully the debates within the European centre-left concerning the concept of an “ensuring state” (opposed to notions of an “enabling state”) would be helpful, I tend to think. I am sure that German political foundations like the Friedrich-



Ebert Foundation could help to learn more about such concepts and first steps towards their realization.

Third, what I missed in Wells-Dang's paper is the whole complex of gender-related questions. The dynamics of social change have not changed, at least not in substance, the role of women in the Vietnamese society. Gender-inequality and discrimination of women have not withered away. On the contrary, as Le Tu Anh Packard (2006) most recently stated, despite the fact that *doi moi* is gender-neutral in intent "culturally influenced patterns of horizontal and occupational segregation in Vietnam gave rise to gendered outcomes and increased social stratification. (...) the benefits from the economic growth were not distributed equitably, and inequalities widened. Moreover, women bore the brunt of deflationary measures such as fiscal austerity and public sector downsizing (...)". Furthermore, figures indicating the use of violence against women are deeply disturbing: In more than 40 percent of the families a "certain degree" of domestic violence is seen as being "normal" one report says; another one even states that in rural areas 80 percent of women asked tell that have suffered some types of domestic violence and more than 15 percent have been beaten by their husbands (CEDAW Report Vietnam 2004). In my view domestic violence is not a private affair and not a legal, better: illegal, matter, and it's not only a result of the lasting existence of antiquated views (such as male chauvinism), thus, more or less a relic of a traditional or outdated culture (as many Vietnamese researchers and politicians have called it). In my view women's discrimination, male chauvinism and the rest of it signifies the lasting existence of patriarchal structures. If my thesis has any substance then Vietnam has quite a lot in common with societies in the US and Europe where at present the patriarchy is discussed as a suitable, even modern, and not at all outdated form of living (as Philipp Longman author of "The Empty Cradle: How Falling Birth Rates Threaten World Prosperity and What to Do About It" calls it). But such congruence makes oppressive structures and their effects not better.

Fourth, from my perspective one should be careful to understand culture in an essentialist way. Basically such a view says that culture is a fixed set of values and norms etc. In my view it makes more sense to conceptualize culture as a process and as a "contested area" and to understand culture as a part of a wider framework in which factors such as politics and policies, social classes, strata, gender, power, power bases and resources, etc. play their respective roles. The Indian anthropologist Arjun Appadurai (2004) provides us with an intriguing understanding and definition of what culture is: "Culture is a dialogue between aspiration and sedimented tradition". By



aspiration he refers to wishes, urgent needs of the people and especially their lack of capability to reach those aims.² Thus, culture should and could be understood in terms of capabilities (or the lack thereof). Furthermore, culture could be understood as a mighty tool which helps people to reach their aspirations. If necessary, Appadurai concludes, people should fight against sedimented traditions if those stand in their way. Culture is always related to various sorts of struggle and it is, as I said, best understood as a “contested area”. Culture is a struggle in terms of (contentious) notions, attributions, interpretations, and in this struggle various interests are at stake. From this (rather Gramscian) perspective it can be said that it is kind of wishful thinking that Vietnam can become or remain “like itself, promoting its unique identity and cultural heritage” as Wells-Dang put it. Vietnam as other countries has never been and remained the same. It has always undergone dramatic social and other changes. Vietnamese, German, Chinese, etc. culture is “work in progress” to use Hannerz’s term.³ Even more, the assumption that Vietnamese or German culture is a fixed set of values and that there is something like a specific German or Vietnamese identity at best lead to the exclusion of all those who do not share this notion and/or do not live up to expectations which are parts of this notion. Germans have gained a lot of experience as far as the assumption of the existence of a specific culture (lead culture or to use the German term “Leitkultur”) which for example singles out white people and Christians and ignores, for example, black, brown or whatsoever “coloured” people, Jews, Muslims and other “minorities”. The result could be and in fact has been the oppression of ethnic, religious, sexual and other minorities, at best their repressive toleration.

