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# **PROCEEDINGS**

## **FROM**

### **THE THIRD HIGH LEVEL ROUNDTABLE MEETING**

### **ON 20 YEAR REVIEW OF *DOI MOI***

**HANOI - 15<sup>th</sup> - 16<sup>th</sup> December 2005**

**These proceedings were drafted by VASS and UNDP Viet Nam**





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## ACRONYMS AND ABBREVIATIONS

ACFTA	ASEAN-China Free Trade Area
ADB	Asia Development Bank
AFTA	ASEAN Free Trade Agreement
AIA	ASEAN Investment Area
AIC	ASEAN Industrial Cooperation
APEC	Asia Pacific Economic Cooperation
APWLD	Asia Pacific Women On Law and Development
ASA	Association of Southeast Asia
ASEAN	Association of Southeast Asian Nations
ASEAN-MBDC	ASEAN Mekong Basin Development Cooperation
ASEM	Asia-Europe Meeting
CEPT	Common Effective Preferential Tariff
CLMV	Cambodia-Laos-Myanmar-Vietnam
CPV	Communist Party of Vietnam
EC	European Commission
EP	European Parliament
EPZ	Export Processing Zone
EWS	Early Flood Warning System
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GAD	Gender And Development
GDI	Gender Development Index
GDP	Gross Domestic Product



GMS	Greater Mekong Sub-region
HDI	Human Development Index
ILO	International Labour Organization
IMET	US International Military Education and Training
IMF	International Monetary Fund
IMF	International Monetary Fund
MOU	Memorandum of Understanding
MRC	Mekong River Commission
NGO	Non-Governmental Organisation
ODA	Overseas Development Assistance
PAR	Public Administration Reform
SIDA	Swedish International Development Agency
SOE	State-Owned Enterprise
UN	United Nations
UNDP	United Nations Development Program
UNTAET	United Nations Transitional Administration in East Timor
US	United States
VASS	Vietnam Academy of Social Sciences
WID	Women in Development
WTO	World Trade Organisation



## INTRODUCTION

In preparation for the Tenth National Party Congress in early 2006, the Communist Party and Government of Vietnam plan to undertake 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), the Embassy of Sweden in Hanoi, and the Vietnam Academy of Social Sciences (VASS) which intended to complement the national consultation process by supporting VASS in three areas. First, new research of critical aspects of *doi moi*, economic transition and other related policies. Second, widen participation in national consultations to include all interested sectors of society. Third, strengthen national capacity in research management, applied policy research and policy advocacy.

The Third High Level Roundtable Meeting was held in Hanoi on 15 - 16 December 2005 gathering 221 participants (134 from Vietnamese institutions, 51 from international organisations, and 36 from media organisations). 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 221 participants, the roundtable meeting benefited from the presence of Mr. Jordan Ryan, Resident Representative of UNDP in Hanoi; Ms. Anna Lindstedt, Ambassador of Sweden to Vietnam, Prof. Herman Schwartz, University of Virginia; Prof. Do Hoai Nam, Member of the Central Committee of the Party and President of the Vietnam Academy of Social Sciences.



The Third 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.





## EXECUTIVE SUMMARY

Prof. Do Hoai Nam opened the Roundtable mentioning that the focus of the meeting would be on globalization and economic development, Vietnam and Asia-Pacific region, gender and development, rural development and urbanization, capacity building for state governance and public administration reform.

In his opening remarks, Mr. Jordan Ryan, UNDP Resident Representative in Vietnam, said that the nature of *doi moi* lies in the fact that it liberated Vietnamese so they can voice their aspiration and express their desire for creativity and entrepreneurship. Vietnam has been experiencing three successful transitions: from wartime to peacetime; from centrally planned economy to market led economy, from a low income country to a middle income country. *Doi moi* process represents the root of success in all these transitions, especially the second one. The challenge for the future is the fourth transition: the transformation of a centralized democracy to a civil democracy in Vietnam.

The civil democracy is an organic part of the long process to build the nation. It is crucial that Vietnam keep working on a liberal and transparent legal system, not only for business circle but also, more importantly, for all Vietnamese, that means *giving all people necessary space to bring their potential to full*. It is the very real development goal that Vietnam is arriving at.

The process of building a civil democratic society based on regulations, enforced in a transparent and equitable manner, and on the active and constructive participation of people in public activities in decision making is the best way to reach the goal. As noted by Ms Anna Lindstedt, Swedish Ambassador to Vietnam, quality of public administrative apparatus is very important to make this come true.

The keynote address by Prof. Herman Schwartz of the University of Virginia focused on globalization looking at the relationship between state and market. Prof. Schwartz showed that globalization is not a recent



phenomenon and that, since the 14<sup>th</sup> and 15<sup>th</sup> centuries, when economic relations go beyond a nation's border, then globalization occurs. Dr. Vo Dai Luoc, however, argued that globalization today may be a form of the on-going colonialism and domination by multinational corporations. Globalization has contributed to the expansion of the markets and modernity to many parts of the world. However there are associated risk such as modern market also creates both winner and losers. Therefore every effort should be made to help losers.

The discussion continued around the questions of what are the reasons behind the state intervention in the market and industrial policy in the current context of globalization, particularly when the WTO basically serves the interests of industrial nations, enterprises and multinational corporations? Which factors determine the making of globalization? How to interpret the relationship between the movement of globalization and sustainable development?

Prof. Schwartz responded that the basic determinant is competition or the presence of competitive relations between firms and between states. He also added that that **globalization is definitely a subjective tendency** in the sense that the state pursuits its own interests and goals and it is the state that designs policies to promote trade. An additional comments came from Prof. Do Hoai Nam who argued that current global institutions should renovate themselves to promote a sustainable and pro-poor globalization.

**Panel I** discussed the issues of international integration of Vietnam. Participants argued that ASEAN suffers form problems and internal as well as external pressures. Meanwhile the acceleration of East Asian integration is pushing ASEAN aside with processes like ASEAN+3 or the East Asia Summit. Therefore, Vietnam should consider different scenarios for regional integration in its roadmap towards global integration.

Prof. Do Hoai Nam stressed the dialectical thinking in the integration of Vietnam saying that current challenges can turn into great opportunities if Vietnam shows the ability to turn challenges into opportunities. In his opinion, the problem of integration is how to avoid undesirable outcomes of integration that have already occurred in some nations and how to adjust industrial policy in the context of regional and global integration considering challenges faced by industrializing countries?

Vietnam is advancing its process of accession into WTO and it is apparent that Vietnam will have to meet higher requirements than nations who joined earlier but it should be noted that **Vietnam will not integrate at any cost and under any condition**. As an example was presented the remarkable experience



of South Africa in its integration into the EU market for raw materials that it underestimated its own bargaining position.

The state led integration is a top-down process which generally applies to Southeast Asian countries. However, when looking at the integration process in Europe and other parts of the world like for example Latin America, we can see that integration actually happens only when it is based on mass participation. In Europe and Latin America the state gave top-down directions and initiatives for integration and cross-border cooperation while meanwhile people and non-state actors involved in the cross-border cooperation as well. In Vietnam and China, the civil society is in the making. So we should not see integration as a state's job but keep in mind that there is another integration process led by non-state actors.

Discussion in **Pannel II**, focused on how to prioritize gender issues in development processes. Prof. Do Hoai Nam asked whether the process of escaping poverty involves a **priority order** in handling issues of gender equality? Demographic statistics show that the poorest group in Vietnam can be described through their locations, education level, and gender. Thus, if Vietnam is serious about poverty reduction, it can not avoid taking gender issue into consideration. The biggest challenge is how to develop a policy that can integrate equality into growth. This is a very difficult question and each society has to find their own answer. According to Prof. Do Hoai Nam, it should be bared in mind that gender equality should be integrated into each phase of development and development policy and it should be the second highest priority after equality.

Experiences around the world show that gender issue can be omitted in short term but in long term the exploitation of women can lower the growth process as it limits the capacity of women in invest in their children. Vietnam, unlike other countries, has a very high rate of female participation in social labor force. This is a crucial force contributing to development. Prof. Le Thi Quy stressed that in Vietnam gender issue should be embedded in development policies in general and in geographic and family policies in particular to overcome the lack of awareness on gender issues. Swedish Ambassador, Ms Anna Lindstedt, added that as in the case of Sweden, a strong role of government is needed besides the implementation of a gender equality based social security network.

**Panel III** looked at rural development and grassroots democracy. People's involvement in policy making is a crucial element of development. With regard to Vietnam, a present problem is seemingly the lack of political participation of farmers. The question rised in the panel is whether the Law



on Grassroots Democracy can fill this gap. Dr. Dang Kim Son argued that although the farmer's participation has improved through the channels of National Assembly and the media, direct and two-way information channels should be established between people and government, both in central and local level. The efficiency of this participation in development activities should be strengthened. Moreover, local decentralization should be experimented. For instance in China, in rural areas, people can elect their own management board and such organization is making great contributions to rural and agricultural development. The practice of grassroots democracy in rural area is a process which is today under review in Vietnam. Success depends on knowledge and awareness of legal regulations as well as the living standard enhancement.

In terms of methodology, the presentation of Phillip Taylor refuses what many Vietnamese take for granted, that a policy is designed to be applied for the whole nation while the author said with evidence from real situation that many policies are good for some regions but not really for other regions. As an example, evidence from the Mekong Delta region can not be used for a country as diverse as Vietnam. In his opinion here lies also a fundamental difference between economics and anthropology. While economists tend to have a unified policy, anthropologists try to highlight the differences and diversity. However, methodologies used in economics, anthropology and sociology can supplement each other in order to explore hidden aspects of *doi moi* to feed into the policy making in the coming years.

**Panel IV** reviewed the development of the Public Administration Reform in Vietnam. Prof. Martin Painter in his presentation argued that the reform should be seen in the context of the two basic shifts: the transition from centrally planned economy to market economy and from an authoritarian state to rule of law. Experience from other countries suggests that positive outcome of administrative reforms must come from a political determination to achieve them. This means that Vietnam should adopt a country-specific approach. This process which is ongoing in Vietnam, implies that government and administration should limit their control in some fields, a shift from direct management to indirect one, a shift from control of individuals to control of framework, a shift from governing administration to servicing administration for the sake of development.

With regard to the decentralization process in Vietnam, the panel concluded that the reform should not threaten the principle of unity of the Vietnamese administrative system from the central to the local must be ensured. Prof. Martin Painter argued that the direct and intermediate consumers of public sector have the right to claim for the quality of



services. However, the administrative reform in Vietnam reveals problems in terms of quality and fairness of public services and the rights of people as consumers of these services.

A relevant point brought up by the participants was the need for improvement of the governance capacity and quality of civil servants as stressed also by Prime Minister, Mr. Phan Van Kha, in a meeting of Steering Committee of Administrative reform late in 2005. As the first phase of the reform concentrated on re-organizing the economic and administrative system, the next phase will focus on the capacity of public servants to be able to meet the demand coming from the people. The panelist found that with regard to this point identify the paradox in the fact that public servants are both subjects and objects of administrative reform. Therefore the further steps of the reform should be carefully prepared, especially in terms of human resources.

In his concluding remarks, Prof. Do Hoai Nam said that the papers and opinions expressed in the Meeting made a significant contribution to the preparation of the directions and policies for development for the period 2006-2010, thus helping Vietnam escape from a developing low income country to become a middle income country. In the next 5 years, Vietnam has to prepare an accelerating development strategy. Prof. Do Hoai Nam emphasized that this is an research question for research and policy making institutions in Vietnam and also a chance for foreign scholars to assist Vietnam in the preparation of this pivotal strategy.

Mr. Jordan Ryan, representing the voice of the international community and friends, said that Vietnam can succeed and show the world how to build an equitable, justice and better society. Prof. Do Hoai Nam in reasserted that the next phase of *doi moi* will be more uniform, more radical, comprehensive and faster.





## PROCEEDINGS

### OPENING CEREMONY AND KEYNOTE ADDRESS

Co-Chairs: Prof. Do Hoai Nam, Chairman Vietnam  
Academy of Social Sciences

Mr. Jordan Ryan, Resident Representative UNDP  
Vietnam

Ms. Anna Lindstedt, Ambassador of Sweden to  
Vietnam

Keynote Address: Prof. Herman Schwartz, University of Virginia

### INTRODUCTORY REMARKS BY MR. JORDAN RYAN

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Prof. Do Hoai Nam, Your Excellency Madame Ambassador, esteemed colleagues and friends:

It is a great honour to welcome you today to the Third High Level Round Table Meeting organized under the 'Assistance to the 20 Year Review of *doi moi* in Vietnam' Project. We have a full and exciting agenda ahead of us today and tomorrow, and I am as anxious as you to move to the main business of the day. But before I do I would like to take this opportunity to offer a few reflections on the project and on *doi moi* itself.

The 20 Year Review of *doi moi* is in many ways an unusual project. Led by the Vietnam Academy of Social Sciences with the active support of the Swedish Agency for International Cooperation (SIDA), the project has from the outset had two major objectives: namely, to reflect on the history of Vietnam's exceptional *doi moi* reform process, and to stimulate debate and discussion on the implications of this recent history for the future of *doi moi* and of Vietnam more broadly.



I have followed the progress of the project with great interest, not only in my official capacity but also as an observer of Vietnam's *doi moi* experiment for more than 12 of its 20 years. I took up my first UNDP assignment in Vietnam in 1993, just as the reform process was moving into full swing. The 1992 Constitution had recently established the principle of the multi-sectoral market economy with a socialist orientation and a strengthened role for the National Assembly. Exports were surging and the airports were full of foreign investors arriving with new business plans and proposals. Bilateral and multilateral donor agencies from across the globe were establishing new relationships with Vietnam, leading to the first Government-donor conference held in Paris that year.

Like today, Vietnam was a place of energy and ambition, infused with optimism about the future. In 1993 the benefits of *doi moi* were already apparent to everyone. Hyperinflation and chronic shortages had been overcome and markets were full of goods. Land was in the hands of farmers and small businesses were opening up everywhere. Vietnam had moved from chronic food insecurity to exportable surpluses.

But Vietnam was then a much poorer country than it is today. Fifty-eight percent of the population lived on less than \$2 per day (in international dollars) as compared to less than 25 percent today. GDP per capita was \$266 (in constant 2000 dollars) as compared to over \$500 now. Economic growth was, rightfully, the main priority of Government.

It was my great fortune to return as UNDP Resident Representative from 2001 to the present. Once again I had arrived in Vietnam as an exciting chapter in the *doi moi* story was unfolding. The Ninth Party Congress in 2001 had approved a new ten year strategy for socio-economic development, sparking an acceleration of growth and reform. The US-Vietnam bilateral trade agreement had come into effect, contributing to a surge in trade volumes. Vietnam had recently adopted a new Constitution reaffirming the multi-sector market economy and giving the National Assembly, as the highest organ of government, the right to hold confidence votes in the nation's leaders. In 2002 the Communist Party changed its rules to allow its members to engage in private business; another step in recognizing the legitimacy of non-state economic activity.

It has been an exhilarating and hugely rewarding four years for me. I would have gladly stayed for a fifth, during which the next stage of *doi moi* will begin with the Tenth Party Congress and the first year of a new socio-economic development plan. Alas, it was not to be. The United Nations has asked me to take up a new assignment as the Secretary General's Deputy Special





Representative in Liberia. This is a bittersweet moment for me. Although I welcome the challenge of contributing to the cause of peace and development in Liberia, I have a special attachment to Vietnam that makes it very difficult for me to leave.

As today's meeting is one of my last public events as UNDP Resident Representative in Vietnam, I hope you will allow me a few personal reflections on the achievements of *doi moi* and some of the challenges facing Vietnam in the future. We often say that Vietnam has managed three transitions in the space of thirty years: the transition from war to peace; from central planning to the market; and now, in the current five year period, from a low to a middle income country. *doi moi* is the name we usually use to describe the second of these transitions. Its success in freeing the Vietnamese people to express their natural ambition and entrepreneurial spirit largely explains the third transition as well. Vietnam is poised to move out of the ranks of the poor countries to take its rightful position among the successful developers of East Asia.

Yet as I noted in my address at the First *doi moi* Review Round Table Meeting, *doi moi* was never *just* a process of market transition. From the beginning, *doi moi* has consisted of a gradual but unmistakable change in the role of government and the relationship between state and society.

Indeed, I believe strongly that Vietnam is actually engaged in a fourth transition, one that complements the other three in important ways. The fourth transition consists of the movement from democratic centralism to *democratic citizenship*. *doi moi* has redefined the nature of Vietnamese citizenship, strengthening representative bodies such as the National Assembly and People's Councils, encouraging public participation in decision-making and moving from *rule by law*, under which the Government uses laws to control the people, to *rule of law*, under which everyone—including the Government and Party, the richest industrialist and the poorest farmer—are subject to the same rules of the game.

The creation of democratic citizenship is necessarily a gradual process. Although there are many examples of democratic practice in Vietnamese history at the village and national levels, the ideas of equality under the law and the supremacy of representative institutions over the preferences of powerful individuals, groups or parties is relatively new. Because these ideas are new, they cannot be implemented simply by changing laws or even the Constitution itself. The development of democratic citizenship entails longer and more complex processes of cultural and political change. Leaders must learn to separate personal interests and networks from those of the institutions



they represent and the offices they hold. Citizens must learn that the right to benefit from public action also entails the responsibility to engage in constructive participation in public institutions. This will take time. And there is no simple blueprint that all countries can follow. Vietnam must find its own path towards democratic citizenship.

Democratic citizenship also implies an appreciation of the role of civil society in Vietnam's economic, cultural and political development. Vietnam possesses a long tradition of civic action, including but not limited to the valuable contributions of the mass organizations. As Vietnam takes on the characteristics of a middle income country, civic organizations have naturally tended to multiply and diversify. Clubs and associations of many kinds now flourish in Vietnam. The Government has come to understand the important role of these organizations in promoting national identity, social cohesion and a sense of civic responsibility. No longer are activities outside the confines of the state regarded with suspicion.

It is my firm belief that the success of the entire *doi moi* project depends upon the development of democratic citizenship in all of its many dimensions. We often hear of the economic importance of the rule of law, of a fair and transparent legal system and of a corruption-free business environment. It is undoubtedly true that as the Vietnamese economy develops and becomes more complex, the importance of better and more fairly enforced rules of the game will increase. A country that produces software, semiconductors, specialized chemicals and complex financial services needs more developed institutions of governance than a country that grows rice and digs coal.

My personal view is that the social and political benefits of this fourth transition are equal to or perhaps even greater than the economic benefits. Vietnam did not resist colonialism and struggle for independence, unity and sovereignty for so long to create a society in which the many are ruled for the benefit of the few. Democratic citizenship is integral to the completion of Vietnam's long nation-building process. The creation of a society committed to equality and social justice and that gives every Vietnamese person the space that they need to realize their full human potential is the true objective of development. Economic growth is a means to this end, not an end in itself.

If my experience in Vietnam has taught me anything, it is that if the Vietnamese people decide collectively on a common goal they will most certainly achieve it. The challenge for the future is to make sure that these goals are truly common: to promote social cohesion and political stability while at the same time to create mechanisms that enable the people to express themselves in all of their tremendous cultural, geographic, creative and



intellectual diversity. A democratic citizenship, based on transparent and fairly enforced rules of the game, and based on the active and constructive involvement of the people in public action and decision-making, is in my view the best way to achieve this.

Before closing these remarks, I would like to thank Prof. Do Hoai Nam for the excellent spirit of cooperation and collaboration that has characterized the 'Assistance to the 20 Year Review of *doi moi* in Vietnam' project from the outset. Under his leadership, the Vietnam Academy of Social Sciences has made great strides forward, and UNDP is committed to helping him realize his vision of rigorous scholarship in the social sciences. I would also like to thank Her Excellency Ambassador Anna Lindstedt for the Swedish Government's support for the United Nations in Vietnam and for this project.

It was that great Swedish diplomat Dag Hammarskjöld who said that it is in playing safe that we create a world of utmost insecurity. Today let us not play safe: only in asking the difficult questions about the *doi moi* process thus will we help generate the ideas for the next phase of *doi moi*.

Thank you.

### **INTRODUCTORY REMARKS BY MS. ANNA LINDSTEDT**

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Prof. Do Hoai Nam, Mr. Jordan Ryan, Distinguished scholars, Colleagues and Friends,

I am happy to be here today, both to welcome you all and to take part in this Third High Level Round Table Meeting of the 20 Year Review of *doi moi*. Once again, I would like to thank Prof. Do Hoai Nam and the Vietnam Academy of Social Sciences for inviting Sweden and UNDP to support and to participate in this highly 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 discuss future challenges. Clearly, when *doi moi* was introduced in 1986, it represented a tremendous step forward; Vietnam was willing to pragmatically test reforms, identify the more successful ones and replicate them. As we all know, the renovation has led to a booming economy and unique levels of poverty reduction.



But the renovation process has meant so much more than just economic reforms. It has brought on deep social as well as political changes. *Doi moi* has also had tremendous implications for Vietnam's foreign policy outlook. These changes have been underpinned by global developments, where the polarization of the cold war has been replaced by growing interdependence. From having had diplomatic relations with only a limited number of countries, Vietnam has opened up to the outside world economically and politically.

One of the sessions of this meeting will focus on the foreign relations of Vietnam and on the regional perspective. In the paper by Jorn Dosch, the author argues that Vietnam's bargaining power vis-à-vis other states has been enhanced by the ASEAN membership and that relations between Vietnam and all other major powers are, on the whole, trouble-free.

Increased globalization might be one reason why Vietnam has opened up so dramatically to the outside world. The keynote speaker of this morning, Herman Schwartz, argues in his paper that globalization is nothing new, that it has just taken new forms. The underlying drive remains: the inability of any organization to avoid competition.

Linked to the issue of competitiveness is Vietnam's ambition to join the WTO. Vietnam's hopefully imminent accession to WTO is a further example of how far the country has reached in its opening up towards the outside world. It is indeed encouraging that Vietnam, so far, has lived up to the legislative agenda connected with the WTO accession.

I would like to dwell a little bit on the issue of gender, which will be discussed this afternoon. I read with great interest the paper written by Stephanie Seguino and I have also studied the recent report on gender in Vietnam, jointly published by UNDP and the World Bank. Although laws and official policies might not be discriminatory, norms and traditions might indeed have that effect.

It is deeply worrying that growth in Asian economies has been characterized by wage inequalities between men and women. As pointed out in Seguino's paper, gender equality is compatible with economic growth. But I do think it requires a strong will within society in general, in order to change attitudes. A female deputy of the National Assembly, currently visiting Sweden with some other female parliamentarians, pointed out in one of the meetings in Stockholm, that it is important to create awareness among both men and women about the need for change.



A strong role for the government is also required, not least in implementing gender-equitable social safety nets. I dare say that Sweden has a lot of experience in this field. Some of that experience was shared in a seminar on the Swedish model, which was held here in Hanoi about a month ago – also within the framework of the 20 Year Review of *doi moi* project. A key presentation at that seminar was given by Prof. Joakim Palme, the son of our late prime minister, Olof Palme, a symbol of the friendship between Sweden and Vietnam.

I would like to subscribe to what Jordan Ryan said about the need to make what he labelled the fourth transition, from democratic centralism to democratic citizenship. I see the strengthened role of elected bodies as a clear sign that this is already in the making. It will, however, take time to complete this transition.

From discussions with deputies of the National Assembly, I have learned that during the recently concluded law-making session, the trend towards more lively and interesting discussions was continued. Fourteen laws were adopted, several of which had been drafted in consultation with both national and international stakeholders. We must, however, remember that good laws are not enough in themselves; they need to be properly implemented. For that to happen, the quality of public administration is important. The Public Administration Reform process initiated in Vietnam is crucial in continuing to reap good results from *doi moi*. Public Administration Reform is another topic of this meeting. The paper by Martin Painter identifies some of the formidable challenges and risks involved in this reform process. While one would like to see decentralization essentially as something positive, Painter sees a risk in decentralizing too fast.

Sweden is happy to be a partner to Vietnam in its reform process, including Public Administration Reform and Legal Reform, as well as in the fight against corruption.

It is indeed a privilege to serve in Vietnam - not least when you have colleagues with whom you work well and who you trust. I would like to take this opportunity to thank you, Jordan, for excellent cooperation during the last couple of years. Not only have I enjoyed working with you, I have also learned a lot from you. I would also like to thank you for your friendship, which I have really valued. I wish you the best of luck.

There is no need to say good bye, but Hen gap lai. Xin cam on.





## KEYNOTE ADDRESS

### **GLOBALIZATION AND ECONOMIC DEVELOPMENT: THE LONG VIEW**

Prof. Herman Schwartz, University of Virginia

What is globalisation, and how does it encourage or discourage economic development? I think the conventional wisdom on this question has a set of clear but incorrect answers. The conventional wisdom argues that globalization is a new phenomenon, and that globalization inevitably erodes the power of states. By eroding the power of states, globalization makes it impossible to pursue economic development or a social policy that makes life better for the poor in any given country.

By contrast, I will argue that the conventional wisdom is largely wrong. The conventional wisdom is wrong because globalization is only in part a market phenomenon. Certainly, globalization involves the continued expansion of commodity markets into more and more geographical regions and into more and more parts of individuals' lives. And because globalization involves the spread of markets characterized by profit accumulation rather than just the exchange of goods for immediate consumption, globalization involves a division of regions and people into economic winners and losers. But globalization is also a political phenomenon, or more precisely, the parallel expansion of states characterized by unmediated relations between the state and its citizens. States and markets emerged together and cannot exist without each other. Globalisation thus involves continuous changes in two major social relations that affect nearly all other social relations. Finally, globalization is not a new phenomenon, and consequently this lecture will contrast states and markets before and after 1500 in order to illustrate my answers to the question of what globalization means for economic development and social welfare.

Thus I will do five things here. First I will clear away the usual arguments. Second, I will present a stylized model of how modern states and markets emerged together in recent history – understood as the past 500 years. Third,



I will examine how economic development occurred, which is to say I will look at the geographical expansion of the modern state and market system. Fourth I will discuss backlashes against the market in the middle of the 20<sup>th</sup> century. Finally, I will briefly discuss how markets and state have jointly invaded personal and family life, which is to say, I will discuss the emergence of the modern welfare state.

## 1. Clearing the ground

If globalisation is just about trade, then globalization certainly is not something intrinsically new, because global trade is old, as are quite extensive empires. Exchanges of goods, people, and cultural and technical knowledge in the Eurasian/African landmass have been going on for centuries. 2000 years ago, a whole chain of exchanges linked economies in the South China Sea to Imperial Rome. But while this long distance trade moved luxuries that were very important to a thin layer of elites, this trade did not significantly affect the lives of the mass of people, nor did it change how their states behaved. The masses grew what they ate and wove what they wore. States lived off this agricultural surplus, using local notables to extract it from peasants. Globalization clearly implies connections and dynamics that amount to more than these ancient, but fairly simple, exchanges of people and goods, and these geographically extensive systems of political control.

The view that globalization is something new also rests on the rapid technological change, and rapid increases in the quantity of money, people, firms, and goods moving globally, characterising the last few decades. It is true that the quantity of money, etc. on the move globally is in many instances higher today than in the period before the 1850s, though not the *belle époque* just prior to World War I. While the *quantity* of goods and people moving long distance surely matters, globalisation also possesses an inner dynamic that involves political and economic social relations and is not just a *quantitative* phenomenon. The dynamics creating today's growing volume of exchanges are the same as those that emerged in the 15<sup>th</sup> century to drive quantitatively much smaller levels of trade. This dynamic differs *qualitatively* from the dynamics that characterized ancient exchanges and empires.

Finally, globalisation cannot be understood by positing states and markets as separate and conflicting realms in which ever more powerful market actors are making states retreat or disappear. First, states and markets are mutually constituting. Markets cannot function without state sanctioned violence. Long distance commodity markets have almost always relied on state sanctioned violence to function. Most areas outside Europe were brought into commodity





markets by force, and most mass migrations have been involuntary. More recently, the complicated global supply chains that make up the global market rely on the state for regulation and contract enforcement. At the same time, states need revenues to function. They cannot pay their staff, defend themselves, or provide various services – of which the provision of violence or threat of violence has always been the most important – unless they have a sound tax base. The mutuality of states (violence) and markets (exchange) can be seen in what happens in the absence of a formal, functioning state. In that situation, rather than happily functioning in some kind of libertarian or anarchist paradise, market actors almost always immediately begin to pay specialists in the use of violence – mafias – to enforce contract and assure property rights. At the same time, actors with a comparative advantage in the use of force are equally willing to extort a share of production from direct producers and actors in the market. Naturally, some contestation over the precise share going to each group always occurs, and actors on both sides sometimes make disastrous mistakes calculating this share. By way of a real life example, the situation in Russia during the past decade shows exactly this process of predation and accommodation between mafias and market actors.

## 2. States and markets

Because I will be talking about states and markets through out this whole lecture, I want to make clear what I mean by a modern state and a modern market. Above I defined globalisation as the simultaneous expansion of, on the one hand, states characterized by unmediated relations between states and their citizens, and, on the other, of markets characterized by profit accumulation rather than just the exchange of goods for immediate consumption, and by exchanges mediated by money. I will explain the differences between mediated and unmediated states, and between markets characterized by pure exchange and exchange for profit, by contrasting politics and the economy before 1400 with politics and the economy after, and discussing the dynamics that created change. Understanding how states decisively and successfully shifted to unmediated relations with their subjects, and how economies got reoriented away from subsistence production with barter and towards accumulation of capital and exchanges mediated by money lets you understand globalisation today.

Pre-globalisation *states* were “mediated.” The central state did not have direct contact with the population living on the state’s territory. Instead, the state essentially “subcontracted” the administration of law and the collection of taxes to local elites, usually large landowners, who often enjoyed



aristocratic status. These landowners *mediated* relations between the population and the state. Mediation placed severe limits on the degree to which the state could control its people, law, or revenues. By contrast, pre-globalisation *economies or markets* were “unmediated.” People had direct access to the means of survival – they grew their own food, wove their own clothing, and made many of their own tools. While they rarely had title to the land they farmed, their usage rights gave them unmediated access to that land, and complicated large landowners’ ability to use or sell that land. The lack of mediation placed severe limits on market pressures to increase productivity. Globalisation is thus a process characterized by two fundamental, on-going changes roughly starting in 1400 or 1500: less and less mediation between states and citizens and more and more mediation of social relations between people by money.

Although changes in this direction had already started in both India and China around 1300 or 1400, after 1400 the fundamental nature of both states and economies in some Western European countries changed even more rapidly in ways that gave states unmediated access to their subjects while pushing those same subjects out into commodity exchanges mediated by money. These changes made it possible for those western European states to force these new forms of state and economy onto the rest of the world. Three centuries of European expansion eventually connected most economic activity around the globe and subjected most of people’s lives to the logic of markets where the purpose of exchange was profit, rather than barter. These developments also put more people into direct relationships with the machinery of the state. And finally they also tied all states up into one system of interstate relations. All three features enabled both states and economies to overcome some fundamental limits on their ability to transcend their locality, and thus become global. These limits were both technological – inefficient communication and transportation technologies – and social – nothing forced people and enterprises to constantly improve productivity, little motivated people to produce the behaviours the state desired, and little forced states to improve upon administrative practices.

Transportation and communication technologies limited pre-globalisation states’ span of control. In an era when nearly everyone walked and food was transported mostly by wagon or on people’s backs, it was difficult to project military force more than 50-60 miles in any direction from a town. Thus, in 1500, the average diameter of most European states and most Chinese ‘counties’ – the basic imperial administrative unit – was about 100 miles. Princes (or a county administrator) could exercise direct authority over a territory this size, because its borders were about two 20 mile hikes in any



given direction, or one day's horseback ride. Practically, most princes could only manage a territory less than half that size.

What about the larger empires then? Central elites generally ruled larger territories – empires – indirectly. Controlling larger units forced princes to *mediate* their rule through other people, namely local elites. Central elites relied on local elites to run their own, peripheral bits of the empire. Central elites tried to bind those local elites to the centre through a common ideology, culture, or provision of a larger share of the pie than those elites could get on their own. But ancient empires fell apart with considerable frequency, because distant intermediaries controlling local populations tended to be unreliable and self-serving.

Why did mediation make states unstable? The local elites who mediated the connections between local populations, mostly peasants, and the central state, could exercise greater control over those populations and the resources they generated than the central state. Mediation thus left imperial states vulnerable to three different threats. First, peripheral elites controlled local resources. Thus they often acquired enough money and weapons from local sources to make a bid to displace central elites. Second, local elites might inadvertently provoke peasant rebellions by squeezing peasants too hard. These rebellions often spread to other parts of the empire. Third, central elites' efforts to tax peasants directly in order to reduce the threat posed by local elites' military and financial power might provoke local elites to rebel rather than suffer domination. The new states that emerged in western Europe after 1400 successfully built government bureaucracies that displaced local elites, securing the central state's unmediated access to the population.

High transportation and communication costs before 1400 also limited economic activity. Virtually the entire economy revolved around the production of agricultural goods for food or clothing. People directly produced most of what they ate and wore locally, bartering excess production in local market towns. The absence of a larger market limited the division of labour. Nothing forced peasants to increase productivity levels, because they directly produced what they ate, and did not have to earn cash in a market to feed themselves. In turn, low productivity in food production limited the available surplus, again constraining new opportunities. Meanwhile, long distance trade mostly involved luxuries. This trade was socially important, but not critical to the survival of the population. Even if transportation costs were lower, however, and there was more trade, most peasants would not have engaged in much productivity enhancing investment. Their self-sufficiency meant that they could always survive without access to the market.



Furthermore, the intersection of political power and property rights around land ownership and labour also deterred productivity enhancing investment. Generally, either the empire or local elites had legal ownership of land, peasants or slaves. Political power grew directly from this ownership. For local elites, land ownership conveyed the right to make and enforce local law. If those elites didn't control land, they couldn't extract rent from peasants; if they couldn't extract rents they couldn't build and supply their private armies; without private armies anyone could take away their power to extract rents from peasants. Local elites thus assured their continued legal control over land through laws that prevented land sales (entailment) and instead mandated that land pass to the oldest (usually male) child.

By the same token, imperial elites strove to secure the emperor's ownership rights over all land, and thus his right to allocate land to compliant local elites. This right would strip local elites of their ability to raise their own armies against the emperor. But an open land market would also threaten the centre's control over local elites. The absence of an open land market in most places meant that nobles often were better off squeezing more rent from peasants than they were from trying to increase productivity. Even during the so-called agricultural revolution that started in Holland and Britain in the 15<sup>th</sup> century, after globalisation started, agricultural productivity per unit of labour roughly rose by only 0.25 percent each year. In contrast, post-industrial revolution economies generally experienced annual productivity gains ten times as high over the past two centuries in their core technologies.

The old empires thus saw constant tension between central and local control over these key resources. Overly high levels of local control caused empires to break apart. Overly strenuous efforts by central elites to remove local elites and get *unmediated* access to peasants provoked local elites to rebel. Meanwhile, unmediated access to land and food meant no one had much incentive to pursue sustained productivity gains or do sustained investment. What caused local and central elites in Western Europe to break out of this ancient cycle and start the process of globalisation? How did states decisively and successfully shift to unmediated relations with their subjects? How did economies get reoriented away from subsistence with barter and towards accumulation of capital and exchanges mediated by money?

The short answer to these very complicated questions is that Europe combined three things found elsewhere to a lesser degree or not all at once. These three things answer the questions: Why this kind of state? Why many states and not one empire? And why this kind of market? First, Western European states were simultaneously backward and advanced in terms of their



administrative and military technologies. Backwardness made it difficult for any one state to overwhelm the others and create an empire like that in China or India. But superior naval military technologies allowed them to project force into the Americas and Indian Ocean. Europeans couldn't dominate each other but they could use violence to take what they wanted from many of their global neighbours. They organized this theft through state chartered companies, like the Dutch East India Company, or the Hudson's Bay Company that founded many North American colonies. These corporations merged trade and violence in one organization. Jan Coen, Director-General of the Dutch East India Company, noted that violence was part of the "means of production" for spices and other goods from Asia: "Trade in Asia must be maintained under the protection of our own weapons; and [these weapons] have to be paid for from the profits of trade. We can't trade without war, nor make war without trade."

This organized theft in Asia and the Americas provided some European states with *unmediated* access to the cash they needed to build bureaucracies. Simultaneously constant war gave them strong incentives to build domestic bureaucracies. These centrally controlled bureaucracies then undercut the power local elites derived from mediating relations between the state and peasants. The new bureaucracies gave the state direct access to tax revenues from peasants, and enabled the state to transform peasants into citizens loyal to the central state. Unmediated access to cash *outside* their realms enabled European princes to construct unmediated access to cash *inside* their realms, bringing us the form of our modern state. States' global involvements shaped their internal development.

Second, the absence of successful empire building within Europe meant constant warfare prevailed in Europe. Theft overseas made it possible to finance these constant, and constantly more expensive, wars. The rising cost of war forced a search for more money, and for more efficient ways of fighting. Self-sustaining military competition widened rather than narrowed the military gap between a few European states and rest of the world. This gap permitted those states to construct large-scale empires *outside* Europe, and thus ultimately led to the diffusion of European state forms to the rest of the world. Areas outside Europe that successfully imitated European state building – like Japan or Turkey – were able to survive the European onslaught, but by doing so reproduced European state forms. Areas that unsuccessfully imitated Europe – nearly the whole of Africa, or the mid-East – were colonized, and then had ineffective versions of the European state form pressed upon them after de-colonization. This generated our modern state system.



The first two differences generated states and the state system. What about markets? The third critical difference was the consolidation of the open market for land and labour that had been emerging in Britain during the 16<sup>th</sup> century as a consequence of conflicts between central and local elites. This occurred after the English Civil War (1642-48). In Britain, the emergence of an open land market forced both workers and owners into constant competition to buy access to that land. Workers and tenant farmers had to increase their work effort or be fired and starve. Owners had to accumulate capital or risk having their land bought out by someone with more capital. The new land market rested on new kinds of “absolute” property rights that gave one person the right to sell land. Elsewhere in Europe, war’s insatiable demand for revenue forced many monarchs to concede similar absolute property rights to the local nobility in exchange for rights to tax the population. During the next few centuries, capitalist markets, which had profit accumulation as their central purpose, replaced exchange markets, which had had subsistence as their central purpose. This generated our modern market economy, in which exchange for profit dominates virtually all activity people undertake.

Europe thus gave birth to modern states, with unmediated relations between states and citizens, and to modern markets, with their constant pressure to increase productivity and output, and the mediation of social relations through cash purchases. Constant conflict among states and constant competition among firms translated both of these large-scale systems to the rest of the world in several spasms of expansion. More production in more areas became subjected to market logics, forcing people to always work for money and to buy more and more of the goods and services they required rather than directly produce them. States developed more technologies for controlling and taxing their populations using the combination of bureaucratic surveillance and the inculcation of self-control. People found themselves “caged” – compelled by the logic of the situation to continue conforming to demands from the state and markets in their own self-interest.

### **3. Geographic expansion of states and markets**

Why did the state system and markets for profit expand geographically, and what did this mean for the possibility for economic and political development inside and outside of Europe? The rapid expansion of industry inside Europe strongly shaped development outside Europe in the direction of raw material extraction, while inter-state competition for access to or control over those resources strongly shaped political development. Both forces intersected in the



nature and interests of local elites in countries and colonies outside western Europe. Those local elites could get relatively wealthy by exporting raw materials to Europe; on the other hand, the choice not to export exposed them to the risk of incursions by European states and settlers in pursuit of those same raw materials. The same dilemma confronts poorer countries today, except that they have added cheap clothing and cheap workers to their list of exports, supplementing traditional staples like sugar, cocoa and spices.

Economic globalisation accelerated after the industrial revolution in Britain (c. 1750-1850), and its echoes 50 years later in the United States and northwestern Europe. Both revolutions enormously increased demand for raw materials, and set the pattern for similar processes in the 20<sup>th</sup> and 21<sup>st</sup> centuries. Nineteenth century manufacturing largely involved the transformation of agricultural raw materials into food and clothing, or the transformation of minerals into simple metals. British cotton textile production doubled every ten years from 40 million yards of fabric equivalent in 1785 to over 2 billion yards in 1850, with proportionate increases in raw cotton imports. Mechanization of woollen production in the 1830s caused demand for wool also to double about every thirteen years, from 4400 tons in 1820 to 214,000 tons in 1913. All of this cotton and 80 percent of this wool had to be imported.

The industrial revolution also created a new and rapidly expanding urban proletariat that could not grow its own food (and thus had to work for wages and acquire goods in the market, mediated through money). Britain's population quadrupled from 10.2 million people in 1801 to 37 million in 1901, even as about 20 million people emigrated from Britain. By 1900 Britain imported 84 percent of its wheat, 37 percent of its beef, 47 percent of its mutton, nearly 100 percent of its sugar, and 53 percent of its dairy and poultry. By 1914 Britain imported roughly 60 percent of its total calories, and Germany about one fifth. Total world trade - mostly manufactured exports from western European and raw materials exports from European colonies - rose from \$7.3 billion in 1820 to \$236.3 billion in 1913, in constant 1990s US dollars.

Because industrializing Europe could not produce enough raw materials and foods, these had to be grown elsewhere. European demand for cotton, wool, and wheat (among many other things) thus sparked a global expansion of capitalist agricultural production oriented towards export markets. Just as textile and garment assembly moved off-shore to low wage countries in the late 20<sup>th</sup> century, large parts of agricultural production moved to settler colonies with cheap land in the 19<sup>th</sup> century. And just as offshore producers of garments have driven down the real price of clothing in the past 30 years, driving on-shore producers out of business, the 19<sup>th</sup> century's new agricultural



exporters drove down the cost of food and raw materials in Europe, driving peasants off the land. Overall, world crop production expanded 50 per cent from 1840 to 1880, with half of this in North America and Australia. But in Asia much the same happened, with new rice production zones emerging in Cochinchina, Thailand and Burma to supply workers producing rubber, tin, coffee, sugar, and wood destined for European markets.

Where did the workers come from for these new production zones? Initially Europeans took roughly 14 million slaves from Africa, but after 1800 Europe supplied about 50 million voluntary migrants while Asia supplied an additional 50 million voluntary, but mostly indentured, workers. The voluntary migrants left Europe, India and China because falling prices for imported agricultural goods pushed them out of a peasant livelihood in their own country; simultaneously, all the new places producing exports needed so many workers that wages there were uniformly higher. Thus virtually all European emigrants went to high wage areas like the United States, Canada, and Argentina. Chinese and Indian emigrants went to tropical areas (like Malaysia, Sri Lanka, east Africa, or the Caribbean) where relatively higher wages enabled some to repay their indenture debt. Much the same is happening today, with migrants flowing from low wage to high wage areas, but in manufacturing instead of agriculture. Workers flow from rural areas to local export processing zones, and often thence into what are low wage sectors of rich country economies, but nonetheless high wage areas with respect to their original economy. Thus Mexicans flow from poor states in Mexico to low-wage manufacturing work in the border zone with the United States, and then hop the border to work in gardening, restaurants, and meat-packing.

Where did the capital come from to create the new farms, plantations, railroads, harbour and cities in the new producers of foods and raw materials? Just as Europe and Japan supplied much of the capital for south-east Asian industrialization in the 1990s, and the US capital for much of Latin American industrialization in the 1970s, Britain loaned most of the money that capitalized 19<sup>th</sup> century agricultural development in new states in the Americas and elsewhere. And just as in contemporary Latin American and south-east Asia, this huge inflow of capital created an oversupply of output from these new producers. In turn, this oversupply caused export prices to drop, making it difficult for these new states to pay back foreign debt, and thus causing the occasional international financial crisis. Just as falling prices for wool and wheat triggered a series of developing country defaults in the 1890s, falling prices for toys and clothing helped trigger the 1997 Asian financial crisis.





If local elites in would-be developing countries wanted to get rich, the only game in town was exporting to Britain or Europe, and the only way to export in large quantities was to construct some reasonable copy of both modern states and modern markets. Thus these local elites did what we would today call “neo-liberal reforms.” The states they controlled created property rights in land to make it possible to sell land; they legalized mortgages on land so producers could borrow money to capitalize their operations; and they created open labour markets by eliminating the more obvious forms of coerced labour and slavery and helping to organize the flow of migrants. Generally they created production systems dedicated to a handful of exports oriented towards rich country markets. Equally so growth in their economies was almost totally reliant on growth in the rich industrial countries – were it not for industrialized countries’ growth, after all, these peripheral economies would have essentially remained subsistence economies. An overwhelming reliance on one or two exports was not unique to poor countries in this first round of economic growth. Iowa and Kansas were as reliant on a handful of export crops as were Vietnam or Malaysia – perhaps even more so. For all these agricultural exporters the issue was whether they could overcome this reliance and generate new exports and a more diversified local economy.

States played the crucial role in determining whether this economic diversification occurred. Generally speaking, states enjoying a benign security environment – most of Latin America for example – tended to continue producing agricultural exports for industrial countries. They had no pressing need for revenues or industry to fight off aggressive neighbours. Colonies, of course, had little say in the matter. Economies that did not diversify, that remained pure exporters of raw materials, proved extraordinarily vulnerable to declining relative demand for their exports. After the first century of industrialization, rich economies increasingly consumed manufactured goods made of other manufactured goods, decreasing the share of raw materials in total consumption. Consumers spent more money on cars, made up of metal manufactures, rather than clothes, made of fibres. The falling income elasticity of demand for raw materials in general produced lower prices for raw materials, slower growth in raw materials exports, and an acute vulnerability to foreign debt crises. In the late 20<sup>th</sup> century, few countries would voluntarily opt for this policy choice. But in the 19<sup>th</sup> century the consequences of this choice were not obvious, and virtually all states opted (and imperial administrations forced virtually all colonies) to specialize in raw materials exports.

By contrast, states with predatory Europeans as neighbours or unwelcome guests – Germany, Russia, Japan, China, Turkey, Austria-Hungary – opted for



significant, if not always successful, intervention in their economies in an effort to promote industrialization. These states borrowed money abroad to channel capital to state-owned firms or firms so closely linked to the state that they might as well have been state-owned, sheltered this new local industry from foreign competition, invested heavily in education, freely stole foreign production technologies and patents, and aggressively promoted manufactured and not just agricultural exports. To do this, industrializing states had to create professional bureaucracies, conscript large numbers of peasants into the military (often the school of first resort), and increase their ability to turn peasants into citizens and then directly tax those citizens.

Economic and military competition between states outside Europe thus worked just like competition among European states to create new states with an unmediated relationship between themselves and their citizens, and more pervasive markets mediated by money. As in earlier centuries, continued competition helped spread the modern forms of state and market. This competition also drove the diffusion of the physical and cultural infrastructure that supported both the military and the market: the use of money to mediate an increasing percentage of interactions between human beings, telecommunications, modern mechanized transport, English as a *lingua franca*, and the standardization of weights, measures, and the interfaces where people met machines and machines met machines. All this in turn made it increasingly easy to make and trade goods in a global market, as well as to loan money. It also lowered barriers for people emigrating away from low wages or low prices in the home country, or the conscription imposed by increasingly intrusive states.

#### 4. Backlash against the market

The diffusion of the modern state and market also had some seemingly paradoxical effects. First, while the old system of mediated politics exposed people to abuse by local elites, it also obliged local elites to shelter their clients from economic shocks, lest those clients turn against local elites. But as states displaced local elites and built an increasingly unmediated relationship between themselves and citizens, people lost the protection local elites often offered them in economic downturns. As commodity markets and states building commodity markets forced people off the land, few people had the opportunity to turn to subsistence production in times of economic hardship – and economic crises are endemic to capitalist economies. The average person thus felt the risks of unemployment, bad health and poverty more acutely. But people's exposure to market pressures



exposed states to citizen demands for shelter from those pressures. And states' successes at getting unmediated access to (male) citizen bodies through, e.g. conscription, inadvertently reinforced political demands for state intervention to buffer those citizens from market forces, and to give them (mostly males) the vote. Both conscription and then real war enabled voting citizens to demand what we now term the welfare state, while pushing states into providing a wide range of cash transfers and public services. In particular, the extraordinarily high body count of World War I gave surviving citizens a robust moral claim on states.

Even before World War I, though, most western European states realized that they needed to assure citizens of some minimum level of health care and income in order to get an adequate supply of healthy soldiers. These states thus began paying baby bonuses to mothers ("pro-natalist" policies), creating public health systems, and starting up pension systems for those few workers lucky enough to survive to retirement age. The expansion of volatile capitalist markets thus provoked a whole range of state welfare interventions to tame the effects of that volatility. In turn, these interventions made it possible for markets based on profit accumulation to survive politically, by taming citizen reactions against market volatility. The welfare state also made it possible for the market to continue expanding into new areas of life.

Second, both the interstate system and the market were somewhat unstable. High levels of competition meant high levels of conflict, and increased conflict in both markets and diplomacy risked quite severe consequences. Both the interstate system and the market came crashing down in the first half of the 20<sup>th</sup> century. In 1914, alarmed by what appeared to be Russia's rising power, Germany provoked a European war that soon involved everyone. World War I, whose unsettled resolution in 1918 sowed the seeds for a second, truly global war that began in the 1930s, undid several centuries of European global expansion. Extraordinary death rates forced European states into conscripting their colonial populations for combat in Europe and elsewhere, setting in motion the same kinds of demands for the vote and equality that conscription had started in Europe thirty years earlier. Returning colonial soldiers staffed liberation movements run by leaders educated in the universities of the colonial powers. Meanwhile, enfeebled European states had neither the strength nor the will to successfully hang on to their colonies, though some tried. Some empires floated promises of decolonization in the 1930s, and from 1946 through the late 1960s there was a massive transfer of power from European colonial administrations to newly independent states.

The similar instability of the market also helped expand state intervention to control the market. During the 1920s and especially the 1930s Great



Depression, unemployment rose above 20 percent in many countries, and many farmers lost their land. In search of domestic political stability and external military security, states intervened massively for the sake of political stability and military security. States everywhere nationalized infrastructure services like telecommunications, rail and air transport, and finance, while regulating agricultural prices and wages. Both policies gave people stable wages and employment. After World War II, the rich states began providing tertiary education for free, or at a great subsidy, began providing public housing or housing subsidies, and, as women entered the labour force, expanded the pro-natalist policies of the 19<sup>th</sup> century to encompass a whole range of health and childcare services. Post-war economic stability, high growth rates, and low unemployment foreclosed a political future in which states exerted complete control over the economy however. Instead, manufacturing enjoyed an unparalleled period of prosperity as workers flush with cash and largely relieved of the fear of unemployment cheerfully acquired expensive consumer durables like automobiles, TVs, and refrigerators on credit. Thus equipped, European workers soon spurned the advances of communist parties.

## **5. Expansion of state and market power over individuals**

The post-World War II period is usually seen as a period in which globalisation stopped. Overseas capital flows, which had amounted to between 5 and 10 percent of British GDP, stopped as investors feared default and states regulated capital outflows. International migration to the western hemisphere fell from its pre-1914 peak of 1.7 million people to fewer than 100,000 annually. And, after 1930, trade collapsed by two-thirds. States regulated trade to initiate or accelerate local industrialization, while the European empires imposed strict preferences for trade within their own empires.

But 'paused' might be a better word, particularly as political and economic developments in the Great Depression and during the 25 years after World War II laid the foundations for the renewed expansion of state and market we currently label globalization. Neither decolonization nor the vast expansion of welfare transfers and services after World War II stopped the two long-term trends discussed above. Quite the contrary. Decolonization created many more states, each of which aspired to the level of control European states possessed over their own citizens and which thus began the process of gaining unmediated access to those citizens. Nuclear weapons and the US occupation of Germany and Japan prevented the kind of chaos that occurred after World



War I. But the post-World War II period was not devoid of interstate competition. Instead, this competition largely took economic forms. Almost everyone outside the United States tried to catch up to the United States by resurrecting the techniques (mentioned above) that European states had used in the 19<sup>th</sup> century to pursue industrialization. They exported in order to get rich, and by exporting they increased the share of trade in total world production from about 8 percent in 1950 to 24 percent in 2003.

Efforts at industrialization in some peripheral economies attracted renewed flows of capital from rich countries, particularly as states in those countries began removing capital controls in the 1970s. By 1979 would-be industrializers in the periphery had borrowed \$830 billion (in 2002 dollars). By 2003 this debt had tripled to \$2650 billion. To service this increased debt, would-be and successful industrializers aggressively promoted exports. The supply of new places to export from met a demand for new places. Rich country firms in industries where labour costs were crucial responded to high wage, high tax, high regulation environments in their home markets by shifting low-skill, labour intense production “off-shore” to export processing zones (EPZs) in low wage, low regulation former colonies. Rich country states encouraged and organized this shift to keep firms profitable, by rearranging tax codes, subsidizing relocation, and expanding the scope of free trade treaties. These EPZs relied heavily on young female workers, usually the daughters of peasant families. So whether or not EPZ based industrialization strategies worked in terms of economic development, they also pulled millions of women out of households and into the market economy and into urban areas.

Peripheral countries’ efforts at industrialization, and rich country firms’ efforts to find cheap labour, also helped restart international migration flows. From 1965 to 2000 the global stock of migrants (people living in a country different from their country of birth) rose by approximately 100 million people to 175 million. Workers in EPZs acquired the social and work skills, the cash, and sometimes the language skills they needed in order to migrate to the home country of the multinational firms that employed them. In turn, migration increased both their exposure to cash mediated market exchanges and those of their families. Migrants by definition lived apart from their extended social network at home, and had to buy more services and goods that they would have perhaps acquired in non-cash exchanges at home. But migrants also monetized their original societies. Migrants typically save huge proportions of their earnings – 10 to 20 percent – and remit those savings back home to their families. This enables those families to acquire a bigger share of their goods and services from the cash economy. Peripheral efforts at industrialization



thus expanded international flows of people, capital, and goods, deepening the influence of the market on those societies.

In the rich countries, the welfare state turned out to be an unwitting agent for further globalisation – further expansion of both state and market – as well. The expansion of the welfare state in the rich countries laid the groundwork for further expansion of the market into areas of social life that previously had been either insulated from or untouched by market forces. Welfare state expansion also pulled more and more people into an unmediated relationship with the state. As in the periphery, both trends disproportionately affected women. Welfare states after World War II expanded or created three crucial services that helped propel women into the market. First, women gained access to free (or cheap) university education. By increasing women's human capital, tertiary education increased both the financial and emotional incentives for women to work.

Labour force participation by college educated European women aged 25-39 (those born after universal higher education) runs 20 to 30 percentage points higher than for those women who have only completed the minimum compulsory public education. Second, many states either directly provided childcare and (sometimes) eldercare, or provided cash transfers to subsidize the purchase of these services. This increased women's ability to balance babies and bosses, albeit only imperfectly. Third, the expansion of university education, health services, and childcare/eldercare created millions of jobs for women in these new 'caring' sectors of the economy. Caring thus came out of the house and into the market.

The welfare state thus provided motive, means, and opportunity for increased labour force participation by married women with children. In the US, labour force participation of married women with children under the age of 18 rose from 45 percent in 1975 to 70 percent in 2000; in Britain, 24 percent of married women worked for wages in 1950, versus 74 percent in 1998. By contrast, countries with lower rates of university education for women and lower levels of public or publicly subsidized childcare have substantially lower rates of female labour market participation. Rather than impeding the growth of the market, the welfare state proved to be a necessary step in the expansion of the market. Many formerly household services moved into the public domain, and thence into cash mediated production, partly at states' behest, and partly at women's.

If the post-war welfare state helped pull rich country women into the open labour market, globalisation, understood narrowly as increased trade, also helped push them. Competition from low wage (women) workers in poor



countries undercut wage levels for in low skill male workers in rich countries. Falling wages for those male workers made it impossible to maintain a family on just one (male) wage. In the US, the real wage for males with only a high school education fell 17 percent from 1979 to 1995, while high school educated females saw a slight increase. By 1998, 57 percent of working women married to men in the first (lowest) wage quintile earned an hourly wage higher than their husband's, as compared to only 7 percent of women married to men with wages in the fifth (top) quintile, and 31 percent of the women in the lowest group earned 50 percent more than their husbands did.