Fifth, processes of social change bring with them processes of fundamental change and insecurity. Thus, for many Vietnamese their whole lifeworld turns upside down. The whole (re-)new(ed) Vietnamese society is becoming more and more differentiated, more complex, more dynamic. These changing patterns of society make changes in governance all the more important, if not

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2. By way of defining culture in terms of capabilities he makes use of Sen’s so-called capability approach which helps him to bridge the gap between culture and development, development-oriented approaches, etc. in a quite unorthodox way.
 3. In a quite similar way the Human Development Report 2004 states: „Culture is not a frozen set of values and practices (...) (but, JW) constantly recreated as people question, adopt and redefine their values and practices to changing realities and exchanges of ideas.” (4) Or see Rao/Walton’s (2004) excellent definition: „Culture is about relationality – the relationships among individuals within groups, among groups, and between ideas and perspectives. Culture is concerned with identity, aspiration, symbolic exchange, coordination, and structures and practices that serve relational ends, such as ethnicity, ritual, heritage, norms, meanings, and beliefs. It is not a set of primordial phenomena permanently embedded within national or religious or other groups, but rather a set of contested attributes, constantly in flux, both shaping and being shaped by social and economic aspects of human interaction.” (4)



even urgent. “Governance with society” as Koiiman puts it so aptly could be a suitable formula for a combination of old and new forms and contents of governance which seem to be needed in Vietnam and elsewhere when society becomes more and more diverse (diverse signifies the emergence and development of different interests precipitated by processes of modernization); when relationships between social classes and strata and groups become more and more complex; and when (potential) conflicts between and among societal actors due to the divergent interests they pursue become more and more frequent.

It is in this context that it is appropriate to think of shifting roles of government (which does not necessarily mean shrinking roles and a diminishment in terms of importance). But the reshuffling of government tasks is due to the fact that governments are not the only crucial actor in addressing major societal issues and that there is a greater need to co-operate with various societal actors. This “does not render traditional government interventions obsolete. It merely implies a growing awareness of the limitations of traditional government ‘command-and-control’ interventions. Responses to societal problems require broader sets of instruments, and other sets of partners to solve those societal problems (...) but also looking at instruments evolved and practices developed by ‘civil society actors’.” (Koiiman (1999), 73)

Traditional and new modes of government-society interactions (such as forms of co-governance and increased self-regulation) are needed to tackle many of the burning issues which plague Vietnamese people.

What I call civil society action could be seen as a to be welcomed supportive element to achieve the goal of “governance with society” and the suggested new modes of government-society interactions. But what in my and others view civil society action is and what it implies; what civil society action in “Vietnamese colours” might or could be; how civil society action as a specific mode of interaction could support the renewal of forms and contents of governance in Vietnam; these are different stories and subject of - hopefully - further research and discussions.

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Prof. Yu Keping

Prof. Yu Keping addressed issues concerning *doi moi* in Vietnam and made recommendations referring to the Chinese experience. He agreed that the reforms in Vietnam and China have touched upon various dimensions: they include not only the economic transformation but also cultural and political transformations. He compared China and the former Soviet Union to show how economic and political reforms are connected. Moreover, Prof. Yu Keping noted that the success or failure of political reforms depends on what and how they are evaluated. He found that western standards may not be suitable in several instances.

China now has a new point of view of the market economy. Formerly, a market economy was seen as a change from socialism to capitalism and as a symbol of capitalism. Nowadays, it is seen as a mechanism by which both



socialism and capitalism can be used to develop the economy. It is also seen as a stage to attain socialism.

Based on the Chinese experience, he agreed with the presenter's findings on Vietnam. There seems to be no linkage between socio-economic development and evolution toward western democracy. He agreed that everyone should enjoy democracy. However, each country has its own traditions, culture and social conditions that shape its development and its democracy. Vietnam is not an exception and the country also has its own features and its own form of modernization.

Prof. Yu commented also on the effects of globalization. He noted that globalization does not only bring inter-dependence among countries but also certain risks. He found that it is extremely important for developing countries to maintain national autonomy. China has so far succeeded in doing so.

Mr. Jesper Morch

Mr. Jesper Morch discussed the need to look further at the dynamics of the relationship between the distant past, recent past, and the current development of the country. In the last 20 years Vietnam has achieved very rapid economic development and very impressive economic growth. Moreover, development has been combined with equity making Vietnam one of the few countries to have achieved the MDGs ahead of time. Mr. Morch wondered how the successful past connects with the future, the immediate future or the coming five year socioeconomic development plan as well as Vietnam's ambition to become a middle-income country by 2011 and a fully industrialized country by 2020.