## 6. Towards the future: more of the same

How then, should we think and not think about globalisation? Clearly, we should not think about globalisation as a new process, in which novel electronic technologies triggered an unexpected rise in global trade and capital flows. Nor is it a process in which a reified international market wrestles a weakening state for control of the domestic economy. Instead, individual actors caged within states and firms as organisations are respectively locked into a relentless search for power and revenues, and power and profits. The existence of each organisation is conditioned on the presence of the other. Each makes specific and contingent alliances to advance mutual interests. These alliances produce the variation we can observe among different political economies, but the underlying causal driver is systemic – the inability of any organisation to avoid competition.

The last 500 years thus have seen two parallel, and continual if not continuous processes that comprise globalisation. First, states swept away the local elites that previously had mediated the state's access to peasants, and instead replaced those elites with bureaucracies that regulate ever increasing aspects of citizens' lives. Second, more and more of people's time, social life, and economic activity is mediated through money rather than the direct exchanges and barter that characterized the peasant economies of the 1500s.

Nothing suggests that either trend will abate. The relocation of some state activities to supra-national bodies like the European Union and the United Nations merely recreates the older conflict between central states and local elites at a new level. The core constitutional issue confronting the European Union, after all, is whether it is a union of states (a loose federation, in which the new EU state's power is mediated through the old states) or a new state (in which the EU has direct power of taxation, conscription, and regulation.) Similarly, the basic premise of the United Nations is sovereign equality – its members are all recognized states – and its peacekeeping



operations are aimed at the rehabilitation of failed states, not their replacement by something else.

The constant expansion of the market geographically and socially also looks robust. The last twenty years have seen the expansion of low cost manufacturing (think: beanie babies) to the one billion people living in China, and the expansion of low cost service sector production (think: call centres) to India's one billion people. Compared to this, the withdrawal of much economic activity from Africa over the past thirty years looks less significant in economic terms. In the rich countries, the welfare state has changed in directions that also magnify unmediated state power and market mediated logics – and it has often done so in response to popular demands. Just as states helped make markets in agriculture and manufacturing in the past, they are making markets in services now. More welfare services are produced under market conditions, e.g. through subcontracting, private production, or competition among public providers. More and more the payout level of the single largest welfare state transfer payment, the old age pension, is based on individuals' prior performance in the wage market. And more and more European states are looking for incentives to get women to have more babies, which is to say, they are expanding the number of policies affecting the rate at which new citizens are produced. Continued globalisation – the direct intrusion of the state into the lives of people constituted as self-regulating citizens, and the increasing mediation of all social life through monetized exchanges – is thus both the past and the future.





## PANEL 1: REGIONAL PERSPECTIVE

Keynote Presenter: Dr. Jorn Dosch, Department of East Asian Studies, University of Leeds (UK)

Panellists: Prof. Nguyen Xuan Thang, Institute of World Economy and Politics

Dr. Jurgen Haacke, London School of Economics

### VIETNAM AND THE ASIA-PACIFIC REGION: OPPORTUNITY OR THREAT?

Dr. Jorn Dosch

#### 1. Introduction

Last August Foreign Minister Nguyen Dy Nien spelt out the guidelines for Vietnam's foreign policy for the next five years to a workshop that reviewed the results of implementing resolutions from the Ninth Congress of the Vietnam Communist Party (CPV). He reaffirmed Vietnam's foreign policy of independence, openness, diversification and multilateralisation of international relations, and active integration into the region and the world.<sup>1</sup> This foreign policy strategy has been a major component of *doi moi* and was drafted shortly after the Sixth National Party Congress initiated the renovation process in December 1986. Although *doi moi* was primarily directed towards reform and liberalisation of the national economy, it has had decisive implications for Vietnam's foreign policy and security outlook. In the mid-1980s the political elite arrived at the conclusion that Vietnam's foreign affairs,

1. *Financial Times Information, Global News Wire - Asia Africa Intelligence Wire*, 26 August 2005, 'Vietnamese Foreign Minister discusses diplomatic five-year plan'.



national security and the state of the country's economy were inevitably linked in a vicious circle: The *de facto* international isolation of Vietnam in the 1970s and 1980s had significantly contributed to the country's deep socio-economic crisis. At the same time, in the view of political leaders, the main security challenges to Vietnam were not solely the result of aggressive behaviour on the part of foreign powers but also stemmed from the poor state of the economy with all its consequences, such as poverty and economic degradation. Hence, the success of *doi moi* would largely depend on a radical change in foreign policy. Seen from a different perspective, the Vietnamese government had to be serious about seizing any opportunity to (re-)establish international ties in order to re-emerge as a respected actor on the global stage and contribute to the emergence of an international structure favourable to Vietnam's own development. Between them, multilateral activities on global, inter-regional, regional and sub-regional levels, and normalised bilateral relations with the US and other powers were expected to contribute to a secure international environment that would no longer require Vietnam to use its resources primarily to maintain a strong defence infrastructure.

Politburo Resolution No. 13 of May 1988 outlined a policy of 'diversification' (*đa dạng hóa*) and 'multilateralisation' (*đa phương hóa*) of Vietnam's foreign relations. These guidelines were further developed when the Seventh Congress of the CPV solemnly declared in 1991, 'Vietnam wishes to befriend all countries in the world community'.<sup>2</sup> The primary objectives of the new foreign policy can be summarised as follows: (1) to break up the state of economic embargo and diplomatic isolation and to secure a peaceful and stable international environment for 'socialist construction'; (2) to boost foreign economic activity, including the attraction of FDI and ODA, and the acceleration of foreign trade; (3) to integrate Vietnam into regional and international organisations.

This *new outlook* in Vietnam's foreign affairs resulted in a rapid expansion of diplomatic relations. Vietnam's track record of diversifying international relationships since the end of the Cold War is second to none in the Asia-Pacific. In 1989, Vietnam had diplomatic relations with only 23 non-communist states, a number that grew to 167 by 2004. In 1995 Vietnam scored a triple diplomatic success by joining the Association of Southeast Asian Nations (ASEAN), establishing official relations with the US and signing a framework cooperation agreement with the EU. The political actors have very successfully and actively worked to build and strengthen as many international cooperation ties as possible. Vietnam's membership in ASEAN, Asia-Pacific Economic Co-

2. Communist Party of Vietnam. *Seventh National Congress: Documents*. Hanoi: The Goioi Publishers, 1991, p. 43.



operation (APEC), the Greater Mekong Subregion (GMS), Asia Europe Summit Meeting (ASEM) – Vietnam hosted the 5<sup>th</sup> ASEM Summit in October 2004 – and other organizations, along with observer status in the WTO, prove this. The Vietnamese government has initiated various important initiatives in multilateral fora and organisation in the Asia-Pacific, including the recent proposal of hosting a meeting for (APEC) health ministers in the country during the first half of 2006 to cope with the increasing threat of a possible worldwide avian influenza pandemic.<sup>3</sup> As far as bilateral relations are concerned, major improvements were made to the previously problematic, often hostile relationships with the United States, China and Thailand.<sup>4</sup>

Is Vietnam's recent performance on the chessboard of international relations a continuous success story? Have the threats of the Cold War days given way to endless opportunities in Vietnam's foreign affairs? To pre-empt the conclusion, for Vietnam and indeed for most other states in the Northeast and Southeast Asia the single clearly identifiable, classic military threat stems from the unpredictable behaviour of a nuclear North Korea. Due to the parallels in its history Vietnam has taken a deep interest in the several rounds of Six-Party Talks in Beijing: "In Vietnam, where the ravages of wars for independence and reunification are far from forgotten, we hope that peace and security is obtained for the Korean Peninsula through peaceful negotiation and not any use of military power."<sup>5</sup> This Cold War inheritance aside, even the shallowest glance at the empirical evidence suggests that threats and opportunities overlap in the Asia-Pacific and are often the two sides of the same coin. For example, while trade and investment ties between Vietnam and China have significantly strengthened and political relations improved markedly following the signing of the land border treaty (1999) and the agreement on the demarcation of the Gulf of Tonkin (2000; implemented in June 2004), bilateral relations are tested on occasion by disputes over conflicting territorial claims in the South China Sea. In a similar vein, although overall diplomatic relations as well as trade and investment links with the US have greatly improved since the early 1990s, differences over human rights issues almost ensure the prevalence of occasional diplomatic disputes between the two governments. The US has criticised Vietnam's restrictions on some religious groups, and Vietnam has been added to the list of the world's worst offenders in the US State Department's recent annual report on religious freedom.<sup>6</sup>

3. *Viet Nam News*, 16 November 2005, 'Vietnam proposes APEC health ministers' meeting'.

4. Dosch, Jörn and Tan Minh Tuan. 'Recent Changes in Vietnam's Foreign Policy. Implications for Vietnam-ASEAN Relations'. In McCargo, Duncan, ed. *Rethinking Vietnam*. London and New York: RoutledgeCurzon, 2004, pp. 197-213.

5. Nguyen Minh Huyen. 'Give-and-take key to successful six-party talks', *Viet Nam News*, 4 November 2005.

6. Economist Intelligence Unit. *Country Report Vietnam*, London, April 2005, p. 8.

The main argument of this paper is *that the formerly clearly structured friend-foe, amity-enmity and opportunities-threat dichotomies of the Cold War era have become blurred in the early Twenty-first Century as the result of rapidly growing linkages between international, regional and domestic political processes. At the same time traditionally discrete policy areas, for example security and economics increasingly overlap. Any analysis of threats and opportunities to Vietnam's interests and role in the Asia-Pacific has to take into account this complex spider web of multi-layered political dynamics.*

What does this mean in more specific terms?

Throughout the Cold War and in some instances well into the 1990s the political process at both national and regional levels in the Asia-Pacific could be described as static, highly centralised and one-dimensional. Static refers to the largely constant nature of the policy agenda over time (the primacy of national security); highly centralised describes the fact that policy-making was the domain of a small number of elite actors; and one-dimensional implies the absence of major linkages between policy areas. Due the manifold structural changes in the post Cold War era and political change at domestic levels the political process has moved in the direction of a pluralist, less centralistic – however, not necessarily decentralized – and multi-dimensional model which is characterised by a growing number of political actors (even in the case of Vietnam's stable one-party system), increasing tendencies of dispersed decision-making and an intertwinedness of global, regional and national dynamics never seen before in Asian politics. According to Andrew McGrew this change is three-fold and can be described as a stretching, deepening and broadening of political activity. Stretching refers to the fact that decisions and actions in one part of the world can come to have worldwide ramifications. Deepening means that developments at even the most local level can have global ramifications and vice versa. Broadening refers to the growing array of issues which surface on the political agenda combined with the enormously diverse range of agencies or groups involved in political decision-making processes at all level from the local to the global. This three-dimensional process “transcends the traditional distinction between the international and the domestic study of politics, as well as the statist and institutionalist biases in traditional conceptions of the political”.<sup>7</sup>

Globalisation is the most obvious and broadest structure and probably the first that comes to mind in the search for explanations why the borders between domestic and foreign issues in Southeast Asia, and indeed Vietnam, have

7. McGrew, Anthony G. 'Conceptualizing Global Politics'. In Anthony G. McGrew, Paul G. Lewis et al., eds. *Global Politics. Globalization and the Nation-State*. Cambridge: Polity Press, 1992: 3.



increasingly become indistinct. Some Southeast Asian countries – most prominently maybe Thailand<sup>8</sup> – have witnessed a lively discourse on the various meanings and implications of globalisation. In Vietnam, until the mid-1990s the term ‘globalisation’ was largely avoided in public discourses and official documents, including those of the CPV, as well as academic journals, which were referring to ‘internationalisation’ instead. This has changed in recent years when Vietnamese academics began to published widely and explicitly on globalisation.<sup>9</sup> Furthermore, the concept is no longer a political taboo, although the definition of the phenomenon is mostly limited to developmental aspects and the ‘strong state – weak state’ dichotomy. For example, in a keynote address to the 6<sup>th</sup> ASEAN Summit in Hanoi in December 1998, Vietnam’s Prime Minister Phan Van Khai stressed:

“Developing countries, including ours, are faced intertwined opportunities and challenges. Great achievements in science and technology have created boundless opportunities and challenges for mankind, but at the same time challenged developing countries with the danger of lagging further behind industrialized and developed countries. Rapid economic globalization is bringing about greater market access and new partners for development, but also putting the weaker economies in a more vulnerable disadvantageous position, and in an uneven competition”<sup>10</sup>

A majority of the political actors in Vietnam seem to recognise the advantages of the state’s globalisation-driven integration into the international system. However, some conservative factions within the political elite are concerned that a too-rapid political integration process due to potentially growing influence from external actors could have a destabilising effect on Vietnam’s political organisation, posing a danger to the CPV’s rule. While it is not possible here to elaborate in detail on the processes of foreign policy decision-making in Vietnam – this is mainly due to the inaccessibility of internal debates within the party-government system<sup>11</sup> – it can safely be assumed that the spectrum of

8. See Dosch, Jörn. ‘Southeast Asia and Globalisation: Implications for International Relations’. In Michael Nelson, ed. *Thai Politics: Global and Local Perspectives*, Bangkok: King Prajadhipok’s Institute, 2004, pp. 123-158.

9. Binh, Nguyen Phuong. *Globalization and its Implications for Southeast Asian Security: A Vietnamese Perspective*. Singapore: Institute of Defence and Strategic Studies, Working Paper No. 12, 2001, pp. 3-4.

10. Cited in *ibid.*

11. For example the Asia Pacific Security Outlook 2005 notes that “access to internal debates is very limited” in Vietnam (Baker, Richard W. and Charles E. Morrison, eds. *Asia Pacific Outlook 2005*. Tokyo and New York: Japan Center for International Exchange, 2005, p. 188). Nguyen Vu Tung writes, “... it is hard to get access to primary sources in Vietnam... even to Vietnamese researchers” (Nguyen Vu Tung. ‘Vietnam-ASEAN Co-operation after the Cold War and the Continued Search for a Theoretical Framework’. *Contemporary Southeast Asia*, 24:1 (2002), pp. 106-118: 117).



actors that try to put its mark on the country's foreign affairs has broadened despite the fact that the CPV and the government exercise effective monopoly over political discussion and policy formulation. The right of the CPV to guide the state and society has been codified in the constitution since 1980. While decisions made by the CPV politburo used to have the power of law, today this is only the case *to a great extent*, but not absolutely. The influence of the National Assembly in the policy-making process has grown to the extent that the legislature is becoming more assertive, ensuring that government ministers will be increasingly held to account for their performances.<sup>12</sup> Furthermore and even more decisively as far as the particular areas of foreign affairs and foreign economic policy are concerned, the successful transformation of the economy has resulted in the emergence of internationally active entrepreneurs who have started to lobby party and government for Vietnam's speedy integration into the world economy and the adoption of favourable trade and investment regimes that benefit the country's growing number of private enterprises.<sup>13</sup>

This paper will first discuss the opportunities and challenges of Vietnam's membership in ASEAN. I will begin with ASEAN because Vietnam's accession to the organisation in 1995 was widely regarded as the most powerful symbol and most significant result of Hanoi's new foreign policy outlook and, equally important, "the final act of regional political reconciliation".<sup>14</sup> Within this context the section will elaborate on how ASEAN membership has contributed to the conduct of Hanoi's relations with China and its Southeast Asian neighbours, and discuss Vietnamese views on the ASEAN Way of soft institutionalism and consensus-based decision-making. This part will also include a balance-sheet of initiatives to bring the disputes in the South China Sea to a peaceful conclusion and a brief elaboration on the broader implications of Vietnam's fast increasing integration into the world economy through multilateral organisations and cooperation schemes. The following section will analyse opportunities of, and limits, to sub-regional co-operation in the Greater Mekong Subregion with a special emphasis on environmental and energy security and the prospects the GMS seem to have

12. Montesano, Michael J. Vietnam in 2004: 'A Country Hanging in the Balance'. In Southeast Asian Affairs 2005. Singapore: Institute of Southeast Asian Studies (ISEAS), 2005, pp. 407-421: 409-410. See also Gainsborough, Martin. 'Party Control: Electoral Campaigning in Vietnam in the Run-up to the May 2002 National Assembly Elections'. Pacific Affairs, 78:1 (2005), pp. 57-75.

13. The establishment of businesses became much easier in 2000, when the Enterprise Law came into effect; a total of nearly 150,000 businesses have now been established under the law. In a symbolic move that would have been unthinkable a decade ago, the Vietnamese prime minister, Phan Van Khai, has declared October 15th to be Entrepreneurs Day (EIU ViewsWire, New York, 13 January 2005: "Vietnam economy: Entrepreneurs gain respect").

14. Weatherbee, Donald E. International Relations in Southeast Asia. The Struggle for Autonomy. Lanham et al.: Rowman & Littlefield, 2005, p. 40.



in store for a further improvement of Sino-Vietnamese relations. The paper will then turn to some remarks on Vietnam's relations with the two most powerful extra-regional actors, the United States and the European Union before concluding with a summary of the principal opportunities and challenges/threats that Vietnam faces in the Asia-Pacific.

## **2. Opportunities and challenges arising from Vietnam's membership in ASEAN**

Despite Hanoi's clear hints in 1990-92 to be ready for ASEAN membership, the strictly anti-communist association was not prepared to admit Vietnam in the early 1990s. Although Vietnam signed the ASEAN Treaty of Amity and Co-operation, the organisation's code of conduct, and was subsequently granted observer status in 1992, full membership was not on the short-term agenda. All over the region, senior government officials and observers alike predicated a long transitional period of five to ten years. However, given Vietnam's rapid and successful process of re-directing its foreign policy on the one hand and changing perceptions and interests among the old ASEAN members on the other, the country's full membership became feasible much sooner than expected. Most important was a convergence of key security interests. Both Vietnam and ASEAN perceived the need to engage Beijing while at the same time holding on to the strategic option of "preventive containment towards China"<sup>15</sup>. Either way, an enlarged ASEAN was expected to be more capable of dealing with the task. And the target was hit instantly. Although officially the Chinese government welcomed Vietnam's admission in 1995 as a contribution to regional stability, it had earlier tried to discourage the neighbour from joining the organisation. Prior to the country's admission, a group of Chinese academics from think tanks and research institutes recommended the government in Hanoi not to proceed with the quest for membership, as a Vietnamese participant of the meeting recalled.<sup>16</sup>

### **2.1 Mediating the China threat**

Over the past decades if not centuries few countries in the Asia-Pacific have been faced with a similar clear-cut structural constraint to their international

15. Röland, Jörgen. 'Der Beitritt Vietnams zur ASEAN – Chance oder Hemmnis für die Vertiefung der regionalen Kooperation?' In Duy Tu Vu, Gerhard Will, eds. *Vietnams neue Position in Südostasien*. Hamburg: Institut für Asienkunde, 1999, pp. 333-362: 338, 343.

16. Personal interview, July 2001 in Hanoi.



position as Vietnam. The nation's long-term security dilemma can be reduced to a short but meaningful formula. "Since 207 BC Vietnam's security problem has been China and the origins of Vietnamese nationalism are embedded in the anti-Chinese struggle for liberation"<sup>17</sup>. Ever since the Han dynasty had integrated the territory of present-day northern Vietnam into its empire, the country's history has been marked by "armed insurrection against foreign domination, a resistance which led after many centuries to the preservation of the Vietnamese people's identity, the emergence of a national consciousness and the establishment of the independent state of Vietnam"<sup>18</sup>, as one of the nation's most popular text books put it. However, the Sino-Vietnamese conflict of the Cold War rapidly transformed into much friendlier bilateral relations in the wake of Vietnam's unconditional retreat from Indochina and Hanoi's constructive role in the process of settling the Cambodian conflict. In general terms Vietnam's *new outlook* in the conduct of its foreign affairs paved the way for improved relations with China. In November 1991 the two governments re-established diplomatic ties. Since then political mutual trust, the promotion of economic and trade cooperation and exchanges in cultural and other fields have markedly improved as Vietnamese President Tran Duc Luong's visit to China in July 2005 and Chinese President Hu Jintao's return visit to Vietnam in November of the same year demonstrated. During the visits, both sides agreed to make greater efforts to boost economic and commercial ties, in addition to co-operating more closely over land- and marine-border demarcation. The Gulf of Tonkin Demarcation Agreement appears to be working well: Vietnam has registered 1,543 boats that are allowed to operate in the common fishing area and provided the list to China; China has registered 856 boats to work in the area.<sup>19</sup> A further benefit of the state visits was a promise of Chinese support for Vietnam's entry into the World Trade Organization (WTO).<sup>20</sup>

17. Möller, Kay. 'Löst die ASEAN das vietnamesische Sicherheitsdilemma?' In Duy Tu Vu, Gerhard Will, eds. *Vietnams neue Position in Südostasien*. Hamburg: Institut für Asienkunde, 1999, pp. 265-286: 265.

18. Nguyen Khac Vien. *Vietnam. A Long History*. Hanoi: The Gioi Publishers, 1999: 16.

19. Economist Intelligence Unit (EIU) ViewsWire, New York, 26 October 2005: 'Vietnam politics: Diplomatic efforts paying off'.

20. At the same time China has – unwillingly! – raised the bar of Vietnam's WTO accession. Since China entered the WTO in 2001, it has increasingly dominated world markets in many industries, such as textiles. Particularly the United States and European Union complain that China has not lived up to the promises it made to open up its own markets. According to Adam Sitkoff, director of the American Chamber of Commerce in Hanoi, that experience has made the United States wary: 'The United States Congress isn't prepared to let another China-like agreement come into force in terms of WTO... WTO is a club, and it's a club that gets harder and harder to get into over time'. (quoted in Johnson, Kay. 'Vietnam's WTO Hopes Slipping Away.' *Voice of America*, Hanoi, 2 November 2005).





However, relations are far from being trouble-free. “What makes bilateral relations difficult ... is its political-psychological dimension. Within much of Vietnam’s political elite (and the wider public) there is a continued sense of resentment *vis-à-vis* China that feeds on the rejection of Chinese superiority and the feeling of historically having been given a raw deal by the northern neighbour”<sup>21</sup>. In the presence of residual conflicts, mainly the territorial dispute in the South China Sea over the Paracels and Spratly islands, the Vietnamese government views ASEAN membership as a crucial structural element of its rapprochement strategy towards China. ASEAN seems to provide a suitable organisational framework to deal with China – particularly in terms of additional communication channels with the Chinese government – and to progressively narrow the gap between the two states, at almost no cost. To some extent, Vietnam’s ASEAN membership partly transformed bilateral Sino-Vietnamese disputes into a multilateral agenda involving China and ASEAN as a group. Most importantly, the Vietnam’s accession to ASEAN meant that the association now grouped all of China’s adversaries in the conflict about overlapping territorial claims in the South China Sea. At the same time ASEAN membership has not only been beneficial to Vietnam but also vice versa: Vietnam’s integration into ASEAN has increased the political weight of the association and strengthened its bargaining position with China. Whether or not ASEAN has succeeded in bringing regional disputes closer to sustainable resolutions is an entirely different matter, though, and will be discussed under point 3.

## 2.2 Intra-regional relations

A second important opportunity, which has been arisen from ASEAN membership lies in the institutionalised setting the organisation has provided for a normalisation and consolidation of Vietnam’s relations with Thailand, Myanmar, Laos and Cambodia. Soon after Vietnam had joined ASEAN, Hanoi started lobbying for the admission of the three remaining Southeast Asian states, Myanmar, Laos and Cambodia. The motivation was obvious: A further widening of ASEAN would significantly contribute to the consolidation of Vietnam’s post-Cold War position in Indochina by providing Hanoi with the opportunity of exerting sub-regional leadership within an accepted, institutionalised framework. Ralf Emmers describes this as the exercise of Vietnamese power “through benevolent means”.<sup>22</sup> Additionally, in order to

21. Haacke, Jürgen. ‘The Significance of Beijing’s bilateral relations. Looking “Below” the regional level in China-ASEAN ties’. In Ho Khai Leong/ Samuel C. Y. Ku, eds. *China and Southeast Asia. Global Changes and Regional Challenges*. Singapore: ISEAS, pp. 111-145: 125.

22. Emmers, Ralf. ‘Regional Hegemonies and the Exercise of Power in Southeast Asia. A Study of Indonesia and Vietnam’. *Asian Survey*, 45: 4 (2005), pp. 645–665: 658.



get the old member's maximum assistance for building-up and modernising its economy, Vietnam needed the support of more or less like-minded states faced with similar if not bigger economic challenges. When Vietnam hosted the sixth ASEAN summit in 1998, Foreign Minister Nguyen Manh Cam used this opportunity to push for Cambodia's immediate admission into ASEAN. The Heads of Government, however, postponed the membership due to the country's unstable and conflict-ridden domestic situation. Eventually, Cambodia joined ASEAN as its 10<sup>th</sup> member in April 1999 during a ceremony in Hanoi. Myanmar and Laos had already been admitted in 1997. Since the completion of ASEAN-10, Vietnam has actively aimed at narrowing the development gap between the old and new members (the so-called the CLMV countries<sup>23</sup>) with the ultimate goal of committing ASEAN-6 to concrete action. Vietnam's efforts resulted in the *Hanoi Declaration On Narrowing Development Gap For Closer ASEAN Integration*, which was signed in July 2001.<sup>24</sup> Although not much progress has been made in implementing the visions enshrined in the declaration, the document nevertheless stands for the most important attempt so far to address the imbalances and economic disparities within ASEAN and particularly between ASEAN-6 and CLMV. Equally important, the declaration and follow-up activities can be considered a vital success for Vietnamese diplomacy in the *doi moi* era. The Vietnamese government has never openly or official claimed any leadership role in ASEAN but there can be little doubt that Vietnam as the largest and economically most powerful of the newer member states has emerged as a *primus-inter-pares* in the CLMV subregion. Due to manifold bilateral and multilateral initiatives, Vietnam's relations with Cambodia and Laos can today be described as stable. During a visit to Hanoi, Prince Norodom Sirivudh, the secretary-general of the National United Front for an Independent, Neutral, Peaceful and Co-operative Cambodia (FUNCINPEC), affirmed that his party, which has traditionally been wary of Vietnam, would try to strengthen co-operation between the two countries.<sup>25</sup> Although not exactly spectacular at first glance, this statement carried some significant diplomatic weight. The most important step towards normalised relations was marked by the signing of a Vietnamese-Cambodian border treaty in Hanoi in October 2005.

If one accepts the notion that Vietnam tries to sustain its role as a benign pre-eminent power in mainland Southeast Asia, this strategy is constrained by two factors. First, historical, ideological, political and demographic legacies<sup>26</sup>

23. CLMV = Cambodia-Laos-Myanmar-Vietnam

24. <http://www.aseansec.org/934.htm>

25. FUNCINPEC is part of the governing coalition in Cambodia. *Economist Intelligence Unit (EIU) ViewsWire*, New York, 26 October 2005: 'Vietnam politics: Diplomatic efforts paying off'.



mainly associated with the memories of open Vietnamese hegemony; second – and probably more decisive – competition from Thailand and increasingly China for regional influence. On the one hand, Vietnam's integration into ASEAN has improved relations with Thailand, its traditional rival to the West and competitor for a leading position in mainland Southeast Asia. On the other hand, mainly due to geopolitical concerns and the legacy of history, Vietnam has continued to be in competition with Thailand over influence in Cambodia and Laos. Hanoi has been particularly concerned with Bangkok's search for a distinguished economic and political leadership role in mainland Southeast Asia. Vietnamese-Thai rivalry seems to have increased under the current government of Thai Prime Minister, Thaksin Shinawatra in spite of some fruitful sectoral cooperation efforts, for example within the context of the Greater Mekong Subregion (see below). "In short, Thai-Vietnamese mistrust and competition over influence in Indochina have continued, although in a non-military sense, despite Vietnam's membership in ASEAN".<sup>27</sup> While Thailand and Vietnam view each other as the main rival for subregional influence, China has emerged as a third major player. While China is not a new actor when it comes to political and economic weight in mainland Southeast Asia, Beijing's strategies of courting the governments in the area have become more assertive in recent years. As a Vietnamese analyst stresses in an unpublished report,

"Vietnam is concerned about China's rising influence in Laos and Cambodia... China is the strategic backbone of Cambodia's security, and China and ASEAN are seen [by the Cambodian and Laotian governments] as credible forces to counterbalance Thailand and Vietnam. Though Laos still sees Vietnam as its closest friend, the former's generational transfer of political power could lead to a preference of China as a security guarantor and an economic partner in the midst of the competition for influence in Laos between China and Vietnam, and Thailand to a lesser extent".

With the growth in its economy, China has become increasingly involved in Southeast Asian security affairs, establishing security links – to varying degrees though – with Thailand, the Philippines, Indonesia, Singapore, Myanmar, Cambodia and Malaysia. This extends not only to military aid and loans, bilateral talks on military issues, joint production of military equipment and joint training exercises, but also includes participation in regional security forums and the signing of defensive memorandums of understanding (MOU).

26. Montesano 2005: 408.

27. Emmers, Ralf. 'The Indochinese enlargement of ASEAN: security expectations and outcomes.' *Australian Journal of International Affairs*, 59: 1 (2005), pp. 71–88: 77.



More complexity is added to the triangular relations between Vietnam, Thailand and China due to the Thai-Vietnamese rivalry in securing the most favourable terms for trade and investment ties with China. Thai foreign and foreign economic policy has been tilting heavily towards China under the Thaksin government. The Prime Minister and Deputy Prime Minister and Commerce Minister Somkid Jatusripitak have made numerous trips to China over the past four and a half years.<sup>28</sup> However, if fostering the best links with the fast expanding Chinese economy was indeed as a zero-sum-game (such a view is of course rejected in the official political rhetoric) Vietnam would still have the edge over Thailand. Trade between Vietnam and China has increased by an annual average of some 40% in recent years. Since the resumption of Vietnam-China economic relations in 1991, even though world trade has been declining, the two countries have seen rapid growth in trade, from 32m US dollars in 1991 to 2.5bn US\$ in 2000 and 7.2bn US dollars in 2004. The trade volume is likely to reach 10bn US\$ by 2007, three years ahead of the schedule set by Prime Minister Phan Van Khai and Premier Wen Jiabao at a meeting in Beijing in May 2004.<sup>29</sup> In general terms, the speeding up of economic integration into regional and global schemes has been the third broad aim of Vietnam's interests and role in ASEAN

### 2.3 Achieving economic integration

Along with its pursuit of strategic and political objectives, Vietnam has viewed ASEAN "as a means to accelerate economic reform, modernization and convergence with this dynamic region".<sup>30</sup> For example, intra-regional investment has significantly increased since Vietnam joined the organisation. As a member of ASEAN, Vietnam is obliged to join the ASEAN Free Trade Zone (AFTA). Vietnam is commitment to its obligations to reduce tariffs under the Common Effective Preferential Tariff (CEPT) scheme but it seems questionable – if not highly unlikely – that the country will be ready for equal competition and almost no protection for its market sectors by 1 January 2006 when Vietnam will have had to reduce all its import taxes to a rate of 0 % to 5 % except for products in the various exclusion and

28. *The Nation*, 24 September 2005: 'Editorial: Thailand, China bolster trade ties'.

29. *BBC Monitoring Asia Pacific*, 15 July 2005: 'Vietnam-China trade set to reach target three years ahead of schedule'; BBC Worldwide Monitoring, 4 November 2005: 'Vietnamese trade minister comments on economic corridor with China'

30. Gates, Carolyn L. 'Vietnam's economic transformation and convergence with the dynamic ASEAN economies'. *Comparative Economic Studies*, 42:7 (2000), p. 7. See also Schmidt, Uwe. 'Vietnam's integration into the global economy. Achievements and challenges'. *Asia Europe Journal* (2004) 2, pp. 63-83.



sensitive product groups lists.<sup>31</sup> However, beyond CEPT figures, Hanoi's interest in AFTA has been of a much broader nature. As Foreign Minister Nguyen Dy Nien explained, Vietnam's participation in AFTA and other schemes of economic co-operation such as the ASEAN Investment Area (AIA) and ASEAN Industrial Cooperation (AICO) "paved the way for Vietnam's participation in other cooperation mechanisms and organisations such as APEC, WTO ...".<sup>32</sup> In fact, when joining ASEAN it was one of Hanoi's core interests to use the association as a vehicle for fast-track access to other – and one is tempted to add: more relevant – organisations. The strategy has been successful. It is safe to assume that without ASEAN membership Vietnam had hardly been able to join APEC already in 1998 and might not have been succeeded in obtaining observer status in the WTO. This example again demonstrates the importance of ASEAN membership as a cornerstone for Vietnam's overall strategic foreign policy interest of normalising and diversifying foreign relations and integrating itself in the regional and global post-Cold War order as quickly as possible.

Overall, since 1995 Vietnam has gained regional and international recognition from its participation in ASEAN. ASEAN has given Hanoi an opportunity to integrate into the international system at high speed and to expand and diversify its external relations "ASEAN membership has enabled Vietnam to benefit from a greater freedom in the making of its 'omni-directional' foreign policy".<sup>33</sup> Ramses Amer rightly concludes that as one the most valuable achievements Vietnam's membership has provided "for a situation which is conducive to the peaceful management of existing interstates disputes and potential future disputes"<sup>34</sup>. To be sure, security threats arising from prevailing border and territorial disputes with other ASEAN member states, for example Cambodia, Malaysia, Thailand, Indonesia and the Philippines have not vanished. However ASEAN has facilitated a suitable, informally institutionalised framework to keep these conflicts under control and prevent any military escalation. This is what ASEAN has always stood for: the efficient management of inter-regional relations by means of informal network-

31. Among ASEAN countries Vietnam has the highest number of items in the General Exclusion List and the Sensitive List "Given the rather weak competitiveness of the economy and the huge deficit of trade balance with ASEAN, Vietnam is very much concerned about the competitive pressure from CEPT" (Vo Tri Thanh. 'Vietnam's Trade Liberalization and International Economic Integration: Evolution, Problems, and Challenges'. *ASEAN Economic Bulletin*, 22: 1 (2005), pp. 75-91: 81.

32. "We will successfully fulfil this responsibility". Interview with H.E. the Minister for Foreign Affairs, Mr. Nguyen Dy Nien in Ouoc Te, *International Affairs Review*, Vietnam, August 2000, pp. 7-9.

33. Emmers, Ralf. 'The Indochinese enlargement of ASEAN', pp. 77-78.

34. Amer, Ramses. 'Regional integration and conflict management. The case of Vietnam'. *Asia Europe Journal* (2004) 2, pp. 533-547: 546.



building and soft institutionalisation of norms and rules – in short the infamous ‘ASEAN way’. As beneficial as ASEAN’s codes of conduct and unique model of inter-governmental interactions might have been for Vietnam, the ‘ASEAN way’ also implies certain risks and goes along with shortcomings and challenges which could inflict on Vietnam’s security and foreign policy interests and strategies in the medium and long term.

## 2.4 Vietnam and the ASEAN way

At the core of the so-called ASEAN Way of diplomacy in Southeast Asia stand six norms: sovereign equality; the non-recourse to use of force and the peaceful settlement of conflict; non-interference and non-intervention; the non-involvement of ASEAN to address unresolved bilateral conflict between members; quiet diplomacy; and mutual respect and tolerance.<sup>35</sup> There is widespread agreement among both politicians and analysts that ASEAN as a regional organisation has been instrumental in keeping relations between its members peaceful and stable thanks to the ASEAN Way of managing conflicts informally and quietly on the basis of a consensus-oriented approach.<sup>36</sup> Ralf Emmers makes an interesting proposition by suggesting that “[w]ith its long tradition of confrontation and intransigent diplomatic demands, many [ASEAN] member states were apprehensive that Vietnam would ignore the ‘ASEAN Way’ and behave as a disruptive actor. These fears have not materialised.”<sup>37</sup> Vietnam has indeed never challenged the ASEAN Way but, quite on the contrary, become one of its strongest supporters. One could even argue that Vietnam’s categorical rejection of any attempts at watering down key norms and principles such as consensus-building and non-interference has significantly contributed to keeping the ASEAN Way alive. Is this a bad thing? In order to determine whether the ASEAN Way will continue to serve Southeast Asian interests (including Vietnam’s) well or ultimately become a burden for the management of regional affairs and the conduct of Vietnamese foreign policy, it is useful to revisit the structural conditions that have shaped ASEAN.

When the Association of Southeast Asian Nations (ASEAN) came into life on 8 August 1967, the actual birth act was a quick affair. After some brief deliberation in the private residence of Thai Foreign Minister Thanat Khoman

<sup>35</sup> Haacke, Jürgen. *ASEAN’s Diplomatic and Security Culture. Origins, development and prospects*, London and New York: RoutledgeCurzon, 2003, p. 1.

<sup>36</sup> For a recent comprehensive analysis see Mely Caballero-Anthony. *Regional Security in Southeast Asia. Beyond the ASEAN Way*. Singapore: ISEAS 2005.

<sup>37</sup> Emmers, Ralf. ‘The Indochinese enlargement of ASEAN’, pp. 76-77.



he and his four counterparts signed the Bangkok Declaration followed by a round of golf. Whether or not Khoman's personal recollection of events, which he shared with me some years ago,<sup>38</sup> is an entirely accurate account of the proceedings is not the issue here. The founding of a regional organization among small and medium states in Asia without the involvement of a hegemonic power was as unprecedented as it was path breaking. If one discounts the earlier ill-fated attempt by the Philippines, Thailand, and the Federation of Malaya to form the Association of Southeast Asia (ASA), it was the first time that any of the newly independent Asian states came together in a joint effort to weather the challenges of the international environment and to create a peaceful and stable regional framework for development. At least during its first thirty years of existence ASEAN stood for the most successful regional cooperation scheme outside Europe, second only to the European Union, and became the model for regionalism in many other parts of the world. ASEAN was the brainchild of a small elite of policy makers who responded to a clear and straightforward international structure. The association came into being as a child of the Cold War, which had just reached a new peak as the result of the Vietnam War. Although never officially stated, ASEAN's founding fathers saw intensified regional cooperation as a means of strengthening Southeast Asia's position in the Asia-Pacific area and thereby reducing the risk of becoming a victim of great power global rivalry. Over the following three decades the association successfully institutionalised a network of regular meetings among the member states that enabled the governments of Southeast Asia to liaise on problems or challenges the region faced. ASEAN gained a reputation for having orchestrated the Paris Peace Agreements of 1991 that ended the Indochina conflict. One of the most remarkable successes of ASEAN has been the ability of its member states to (seemingly) harmonize their foreign policies and often speak with one voice in international affairs. This in turn allowed ASEAN to establish formal relations with the leading regional and global powers such as the United States, the European Union, China and Japan. Most decisively, ASEAN seemed to fit Karl W. Deutsch's model of a pluralistic security community in which the use of military force as a means of problem solving in relations among members has become highly unlikely.<sup>39</sup> ASEAN worked well for many years because of the relatively low

38. During a conversation at his private residence in Bangkok in August 1993.

39. See for example Acharya, Amitav. *Constructing a Security Community in Southeast Asia. ASEAN and the Problem of Regional Order*. London: Routledge, 2001; Dosch, Jörn. 'Die Relevanz des integrationstheoretischen Ansatzes von Karl W. Deutsch für die Assoziation südostasiatischer Nationen (ASEAN)' (The relevance of the integration theory approach by Karl W. Deutsch for the Association of Southeast Asian Nations), *WeltTrends*, No. 7 (1995), pp. 66–85.



complexity involved in the political process. From an analytical point of view the international structure of the Cold War in general and anti-communism in particular were the independent variables, regional cooperation was the dependent one. Intervening variables hardly existed because the political process of managing regional cooperation comprised tiny groups of politicians and government officials who – due the autocratic or at best semi-democratic environment of their respective polities in which they manoeuvred – were able to follow and implement narrowly defined national interests unconstrained and unchallenged by competing political actors, civil society groups or a critical media. Simultaneously, the policy agendas tended to remain constant and were hierarchically structured: Horizontally, foreign policy was separated from domestic politics and, vertically, within the realm of foreign relations, security – understood as hard security or the management of threat to the integrity of the nation – enjoyed highest priority. In the predominantly non-democratic setting of Southeast Asian politics, peace and stability prevailed not despite but because of, first, the relative insulation of policy making and, second, the well-defined international structures, which required little policy adaptation over many years. These were the two pillars of quick and overall effective intra-elite policy coordination and conflict management. During its first three decades ASEAN largely remained a network-facilitating framework for government elites.

Today, consensus-oriented informal policy coordination and conflict management among government elites based on the lowest common denominator do not seem to be sufficient anymore to respond to challenges which are posed by the stretching, deepening and broadening of political processes. Non-governmental actors increasingly put their mark on international relations; friend-foe structures have become indistinct; power relativities are no longer clear-cut; new concepts of security question the century-old notion that military threat poses the main challenge to the integrity of the state; and foreign policy strategies can no longer be drafted behind closed doors shield away from an assertive public and media. In institutional terms ASEAN has not yet succeeded in facing up to the management tasks stemming from the stretching, deepening and broadening of political activity. While ASEAN has never failed to address the most pressing issues in inter-member relations and vis-à-vis the external environment, such as the implications of the Asian Economic crisis, the 'haze', terrorism, maritime security and most recently avian flu, not a single initiative has been fully implemented. Few observers would challenge the view that beyond the political rhetoric and well-sounding declarations and agreements – which all fall in the category of non-binding soft law – ASEAN lacks substance and, more





specifically, both the political will and institutional setting to transform visions into political reality. Don Emmerson asks: “Is ASEAN a security community?” – and responds:

“My answer is a limited and provisional yes: *ASEAN is a thin security community*. The organization does appear to meet Deutsch’s minimal requirement that there be “a real assurance that [members] will not fight each other physically, but will settle their disputes in some other way” (Deutsch et al. 1957: 5). But ASEAN is thin. It is thin in that its member states retain full sovereignty. Their SC [Security Community] is what Deutsch called pluralistic. Jakarta is not Brussels. The supranational or sovereignty-pooling thickness associated with full-blown European regionalism is political science fiction in Southeast Asia”<sup>40</sup>

In the presence of violent conflict in many parts of the world, a ‘thin security community’ is an important achievement. If ASEAN manages to sustain the status quo in the years to come, it would be a major success. Why should the organisation strive for deeper institutionalisation or indeed a *Brussels-ization* of regional co-operation if the diversity of political norms and values, political systems and stages of economic development in Southeast Asia stands in the way of EU-type integration? Settling for the known and preserving the status quo that served Southeast Asia so well for more than three decades is the essence of Vietnam’s approach to regional co-operation. Ten years after the country’s admission to ASEAN, the government prefers an organisation that clings to its traditional principles and strongly objects any initiative, which could be interpreted as moves towards supra-nationality. Hanoi perceives ASEAN as an institutionalised framework for inter-governmental co-operation – not more, not less – suitable to firstly further Hanoi’s overall strategy of diversifying its international relations, secondly bridging the old Cold-War gap between Vietnam and the US, China and Japan, thirdly counter effects of globalisation, and fourthly contributing to the nation’s economic development. Thus, Vietnam has slowed down some integration measures within ASEAN, such as a more comprehensive mandate for the organization to work on regional conflicts, brought to the table by other members of the group. For example, in 1998, when then Thailand’s Foreign Minister Surin Pitsuwan proposed replacing the group’s non-interference policy with ‘flexible engagement’ - drawing on Anwar Ibrahim’s call for a new policy of

40. Emmerson, Donald K. (2005). *Will the Real ASEAN Please Stand Up? Security, Community, and Democracy in Southeast Asia*, Southeast Asia Forum, Stanford University, draft manuscript, [http://iis-db.stanford.edu/evnts/4130/Emmerson\\_04\\_05\\_2005.pdf](http://iis-db.stanford.edu/evnts/4130/Emmerson_04_05_2005.pdf), p. 13-14. He refers to Deutsch, Karl W., et al. 1957. *Political Community and the North Atlantic Area :International Organizations in the Light of Historical Experiences*. Princeton, NJ: Princeton University Press.

“constructive intervention”<sup>41</sup> – Vietnam was among those who opposed the idea. Even when the concept was later renamed “enhanced interaction” and the ASEAN foreign ministers formally approved Thailand’s proposal for an ASEAN Troika<sup>42</sup> in 2000, Vietnam only reluctantly rendered support. When Vietnam joined ASEAN it was especially interested in getting access to the organisation’s effective mechanisms of de-escalating conflicts, knowing at the same time that its regional neighbours would refrain from interfering in Vietnam’s domestic affairs. Consequently, Hanoi was very suspicious about any attempts at rethinking non-interference as a key principle of the ASEAN Way. Hanoi’s strong support of non-interference became apparent, for instance, when the government decided against a participation of Vietnamese personnel in the United Nations Transitional Administration in East Timor (UNTAET), which was established in October 1999. In contrast, Malaysia, the Philippines, Thailand and Singapore contributed to the UN mission. In fact, Vietnam used the opportunity of hosting the 2001 ASEAN meeting series for watering down the initiatives of the previous chair. The Joint Communiqué of the 34<sup>th</sup> ASEAN Ministerial Meeting in Hanoi did not give a single reference to flexible engagement, enhanced interaction or the troika.<sup>43</sup>

At first glance Vietnam’s cautious approach to co-operation within the ASEAN framework reflects political pragmatism and common sense. If any major reform of the ASEAN Way is not feasible and, simultaneously, if the ASEAN Way is clearly in line with Vietnam’s national interest, there is neither motive nor reason for rushing into institutional reforms. At the same time it is difficult to see how ASEAN’s ‘have the cake and eat it too’-approach can continue to work even in the near future. In other words, there is a growing gap between ASEAN’s far-reaching visions for community-building and conflict resolution on the one hand and the political reality which is characterised by the lack of institutional evolution that would ASEAN enable to achieve its visions. ASEAN’s problem is not the absence of a working framework for inter-governmental communication but the organisation’s own claim of being able to effectively and efficiently address regional challenges and to embark on economic and political integration with the given institutional mechanisms. The 2003 Declaration of ASEAN Concord II (Bali Concord II), which is meant to ignite a long-term integrative process with the ultimate aim of creating a Southeast Asian Community, is

41. Anwar Ibrahim 1997. ‘Crisis Prevention’. *Newsweek International*. 21 July, p. 13. Anwar was then Deputy Prime Minister of Malaysia.

42. A mechanism to enable the sitting chair to formally consult with his immediate predecessor and successor to tackle specific problems with regional implications.

43. ASEAN. Joint Communiqué of the 34<sup>th</sup> ASEAN Ministerial Meeting, Hanoi, 23-24 July 2001, <http://www.aseansec.org/3045.htm>



a case in point. The agreement envisions the establishment of an integrated economic, security, and socio-cultural community by the year 2020<sup>44</sup>. As anywhere else in the world visions are an important contribution to the cohesion and prosperity of a region. Europe would never have achieved its current level of economic and political integration without the great visions, which sounded utopian to many in the 1950s or 1960s. At the end of the day, however, any scenario for the future has to pass a reality check. If visions are simply repeated and do not result in any specific steps towards their implementation the whole process and the actors behind it will lose credibility. The Bali Concord II seems to be rather a confirmation of the rule rather than an exception from it. There is a real danger that well-sounding visions have created long-term expectations that the region's governments will find difficult if not impossible to fulfil. Projects of the magnitude of the Southeast Asian Community, the proposed ASEAN-China Free Trade Area, or even the coordinated fight against terrorism and avian flu require some centralised decision-making and will sooner or later inevitably touch the issue of supranationality. The latter is out of the question, though, as national governments are not prepared to surrender even the smallest part of national sovereignty given that independence was received only fairly recently and – particularly in the case of Vietnam – after long periods of war, suffering and sacrifices.

Why has ASEAN barked on so many occasions knowing that it cannot bite? Was it a good strategic move for ASEAN to indicate that the group was about to revise its softly-softly approach towards Myanmar and adopt a tougher stance aimed at committing the junta in Rangoon to serious political change only to abandon this attempt shortly later? Despite mounting international pressure on ASEAN, the summit meeting in Laos in November 2004 ended with a chairman's statement that made no reference to Burma, despite earlier promises that the members would ask the junta "hard questions" about its stalled plans for democratization.<sup>45</sup> The difference between ASEAN of some 20 years ago and its post-Cold War incarnation is that while the former tried to achieve modest goals with a modest set of institutions, the latter pretends being able to realize ambitious aims with basically the same institutional framework. Others, mainly China, have benefited from ASEAN's declining international status and credibility as an organisation. It would of course be too simplistic a view to reduce the so-called rise of China to ASEAN's weaknesses. Most importantly and unrelated to ASEAN's performance,

44. ASEAN. Declaration of ASEAN Concord (Bali Concord II), Jakarta: ASEAN Secretariat, 2003, <http://www.aseansec.org/15159.htm>

45. Chairman's Statement of the 10th ASEAN Summit Vientiane, 29 November 2004, <http://www.aseansec.org/16631.htm>



"China's 'soft power' has risen substantially in Southeast Asia, which in turn has boosted Beijing's clout, influence and standing in ASEAN countries".<sup>46</sup> At the same time ASEAN's struggle to play a prominent international role has both invited and enabled China to take the lead on new diplomatic initiatives, including the forthcoming first East Asian Summit.

Lower-ranking ASEAN diplomats have begun to turn to Chinese colleagues for guidance during international meetings. A senior diplomat commented: "I was struck by how naturally, even at the working level, the other Asians looked to China and how naturally China played that role."<sup>47</sup> Only a short while ago Chinese diplomats were viewed as outsiders by their Southeast Asian counterparts. In even more telling ways, Beijing has prominently put its mark on the preparations of the East Asian summit, which is likely to enhance China's role as first among equals. From a neo-realist perspective it seems that China has already started to act like a traditional big power, tending to its regional interests and pulling smaller neighbours along in its wake. The East Asian Summit, to be held in Kuala Lumpur in December, will be attended by the ten ASEAN members, China, Japan, South Korea, India, New Zealand and Australia. Japan's suggestion that Washington at least be invited as an observer made no headway mainly as the result of Beijing's effort to exclude the U.S. Behind ASEAN's closed doors especially Indonesia and Vietnam have been critical of Washington's exclusion. The Vietnamese government is said to have repeatedly voiced concern in private but is reluctant to publicly challenge Beijing.<sup>48</sup>

Officially the Chinese government has emphasized time and again that it had no intention of challenging the US or Japan's role in the Asia-Pacific. Reality tells a different story though. Not at least as the result of Washington's preoccupation with Iraq and the global war on terror, China has increasingly managed to assert its pre-eminence particularly vis-à-vis Southeast Asia. According to Abdul Razak Baginda of the Malaysian Strategic Research Centre, "there is now this feeling that we have to consult the Chinese. We have to accept some degree of Chinese leadership, particularly in light of the lack of leadership elsewhere."<sup>49</sup>

46. Teo Chu Cheow, Eric. 'ASEAN+3: The Roles of ASEAN and China'. In Saw Swee-Hock et al., eds. *ASEAN-China Relations*. Singapore: ISEAS, 2005, pp. 49-67: 61.

47. Quoted in Cody, Edward. 'China's Quiet Rise Casts Wide Shadow', *Washington Post*, 26 January 2005, p. A01.

48. *Wall Street Journal* (Eastern edition). New York, 4 August 2005, p. A12: 'China's Power Play'

49. Quoted in Cody, Edward. 'China's Quiet Rise Casts Wide Shadow', *Washington Post*, 26 January 2005: A01.



## 2.5 ASEAN, Vietnam and the South China Sea disputes

The critical remarks about ASEAN are not meant to suggest that the organisation's post Cold War attempts at the management of regional order have been a complete failure. Some – modest – achievements, for example towards a peaceful solution of the disputes in the South China Sea, should not be ignored.

The emergence of a broader security culture that increasingly includes non-traditional elements does not imply the disappearance of 'hard' security issues - or what Sheldon Simon calls "classical concerns"<sup>50</sup> – such as the territorial disputes in the South China Sea and particularly over the Spratly islands. In many regards the dispute over the South China Sea is typical of the post-Cold War security situation in the Asia-Pacific in general. As both the US-Soviet and Sino-Soviet competition lost their significance, territorial disputes, which received little attention during the Cold War, began to re-emerge. The Spratlys are a collection of mostly barren coral reefs, atolls, and sand bars - many of which disappear at high tide - which covers an area of some 70,000 square miles. This area is claimed, in whole or in part, by China, Taiwan, Vietnam, Malaysia, Brunei, and the Philippines. The other major area of dispute in the South China Seas concerns the Paracels, which are claimed by China and Vietnam. With the exception of Brunei, all of the disputants maintain a military presence on some of the islands. Since 1978, when the Philippines set out its Exclusive Economic Zone formally including the island Kalayaan claimed by Manila, the parties to the dispute have held generally consistent claims. However, the controversy itself lay relatively dormant until 1988 when China and Vietnam clashed over Fieri Cross Reef. Since then hostilities in the South China Sea have regularly erupted, most prominently between China and the Philippines. The Philippines considers China's occupation of Mischief Reef in 1995 and repeated Chinese incursions into Scarborough Reef since 1997 as direct assaults on Philippine territory.<sup>51</sup> Although a resolution of the disputes is not in sight, a first step towards a peaceful settlement could be the 'ASEAN Declaration on the South China Sea' of 1992, which was also signed by China in 2002. One has to remain sceptical, however, that ASEAN's multilateral approach based on consensus-building and the voluntary, non-binding commitment to the principle of non-use of force will provide a sustained

50. Simon, Sheldon W. 'Introduction'. In Sheldon W. Simon, ed. *The Many Faces of Asian Security*. Lanham et al. Rowman & Littlefield, 2001, pp. 1-14: 3.

51. Odgaard, Liselotte. 'The South China Sea: ASEAN's Security Concerns About China'. *Security Dialogue*, 34: 1 (2003), pp. 11-24: 16.



institutional framework for conflict resolution. While the Declaration and activities based on it might nevertheless be a first step towards the establishment of a code of conduct in the South China Sea, ASEAN has not yet been able to establish sufficient leverage in seeking a wider code of conduct with China.<sup>52</sup> For the time being, bilateral agreements seem to provide a more efficient strategy towards the settlement of territorial and border disputes. Among recent bilateral agreements the Vietnamese-Chinese land border treaty with China of 1999 and the Treaty on the demarcation of the Gulf of Tonkin of 2000, which came into effect in June 2004 after 3.5 years of negotiations on how to implement the agreement, stand out as they have effectively narrowed down the scope of territorial disputes at least between these two countries relating to the Paracel and Spratly archipelagos. Furthermore, in March 2005, three oil companies from China, Vietnam and the Philippines signed a landmark tripartite agreement in Manila to jointly exploit oil and gas resources in the South China Sea.<sup>53</sup> Although not entirely uncontroversial, this agreement can be seen as a contribution to pragmatic solutions in the disputed area, which are compatible with ASEAN's multilateral approach. At the same time the tripartite agreement is yet another example for a new emphasis on bilateral and multilateral diplomacy that takes place outside the ASEAN framework. A growing number of member states perceive ASEAN as a golden cage that – unlike during Cold War days – does not necessarily serve their respective foreign policy and foreign economic policy interests to the fullest possible extent. Singapore, Thailand and to a slightly lesser degree Malaysia and Indonesia do not necessarily feel constraint anymore by ASEAN as far as the conduct of their foreign affairs is concerned and have emancipated their foreign policies: for example Singapore with regards to bilateral trade agreements and Thailand on the issue of relations with Myanmar. Vietnam seems to be following this path. The Hanoi-driven Indochina and CLMV summit meetings show that the political elite gives increasing weight to initiatives that – while being broadly compatible with ASEAN's overall goals and aims – offer the prospect of more immediate diplomatic gains due to the involvement of a smaller number of actors. The most successful example among these mini-lateral issue-driven approaches is the co-operation scheme in the Greater Mekong Subregion (GMS).

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52. Sharpe, Samuel. 'An ASEAN way to security cooperation in Southeast Asia?' *The Pacific Review*, 16: 2 (2003), pp. 231–250.

53. *Xinhua News Agency*, 1 September 2005, 'Vietnamese ambassador plays down South China Sea disputes with China'



### 3. Opportunities and challenges of Vietnam's membership in the Greater Mekong Subregion (GMS)

The GMS stands as a powerful international symbol for co-operation among former Cold War adversaries, particularly with respect to relations between Vietnam and China, and Vietnam and Thailand.<sup>54</sup> It also represents a major pillar of Vietnam's new foreign policy outlook as outlined in the Politburo Resolution No. 13 of May 1988 which was, as mentioned in the introduction, prescribed a policy of diversification and multilateralisation of Vietnam's foreign relations. This new omni-directional foreign policy approach was developed alongside a concept of internationalising the economy. Both approaches have materialized not only in Vietnam's engagement in regional organizations (ASEAN, ARF, APEC), but also in a multitude of sub-regional co-operation schemes in the Mekong Basin – most importantly the GMS and the Mekong River Commission (MRC).