Mr. Morch also raised the issue of the capacity of the Vietnamese leadership, particularly as the Government is committed to equity. The question is how to attract the best and brightest to the Government to serve as civil servants while the private sector is growing rapidly with attractive opportunities and higher salaries. One way to deal with it is to look at the generational gap and to learn more about the life style of the young generation. He noted that while the older generation sacrificed all for the development of the country, the younger generation has become increasingly individualistic, consumer-oriented, and with a greater range of life style choices. He argued that if the Government wants to deal with this issue, it needs to understand the life style choices of the young generation.



He also said that it is important to clearly identify and differentiate capacity among different levels, i.e. the capacity of the authorities at the central level is not necessarily similar to the capacity of authorities at the local level.

Mr. Morch, identified human rights as another issue for concern. He argued that the discussion on human rights in Vietnam is sometimes awkward and needs further consideration. He commented that there is a need to start building a culture of human rights and that before one can discuss the issue one must first understand the notion [of human rights]. Further is the combination of excellent policies, good practices, and effective enforcement.

He concluded by returning to the issue of equity. He warned that 15 percent of the Vietnamese population is currently beneath the poverty line and that about 20 million people are living on less than a dollar a day. He strongly recommended that the Government find inclusive policies and practices that allow the less well off to benefit from the rapid economic development of the country.

Dr. Trinh Duy Luan

Dr. Trinh Duy Luan made a few comments on the paper and the presentation. He said that the paper focused on the introduction and basic analysis of some theories that can be used to identify and explain some social changes in Vietnam in the past 20 years and to predict social changes in the coming years. He however noted that an in-depth analysis of social changes in Vietnam is limited in the paper.

He found the paper very interesting as it looked at both the micro-perspective with the author's observations of daily life and the macro perspective with theoretical analysis. The paper raised the question of choice or which theory and/or method can be applied to look at the dynamic of social change in Vietnam.

Dr. Trinh Duy Luan noted that it is not difficult to point out the achievements of *doi moi* in the last 20 years in Vietnam. However, it is not easy to point out hidden changes and the explanations for those changes. He said that it is important to look at changes of value systems in transition, changes of life styles and behaviors of different groups in the society, the emergence of new social groups and new social relations, the disappearance of traditional social groups, the relationships between people and leaders or the legal foundation of citizen rights at large, and social citizenship.



An interesting finding from this paper is the comparison between the point of view from abroad and from Vietnam. Most foreigners have an optimistic view of recent socioeconomic changes in Vietnam while the Vietnamese, surprisingly, are more skeptical about the achievements of the country. Dr. Trinh Duy Luan took this position and explained that while the country has made great achievements, the sustainability of that process is still worrisome. Dr. Trinh Duy Luan found that there is a need to identify the different groups in the society and to understand their attitudes and behaviors regarding recent social changes. He noted that the skeptical view of the Vietnamese people may come from their dissatisfaction with corruption and social evils that they have learned from mass-media. Nevertheless, results from public polls and studies since 1990s showed that the majority of people support *doi moi* and accept unexpected consequences including greater inequality and inequity as the price.

He found the discussion about the term *doi moi* interesting. He totally agreed that *doi moi* does not mean to get rid of everything and start over anew. In essences, however, the 'old' things should be preserved although it is not easy to do so. He pointed out that the second theory (Democratization) has explained for the unique features of Vietnam's development, while the third theory (East Asian Developmentalism) raised many thoughtful issues and challenges for Vietnam. He found that the fourth theory (Chaos Theory) is vague, hard to understand, and difficult to apply. Further, the author focused too much on external factors paying too little attention to internal factors such as culture and history, the tradition of solidarity, the capacity to mobilize people, reaction to rapid change, and prompt responses in leadership capacity.

He ended his comments with two questions: why four theories? In other words, is it because of the complexity of Vietnamese society that has led to the need to use multiple theories? And: Should Vietnam follow a specific model/modern theory of development or should it follow a model that is a combination of multiple models?



SUMMARY OF THE PLENARY DISCUSSION OF DAY 2

Professor David Dapice suggested including the “elephant foot” in addition to the “butterfly effect”, i.e. when one is looking at social changes, s/he should also mention the remarkable and very rapid drop in fertility.

Dr. Thaveeporn Vasavakul raised two questions. The first question referred to the term “*doi moi*” which has been used in Vietnam in an ambiguous way and needs further clarification. She argued that many things new to Vietnam are already very old in other places. She asked what are the unique features that might have emerged from the *doi moi* process?