Economic and security spheres increasingly overlap and a clearly defined margin between national and regional domains of governance does no longer exist, a further example of the stretching, deepening and broadening of political activity. The end of the Cold War terminated the existence of international structures, both in terms of power and ideology, which had prevented neighbouring states from engaging in meaningful cross-border cooperation and the joint management of common resources. The Mekong Valley is a case in point. The Mekong River is the world's twelfth largest river and Southeast Asia's largest waterway. It originates in Tibet and flows through the Chinese province of Yunnan before continuing southwards, touching the territories of six countries (China, Burma, Laos, Thailand, Cambodia, and Vietnam) and ending in the South China Sea. The Greater Mekong Subregion (GMS) covers some 2.3 million km<sup>2</sup> and a population of about 245 million. The post-World War II history of co-operation within the Mekong valley dates back to 1957 when the Mekong Committee was established at the initiative of the UN Economic Commission for Asia and the Far East (ECAFE) and four riparian countries of the Lower Mekong Basin (Cambodia, Laos, Thailand and South Vietnam). For more than three decades, however, the implementation of sub-regional integration was halted by the prevalence of Cold War structures, or more accurately hot wars and armed conflict, in the region. The process only gained momentum in 1992 when, with the assistance of the Asian Development Bank (ADB), the six riparian

54. For a more detailed analysis see Dosch, Jörn and Oliver Hensengerth. 'Sub-regional Cooperation in Southeast Asia: The Mekong Basin'. *European Journal of East Asian Studies*, 4:2 (2005), pp. 263-285.



states of the Mekong river entered into a program of formalized sub-regional co-operation.<sup>55</sup> Since then, the ADB has been the “catalysing force”<sup>56</sup> for most co-operative initiatives. The GMS program has been directed to the facilitation of sustainable economic growth and improvement of the standard of living in the Mekong region through factor input specialization and greatly expanded trade and investment. One priority has been co-operation by public and private sectors related to transportation, especially cross-border roads, as well as power generation and distribution. Since 1992, the ADB has loaned US\$ 280 million to the priority projects and disbursed 7.6 million USD for technical assistance to study the suitable programs and projects and encourage project consultation activities. The ADB with its strong backing and funding by Japan is expected to mobilize more than 2 billion USD for GMS assistance. Moreover, other UN organizations, the International Monetary Fund (IMF), World Bank and sponsor countries such as Japan, France, Australia and US also support various initiatives within the broader context of GMS co-operation.<sup>57</sup>

In addition to and in support of GMS projects, the lower Mekong countries, Thailand, Cambodia, Laos and Vietnam, set up the Mekong River Commission (MRC) in 1995 to coordinate development efforts in the region. In 1996, the ASEAN Mekong Basin Development Co-operation (ASEAN-MBDC) was founded to focus on multilateral infrastructure projects and other cross-border activities.

The Mekong might not have fully transformed yet from a “Cold War front line into a flourishing corridor of commerce”<sup>58</sup> but the example certainly shows that the static Cold War-driven approaches to the management of sub-regional order, which had been trapped in the tight corset of narrowly defined national interests and ideology, have given way to more flexible political methods. Furthermore, while economic incentives seem to be the Mekong states’ main motivation to intensify sub-regional co-operation, security has been an equally if not more important dimension. Since the Mekong river does no longer

55. China’s participation was confined to Yunnan province until mid-2005 when Guangxi province official became a GMS participant.

56. Hirsch, Philip ‘Globalisation, Regionalisation and Local Voices: The Asian Development Bank and Rescaled Politics of Environment in the Mekong Region’, *Singapore Journal of Tropical Geography*, 22: 3(2001), p. 237.

57. Le Bo Linh, ‘Sustainable Development and Cooperation in the Greater Mekong Subregion’. In Jörn Dosch, Colin Dörkop and Nguyen Xuan Thang (eds.) *Economic and Non-traditional Security Cooperation in the Greater Mekong Subregion (GMS)*. Singapore: Konrad-Adenauer-Foundation, 2005.

58. Bakker, Karen ‘The politics of hydropower: developing the Mekong’, *Political Geography*, Vol. 18 (1999), pp. 209–10.





functions as a dividing line, a window of opportunity has opened for the riparian states' joint management of the sub-regional security arena that includes issues such as military build-ups, border disputes, migration, environmental degradation and resource management.<sup>59</sup>

While the GMS's main and most visible objective is to jointly develop natural resources and infrastructure, the related security goal is political stabilization through economic co-operation. If security is seen to include the fields of soft or non-traditional security (i.e. the broad area of comprehensive security covering non-military areas such as human security, economic security and environmental security), some recent achievements of Mekong co-operation point towards growing sub-regional stability. within the structures of global international relations.

### 3.1 Environmental security

Among the most pressing non-traditional security issues is environmental management because the sustainable utilization of water and natural resources in the Mekong basin is directly and inevitably linked to human survival in the region. The Mekong river valley is the second richest in biodiversity among the world's river basin areas. 45-50 million people are employed in the agriculture sector. Rice is the most important crop, but fisheries follow rice cultivation almost invariably. The river basin has long experienced flooding, salt-water influx, depletion of forests, deterioration of groundwater, water pollution and other problems.

Various agreements deal with the task of reducing the environmental risks and threats and increasing the degree of environmental security. For example, in November 2001, Cambodia, Laos, Thailand and Vietnam signed an agreement to deal with the annual flood problem in the Mekong area. Under the Flood Management and Mitigation agreement, the four governments will co-ordinate land-use policies, share water-management information and resources and intensify co-operation in cross-border flood-rescue operations. The Chinese government has agreed to provide the downstream countries with the information on river levels during the flood season. The Mekong could become a serious source of tension unless the six states can agree on rules for developing the river. Hence, although it seems to be a marginal concession at first glance, China's promise to send

59. Adam, Erfried. 'Foreword'. In Kao Kim Hourn and Jeffrey A. Kaplan (eds.), *The Greater Mekong Subregion and ASEAN. From Backwaters to Headwaters* (Phnom Penh. Cambodian Institute for Co-operation and Peace, 2000, p.2.



the readings from two monitoring stations on its section of the Mekong, more than 1,000 kilometres upstream from Phnom Penh, has to be considered an important step towards the establishment of a river resource regime. On the basis of the technical co-operation agreement between the Mekong River Commission and China of April 2002 (implemented since 2003), China has been sending 24-hourly water level and 12-hourly rainfall data to the MRC to help forecasting floods. On China's side of the river, a result of the co-operation was the establishment of a Data Center at the Provincial Bureau of Hydrology and Water Resources in Kunming and improvement of the two hydrological stations in Yunnan. In addition, Burma has signalled its willingness to share hydrological data from its own station on the Mekong.<sup>60</sup> The design of an early flood warning strategy (EWS) ranks very high on the agenda of both policy makers and donor organizations. Various initiatives have been taken especially since the 2000 and 2001 Mekong floods on national levels. However, sub-regional initiatives have been less successful so far given both the technical and institutional complexities of a cross-border EWS. There seems to exist little agreement among the riparian states with their different systems of governance as to whether warning systems should fall in the realm of the state or rather involve the active participation of NGOs and local communities. Furthermore, a Mekong-wide EWS can only be efficient if information freely flows across borders and, equally important, warning indicators are standardized and accurately interpreted by the multitude of actors involved in the warning chain<sup>61</sup>.

Despite these and other initiatives, however, most environmental problems continue to occur in the river basin. These include the depletion of natural resources, overpopulation of the cities, resettlement of refugees, and social problems such as the relocation of inhabitants and the securing of their employment accompanying the establishment of infrastructure. The GMS states face the dilemma of having to balance "the need for increased food production and other development needs against the maintenance and management of resources in the Mekong River Basin, where the population is growing rapidly"<sup>62</sup>.

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60. 'Mekong River Commission to increase technical cooperation with China and Myanmar', Press Release Mekong River Commission, No. 14/04, 26 August 2004

61. Affeltranger, Bastien. 'User-based design of socially efficient flood warnings: Concept paper for the Lower Mekong Basin', presented at the Mekong River Commission Meeting on Flood Forecasting and Early Warning Systems, 24 February/1 March 2002.

62. Hori, Hiroshi. *The Mekong. Environment and Development*. Tokyo et al.: United Nations University Press, 2000, p. xx.



### 3.2 Energy security

Compared with rivers of a similar size like the Nile and the Mississippi, the Mekong is still relatively untouched. The first Mekong bridge (linking Thailand and Laos) was only opened in 1994 and the first mainstream dam, the 1,500 Megawatt Manwan, only completed in 1995 in Yunnan, China. Since then hydropower has been one of the main priorities of international river development in general and the GMS project in particular. One GMS infrastructure project, the 210 Megawatt Theun Hinboun Hydropower Project in Laos, was completed in 1998, and various others are under implementation or are being studied. In the case of Vietnam, the country's hydropower generation, already approaches a share of 40 percent of the total national power capacity of 11,400 MW.<sup>63</sup> Since the 1960s a myriad of scientific studies have outlined the economic advantages of dam construction beyond energy production, including the significance for food security. At the same time energy security in particular and economic development in general involving the construction of high dams has become an increasingly contentious area. Yunnan province alone is said to have a potential of producing more than 90,000 MW of electricity. A cascade of dams on the Mekong River, the Lancang Cascade, is directly affecting the parts of the Mekong flowing in the downstream countries. The cascade, when finished, will encompass eight dams, taking advantage of a 700-metre drop in the 750-km stretch along the middle and lower Mekong.<sup>64</sup> The lower part of the Mekong, from the "Golden Triangle" seaward contains a catchment area of 606,000 km<sup>2</sup> or 77 percent of the whole basin area and covers almost the entire territories of Laos and Cambodia, one third of Thailand and one-fifth of Vietnam.<sup>65</sup> Naturally, politicians and senior officials from the lower Mekong states have regularly expressed concerns about China's proposed dam building activities, albeit more indirectly and in private than openly and in official inter-governmental meetings. The Vietnamese government has been the most outspoken. Hanoi generally perceives China's ambitious hydropower plans as a zero-sum game in which China's economic gains would be paid for by the lower Mekong states' environmental costs, mainly falling water levels and its manifold implications such as declining fish stocks and rising salinity levels: China's gain in terms cheaper electric power might directly be the lower Mekong

63. Do Manh Hung, 'Vietnam and the Sustainable Development of the Mekong River Basin', in Jörn Dosch, Colin Dörkop and Nguyen Xuan Thang (eds.), *Economic and Non-traditional Security Cooperation in the Greater Mekong Subregion (GMS)*. Singapore: Konrad-Adenauer-Foundation, 2005.

64. McCormack, Gavan, 'Water Margin: Competing Paradigms in China', in *Critical Asian Studies*, 33:1 (2001), pp. 15-18.

65. Do Manh Hung 2005.



states' loss in terms of decreases in productivity and increase of ecological costs. At the same time however, there does not seem to be a more cost-effective or environmental friendly alternative to hydropower in the case of the riparian states of the Mekong.

#### **4. Opportunities and challenges in Vietnam's relations with extra-regional powers: The United States and the European Union**

No discussion of opportunities of, and threats to, Vietnam's interests and role in the Asia-Pacific would be complete without a brief look at Hanoi's relations with the United States and the European Union, the two most powerful external extra-regional actors in Northeast and Southeast Asia.<sup>66</sup>

##### **4.1 Vietnam-US relations**

"Still sensitive, but moving forward", the title of a recent assessment of US-Vietnamese relations<sup>67</sup>, neatly summarises the state of affairs between Hanoi and Washington. Political and economic ties between the two countries, which were non-existent for some 15 years after 1975, have improved at impressive speed since the early 1990s to the extent that the US is now Vietnam's largest trading partner. At the same time the US Congress "has devoted considerable attention to Vietnam's human rights record"<sup>68</sup> – a major stumbling block in the relationship. Furthermore, in September 2004, the State Department for the first time designated Vietnam as a 'country of particular concern'.<sup>69</sup> While the measure had some impact in political-psychological terms it did not affect de facto relations to a significant degree. Beyond trade and FDI figures Washington's status and role as the pre-eminent power and balancer in the Asia-Pacific is directly tied to Vietnam's national interest. Marvin Ott identifies the Vietnamese national interest as three-fold: (1) economic development that can support improved living standards and military modernisation; (2) good relations with

66. India has emerged as a third one and Russia can be characterised as a dormant Asia-Pacific power that is almost certain to awake from its Sleeping Beauty slumber in the not-too-distant future.

67. Storey, Ian. *Vietnam and the United States 2004–2005: Still Sensitive, But Moving Forward*. Asia-Pacific Center for Security Studies, Special Assessment, February 2005, <http://www.apcss.org/Publications/SAS/APandtheUS/StoreyVietnam3.pdf>

68. Manyin, Mark E. *U.S. Assistance to Vietnam*. CRS Report for Congress, Washington DC: Congressional Research Service, The Library of Congress, Updated February 11, 2005, p. 5.

69. Ibid.



Southeast Asian neighbours that could provide Vietnam with economic partners and diplomatic friends; and (3) a repaired relationship with China buttressed by a great power counterweight to Chinese ambition.<sup>70</sup> It is the third point where the United States enters the scene. From a neo-realist perspective most ASEAN states, including Vietnam, have adopted a policy that employs two general strategies to protect themselves against domination by a strong China: engagement and hedging. "The Hedging includes maintaining a modest level of defence cooperation with the United States, which may be called low-intensity balancing against China. This is most clear in the cases of the Philippines and Singapore, and more subtle in the cases of Vietnam, Malaysia and Indonesia"<sup>71</sup>. According to Denny Roy most Vietnamese political elites are highly suspicious of China intentions and Beijing's assurances that China has become a status quo power that does not aspire to establish regional hegemony. The incident of January 2005 when Chinese border guards opened fire on Vietnamese fishermen who had allegedly strayed into Chinese waters (nine fishermen were killed), fuelled the mistrust. 'Hanoi has therefore made quiet efforts to balance China by welcoming "nascent" security cooperation with the United States.'<sup>72</sup> This is compatible with Washington's strategy of gradually expanding low-profile bilateral military relations with Vietnam. Hanoi signed on to the U.S. International Military Education and Training (IMET) program – in its current stage, however, IMET's sole focus is on English language training for Vietnamese officers. Furthermore, the new arrangement does not lift the U.S. embargo on defence articles and services. Vietnam and the U.S. have also started to exchange defence attaches and recently moved to broader military exchanges and U.S. Navy port calls. Hanoi has also sent observers to the *Cobra Gold* exercise in Thailand.<sup>73</sup> Washington also contributed to the improvement of Vietnam's international status by removing the country from the U.S. watch list of major drug producing and transit countries. As a powerful statement of normalised Vietnamese-American relations Phan Van Khai visited the United States in June 2005 as the first Vietnamese Prime Minister since the end of the war thirty years ago.

70. Ott, Marvin. 'The Future of US-Vietnam Relations'. In *The Future of Relations between Vietnam and the United States*, Conference Report. The Institute for International Relations Vietnam Ministry of Foreign Affairs and The Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University, Washington DC, 2-3 October 2003, pp. 61-64.

71. Roy, Denny. 'Southeast Asia and China: Balancing or Bandwagoning?' *Contemporary Southeast Asia*. 27: 2 (2005), pp. 305-323: 305.

72. Ibid.

73. Simon, Sheldon. 'U.S.-Southeast Asia Relations: Misses and Hits'. *Comparative Connections*, 7:3 (2005), pp. 59-68: 64-65.



## 4.2 Vietnam-EU relations

While the US is now welcomed by most governments in the Asia-Pacific as a counter-balance to China's emerging power, some ten to fifteen years ago these same governments were looking for strategic options to soften American preeminence in the region. The strengthening of Asia-Europe relations proved to be the most promising approach. In 1996 the Asia-Europe Meeting (ASEM) came into existence with the aim of closing or at least narrowing the institutional gap between Europe and Asia by providing the long missing 'third link' of the post-Cold War triangular world order. An early Asian position paper<sup>74</sup>, which was circulated among senior officials in 1995, clearly outlined this rationale for ASEM. "North America is linked to Europe through the rich network of Trans-Atlantic institutions. East and North America are linked by APEC and other Pacific Basin networks. What is palpably absent is a strong high-level Europe-Asia link. This missing link needs to be bridged. Global prosperity is more likely to be assured if the triangular relationship between North America, Europe and East Asia is strong and balanced on all three sides"<sup>75</sup>. Although not explicitly stated, for both European and Asian actors the main motivation for ASEM's formation was a perceived need to balance the pre-eminent if not hegemonial position and role of the United States in the Asia-Pacific region. And related, "ASEM also acts as a corrective against the perceived dominance that 'the West' equals the United States in international relations"<sup>76</sup>. The latter assessment reflects the more pragmatic view. Neither the European Union nor its member states have an immediate hard security or geostrategic interest in the Asia Pacific – with the partial exception of France and the United Kingdom who engage in joint maneuvers with selected armed forces of Asian-Pacific states mainly in an effort to promote weapons sales. The European Union lacks the motive and – even if direct incentives existed – resources for any power projection towards the Asia-Pacific. From a European point of view, Washington's pre-eminence in the Asia-Pacific is widely accepted. Thus, any serious attempt at balancing (understood here in neo-realistic terms) the role of the United States in the region has never been on the agenda of Asian-European institution-building. Despite certain limitations, which cannot be discussed here in detail due to space constraints, ASEM and other inter-regional discussion fora on both the track one (inter-governmental) and track two (transnational) levels have

74. *The Asia-Europe Meeting: An Asian Discussion Paper*

75. Cited in Pareira, Andres. *ASEM (Asia-Europe Meeting). Bestandsaufnahme, Möglichkeiten und Grenzen einer interregionalen Kooperation*, Frankfurt/M: Peter Lang, 2003, p. 7

76. Reiterer, Michael. 'ASEM: Value-Added to International Relations and to the Asia-Europe Relationship'. In Wim Stokhof et al., eds. *The Eurasian Space. Far More Than Two Continents*. Singapore: ISEAS, 2004.



achieved important policy results mainly in the areas of trade and investment relations and on in a broad array of non-traditional issues, ranging from human and civic right to co-ordinates efforts in the fight against terrorism, piracy, drug trafficking, migration etc.<sup>77</sup>

In October 2004 Vietnam hosted the fifth summit of the Asia-Europe Meeting (ASEM). The most important result was the admission of the ten new EU member states as well as Cambodia, Laos and – initially very controversial - Myanmar to the forum, which now comprises 38 European and Asian states and the European Commission (EC). The summit concluded with the signing of the 'Hanoi Declaration on Closer Asia-Europe Partnership', which can be seen as a first step towards the expansion of trade and investment flows between the two regions and potentially the establishment of an inter-regional free trade area. Relations between Vietnam and the EU have rapidly and significantly improved since 2002 when the EC and Vietnam signed a cooperation strategy for the 2002-2006 period with a budget of EUR 162 million. The EU is now Vietnam's second biggest trade partner. Two-way trade value has been increasing by 15-20 percent annually over the past decade and reached US \$7,300 million in 2004. The bilateral trade volume was expected to grow sharply in 2005 with the abolition of the quota on Vietnam's textile and garment exports to the EU.<sup>78</sup> In October 2004 the EU concluded its bilateral negotiations for Vietnam's joining the World Trade Organisation (WTO), and supported Vietnam's bid for non-permanent membership of the UN Security Council for the 2008-2009 term. Strengthened EU-Vietnam ties were underlined in March 2005 when National Assembly Chairman Nguyen Van An visited various European states at the invitation of the European Parliament(EP).

## 5. Conclusion

This paper started with the proposition that the formerly clearly structured friend-foe, amity-enmity and opportunities-threat dichotomies of the Cold War era have become blurred in the early Twenty-first Century as the result of rapidly growing linkages between international, regional and domestic political processes. At the same time traditionally discrete policy areas, for example security and economics increasingly overlap. McGrew has explained this

77. For a more detailed overview see Connors, Michael K., Remy Davison and Jörn Dosch. *The New Global Politics of the Asia-Pacific*. London and New York: Routledge Curzon, chapter 7 (Europe and the Asia-Pacific), pp. 119-139.

78. Eurostat data.



phenomenon with the metaphor of a broadening, deepening and stretching of political processes. As a result of the rapidly changing post Cold War dynamics of international relations, structural opportunities, challenges and indeed threats are no longer clearly distinguishable. The paper tried to make this argument by elaborating on the various opportunities and challenges arising for Vietnam's foreign relations and regional/global role from the country's membership in ASEAN and the Greater Mekong Subregion.

To what extent has Vietnam's ASEAN membership contributed to Vietnam's post-1988 foreign policy goal of diversifying and multilateralising Vietnam's foreign relations as an essential element of the *doi moi* process? There can be little doubt that Vietnam's admission into ASEAN has enhanced its bargaining position with other states, particularly China. As a member of the regional organisation, Vietnam became strategically more important specifically to its former Cold War adversaries China and the US. Although one cannot empirically verify that ASEAN membership was the cause for the rapid improvements in Hanoi's relations with Beijing and Washington (because it is impossible to know what would have happened in a 'no-ASEAN scenario'), a significant impact of the 'ASEAN factor' is nevertheless very likely. In both cases the speed of rapprochement has been impressive. The same is evident in the case of Hanoi's relations with Cambodia, Laos and Thailand. ASEAN membership not only provided Vietnam with the opportunity of regular contacts with the leading global and regional powers but also gave instant access to a wide-range of treaties and organisations, for example the ASEAN-Japan Forum and the EU-ASEAN Cooperation Agreement. In sum, it is safe to conclude that ASEAN membership has positively affected Vietnam's efforts to normalise, diversify and improve its foreign relations, thereby contributing to a more stable and secure regional environment. At the same time ASEAN as an organisation has lost international clout due to the unrealistic expectation of being able to achieve far-reaching visions for regional integration, such as the Southeast Asian Community, with the 'soft institutional setting' prescribed by the 'ASEAN way'. The more individual ASEAN members, including Vietnam, resist institutional evolution the more likely this strategy will ultimately backfire. The constant search for consensus among the ten politically and economically highly diverse members based on the lowest common denominator sets limits to the conduct of national foreign policies, again including Vietnam's. Furthermore, ASEAN's weakness has provided a fertile ground for a more pro-active regional diplomacy on the parts of China and, to a lesser degree, Japan. While this is not necessarily a threatening development but – in more positive light – shows that the strategy of engaging China has worked – ASEAN can no longer claim to be in the driver's seat when it comes to the management of multilateralism in the Asia-





Pacific. As a result of the international downgrading of ASEAN and the increasing difficulties of reaching consensus in intra-regional relations, some members, especially Singapore and Thailand have quietly embarked on the implementation of foreign and foreign economic policy strategies which are not necessarily always in line with the association's official goals and aims, at least as far as political rhetoric is concerned. In contrast, Vietnam has so far avoided any impression of pursuing foreign policy strategies outside the agreed ASEAN framework. At the same time, the government has more and more put political weight behind sub-regional and multilateral initiatives as they seem to offer better opportunities and more immediate diplomatic gains, for example with regards to the management of disputes in the South China Sea and generally Vietnam's relations with China. The most successful example is the GMS.

While the Greater Mekong Subregion is unlikely to play any decisive role in shaping or altering regional *realpolitik* from the realist's point of view, any believer in liberal institutionalism will conclude that the wide range of co-operative efforts as part of GMS and related inter-governmental activities have had an impact on fostering sub-regional peace and stability, particularly in Sino-Vietnamese relations which still shaped by the legacies of history. The GMS example has also shown how governmental strategies and policies change as the result of the international environment's new structural opportunities. Regardless of whether or not GMS cooperation in its current form provides a sustainable basis for efficient joint resource management and ultimately peace and stability in the sub-region, the Mekong case is indicative of a growing convergence between national and international policy agendas in Southeast Asia. Due to enormous infrastructure projects, formally borders between local, national and international spheres have become literally more diffuse.

However, beyond the obvious opportunities and benefits of intensified sub-regional co-operation unresolved disputes among GMS countries remain. Most importantly, the uncoordinated construction of power plants and irrigation systems by the upper Mekong countries, particularly China, which plans to build more than a dozen power plants, poses a serious challenge to intra-regional co-operation since it could result in a potentially explosive competition between the upper and the lower Mekong states like Vietnam for water resources. In a forthcoming PhD thesis<sup>79</sup> on the interplay of Chinese and Vietnamese strategic interests in the GMS, Oliver Hensengerth shows, "the fundamental problem of the GMS is that it is beset by an asymmetric distribution of power in China's favour, resulting in the exclusion of issues

79. To be submitted to the Department of East Asian Studies, University of Leeds, United Kingdom.



that China does not want to negotiate". No other country is perceived in an equally ambivalent way by Vietnam's political elites as China. While in recent years the balance has tilted in favour of the perception of China as an opportunity, the view of China as a threat to Vietnam's national security and interests is still deeply seated in the elite's psyche. This is not at least due to conflicting territorial claims in the South China Sea, which Hanoi views as the most likely traditional security threat.

Relations with all other major powers are mostly trouble-free. In addition to the US and the European Union this is certainly the case with regards to Japan. Since 1992 Japan has been the largest bilateral donor in Vietnam. The country is currently the sixth most important recipient for Japanese ODA in the world.<sup>80</sup> As for attracting Foreign Direct Investment (FDI) and multiplicity of trade relations Vietnam's track record is only second to China in the Asia-Pacific. Vietnam currently attracts about twice and Thailand roughly three times as much FDI as the Philippines. Both the US and the EU claim to be Vietnam's largest trading partner. From a neutral point of view, the US seems to have a slight edge over the EU but Brussels and Washington's trade statistics differ and it is difficult to arrive at an accurate conclusion. More importantly, though, the example demonstrates that the US and the EU have entered into some kind of a competition on who has better relations with Vietnam and better access to the market. Vietnam can only benefit from the fact that two suitors are courting it. The main challenge in Vietnam's foreign economic policy is the achievement of WTO membership. Hanoi's own accession target of 2005 is no longer realistic and even admission in 2006 is not guaranteed. Achieving WTO membership has enjoyed high priority on Vietnam's foreign policy agenda since the country applied to join the organisation in 1995. By mid-2005 Vietnam had conducted bilateral WTO talks with 27 countries and received support from 16 of them. It, however, reached final conclusions with only a third, including the EU, Japan, South Korea and China. Vietnam has held several rounds of bilateral talks on WTO entry with the US but it has not yet concluded the negotiations with the key member of the organisation due to diverging views on trading rights and matters such as banking and telecom sector reform.

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80. <http://www.undp.org.vn/undp/docs/1995/donor/japan/japan.htm>



## PANELLISTS' PERSPECTIVES

**Prof. Nguyen Xuan Thang**

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### 1. Introduction

2005 is a very special year – the first time in the history of the Asia-Pacific region's development, a series of summits have taken place on different scales. In July 2005, the summit of Greater Mekong Sub-region countries (GMS Summit II) was held in Kunming, China. In November 2005, the APEC summit was held in Busan, Republic of Korea. In December 2005, in Malaysia the first East Asia summit will be held, not to mention the ASEAN summit in December and ACMECS summit in November. These events have portrayed the reality that regional economic and political developments have been taking place at great speed, which marks the width and depth of regional integration, reflecting the closely twisted economic, political, security and environment cooperation among countries. More importantly, at this time the integration process under the impact of liberalization and globalization require a renewed cooperational and institutional framework with higher level of cooperative relations, changed roles of groups of countries in the regional political and economic cooperation context. In the context of trade liberalization and the wish to overcome the difficulties and obstacles associated with the Doha round within the WTO, the trend of bilateral and regional Free Trade Agreements(FTAs) seems to have become a feature of the region. There have been calls for an APEC-wide FTA or a dynamic, effective and sustainable Asia-Pacific community. Considerable doubts have also been expressed concerning potential chaos of multi-level FTAs, the possibility of dispersed resources and the risk of deprivation of the principle of open regionalism which has been part of APEC's initiative and identity since its inception. In other words, the future of Asia-Pacific region in the coming years will not undergo the same developments as before. Identifying it and clarifying the strategic adjustments of countries and regional institutions remains a topical and urgent issue to Vietnam so that on this basis we can generate appropriate



policies, making positive and effective contributions to the economic renovation in the second stage.

## **2. Economic and political developments in Asia-Pacific region**

For decades, the Asia-Pacific region has been known as the world's most dynamically developing region, and a major counterbalance to the EU and more importantly, with the presence of the US, China, Russia, Japan, Canada, Australia and ASEAN, the Asia-Pacific region is playing a decisive part in the world's general development trends. However, the region is now witnessing great shifts in economic cooperation among governments. Government policies have shifted from an economic order representing efforts of inter-regional cooperation to promote trade liberalization without discrimination (1980-1990 period) to a new tendency (from 1990 till now) in which the striking feature is the movement to preferential trade cooperation with the new emphasis on financial cooperation and thus, focus has shifted from Pan-Pacific cooperation to intra-East Asia cooperation (Andrew Mac Intyre and Hadi Soesastro, 2003). Starting with a common approach, the regional cooperation will attempt to put pressure on the EU in WTO negotiations; to keep the US more concentrated on East Asia and East Asia integration; to build the integration and mutual confidence among regional Governments; the Asia-Pacific economic cooperation framework is one of regional peace and stability, about creating a conducive environment for open trade and in return, it is hoped that open trade will help the stability and development of the whole region. In other words, the APEC framework is to promote cooperation based on the principle of sharing interests through minimizing the risk of the impact of political and military collapse on the regional trade and financial flows. As well as these policy shifts there is increased cooperation in three other major directions. These are, firstly, intensifying the preferences in regional trade agreements, particularly speeding up the establishment of regional and bilateral FTAs; secondly developing important types of financial cooperation and increasing intra-East Asia cooperation; and thirdly regional Governments are accelerating efforts in anti-terrorism cooperation, removing risks of renewed Cold War conflicts (the nuclear issue in North Korea), cooperation against SARS epidemic and environmental, ecological, social security threats.

As a result, despite achieving initial objectives, these cooperation efforts have brought about surprising changes in the region. East Asia cooperation has been a prominent element and major focus of almost every FTA in the Asia-Pacific region where most countries have concerns. The notion of 'East Asia



community' has intensified with the positive role being played by China. Above all, it seems the course of Asia-Pacific cooperation have become integral to the East Asia cooperation framework and particularly, ASEAN economic community is at the risk of obstruction from the development of 'East Asia community' despite the fact that it began with ASEAN + initiative.

Although the final structure of East Asia Community is characterised by a confusing combination of bilateral and sub-regional agreements rather than a single close agreement with centralized institutions like the EU or NAFTA (Bergsten), it is receives positive response from core Asian countries in APEC through the formation of multi-level FTAs. The problem here is despite the slow advances and obstacles to be overcome, the progress of East Asia Community is likely to draw a deep cut in the middle of the Pacific, possibly resulting in Asia-Pacific disintegration, a profound division between East Asia and the US and the rest of Asia-Pacific region which is non-Asian. Since it has strong influence on political and economic security across Asia-Pacific region, will the US concur with the establishment of the East Asia Community, or because it wants long-term access to promote global liberalization, will the US have to support East Asia integration in order to ensure US fundamental interests in the face of multilateral trade difficulties? Whatever it may be, East Asia cooperation is being intensified and its most substantial influence can be seen in the fact that in Asia-Pacific cooperation initiatives, it is liberalisation of trade and investment rather than restriction that is being discussed. And if an entire East Asia FTA is fostered along with networks of bilateral and regional FTAs between East Asian countries and the rest of Asia-Pacific region, it is likely that the notion of all-Asia-Pacific FTA will come into being as a de facto counterbalance to the idea of an all-America FTA and an expanded EU.

### 3. The new face of East Asia

East Asia is a region of extreme diversity, characterised by differences in economic, political, cultural, and demographic systems as well as in the economic development level in the Asia Pacific. But it has been the world's most dynamically developing region for the past decade<sup>1</sup>. In the aftermath of the 1997 financial and monetary crisis, the impact of globalization and the demand for restructuring the regional economy has pushed East Asian leaders towards focusing efforts on reviving the idea of an East Asia Community with deeper economic integration, closer political unity, more cultural and social

1. For the 1980-2003 period, East Asia GDP growth rate recorded an average of 7% per annum (current USD reference), by far higher than the average 5% growth rate of Asia-Pacific region, thus the proportion in global GDP increased from 14% to 19.7% (Akhtan, 2004).



integration, and greater voice and role in the international community (Do Hoai Nam and Vo Dai Luoc, 2004). This is in fact not a new idea as it was already proposed by Mahathir Mohamad in 1993 along with the initiative of forming the East Asia economic group. During 1990s cooperation initiatives within ASEAN+3 prepared ground for the establishment of cooperation institutions between ASEAN and China, Japan and South Korea. Nevertheless, the possibility of the East Asia Community materializing is taken into account only when regional political and economic conditions are relatively ripe: These conditions can be seen as: firstly that the regional economic growth rate continues to be the world's highest rate and East Asia now accounts for 21.2% of global GDP (2004 statistics); secondly, intra-block trade flows (among East Asian economies) have blossomed in recent years and scored 52.4% in which export accounts for 49.3% of the region's exports and imports account for 54.4% of the region's imports; thirdly, the entire East Asian region is forming a natural economic integration space, which means parts or components of semi-finished and finished products are in region-wide circulation as they are in a single economy. It can be said that through the production network of most manufacturing facilities of multinational corporations in East Asia, this region has attained *de facto* integration. Therefore, *de facto* economic integration generated by the business sector requires integration by legal documents, that is, a *de jure* integration created by the cooperation among Governments (Daisuke Hiratsuha, 2005); fourthly, East Asian countries are quite unanimous in their stronger political will than ever before towards building East Asia into a community of peace, prosperity and progress with the establishment of entire East Asia FTA as the first step. It seems that every country is trying to overcome disagreement in history, politics and non-traditional conflicts to seek a common solution to regional sustainable development; fifthly, ASEAN economic community is a follow-up step after AFTA to promote deeper ASEAN integration, i.e., forming a liberalized regional entity of goods, services, investment, skilled labour and partly capital. This process along with that created by major powers through speeding up FTA arrangements with ASEAN represents two factors directly putting great pressure on ASEAN+3 cooperation framework for new adjustments. Furthermore, bilateral FTAs between ASEAN and China, Japan and South Korea as well as between each ASEAN country individually with them are creating closer and more comprehensive economic partnership for *de facto integration* to promote institutional integration among Governments. In brief, from such economic and political conditions, widespread and full East Asia integration is necessary for Governments to realize in order to join hands in building a united trade area for the whole East Asia. Thus, most views are in consensus that a feasible cooperation framework, an East Asia Community first and foremost must be an entire East Asia Free Trade Area (EAFTA).



However, there is also a view that East Asia is very slow in taking advantage of regionalism (Eng Chuan Ong, 2003) since ASEAN accelerated AFTA after the regional financial and monetary crisis, and East Asia had nothing similar to AFTA. In fact, this is not the situation. This is due to several reasons: firstly, as for the three major East Asian countries, i.e., China, Japan and South Korea only, trade among themselves accounts for merely 25.8% (2003) and most of their trade depends on the outside, thus it is impossible to form a natural economic space; secondly, although China has recorded a spectacular growth rate, before 2002 it was not a full WTO member and had not signed the Framework Agreement on ASEAN-China FTA, thus it has not been willing to support the idea of East Asia community; thirdly, although Japan has close economic relations with ASEAN and China, it has not escaped from a decade of recession (1990s) and it has limited regional political role, thus Japan does not hold a clear view on an East Asia community, particularly since the US response has not been clearly articulated; fourthly, as South Korea has been involved in the unification of North-South Korea and was affected by the regional financial and monetary crisis, its priority is to comprehensively restructure the economy to adapt to the liberalization process rather than focus on building East Asia Community; fifthly, who will be the leader of East Asia when historical conflicts between Japan and China, Japan and South Korea still remain. With a loose political structure, East Asia Community is not practical; sixth, ASEAN joined ASEAN+3 mostly with regard to political commitments, it is not clear whether they were ready for an economic cooperation framework since FTAs between ASEAN and East Asian countries have not been formed. It can be said that only by now East Asia has fulfilled practical conditions for deeper integration – close de jure integration in which national interests of each East Asian country are closely linked to those of the whole region. It is not possible to use FTA as conventional political and diplomatic card as without integration, trade and investment diversions under pressure and calculations by countries outside ASEAN may do harm to most countries in the region.

Recent research has indicated that ASEAN+3 framework is just the basis for an entire East Asia FTA and East Asia Economic Community. Economically, the cooperation framework within ASEAN is AFTA+, which means it has not reached the level of a common market –more specifically it is not ready for a common tariff policy and the policy coordination mechanism in ASEAN is still at a low level. Therefore, logically, based on the integration of bilateral and regional FTAs between ASEAN and East Asian countries, it is very likely that the process of East Asia cooperation will have to begin with the construction of EAFTA. This means that the East Asia community should go from the ASEAN+1 model to ASEAN+3. Obviously, whichever approach is taken,



ASEAN and AFTA are the starting framework for East Asia cooperation. As known by many, although ASEAN cooperation has yielded great achievements, after 10 years, it is a fragmented market with various commitments but low efficiency because it is an entity united in diversity with a tremendous development gap and particularly, Government integration is pushed forward before de facto integration among partner countries is established and in fact, ASEAN does not have a motivating force in development. Nevertheless, most East Asian countries agree that the East Asian Community initiative should begin from ASEAN as a “core coordinating group”, a “main coordinator” of East Asia for several reasons: 1- ASEAN is carrying out a FTA in accordance with the trend of global liberalization accepted by member countries and in reality, it has a positive impact on the development of the whole region and each member countries as well; 2- The US has an “initiative on a dynamic ASEAN” through the establishment of a series of FTAs with some ASEAN-6 members and ASEAN plays a part in ASEM, which will benefit these major partners once the ‘East Asia Community’ is formed and ASEAN is affected to a certain extent by the influence of the US and EU, whether it wants to be or not; 3- Although major powers support and see the interests from East Asia integration, the US-China, Japan-China contradictions make it difficult to recognize the leading role of anyone but ASEAN which they all can rely on; 4- Although ASEAN does not have great potential, their efforts for integration and proposing initiatives have reflected the ripening of East Asia community trend. Hence, ASEAN has an important strategic role in East Asia cooperation. This can be the new standing that ASEAN and its members have assumed under the impact of region-wide political and economic developments.

Another issue relevant to East Asia cooperation is the membership in the coming East Asia summit (December 2005) and naturally in the future East Asia community. It is anticipated that East Asia summit will not only be ASEAN+3 (China, Japan and South Korea) but ASEAN+6 (adding India, Australia and New Zealand) and even the participation of the US and Russia (which will be present at the coming East Asia summit as major dialogue partner). The conditions for being a member are to join the Treaty of Amity and Cooperation with ASEAN; to have close trade and economic relations with ASEAN and to be unanimously supported by ASEAN member countries. In essence, the East Asia summit is an *open summit*. As well as looking towards an open community; the balance of interests between China on one side and the US on the other side gives the openness of this community the strongest support. The more allies of each side participate, the more interests each side has in their cooperation-cum-containment strategy. It seems that the more countries participate, the more favourable is in the organisational success of the East Asia summit. This means the East Asia issue has gone beyond its narrow geographic confines to be





imbued with an identity of a geo-strategic cooperation. In other words, as mentioned above, one focus of the Asia Pacific cooperation is that the negligence of any major power will detract from the regional dynamism, and what is more, their absence will cause concerns over other directions of cooperation in the Asia Pacific region. As for ASEAN only, a cooperation entity among weak partners, the attachment to East Asia (developed countries and major powers) will allow the cooperation mechanism to change to weak-strong partner cooperation, which is the direct condition for ASEAN to grow and promote the course of building an ASEAN community when they are increasingly regarded as a “core group” and a “coordinator” in East Asia cooperation.

#### 4. Prospects for ASEAN

Political and economic developments in Asia Pacific and East Asia have partly influenced current development trends of ASEAN. However, it should be noted that this has been more substantial in the integration process of ASEAN. *First*, the trend towards building the ASEAN community and, first and foremost, economic community of weak partners, though it is a follow-up step of AFTA development and committed roadmaps already implemented, ASEAN is short of de facto link. It has political will but lacks practical conditions for implementation, especially in terms of the level of enterprise integration and the complementarity in the intra-block labour division system, and policy coordination mechanism. *Second*, there exists tremendous development gaps, many differences among member countries and the tendency towards running after strategic calculations and policies of outside countries. *Third*, the cornerstone of key principles is at the risk of being shaken as demand for cooperation requires change and supplementing with new principles such as: the majority principle, the 2+X principle, and in fact, intra-block bilateral cooperation is likely to bring about the centrifugal possibility of member countries before general efforts. *Fourth*, due to limited resources, the participation in various integration roadmaps, including sub-regional cooperation is making many ASEAN members, particularly ASEAN-4 face with difficulties when dealing their domestic problems. Therefore, in order to play the part of “coordinator” in East Asia, ASEAN can not be satisfied with intra-block integration initiatives as at present. From the Vientiane action plan (11-2004), ASEAN is actively accelerating the prompt integration roadmap of 11 preferential areas (bringing down the period of reducing tax rates to 0%, which is 3 years ahead of schedule, i.e., 2007 for ASEAN-6 instead of 2010 and 2012 for ASEAN-4 instead of 2015 as pledged in Bali Concord II. Naturally, accompanied with this process is the initiative for increasing integration in skilled labour, partly capital and creating a more closely linked and legal institution for ASEAN – a more positive image



in the eyes of the international community. Here, another important issue that should be stressed is ASEAN integration process can develop favourably only when ASEAN supports and integrates more deeply in East Asia cooperation process which has become very prominent in Asia Pacific region.

## 5. The role of major powers in the region

The reason why East Asia has become pre-eminent in Asia Pacific region and integration process is interwoven at various levels such as Asia Pacific region, East Asia, ASEAN, GMS..., and even it has caused the feelings of chaos of FTAs and economic community... is that, unlike the previous decade, the emergence of China which is called peaceful development by Chinese people in the early decade of the 21st century has become a global issue. As a great market, the world's workshop and after its admission to the WTO and the signing of Framework Agreement on ASEAN-China FTA, its active initiative proposal on expanded Sub-Mekong regional cooperation, China is acting in the manner of a major power which has great influence on global trends and is beginning to manifest its leading and dominant role in the region. The spectacular growth and development of China is both opportunity and challenge to the world, the region and each country. China's influence is comprehensive, not only economic but political and military as well. This is also the reason why the initiative for East Asia cooperation which has long existed has not been realized, and with the active support of China, this process has been promoted more strongly than ever before.

Along with the new powerful position of China in the international arena, the emergence of India and particularly the increased political influence of Japan as the world's second biggest economic power is making Asia the third power in the global economic order (there has emerged a tripodal position in terms of global strength among North America, EU and Asia). As each power which base on their national interests has different strategic approach, and thus, their relations with the outside world have resulted in choosing different partners and East Asia summit is not ASEAN+3 but ASEAN+6 or even +7, which is dominated by counterbalance of strategic interests. For example, as Japan-US relationship is the core in foreign policy of Japan, Tokyo is certain to support an East Asia community with such US allies as Australia and New Zealand, which may not have the presence of the US. Similarly, China is willing to support the presence of India and Russia.

In a similar vein, the US remains the most important element in the directions and future of global development. In the Asia Pacific region, the US needs and support East Asia cooperation as it is in the interests of US trade and economy.



However, the US also fear a divided Asia Pacific region as the linkage of national and regional interests makes the US worry about the risk of being excluded from the game. Due to its global position and great influence, through its close allies and particularly, to promote cooperation in a way that does not confront with China (attitude expressed on Taiwan issue, nuclear issue in North Korea...), the US is indicating a return on a considerable scale in the directions of East Asia cooperation. *On the one hand*, it keeps APEC objectives in the right track and accelerates trade liberalization process within APEC, and even support the initiative of an APEC FTA. *On the other hand*, through its allies, the US supports East Asia summit, step by step participate in East Asia's affairs on the basis of FTAs which have been or will be promoted with East Asia and ASEAN to play a directly decisive role rather than an influencing element in East Asia cooperation. This means East Asia will be directed towards a community but not at the expense of APEC fundamental cooperation principles, which means there could be no closed East Asia, dividing Asia Pacific region into two parts as anticipated by some people.

Hence, it can be said that in the trend of forming a new international order with one super power and many powers, it is anticipated that a bipolar world order with the US and China as the two leading super powers may emerge. Thus, in the cooperation trend in the Asia Pacific region in general and in East Asia in particular, the US and China have been obviously assuming the major dominating roles. Although the success of East Asia cooperation depends on the list of participants, there is little chance of success without the support and resources contribution by the US and China. In other words, as pointed out above, the political will of Governments will be the determining factor of East Asia process. The will of Governments, first and foremost, that of major powers, will lead to the Governments' integration and once there are both de facto integration and Governments' integration (de facto institutionalization of integration processes), East Asia community and, at first, an EAFTA is likely to become reality.

## 6. Major obstacles to regional integration

However, regional integration processes will meet a lot of obstacles. If these obstacles are insurmountable, there is little chance of success for integration roadmaps.

*First*, regional integration processes are showing slowness, Governments' integration lags behind de facto integration (except for ASEAN), which depends on the viewpoints of senior leadership of each country. Will historical and political disagreements between Japan and China be settled like that between Germany and France in EU integration process? Furthermore, if there



still exists a view in the US that East Asia community is at the risk of undermining APEC fundamental principles, will the US strongly support East Asia community and how will the EAFTA proceed if East Asian countries join an APEC FTA altogether as proposed by the US?

*Second*, who will be the motive force in East Asia cooperation? In the initial period, the rallying and 'coordinating' role of ASEAN is recognized. However, when it comes to the identification of framework, content, mechanism for East Asia cooperation, ASEAN has not got enough power, conditions and influence to make it while in theory the leading role of East Asia will belong to no one else but China and Japan. However, if China-Japan contradictions continue to be unsettled and if East Asia framework up to now is AFTA+1 and AFTA+3 model, the signal for starting a bilateral FTA between Japan and China, or even Japan and South Korea has not appeared and thus, the role of a motive force in East Asia has not been established. Let alone the fact that the axis of liberalization and financial cooperation which is the most important condition for East Asia cooperation continues to meet numerous difficulties. Besides, Japan's political position is still unstable in the hope of becoming a permanent member of the UN Security Council. As for China, although it has recorded spectacular growth rate and established a superior position, it is facing five great challenges which pose threats to China's stability and even prevent further development of China. These are democracy and corruption, the issue of three agricultures and urbanization, issue of income and employment gap, energy and materials, environment and macroeconomics (M. Balock and Peter Nolan, 2004).

*Third*, traditional and non-traditional conflicts in the region continue to increase. Issues related to Taiwan straits and nuclear weapons in North Korea have not been settled; the threats of natural disasters are permanent; ethnic and religious conflicts have not shown signs of diminishing in Southeast Asian countries. More importantly, the revived nationalism is now in bitter conflict with regionalism, thus posing threat to lessening multi-faceted efforts of countries in promoting East Asia integration.

## 7. Policy of Vietnam

(i) To recognize the interweavement of integration roadmaps at various levels, especially the noisy and simultaneous appearance of bilateral FTAs and the integration possibility to form an EAFTA based on ASEAN+ model. In order that Vietnam will not be excluded from this mainstream and will take advantage of FTAs with major powers (while Vietnam has not got a similar FTAs) for the sake of the country's development, we should: 1) actively support and seek channels (particularly as a full member of ASEAN) to join



these FTAs and 2) accelerate admission to the WTO soon (early 2006) to guarantee pre-requisite for promoting and signing bilateral FTAs with developed countries and major powers.

(ii) To actively support and fulfil the pioneering role in execute commitments that have been made as well as new initiatives to promote AEC. Vietnam should participate in AEC as a member of ASEAN-7, the 'core group' in ASEAN, that is, the country has based its development on investment and has better development foundation than ASEAN-4, so that AEC appears and continues to play an important part in East Asia and Asia Pacific integration in a way that ASEAN is the 'main coordinating group' in East Asia cooperation. Naturally, Vietnam's participation in this way is beneficial to the objectives of development and raising the posture of the country.

(iii) The integration process of ASEAN and East Asia is in opposite direction. While ASEAN has strong Governments' integration, increases macro-institutionalization to promote de facto micro-integration of businesses, East Asia has deep de facto integration (establishment of regional production network, the flow of trade and investment is approximately equal to that of EU...) but not the Governments' integration. The complementarity of these two processes benefits each country in the region. Vietnam should take advantage of this great opportunity to participate in regional value chain and global production network to promote de facto integration from inside the country, increasing the capability and efficiency of competition in the region and in the world in such a way of active participation in regional labour division system, non-confrontation and more effective 'coordination' with major powers, developed countries and neighbours as affirmed in the draft resolution of the 10<sup>th</sup> Congress of the Vietnamese Communist Party.

(iv) Under the impact of regional and global economic developments, Vietnam should bring into full play the geo-strategic role to realize the objective of national industrialization and modernization, that is, to develop the role as 'bridge' to promote ASEAN-China FTA, making use of the 'buffer zone' positive effects between two growth poles of China and India as well as between Southeast Asia and Northeast Asia. In this connection, in addition to developing North-South, East-West and South economic corridors under the initiative by ADB, Vietnam should increase Sub-Mekong regional cooperation so that together with China and Thailand, the country plays the most important part in materializing an expanded sub-regional economic zone of trade and investment liberalization, sustainable development and more attraction to major partners outside.

(v) The most decisive issue to the development of Vietnam in the coming years is to have new thinking on development, accurate identification of regional

and international changes, resolute action in accordance with international practice as well as particular features of the country's development; to attach importance to efforts of internal reforms based on the social and economic development strategy that has been formulated; accelerate the early admission to the WTO, to reform comprehensively the legal system, institutions, economic structure and competitiveness, develop the role of a direct subject of businesses, harmonizing economic issues with the settlement of social and environment issues in the direction of realizing goals of sustainable development... In sum, Vietnam should seize every opportunity in the future of regional development and adjust the development strategy as the country has new posture and strength after 20 years of renewal and development.

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## Dr. Jurgen Haacke

Well, thank you very much! First of all I would like formally thank the organiser for bringing me here to participate in one of the panels and for the opportunities to share thoughts with you on what is the most of important topics. Secondly, I would like to thank obviously Dr. Dosch for writing a very substantive and engaging paper on Vietnam's foreign policy and the country's external environment. I'll briefly reply with some of the issues Dr. Dosch raised before I also try to make an attempt to take the discussion within the initial parameters of his paper. Now, my problem obviously is that much of what I may say has already just been covered by Prof. Thang and Dr. Thang, but I nevertheless make an effort to share some other ideas with you, and hopefully it will allow you to see to what extent my outside perspective matches the two eminent previous speakers.

Perhaps the most clear cut, more or less explicit foreign policy recommendation contained in Dr. Dosch's paper concerned the *role of ASEAN in the pursuit of Vietnam's national objectives*. Essentially his argument is that ASEAN may well have helped Vietnam achieve important foreign policy goals in the past, both economic and political, not least respective to China and US. However, he added the contributions of ASEAN can make the attainment of Vietnam policy goals less certain and perhaps even in some doubt. Now the reason for this is fairly clearly spelled out in Dr. Dosch's paper. He argues that ASEAN is an organization in decline, an organization that has not really been



able to deal effectively with contemporary political security and economic challenges. In part Dr. Dosch attributed this to the low level of institutionalization of ASEAN and related processes of informal and consensual policy coordination, which is of course linked to principles of sovereignty. But he considers that in a way *it is inadequate to meet the complexity of today's world and today's transnational challenges*. Significantly Dr. Dosch is suggesting that despite indirect contributions to regional stability, ASEAN limitations are such that a country like Vietnam should not attempt to defend traditional modes of thinking on ASEAN and the so-called ASEAN Way, but participate in fostering norms, development and institutional overhaul, not only preventing major powers like China from pursuing the longer run even larger role in South East Asia that it has today. Interestingly, Dr. Dosch also noted that perhaps ambivalently but on balance, nevertheless, there are effects stemming from bilateral and subregional confidence building measures between Vietnam and every state such as the example was given of the relation with the GMS. Now, ASEAN and contemporary challenges pushed by what he called stretching, deepening, broadening of political processes as well as the importance of GMS as a pillar of Vietnam's foreign policy obviously not only highlighted in Dr. Dosch's excellent paper, but they provide me with my starting point to offer some additional thoughts on Vietnam's relationship with ASEAN and the external environment in which decision makers in Hanoi maybe operating. The purpose obviously is to add a further layer of complexity to the account that he provided.

I want to have a look again at Vietnam's most basic foreign policy goals as I see them because it prepares for the platform on which I operate. In official statements and many writings I've seen, the foreign policy goals have effectively often captured economic renewal, economic security, national construction and defence. And I think economic renewal obviously takes place at home, that comes from the demand for increased access to a diverse range of external markets as well as foreign capital and technology, and a majority of know-how and expertise. It's absolutely necessary to allow Vietnam to meet others and new foreign policy objectives in the international arena. For now, this is, however, about catching up with other regional economies as fast as possible and keeping up the competition to ensure economic security and stability. The defence of Vietnam is as much about protecting against military threats and safeguarding territorial integrity and political independence as it is about safeguarding the existing political system and the relevance of the prevailing legitimized ideology against external and internal political ideological challenges. Vietnam has much to defend against both neighbours and major powers in other fields. On the immediate foreign policy goals, it seems to me there are also other non-material objectives, and with most states





these are not necessarily as clearly articulated, but in the case of Vietnam it seems to me they are related to the *external recognition* of the Socialist Republic of Vietnam as the country is engaging in successful economic reforms, and the country's acceptance as a reliable partner, but also find the expression for instance to the desire to achieve meaningful and positive outcomes of multilateral summit meetings with regard to ASEAN, ASEM and so on. The global recognition that Vietnam's foreign policy is something important that can't be thought apart from Vietnam's history of external relations.

From the perspective of a scholar and a politician, any assessment of challenges and opportunities in the Asia Pacific environment at some point probably has to refer back to these very basic foreign policy objectives. Any assessment of effectiveness on the part of Vietnamese foreign policy is equally likely to build on criteria reflected in these basic goals. The available instruments of foreign policy and the context in which they are applied would also enter the equation. So far since the beginning of *doi moi*, Vietnam has found itself focused on diplomacy as the most important foreign policy instrument exemplified arguably in the attempt of diversifying and multilateralizing foreign relations. Let's revisit Dr. Dosch's point about Vietnam - ASEAN, of course Vietnam has benefited in all sorts of ways from ASEAN membership. I am less convinced however that as Dr. Dosch suggests decision makers should not only re-evaluate but also rethink their ASEAN policy. Why do I say that? Because broadly speaking Vietnam's membership symbolizes the final act of reconciliation in Southeast Asia, that for 2 decades before was truly illusive. It is important to the international politics of the region, as the original decision was to create ASEAN to allow for reconciliation with Malaysia and Singapore. In this respect ASEAN's normal framework, perhaps less than perfect an institutional mechanism, it seems to me necessary features of the regional order that Hanoi has an interest in maintaining. Indeed, Vietnam seeks to provide reassurance to the smaller neighbours and to demonstrate reliability as a partner, expressing an interest in going beyond the traditional structure of the ASEAN Way, particularly as far as an institutional mechanism, to collectively prevent, manage, or resolve security as a concern seems to me to be counter-productive. The very normal institution of ASEAN means any case still serve Vietnam only rather well, but this is not the key point, rather to consider that no political capital or very little political capital could be gained were Vietnam to advocate itself new measures or norms, even the original ASEAN member states are divided into many issues to do with ASEAN, being or becoming a collective, issues of regional security. Taken all together, my argument is that Vietnam has more to lose by supporting the ASEAN fashion clambering for big norms to change than by playing it more conservatively. Even if Vietnam wants to change the reality of South East Asian international politics, it would probably not succeed. That said I think ASEAN



itself is changing albeit very slowly and the Bali Concord II and the soon to be had ASEAN Charter mentioned several times exemplify this. Still there's also some momentum to develop the 3 pillars of the ASEAN Community relative to political and economic and social cultural cooperation.