Her second question was broader and directly related to the four theories presented in the last panel (Panel 4) and their connections to contemporary Vietnamese society. She asked whether the theories are four images of Vietnamese society and what kind of society they are presenting and how they could be used to discuss Vietnamese society.

Ms. Pham Chi Lan

Ms. Pham Chi Lan raised two questions. First, she wanted to learn more about the distinction between “*doi moi*” (renew) and “*Cai Cach*” (reform), used in other countries. She thought that Vietnam has undergone “*Cai Cach*” rather than “*doi moi*”, but the term “*doi moi*” has been used more frequently and become more popular as it feels “softer” and more persuasive. She argued that this is not an issue of terminology but more importantly the meaning behind it. While “*doi moi*” could be exploited for hesitant decisions, “*Cai Cach*” requires more decisive minds.

Ms. Pham Chi Lan argued that along with transition from central planning to market-oriented, the ownership structure has also changed considerably. This has resulted in significant economic and social change. Her second question was a request for the author’s and others’ opinions about the issue of ownership and its effects.



Dr. Hong Ha

As an experienced expert on *doi moi*, Dr. Hong Ha clarified one conceptual dimension of the term "*doi moi*". He presented the use and meaning of "*doi moi*". *doi moi* was officially introduced in 1986 and was new compared to things that happened before that. Of the different kinds of *doi moi* "*doi moi* of thought" (i.e. first of all of doing business) is extremely important. Before the introduction of *doi moi*, it was thought that the market economy belonged to capitalism and not socialism. There have been numerous similar and significant changes.

Conceptually, *doi moi* does not mean to get rid off every (old) thing but to preserve the good, the right, and the superior old things. Things (issues?, traditions?) that are no long appropriate and suitable in the country's new circumstances should be changed.

Mr. Andrew Wells-Dang noted that in English, one can use three options: "reform", "renovation", and "renewal". The one that is most often used is renovation, but that is least relevant and renewal would be the most appropriate one. He also agreed with Thaveeporn that each theory brings along a particular concept of society. Which theory is true depends on which theory we apply and which theory we agree to apply in future.

Mr. Pete Peterson did not think that the discussion of the word "*doi moi*" would require a lot of time. He used about 20 different terms in his paper to refer to this. What is most important is to make the country better.



ANNEXES

EXHIBITION OPENING CEREMONY AND RECEPTION Hanoi Life under the Subsidy Economy (1975-1986)

Time: 4:30 PM, 16. June 2006

Place: Museum of Ethnology

Participants of the roundtable meeting were invited to join the opening ceremony and reception of the exhibition “Hanoi life under the subsidy economy (1975-1986)”.

The exhibition was held by the Museum of Ethnology under the support from the Ministry of Culture and Information, UNDP, SIDA, Ford Foundation, and the “Assistance to the 20 year review of *doi moi* in Vietnam” project of VASS.

The exhibition displayed original objects and documentation of Hanoi from 1975 to 1986, the subsidy period starting from the unification of the country till the introduction of *doi moi* policy. The exhibition reflected this difficult period through videos and photo images, original objects, replicas, and stories of everyday people about life before *doi moi*.

The exhibition was aimed at sharing thoughts and memories of a difficult time before the renovation period and helping younger generations to learn about the past of the country, Dr. Nguyen Van Huy, director of the Museum, said.

The key message of the exhibition is outlined in the exhibition folder: “*The period of the Subsidy Economy (Bao Cap – 1975-1986) has been known as a time of*



hardships, when mechanism for socio-economic management was inappropriate causing privations in people's material and spiritual life. Material life was poor due to a sluggish and inefficient production system, but the constraints also applied to people's creative and spiritual endeavours".



AGENDA

FOURTH HIGH LEVEL ROUNDTABLE MEETING “Assistance to the 20 Year Review of *Doi Moi* in Vietnam” Project

Hanoi, 15th & 16th June 2006
Melia Hotel, Hanoi

Thursday, 15th June 2006

8:00 – 8:30 Registration

8:30 – 8:40 Opening Remarks

Prof. Do Hoai Nam, President, Vietnam Academy of Social Sciences

8:45 – 9:10 Welcoming Remarks

Mr. Subinay Nandy, UNDP Resident Representative
Ms. Anna Lindstedt, Ambassador of Sweden to Vietnam