Although it is important to ask what ASEAN can do to deal with problems to facing South East Asia as a whole, it also makes sense to again look at Dr. Dosch's additional question *whether Vietnam should work outside the general frame provided by ASEAN*. I propose that this is already being done, Vietnam has worked continuously to develop outside the context of ASEAN, particularly promising bilateral economic cooperation and security defence cooperation in line with basic interests. Vietnam for instance nurtures a relationship with Singapore, the top investor in Vietnam for the period from 1988 to 2004, and this relation with Singapore also includes the defence dimension with military to military exchange. Note also that Vietnam has emphasised another set of bilateral relations by negotiating framework agreements on comprehensive cooperation with the Philippines and Indonesia. Given Vietnam's foreign policy objectives *ASEAN can be only one pillar of Vietnamese foreign policy, but not the most important one*. This actually has been true for most ASEAN countries, Vietnam is only replicating a common Southeast Asia experience at no substantive foreign policy cost. Focusing outside South East Asia, it seems to me, is necessary. I'm looking beyond the advantage of AFTA. Take the trade initiatives for ASEAN integration to make this point. The initiative has viewed what at the end of the day are very minor sums above all for the development of trading relations to the CLMV countries, altogether. The need for external linkages and diversification of Vietnamese foreign policy will be understood by Dr. Dosch. What perhaps he does not do in much detail in this paper is to explore the *wider foreign policy setting*, the international politics of the Asia Pacific, we need to examine this setting, I think, to assess what is the foreign policy pursued rather successfully over the years, can it be maintained the way it has been, again bearing in mind Vietnamese Cold War foreign policy subjects. There are at least 3 notable trends in Vietnam's immediate external environment.

Trend number one is what you are familiar with, what I might be able to call China's impediment vis-a-vis Southeast Asia. This started in the 1980s but picked up considerably at the time of the Asian financial crises. Trend number 2, the development of East Asian regional cooperation, obviously began a long time ago, re-enforced in 1997 and this has seen the rise of ASEAN + 3, mostly recently in the East Asia Summit. Trend number 3, is the increasing great power competition in South East Asia. This involved China and Japan against the background of very cool bilateral relations since 2001, punched by intermittent crises over the territory with Taiwan. Secondly, it also involved China and US, this competition drifted for sometime, but it picked up again



in the last couple of years, failing in initial responses to the problem against the global terrorism. In this issue, as China's rising economic and political influence, US domination of sea lane and communication and of course a question of the future of the order in East Asia Pacific region.

Vietnam has so far effectively good relations with all of the major powers. It has obtained their ODA, has expanded trade, got that FDI enhances strategic balancing, and has ensured also contribution to peace in the community. From Vietnam's perspective, I think the relations, good relations with major powers should just continue. The basic trend in regional affairs actually raises the question of whether or not they are just challenges, or whether they will be also opportunities. The challenge comes first, China's influence in South East Asia, has entailed the competition of sources of influence in Indochina. This is going to continue. The challenge for Vietnam is to maintain strengths of both political and economic relations with the other Indochina states, bilaterally and multilaterally so that any influence is de facto then shared. That the China's foreign policy towards continental South East Asia is long-term. And in the long-term, they may draw the continental South East Asia states, ever closer to China. This actually also applies to the entire region of South East Asia, meaning *that Vietnam cannot rely on ASEAN to settle its issue with Beijing*.

The second challenge concerns the poor stage of relation between China and Japan. Like others, Vietnam must be interested and contribute to multilateral efforts to have addressed or neutralized these bilateral difficulties and to focus Japan's and China's energy on worthwhile common regional relations. This is an extremely difficult task, notably the Plus 3 meeting between Japan , China and Korea was cancelled this year because the Kuzumi's visit to the Yasukumi Shire. Vietnam should probably think about assisting ASEAN in helping East Asian giants get their relationship on track for the benefits of the region as a whole , but it is not going to be easy.

There are opportunities, notably China's concerns with itself winning recognition as responsible major power and a good neighbour. This has some extend offered Vietnam an opportunity to enhance the working relationship with Beijing. Secondly, the greater focus on regional cooperation has offered Vietnam a new opportunity to be part of larger cooperation structure beyond South East Asia. This connects Vietnam to China, obviously the largest trading partner, to Japan, a principle provider of ODA, as well as Australia, New Zealand, and India. And these structures will allow for the further intensification of the multilateral relations, bilateral relations then under the cover of multilateral globe constructed. Notably because ASEAN sanction to be in the driver seat of regionalism, structure to cooperate affecting Vietnam made to some extent also than being influenced by South East Asia states, meaning and including with Vietnam. The competition for influence among



the major powers has also seen in smaller regional countries being caught in various ways. This offers more chances for deepening foreign economic cooperation and security links. In principle part, it seems the development in Asia Pacific actually both rather well for Vietnam foreign policy objectives and economic renew through region integration. At least in the short and medium terms, there are no clear threats on the horizon impacted on Vietnam defence, at least not beyond those already identified for many years. That is a long term, the major foreign policy challenge that may yet rise from taking advantage of the present and forthcoming foreign policy opportunity. This is related to the question of whether Vietnam is able to maintain its evenly balanced position between the major powers. There must be a psychological temptation for Vietnam to allow for some imbalance, given the complicated history and issues with China. If China will continue to play an important part, an important role for Vietnam in the economic dimension, enhancing defence through the possible vehicle of strategic partnership with US might be useful, but also potentially counter-productive. Chinese decision makers are likely to be uncomfortable if not hostile to any things they perceive as the countervailing rather than associated balance of power on their Southern borders. Further development in the US, China, Vietnam triangle does have the potential to damage what has already been achieved or cause discomforts in the pursuit of the objectives of the economic renewal and in relations between Vietnam and other neighbours. Presuming that US interest in democracy promotion continues raises another point. China may have given Vietnam a raw deal historically to be a chief competitor but at least China doesn't question certain basic primacy of Vietnam's political identity. The US might not devote much time now to Vietnam, given a strategic interest in the country, but the political demands on Hanoi may be growing in time. And we know already that more US business comes at a high price. Accordingly it's safe to say that Vietnam can not escape dealing with the major powers, what it can escape is some kind of variant or rerun of trouble with Beijing as it has so successfully demonstrated since the early 1990s, and particularly in the last couple of years. In this sense, I think Dr. Dosch will agree with me on this point, *both challenges and opportunity of Vietnamese foreign policy are more ultimately tied up with Vietnam's management of its bilateral relations with the major powers than with their respective multilateral engagement through regional institutions.*

Thank you.



## PANEL 2: GENDER AND DEVELOPMENT

Keynote Presenter: Prof. Stephanie Seguino, University of Vermont

Panellists: Prof. John Sender, School of Oriental and African Studies, University of London

Ms Le Thi Quy, Center for Gender and Development Studies, Hanoi University of Social Sciences and Humanities

### **THE MACROECONOMIC ROLE OF HIERARCHY IN MARKET ECONOMIES: THE CASE OF ASIA**

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Prof. Stephanie Seguino

#### **Abstract**

Emphasis on market-friendly macroeconomic and development strategies in recent years has resulted in deleterious effects on growth and well-being, and has done little to promote greater gender equality. This paper argues that the East Asia states, which recognized their position as “late industrialisers,” relied on a managed-market approach, with the state employing a wide variety of policy instruments to promote industrialization. Nevertheless, while Asian growth was rapid, it was not enough to produce greater gender equality. Women’s concentration in mobile export industries that face severe competition from other low-wage countries reduces their bargaining power and inhibits closure of gender wage gaps. Gender-equitable macroeconomic and development policies are thus required, including financial market regulation; regulation of trade and investment flows; and gender-sensitive public sector spending.

JEL Codes: L5, 01, F4, E24, F16, J16, I31

Keywords: gender, inequality, industrial policy, firm mobility, trade



## **1. The macroeconomic role of hierarchy in market economies: the case of Asia**

In the last two decades, macroeconomic policies and development strategies have increasingly exhibited adherence to the goals of liberalization and global economic integration, deeply impacting the lives of women and men across the globe. In most countries, policies reflect a commitment to “market fundamentalism,” whereby social policy is sublimated to and determined by market outcomes.

The evidence suggests that this approach has contributed to a slowdown in economic growth rates, accompanied by an exacerbation of financial and economic volatility (Eatwell 1996; Singh 2002; Prasad, Rogoff, Wei, and Kose 2003). Liberalization policies, more generally, seem unable to generate social development in terms of steady increases in GDP or in terms of improved standards of health, education, and human security (Weisbrot, Baker, Kraev, and Chen 2001; Çağatay 2003; Wade 2004). Feminist scholars have highlighted the gendered impacts of these policies, many of which increase women’s job vulnerability and unpaid work burden, while reducing state-level resources that might be used to provide a social safety net (Elson 2002; Çağatay and Erturk 2004).

What then of those countries that have adopted an interventionist or managed market approach? Has this approach led to better macroeconomic performance? And if so, has gender equity improved as a result? This paper seeks to answer these questions.

## **2. Managed market approaches to development and growth in Asia**

One of the significant economic events of the twentieth century was the rapid growth and structural transformation of several Asian economies. The experiences of these countries, to varying degrees, exemplify the managed market or heterodox approach to growth and development. Table 1 gives average annual per capita GDP growth rates from 1965 to 2002 for selected countries in the region. (see Appendix for all tables and figures).

Three observations can be made about these data. First, the earlier industrializers (South Korea, Singapore, Hong Kong, and Taiwan) have grown faster than the remaining Asian economies under consideration—with the exception of China. Second, all countries in the region except the Philippines have grown faster than the world average. Third, though most of these



countries continue to grow at a more rapid rate than the world average, they have experienced a growth slowdown since the 1990s, coinciding with the shift to the adoption of more market oriented macroeconomic policies.

Of particular interest are the sources of success of the most rapidly growing amongst these economies. Focusing on South Korea and Taiwan, the core development problem these countries faced was that of being “late industrialisers,” whose goal was to catch up technologically to the West and Japan.<sup>1</sup>

The necessity of catching up resulted from two interrelated macroeconomic constraints: their low relative productivity; and their reliance on the West and Japan for technology, resulting in a balance-of-payments constraint on growth. That is, they lacked the foreign exchange to import state-of-the-art technology that would allow them to “catch up.” South Korea and Taiwan would of necessity have to export to advanced economies in order to generate the foreign exchange to import intermediate and capital goods, and technology in the form of licensing.

Both countries successfully engaged in trade with the developed economies, specializing in labor-intensive manufactured goods. But they recognized that long-term reliance on exports of low cost manufactures and primary commodities would not on its own lead to higher incomes or move their economies up the industrial ladder to the production of more skill-intensive goods that could ratify higher wages. South Korea and Taiwan therefore proceeded to create *dynamic comparative advantage* in more technologically sophisticated industries.

To attain these development goals, these East Asian states mediated market transactions to nurture and develop domestic capabilities. Their goal was to help domestic firms acquire and utilize new technologies from abroad, thereby raising their productivity and allowing them to compete internationally in the production of high tech goods. Some economists decry state intervention in markets, pointing to the experience of economies that have remained stagnant or backward as a result. In South Korea and Taiwan, however, the state’s policies did not block but rather promoted structural changes.

In both cases, the state targeted investment to strategic industries—industries that would produce spillover effects to other sectors by raising productivity as well as

1. For detailed discussions of South Korea’s and Taiwan’s development strategies as late industrializers, see Amsden (1989, 2001), Wade (1990), Nelson and Pack (1998), and Akyüz, Chang, and Kozul-Wright (1998).



industries that would reduce reliance on imported capital goods. The state offered private firms the “carrot” of subsidized interest rates. Firms also benefited from import restrictions on consumer and luxury goods to give infant industries the breathing room to learn by doing, contributing to productivity growth but also protecting and indeed enhancing firm profits. A critical factor in the success of this approach is that the state demanded a *quid pro quo* for its subsidies to business (Seguino 1999-2000). Firms had to meet export and investment targets in order to qualify for the largesse the government handed out.

Another tool in the “managed market” toolbox was restrictions on foreign direct investment (FDI). Taiwan and especially South Korea selectively curtailed and regulated FDI. The FDI that was permitted was restricted to joint ventures and only for a limited time in sectors in which the state wanted to develop technical capacity. In fact, most foreign capital was in the form of loans, channelled through the government (Amsden 1989, 2001). The limited presence of foreign capital thus strengthened the hand of government in managing the economy. Unlike countries such as Singapore where foreign firms dominate the domestic economy and can threaten to relocate in order to gain concessions from the local government, in South Korea and Taiwan, domestic firms whose access to capital was limited, were effectively disciplined by the state.

In sum, these countries engaged in *strategic economic openness*, a flexible policy approach tailored to achieving the domestic goals of promoting industrialization and stable economic growth, while pursuing the means to acquire advanced technologies (Singh 1997). As a result, Taiwan and Korea have been able to avoid the negative effects of increased competition amongst low-wage export producers for a limited market share—a competition that holds down wage growth and can lead to employment insecurity. South Korea’s macroeconomic record is noteworthy: average annual GDP growth from 1970-95 of 7%, and unemployment at about 2%. Taiwan’s growth performance was similarly positive. We can pin this success on their willingness to avail themselves of broader set of policy tools to promote growth, smooth economic fluctuations, and gain competitiveness.

Other Asian economies have shown a similar if less vigorous tendency to manage macroeconomic outcomes.<sup>2</sup> Interventionist policies adopted vary by country. Even Singapore, often noted as having a more free market orientation than other Asian economies, regulated saving and housing, leading to low interest rates and stable housing costs, which reduced wage pressures.

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2. The exception is the Philippines, which has exhibited a much stronger adherence to neoclassical macroeconomic policies—limited government intervention in markets, including in credit allocation, trade, and foreign direct investment.





China and Vietnam are two special cases that have moved from state-regulated to managed market approaches with an export orientation over the last two decades. The introduction of managed market reforms and economic opening to global markets has coincided with rapid growth rates as evidenced by the data in Table 1. Their approach bears a strong similarity to that adopted by Taiwan and South Korea—that is, their approach is a mixture of market signals and state intervention—with success significantly reliant on the strong human capabilities foundation upon which this growth strategy was adopted.

Like Taiwan and South Korea (but not Vietnam), the Chinese state has shown a willingness to manage FDI strategically, directing flows to sectors where technological capacity is needed (Braunstein and Epstein 2002). Financial capital flows have been managed to alleviate the tendency toward macroeconomic volatility that unregulated flows produce. Vietnam, for its part, had implemented a broad set of social protection measures that help to alleviate the tensions that integration into global markets present (Packard 2004), although these have been circumscribed under *Nội Môi* (Werner 2002). Vietnam has done less to regulate foreign direct investment, however, and its efforts to join the WTO are likely to constrain the policy space for conducting industrial policy such as adopted by Taiwan and South Korea that were essential in moving those countries up the skill ladder and raising income.

### **3. Gender and Asian growth: the feminization of foreign exchange earnings**

In addition to state intervention in markets, Asian growth experiences have in common the fulcrum of labour-intensive exports to generate the foreign exchange needed to import technology-intensive intermediate goods. The primary source of labour in those industries has been women who have been segregated into labour-intensive export industries such as wearing apparel, electronics, footwear, plastics, and rubber (Seguino 1997; Cheng and Hsiung 1998).

The wages women earn in female-dominated export industries are significantly lower than wages in male-dominated manufacturing industries (which produce primarily non-tradables). There is nevertheless a large degree of variation in gender wage inequality in Asia. As the data in Table 2 show, some of this variation can be explained by differences in educational attainment, itself a reflection of gender inequality.<sup>3</sup> But even after correcting

3. Numerous studies show that some portion of the gender wage gap is due to skill differentials, but in many cases, the portion of the gap explained by this factor is roughly one third. For a detailed discussion, see Seguino (1997, 2000a).



for productivity-related differentials, the gender wage gap remains. A large and in some cases widening gender wage gap may seem anomalous in a region in which export growth is rapid, producing a strong relative demand for female labour. However, institutional structures, coupled with patriarchal gender norms and stereotypes, limit women's bargaining power, holding down their wage gains relative to men's. For example, the process of "crowding" women into labour-intensive industry limits women's job options. Further, jobs in female-dominated export industries are dead end; that is, the job or skill ladder in such jobs is limited, providing little opportunity for advancement and higher wages.

Country-specific analyses delineate the state's role in perpetuating gender norms and stereotypes that disadvantage women. For example, Ping-Chun Hsiung (1996) documents the role of the Taiwanese state in promoting homework by married women through its "Living Rooms as Factories" program which ensured the availability of a cheap labour force for export goods production. This program was coupled with "Mother's Workshops" designed to reinforce traditional values in the community. The goal was to encourage women to continue to provide unpaid labor to the family and larger community, simultaneous with their pursuit of factory work. The result is that women had little bargaining power in the workplace, and even less at home since their outside options (paid work) were tenuous, short-lived and ill-paid.

By contrast, in South Korea, the state reinforced gender norms by condoning "the marriage ban"—the widespread employer practice of requiring women to quit work upon marriage (Seguino 1997). This practice has had a dual effect: by limiting women's job tenure it constrained their ability to organize and achieve wage gains commensurate with productivity growth. It also ensured that unpaid female labour was available to the patriarchally-structured household when women married, avoiding male resistance to the state's development strategy. Employers are less likely to invest in training for women workers under these circumstances, owing to the perception that women's employment is only temporary. Women thus serve as a flexible labor force. Their subservient role in the gender hierarchy contributes to their lower wages.

In Singapore, the intersection of gender and ethnicity has been prominent in that country's growth strategy. The state regulated the supply of low-paid female Malaysian immigrant workers who filled slots in export manufacturing firms. In contrast to upper-class, educated Chinese women who are citizens, the female Malays, as guest workers, could be expelled during economic downturns and for acts that might jeopardize their ability to work (e.g., pregnancy) or lead to permanent residence in Singapore (such as marriage with a Singapore national).



In this way, the state maintained an elastic labour supply, relying on ethnicity to justify its avoidance of the responsibility to providing a social safety net for these workers (Fong and Lim 1982; Pyle 1994).<sup>4</sup>

Many authors have pointed out that women's cheap labour has helped to make Asian economies successful by lowering unit labour costs of export goods (Cheng and Hsiung 1998; Seguino 1997). That is, women's artificially low wages helped to keep the cost of exports low, and thus were a primary factor in generating foreign exchange necessary to acquire technology. Further, low wages for women substituted for currency devaluation, thus shielding male wages, and preserving a patriarchal hierarchy in both labour markets and households. This has led to the observation that there has been a feminization of foreign exchange earnings in the Asia region. Women's disadvantaged social and economic status, it would appear, has helped to relax the balance-of-payments constraint on growth. Figure 1 provides a schematic that describes this dynamic.

The empirical evidence also indicates that gender wage inequality had a positive effect on Asian rates of economic growth (Seguino 2000a). This is shown in Figure 2 where rates of GDP growth for 1975-95 are plotted against the gender wage gap (measured as the natural logarithmic difference between male and female wages). The upward-sloping trend line reveals that economic growth rates are positively correlated with gender wage gaps.<sup>5</sup>

Gender wage inequality thus appears to be a stimulus to growth in semi-industrialized countries that rely on labour-intensive exports for foreign exchange. At first glance, this result contradicts the findings that show that gender educational inequality *harms* growth (Hill and King 1995; Knowles, Lorgelly, and Owen 2002). These studies emphasize the long run positive effects of educational equality on growth, which enhances women's ability to limit fertility and to improve children's well-being, thereby improving the quality of the future labour supply. There may also be short run benefits, insofar as investments in women's education raises their productivity, lowering the cost of production and stimulating output.

The relationship between gender equality in education and growth depends critically, however, on who appropriates the benefits of women's higher productivity. In the absence of discrimination and women's relative weak

4. That practice is less pronounced in recent years as Singapore's manufacturing sector has shrunk and the growth impetus comes from the financial sector.

5. This is a partial equilibrium relationship, to use economic jargon. This means that the graph shows the relationship between growth and gender wage gaps, holding constant other factors that influence economic growth, such as investment in human and physical capital.

bargaining power in the jobs they hold, they would be able to appropriate the benefits of increased education in the form of higher wages. But their weak bargaining power represses their wages. As a result, the benefits of increased education accrue to employers—private firms and state-owned firms—in the form of lower unit labour costs, and thus higher profits. An increase in profits, the *raison d'être* of capitalism, is a stimulus to firm investment and growth. Further, productivity growth may also result in lower product prices, stimulating export demand in an export-oriented open economy. Thus the combination of narrowed gender *educational* gaps but wide gender *wage* gaps can be a stimulus to investment, exports, and growth in the short run.

In sum, the gender hierarchy in Asian countries that limits women's bargaining power in employment, in the family, and in the broader social system has served as a stimulus to profits, exports (and foreign exchange), and thus growth. State-level policies that guided investment and provided domestic firms the environment required to raise productivity in skill-intensive industries were supported by female low-wage labour that helped to generate the foreign exchange needed to purchase technology imports. The 1990s saw a shift in state's role in managing the development process in this region, a topic that I discuss in the next section.

#### 4. Policy and structural changes in the 1990s

A variety of pressures resulted in movement towards more market driven policies in the 1990s, even in East Asia. This was due in part to the extension of rules favouring transnational corporations, especially via the WTO, which reduced the ability of the state to control capital and trade flows in their efforts to implement industrial policies and to raise productivity. The Asian crisis also made it possible for IMF to impose neoliberal policies on South Korea, which prior to that time, had not needed to resort to IMF lending. With the opening of the crisis and the subsequent IMF "bail-out," South Korea was pushed to adopt the model of an independent central bank. The developmental role of the Central Bank and banking system more generally was circumscribed, and instead, monetary authorities shifted to a focus on inflation rather than growth and employment. The crisis itself, in which thousands of firms faced bankruptcy, created an opening for expansion of foreign ownership in South Korea, increasing the share of FDI in investment and thus firm mobility.

These policy shifts were accompanied by structural changes. Increased competition from lower-wage producers led to outward FDI, especially of labour-intensive firms from Taiwan to Southeast Asia and China. Given



women's concentration in labour-intensive industries, the loss of female bargaining power and decline in female employment put downward pressure on female wages relative to men's, with the result of a widening gender wage gap in manufacturing (Seguino 2000b).<sup>6</sup>

An additional cause of downward pressure on women's wages subsequent to the Asian financial crisis is the shift to more informal work arrangements. Numerous formal sector jobs have been converted to informal employment arrangements, structured as subcontracting or home-working arrangements. This has occurred primarily in female-dominated labour-intensive industries. Women's sequestration in such jobs provides even less bargaining power and we know from research on home workers that the wages women earn in such jobs is little more than half of what they earn in formal sector jobs (Roh 1990; Carr, Chen, and Tate 1999; Balakrishnan 2002). We don't know the precise effect of this shift in production strategy on gender wage differentials because labour surveys often exclude establishments with less than 5 employees.

The shift to informal work arrangements reflects the severe price competition Asian economies have experienced for labour-intensive manufactured exports. There are several reasons why this is so. First, labour-intensive exports have taken on the pricing characteristics of primary commodity exports. Because these goods are homogeneous—that is, these products are very similar, wherever they are produced—it is not hard for buyers to find substitutes, leading to fierce price competition. The emergence of China as a major exporter of labour-intensive manufactures exacerbated these tendencies. As a consequence, export prices have fallen, and countries are attempting to compensate by increasing exports in order to improve their trade balances. The result is a deterioration of terms of trade, resulting in “immiserizing growth,” a term that had previously been especially pertinent for countries with agrarian monoculture. It is now also applicable to countries engaged in the production of labour-intensive manufactured exports.<sup>7</sup>

To extrapolate implications for gender equality of these trends, it appears that women's segregation in low tech manufactured export industries places them in severe competition with women in other developing countries similarly

6. Outward FDI from South Korea and Taiwan to other Asian economies was, however, temporarily interrupted as a result of the Asian financial crisis.

7. Blecker and Razmi (2005) provide evidence that price competition among developing countries that specialize in low-tech manufactured goods has significant negative effects on growth. Efforts to lower their export prices relative to competitors can stimulate export demand, but because the result is a real depreciation of the domestic currency, the cost of imported goods (for which demand is rigid) rises relatively, producing contractionary effects on growth.



employed. This job segregation combines with the increased mobility of firms to lower women's bargaining power and hold down wages. The limited potential for women to raise wages and the precariousness of such employment circumscribe the benefits of female integration into paid labour in a globally integrated economy that places no constraints on firm behaviour.

An additional problem for Asia has been that the new industrial jobs that are emerging are gender-typed, with the result that female share of manufacturing employment is declining in the mature East Asian economies of Taiwan, and to a lesser extent, in South Korea (Berik 2000). The reason for gender-typing such jobs is not clear. It may be that more technologically sophisticated jobs are less reliant on low labour costs for market share as capital intensity of production rises, and therefore it becomes less costly to exclude women from such jobs. It may also be linked to training. Women's gender role as caretaker prejudices employers from hiring them, since it is assumed women's job tenures will be shorter than men's if they withdraw from the labour force when they marry.

As a result of these pressures, 40 years after the take-off of the Asian Tigers, the gender wage ratio in South Korea is 55.6% in 1999 (ILO 2003). In Taiwan, women's wages are roughly 2/3 of men's, and the gap due to discrimination has increased since 1980 (Berik, Rodgers, and Zveglic 2004). The increase in FDI in Taiwan—that is, the rise of firm mobility or “footlooseness”—explains a portion of the widening wage gap (Seguino 2000b). The increase in firm mobility, measured as the share of FDI in gross fixed capital formation, has had a negative effect on wage growth in other Asian countries as well (Seguino 2005a).<sup>8</sup> Firm mobility more negatively affects women than men, at least in semi-industrialized countries, because women are concentrated in mobile industries. This factor in part explains the failure of gender wage gaps to narrow substantially.<sup>9</sup>

Despite robust export and GDP growth, China and Vietnam have not escaped similar pressures. There is evidence for both countries that the portion of the gender gap not explained by skill differences has widened (Maurer-Fazio and Hughes 2002; Liu 2004a; Liu and Meng 2000). For China, for example, the portion of the gender wage gap that is unexplained by productivity differentials (and thus is attributed to gender discrimination) rises from 52.5%

8. Several studies have found similar effects for industrialized countries, and a broader range of developing economies as well (Barry, Gürg, and Strobl 2001; Choi 2001; Gopinath and Chen 2003; Oostendorp 2004).

9. The reverse is true in industrialized countries, and in particular the US, where firm mobility has been linked to a decline in male wages and a narrowing of the gender wage gap (Kongar 2002).



in 1988 to 63.2 percent in 1995 (Gustaffson and Li 2000). Wage inequality is higher for all workers in non-state than in state enterprises, and thus the decline in the state's role in production has altered the wage structure there, with women more negatively affected than men.

Similar circumstances are at play in Vietnam. Specifically, although women's returns to skills are increasing, which contributes to a narrowing of the gender gap, the discriminatory component of the wage gap has increased. Liu (2004a), for example, finds that while the ratio of female to male wages rose from 77% in 1993 to 82% in 1998, the entire remaining wage gap between men and women is explained by discrimination.

We might expect that the effect of socialist ideology on wages will limit gender discrimination in state-owned enterprises (SOEs) in Vietnam, while discriminatory wages gaps will be wider in the private sector—the sector that is the most liberalized and most subject to competitive pressures, and where employers are freer to set wages according to hierarchical gender norms and stereotypes. That hypothesis is confirmed by Liu (2004b) who finds, based on data from the 1992-93 Vietnam Living Standards Survey, that discrimination accounts for more of the gender wage gap in the private sector than in the SOEs. The increase in the discriminatory component of the gender wage identified by Liu (2004a), then is likely in part attributable to job losses from the state sector during the period of *doi moi*, with women shedded at a higher rate than men. Because state sector jobs provide more comprehensive benefits than those in the private sector, the loss of state sector jobs under *doi moi* has also contributed to women's increased economic insecurity (Kabeer and Ahn 2004).

While there is evidence that gender wage inequality has been a stimulus to growth in Asian economies, that growth does not appear to have provided the conditions to close gender wage gaps. How have women fared in other domains of well-being relative to men? Tables 3 and 4 provide data on trends of several categories of well-being over the last 40 years in selected Asian economies. Focusing on Table 3, we see that while there is uniform improvement in gender equity in total educational attainment, there have been gender reversals in employment. There have also been some reversals in the female to male ratio of secondary school enrolments, mortality, and female to male population ratios, the latter being an important indicator of female socio-economic status.