9:10 – 10:00 Keynote Address

Chairperson: Prof. Do Hoai Nam, President,
Vietnam Academy of Social Sciences

Presentation: ‘Economic reform for whom?
doi moi in comparative perspective’ by
Prof. Jomo Kwame Sundaram Assistant Secretary General
for Economic Development, Department for Economic
and Social Affairs, United Nations

10:00 – 10:30 Plenary Discussion

10:30 – 10:45 Coffee Break

10:45 – 12:30 Panel Discussion 1:

Chairperson: Prof. Nguyen Van Thuong,
Dean of Hanoi National Economics University

Presentation: ‘Fear of flying: Why is sustaining reform
so hard in Vietnam?’ by Prof. David Dapice,
John F. Kennedy School of Government, Harvard University

Panelists:

- Mr. Seth Winnick, Consul General of the United States,
Ho Chi Minh City.



- Mr. Omkar Shrestha, Deputy Country Director of ADB in Vietnam.
- Mr. Dinh Hinh, The World Bank, Lead Economist.
- Dr. Le Dang Doanh, Ministry of Planning and Investment.

12:30 – 14:00 Lunch

14:00 – 15:30 Panel Discussion 2:

Chairperson: Prof. Le Huu Tang, Vietnam Academy of Social Sciences

Presentation: 'Leninism Transformed: The Vietnam Experience from a Comparative Perspective (1986-2006)' by Dr. Thaveeporn Vasavkul, Visiting Scholar, Center for Southeast Asian Studies, University of California, Berkeley

Panelists:

- Dr. Felix Schmidt, Chief Representative of Friedrich Ebert Foundation in Hanoi.
- Dr. David Koh, Institute of Southeast Asian Studies, Singapore.
- Prof. Yu Keping, Director of China Center for Comparative Politics & Economics.
- Dr. Vo Dai Luoc, Prime Minister Research Commission.

15:30 – 15:45 Coffee Break

15:45 – 17:00 Plenary Discussion

Prof. David Dapice, Dr. Nguyen Van Thuong, Mr. Seth Winnick, Dr Thaveeporn Vasavkul, Prof. Le Huu Tang, Dr. Felix Schmidt

Friday, 16th June 2006

8:00 – 8:30 Registration

8:30 – 10:00 Panel Discussion 3:

Chairperson: Mr. Subinay Nandy, UNDP Resident Representative a.i.

Presentation: 'Vietnam's Journey to Prosperity' by Mr. Pete Peterson, Former US Ambassador to Vietnam,

Panelists:

- Prof. Ari Kokko, Stockholm School of Economics
- Mr. Klaus Rohland, Country Director, World Bank Vietnam.
- Mr. Ayumi Konishi, Country Director of ADB in Vietnam.
- Ms. Anna Lindstedt, Swedish Ambassador to Vietnam.
- Dr. Hong Ha, Central Theoretical Committee.

10:00 – 10:15 Coffee Break

10:15 – 11:45 Panel Discussion 4:



Chairperson: Dr. Charles Bailey, Representative,
The Ford Foundation, Vietnam

Presentation: "The Dynamics of Social Change in Vietnam:
Capturing the Butterfly Effect' by Mr. Andrew Wells-Dang,
Catholic Relief Services, Hanoi

Panelists:

- Dr. Joerg Wischermann, Research Associate
at Freie Universität Berlin.
- Prof. Yu Keping, Director of China Center
for Comparative Politics & Economics.
- Mr. Jesper Morch, UN Resident Coordinator a.i. & UNICEF
Resident Representative.
- Dr. Trinh Duy Luan, Vietnam Academy of Social Sciences.

11:45 – 12:30 Plenary Discussion

Mr. Pete Peterson, Mr. Hong Ha, Prof. Ari Kokko,
Mr. Andrew Wells-Dang, Dr. Joerg Wischermann,
Mr. Jesper Morch, Dr. Trinh Duy Luan

12:30 Lunch

16:30 Opening Ceremony and Reception

Exhibition: 'Hanoian Life During The State Subsidy Period'
At Museum of Ethnology



In 500 bản, khổ 21x29,7cm, Công ty TNHH sản xuất Thông minh Hà Nội.
Giấy chấp nhận đăng ký kế hoạch xuất bản: 814-2007/CXB/5-213/ThG
cấp ngày 8/10/2007. In xong và nộp lưu chiểu quy định năm 2008.