It is notable that no country in this group has escaped without a reversal in gender equality in at least one category of well-being during the period 1980-2002 (see Table 4), an epoch of increased market liberalization. While the data



are incomplete and should in any case be viewed with caution given the unevenness of data quality across countries, it should be noted that the largest number of gender reversals in China, the most rapidly growing of the Asian economies during the last 20 years. Singapore, too, has experienced several reversals in gender equality in well-being, despite both rapid growth and high per capita GDP. Clearly export oriented growth that relies heavily on female labour—whether in a managed market or liberalized market policy framework—is insufficient to ensure a closure of gender gaps in well-being. In many of these countries, in particular, the gender wage gap, after controlling for changes in educational attainment, has widened. This is shown more clearly in Figure 3 where the gender wage gap, adjusted for trends in gender differences in educational attainment, is plotted against the average annual growth rate of per capita GDP from 1980-2002. There is a clear positive relationship between wage inequality and growth.

This analysis focuses on relative gender well-being, but it is important to note that in absolute terms women's well-being has improved as the data on per capita GDP indicate. Vietnam's case is instructive. Women in some communities report that thanks to job opportunities, their position in the household has improved (Knodel, Loi, Jayakody, and Huy 2004; Packard 2004). Further, while the analysis here focuses on manufacturing employment, other studies show that market liberalization in Vietnam has produced clear benefits for agricultural households, due to higher rice prices. There is evidence that, as a result, the use of child labour has diminished (Edmonds and Pavcnik 2002).

Kabeer and Anh (2004) note that for young women coming in from the countryside, jobs in the export garment industry provide easy entry. Wages are sufficient for women to accumulate funds to establish their own small business in the future. Thus although export sector work is not desirable as a long-term employment strategy, it does provide a stepping-stone to better income generation possibilities. But as Kabeer and Ahn also note, wages in this sector are lower than in the non-traded sector, and conditions of employment in the garment industry in particular underscore the limitations of a growth strategy that would have as a goal to eliminate gender disparities in income.

## 5. Strategies for improving gender equity in well-being

As the previous section suggests, faster growth is not enough to close gender gaps in well-being. Among the lowest income and middle-income semi-industrialized countries, more generally, growth appears to be inversely related to a composite measure of well-being (Seguino 2002, 2003a, 2004).





This does not mean that economic growth is not a desirable objective. Clearly, a goal is raising not only relative female well-being but also absolute well-being—and the latter requires an expansion of output. But these findings do underscore that key distributive institutions—in particular, the labour market and the state—need to operate in such a way as to ensure that increases in output will remedy existing gender inequalities.

What other macro level policies can promote gender equity in well-being, and more importantly, what policies can make gender equity compatible with growth? First, we should be clear about what our goals are. The movement toward gender equity in well-being requires strategies that enhance women's capabilities as well as their ability to provision for themselves and their families. The goal of adequate livelihood or means to provision requires ability to generate adequate levels of income as well as security of income.

What policies then can be enacted to improve women's well-being and promote gender equity? Focusing attention here on gender gaps in capabilities and opportunities to provision for oneself and one's family, policies to promote gender equity in four areas are critical:

- expansionary macroeconomic policy;
- financial market regulation;
- regulation of trade and investment flows;
- gender-sensitive public sector spending.

I discuss each of these briefly in turn. In so doing, it should be emphasized that we must avoid a one-size-fits-all approach, since economic structure will determine the parameters of policy designed to close gender gaps.<sup>10</sup>

### 5.1 Expansionary macroeconomic policy

Tight monetary and fiscal policies associated with neoliberal macroeconomic policies have been harmful. They have led to a deflationary bias—slow growth and high unemployment—that harms women more than men (Braunstein and Heintz 2003; Charmes, et. al. 2002; Fodor 2004; Seguino 2003b). Fiscal austerity, pushed by the IMF but also the result of financial liberalization in which financial markets perceive budget deficits as inflationary and therefore harmful to returns on investment, has led to downward pressure on public budgets with cuts in public expenditures redounding more heavily on women and girls.

10. For a more detailed discussion of these issues, see Elson and Çağatay (2000), Seguino and Grown (2003), and Çağatay and Erturk (2004).

The emphasis on low inflation, pushed by the IMF, is too great. The theoretical framework which lauds low inflation rates fails to take into account the costs of unemployment, including the long run growth effects. Moreover, the most rapidly growing economies have hardly been stymied by moderate inflation. For example, South Korea's GDP growth from 1970-95, which averaged 7% a year, was accompanied by an average annual inflation rate of 13%.<sup>11</sup> This is consistent with the findings of a World Bank study by Bruno and Easterly (1998) that found no evidence of a negative effect of inflation on growth until it reaches 40% a year.

Instead of an excessive emphasis on inflation targeting, it is useful to restore the central bank's role in macroeconomic management in order to achieve a number of gender-equitable goals, including employment generation and targeted investment to strategic sectors to stimulate productivity growth. A shift in central bank targets to encompass livelihood-enhancing goals would enable governments to pursue expansionary fiscal policy as well, without such policies being vetoed by central banks (Epstein 2003).

## 5.2 Role of the State

Of course, inflationary pressures can arise, and these often result from supply bottlenecks. Therefore, government must be an active participant in the growth and development process, able to shift resources to areas where supply bottlenecks exist, such as in infrastructure, education, and training. Also, industrial policy is needed to move countries out of emphasis on low-wage labor-intensive commodities. Such measures would include selective import protection, the promotion of export goods whose demand will rise as world income rises, and selective subsidized credit allocation.

Active labor market policies are also needed. These enable those whose jobs have been eliminated to retrain for newly emerging jobs. Women will benefit from such policies, particularly if they include funding for childcare.

## 5.3 Regulation of firm mobility

Because of the increased mobility, it is unlikely that firms can be induced to finance training costs unless they are given tax incentives to do so. This highlights the potential benefits of circumscribing firm mobility, although there are other reasons to do so as well. Limiting firm mobility creates the conditions whereby higher wages that induce increased productivity can be

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11. Author's calculations from World Development Indicators data.



ratified. The case of South Korea is instructive in this regard. From 1975-1990, a period of limited inward and outward FDI, real wages more than quintupled in the manufacturing sector. There is evidence that real wage increases led rather than lagged growth, spurring labor productivity and firm efforts to innovate (Seguino 1999-2000). This period then appears to have been one of wage-led growth, with rising wages stimulating firms to invest in order to overcome the potentially negative effect of higher wages on export demand. In a sense, firms were squeezed by higher wages. To regain prior profit levels, firms were pushed to invest as a way to raise productivity.

An interesting feature of this period is that wages and productivity rose rapidly in female- as well as male-dominated industries. This is surprising, since it is often argued that wages are unlikely to produce significant increases in productivity in labour-intensive industries as compared to capital-intensive industries. The reasons advanced are that these industries simply do not lend themselves to greater mechanization, and most productivity gains resulting from process innovation have probably already occurred. The data from South Korea, however, suggest that wage increases stimulated productivity growth, even in labour-intensive female-dominated industries. The data in Table 5 are indices of labour productivity in selected female- and male-dominated manufacturing industries during the period 1976-1990. Note that productivity gains in female industries are similar to or exceed those in male industries.

Under current conditions, however, liberalization of rules on foreign direct investment makes it easier for firms to relocate in response to domestic wage demands, undermining the potential for a win-win situation in which higher wages induce productivity growth. Controls on investment are not currently in vogue. But the winds of market liberalization should not prevent those concerned with gender equality from arguing for more gender-equitable macro strategies and a debate on how to implement such policies.

#### **5.4 Labour standards**

Labour standards are also a mechanism for raising the wages and employment conditions of workers in export industries. This policy tool, implemented at the international level, could be designed to place a floor beneath workers to ensure or to provide workers the bargaining power to demand a decent living standard.<sup>12</sup> Three complementary and interrelated policies would reinforce the

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12. There is as yet no consensus on this position amongst feminist economists. For more discussion of these issues, see Seguino (2005b) and Kabeer (2004).

benefits of labour standards to contribute to growth with equity.<sup>13</sup> First, development of industrial policies to move labour-intensive sectors up the industrial ladder to the production of goods where price matters less, and quality more would help. When this occurs, the price elasticity of export demand falls, and the negative employment effects of wage hikes are attenuated.

The role of the state is particularly important in the case where exports are largely produced by small firms since they often lack the technological expertise, or access to marketing and distribution networks that would permit them to shift to the production of more price inelastic export goods. Indeed, one reason why firms may have been able to respond to the wage-push stimulus in South Korea is that they possessed the internal resources, as large conglomerates, to purchase new technologies and to implement new processes that raise productivity.

Smaller firms may not be similarly equipped. Rama (2001) found, for instance, that when Indonesia doubled the real minimum wage in the early 1990s, productivity and employment rose in large manufacturing firms, but not in small firms. In fact, workers in small firms experienced substantial job losses as a result of the minimum wage hike. Why was this so? It may very well have been due to the technical and resource constraints small firms experience in attempting to raise productivity. This is a particularly important issue as regards the enactment of living wages and gender equity, since women workers tend to be more concentrated in small firms with informal work arrangements than men.

Third, fair labour practices can be used as a device to attract demand for labour intensive goods. An example of this is the case of Cambodia which adopted a labour program intended to improve working conditions. This has had positive effects on export. Despite the elimination of the multifiber agreement earlier this year, a majority of Cambodia's garment factories have retained the loyalty of major retailers around the world by "appealing not just to their need for low-cost production but also to their desire to avoid the stigma of exploiting poor laborers in distant sweatshops" (Becker 2005). Heinz (2002) discusses these issues in greater detail. I simply note here that these campaigns have gender implications and efforts to improve gender equity should include ways to integrate such northern campaigns with efforts to improve work conditions and wages for women in the global south.

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13. Equity is meant in the sense that higher wages for women are not accompanied by employment losses. If their employment does not fall, higher female wages would lead to an increase in the female share of the wage bill (the share of worker wages going to women). Another obvious policy approach, not discussed here, would be to take steps to integrate labor markets.



## 5.5 Gender sensitive public spending

The national government represents a critical locus of resources with which to promote gender equity. Regulation of capital flows will permit greater flexibility in public expenditures levels. That is a step in the direction of expanding women's capabilities via government expenditures that overcome household biases. Furthermore, public expenditures in infrastructure, such as clean water and roads, can reduce women's unpaid care burden, along with public expenditures on health care. An important question is which mechanisms will contribute to a gender-equitable use of those resources.

Gender responsive budget audits are useful mechanism to achieve this goal (Hewitt and Mukhopadhyay 2001). Budget audits can be used to review and analyze national budgets and expenditures to determine which groups benefit from fiscal policies, and whether biases against women, poor people or other disadvantaged groups are built into them.

In sum, trade and FDI policies must be employed a means to promote development and expanded well-being. Managing trade and competitiveness are necessary to protect the domestic economy from severe employment dislocation, and entrenched dependence on exports of labour- intensive goods and primary commodities whose demand is unlikely to rise in the future, thus putting downward pressure on prices and thus wages. This implies that trade policy must be a tool of a country's development strategy rather than an end in itself. As such, this means that while liberalization may be the right strategy at some times and for some goods, there are also circumstances for which trade protection is warranted to give domestic firms the breathing space to develop capacity to compete in international markets. While temporary trade protections may be justified, such policies work only if there is a *quid pro quo*—if domestic firms are held accountable to measurable targets in return for protection. Managing FDI helps to rebalance the bargaining power of workers, and also may promote productivity growth as firms rely less on low wages for competitive advantage.

## 6. Conclusion

Gender wage inequality has been an important fulcrum for growth in Asian economies. This dynamic is in part attributable to women's segregation in labour-intensive export manufacturing industries where global price competition is fierce. The practice of "crowding" women limits their job choices and holds down their wages. The payment of low wages to women has been a stimulus to export demand, generating foreign exchange to

purchase technology-intensive imports. As a result, gender wage inequality has been a stimulus to growth in this region. It would appear that gender hierarchies, although rooted in long histories and practices, are now being reproduced and reinforced in Asian semi-industrialized economies vying for shares of export markets.

While gender inequality has been a key factor in Asian growth, this does not imply that growth with equity is unattainable. This paper outlines a variety of strategies to make gender equality compatible with growth. This requires a strong role for the government—to discipline capital, to create a gender-equitable social safety net, and to enact industrial policies that move countries up the industry ladder to the production of skill-intensive goods.

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## APPENDIX

Table 1. Average Annual Growth Rates Per Capita GDP, 1965-2002

	1965-2002	1990-2002
China	6.8%	8.3%
Hong Kong	5.0%	2.1%
Indonesia	4.4%	2.1%
Korea, Rep. of	6.1%	4.6%
Malaysia	4.1%	3.6%
Philippines	1.0%	1.1%
Singapore	5.6%	3.8%
Sri Lanka	3.2%	3.4%
Taiwan	6.5%	4.1%
Thailand	4.9%	2.8%
Vietnam		5.7%
<i>Asian Average</i>	<i>4.8%</i>	<i>3.8%</i>
<i>World Average</i>	<i>3.0%</i>	<i>2.5%</i>

Source: World Development Indicators and DGBAS for Taiwan.

Table 2. Gender Wage and Educational Differentials in Asia, 1975-95

Ratio F/M	<u>Educational Attainment</u>		Educational	
Country	Earnings	Female	Male	Attainment
Hong Kong	73.2%	7.6	9.2	83.0%
Indonesia	54.2	3.5	4.7	75.0
Korea, Rep. of	48.5	7.9	9.9	80.0
Malaysia	50.5	4.6	6.5	70.0
Philippines	87.0	6.7	6.7	100.0
Singapore	54.4	5.2	6.3	83.0
Sri Lanka	79.6	5.3	6.1	86.0
Taiwan	64.1	6.5	8.7	64.1
Thailand	66.7	4.7	5.4	87.0

Source: Seguino (2002a).

Note: Educational attainment is measured as average years of education for persons 15 and over.

Table 3. Trends in Well-Being by Gender in Selected Asian Countries, 1960-2002

Coutry Name	Year	F share paid employment	F share Labor Force	F/M Total Educational Attainment	Ration F/M Secondary School Enrollment Rates (Gross)	Ration F/M Adult Literacy Rate	Ratio F/M Life Expectancy	Ration F/M Mortality Rate	F/M Population Ratio	GDP per capita (constant 1995 US\$)	Physicians per 1,000
China	1960		40.5				107.1	109.6	94.2	94	
	1970		41.7		52.1	55.7	102.4	138.3	94.4	109	0.9
	1980		43.2	64.9	69.3	68.8	103.7	125.0	94.1	167	1.2
	1990	37.7	44.9	60.5	75.4	79.0	104.6	118.5	93.9	350	1.6
	2002	39.2	45.2	67.1	92.0	91.0	104.9		93.9	944	1.4
Kong Kong	1960		28.5	48.2			111.7	203.6	94.9	3073	0.3
	1970		34.7	65.4	78.6		109.5	189.3	96.9	6077	0.7
	1980	34.8	34.3	79.0	104.0		108.6	172.9	92.0	11537	0.8
	1990	36.4	36.8	86.9	105.1		107.3	190.8	95.2	18938	
	2002	44.3	37.2	89.1	101.0		106.6	194.0	103.5	25456	
Indonesia	1960		26.9	44.5			104.0	118.1	99.9	298	0.0
	1970		30.2	60.0	51.1	63.8	104.9	118.1	99.9	298	0.0
	1980	45.4	35.2	69.2	67.2	75.1	105.8	119.5	99.5	503	
	1990	45.3	38.5	75.6	82.4	83.6	105.8	125.5	99.4	777	0.1
	2002	43.7	41.2	80.9	98.7	90.1	105.9	129.7	100.2	1060	
Korea, Rep.	1960		26.0	54.2			106.0	119.0	101.6	1325	
	1970	30.3	32.1	65.0	64.6		107.5	127.2	98.8	2283	
	1980	37.9	38.7	74.9	89.9		110.0	173.0	98.0	3910	
	1990	43.1	39.3	83.3	97.1		110.5	205.1	98.8	7967	0.8
	2002	36.2	41.8	85.7	100.0		109.9	262.0	98.6	14280	1.4
Malaysia	1960		27.7	54.2			106.0	118.7	96.7	975	0.1
	1970		31.0	65.0	68.5	65.3	105.4	122.6	98.1	1371	0.2
	1980	33.5	33.7	74.9	92.0	77.9	105.9	154.4	98.6	2297	0.3
	1990	33.5	35.7	83.3	106.6	85.6	106.3	158.4	97.0	3104	0.4
	2002	34.7	38.3	85.7	110.3	92.8	107.0	178.8	97.7	4806	
Philippines	1960		31.6	84.4			107.1	118.4	99.5	725	0.2
	1970		32.9	96.3	94.5	95.7	106.4	119.7	98.7	867	0.1
	1980	38.2	35.0	98.7	115.3	97.8	106.5	124.6	98.4	1173	0.1
	1990	39.5	36.6	101.2	99.2	98.9	106.6	131.7	98.6	1091	0.1
	2002	43.1	38.0	99.3	110.2	100.1	105.6	175.4	98.4	1209	
Singapore	1960		18.3	53.9			106.4	145.2	89.8	2738	0.4
	1970		25.9	67.3	96.1	69.3	107.4	168.1	95.3	5511	0.7
	1980	33.6	34.6	79.5	101.3	80.8	107.7	173.3	96.0	11094	0.9
	1990	39.4	38.8	86.5	93.1	88.1	107.0	172.5	98.7	17898	1.3
	2002	38.6	39.2	88.8	98.4	91.8	105.2	186.9	95.1	27254	
Sri Lanka	1960		24.8	73.3			100.2		81.9	285	0.2
	1970		25.0	88.1	105.0	80.9	103.9	109.3	86.0	351	0.2
	1980	33.7	26.9	85.1	108.5	87.2	106.2	131.2	89.2	455	0.1
	1990	44.3	34.3	88.7	108.7	91.2	107.7	149.2	92.2	616	
	2002	41.2	36.9	92.0	106.7	94.7	106.0	196.8	102.3	899	
Thailand	1960		47.6	71.8			108.4	126.3	99.9	465	0.1
	1970	46.7	48.2	73.8	70.3	82.6	107.2	126.3	100.3	752	0.1
	1980	47.3	47.4	83.8	94.3	89.3	107.1	133.0	101.4	1116	0.2
	1990	46.6	46.7	90.9	96.7	93.8	107.3	168.3	101.6	1997	0.2
	2002	44.8	46.2	85.1	95.1	95.4	106.7	163.3	103.1	3000	
Vietnam	1960		46.9				108.6	129.2	100.8		
	1970		48.3			81.8	110.5	125.1	101.0		
	1980		48.1		89.6	87.9	106.4	128.8	101.2		0.2
	1990	45.2	49.7		94.1	92.7	106.4	140.4	100.8	211	0.4
	2002	51.4	48.7		92.3	92.5	107.3	146.0	102.3	413	0.5

Notes: Employment data are from International Labour Organization *Laborsta*; for Vietnam, from Millennium Development Indicators [http://millenniumindicators.un.org/unsd/mi/mi\\_goals.asp](http://millenniumindicators.un.org/unsd/mi/mi_goals.asp). Employment data is for non-agricultural sector. Remaining data are from World Development Indicators with the exception of educational attainment data, which are from Barro and Lee (2000), and secondary school enrollment data for latest year are for 2001 from UNESCO (latest year for Singapore is 1996; Sri Lanka 1998; China and Thailand are for 2000).



Table 4. Changes in Relative Well-Being Indicators, 1980-2002

(A positive sign indicates greater gender equality)

	F share paid employ- ment	F share labor force	F/M Educa- tional Attainment	F/M Second-ary School Enroll- ment Rates	F/M Adult Literacy	F/M Life Expect- ancy	M/F Mortality	F/M Popula- tion	F/M Wage (educated adjusted)
China	+	+	+	+	+	+	-	-	-
Hong Kong	+	+	+	-	+	+	+	-	-
Indonesia	-	+	+	+	+	+	+	+	-
Korea	-	+	+	+	+	+	+	-	-
Malaysia	+	+	+	+	+	+	+	-	+
Philippines	+	+	+	-	+	+	+	No Change	-
Singapore	+	+	+	-	+	+	+	-	-
Sri Lanka	+	+	+	-	+	+	+	+	-
Thailand	-	-	+	+	+	-	+	+	+
Vietnam	+	+	-	+	+	+	+	+	-

Sources: See Table 3 notes except for wage ratios. For China and Vietnam, negative sign based on results showing increased gap due to discrimination (Maurer-Fazio, et. al.1999; Maurer-Fazio and Hughes 2002; Liu 2000a, 2004b; Liu and Meng 2000).

Table 5. Indices of Labor Productivity in Selected South Korean Manufacturing Industries, 1976 to 1990

Industries	1976	1990
<b>Female-Dominated</b>		
Wearing apparel	100	481
Footwear	100	562
Electronics	100	808
<b>Male-Dominated</b>		
Iron and Steel	100	483
Machinery	100	592
Transport	100	317

Source: Author's calculations from Korean Productivity Center data. See Seguino (1997, 1999-2000).

Figure 1: Effects of Gender Wage Differentials on Productivity and GDP Growth

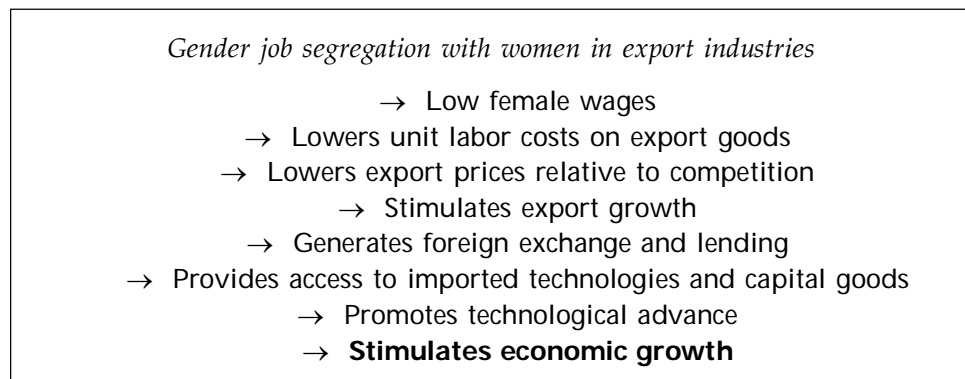


Figure 2

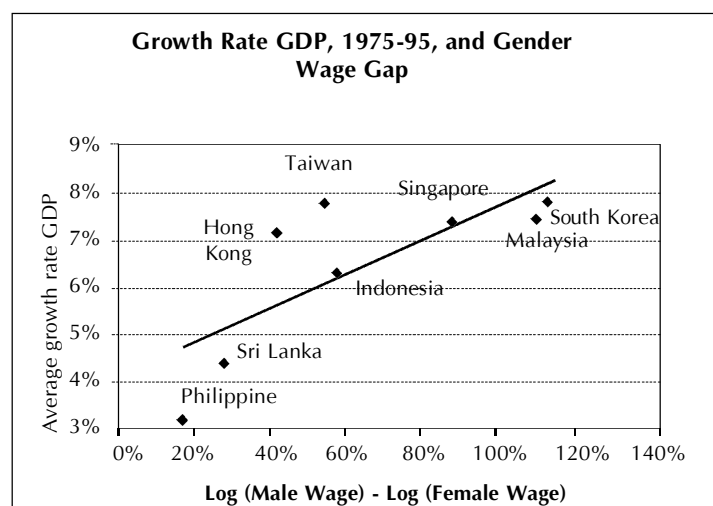
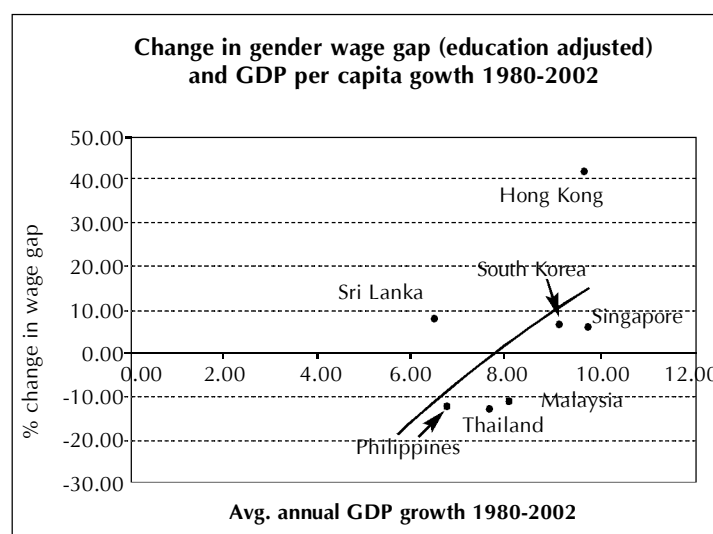


Figure 3





## PANELLISTS' PERSPECTIVES

### Prof. John Sender

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Hello, good afternoon, everyone, and first of all let me say how grateful I am to the Vietnam Academy of Social Sciences, UNDP, and SIDA for giving me this opportunity to meet you all, and particular I am really delighted to meet Prof. Stephanie Seguino because for a long time I have admired her work and read her work with enormous interests and I think it's because she combines certain rather rare qualities which are perhaps worth emphasizing. And as you heard she does research in the field of managed approach to development theory or what I prefer to call unorthodox economics, that is rather rare in this world today. Secondly, she combines that approach with very solid econometric works, using real data. I mean data on wage trends in a very regular and professional way. But most importantly and this is what makes her work truly exceptional is she has an understanding of growth theory in the traditions of Kaldor and Keynes together with an appreciation of the importance of studying gender relations to understand economic progresses or the political economy of industrialization. This is reason that I think it a great pleasure to read her paper.

In her paper I found the following arguments more or less completely convincing. Firstly, women's disadvantaged social and economic status, has helped in relaxing the balance of payment constraints on growth. Secondly, that a combination of narrowing educational gaps between men and women with widening gender wage gaps has been an important stimulus to export-generated investment growth, and overall growth of output in several economies, particularly the fastest economies in the world, for some important periods. And I think it is important to re-emphasize the point that Prof. Seguino made because it's counter to what you often hear from other U.S.-based economists or from the IMF, and World Bank economists, namely that *there is something intractable or systematically positive in the relationship between economic growth and inequality*. The idea that growth is necessarily good everywhere for the reduction in inequality and indeed the reduction of poverty. Prof. Stephanie Seguino's work shows this is a problematic view about growth, it certainly depends at least in parts on how you measure



inequality, and one of the things that the economists that I take as an objective to her criticism don't do, is measure gender dimension of inequality.

Can I now turn to the other aspects of the paper that I found less convincing: First of all, the discussion of the relative performance of women compared to men in terms of other indicators of well-being. She has a table also with lot of pluses and minuses, Table 14 on the papers, Now the discussions on other indicators of the paper on women's relative wellbeing compared to men's led to the conclusion that no country has escaped without a gender reversal in at least one category of wellbeing. Well I think this measure, number of gender reversals is not that helpful. I don't think it is robust indicator. It raises question about how you weight these different indicators, and those questions would be difficult to answer. And it's also comparing underlining data that is problematic and at least the cases of female share of employment, measures of labour-market participation, and employment rates in developing countries are unreliable. But you are comparing industries that are actually not comparable. I think we should say a little bit more perhaps than there was in the paper about missing data that we need in order really to understand some of the processes that the paper is concerned with. The questions raised in this paper, to my mind should lead us to make demands for improvements in data availability in Vietnam, and other countries. For example, where in this paper or indeed where in the world can I find female to male wage ratio or data for the most important sector of female wage employment. I am referring of course to agriculture wage employment, or to employment as domestic servants or employment as cleaners, or women who work for wages in bars, restaurants, cafes, sexual services industries. Are most women who work for wages actually are covered by the data in the countries referred to in Prof. Seguino's paper. Unless you have a time series on these wage rates, wage rates of female agriculture, wage rates in comparison to male, wage rates in sectors with female rate employment really is significant. Then it's hard to make any thing very precise, to make any precise statement about change in the welfare certainly to the poor women in the countries, We don't know what's really happening to their relative wages or even to their real wages for those women who depend on the wages, and there are many, many millions in each economy which is simply unrecorded.

The second aspect of the paper or argument of the paper that I found less convincing, I suppose I have less excuse for emphasising, because the paper does so much but, you should have done more. It is the issue of policy. And here what I felt lacking was if you like a political analysis of the role of state, the state is to be encouraged by professors of economics, by NGOs and so on to do gender awareness budgeting. But there are exhortations by feminist economists and others that will lead to appropriate changes. There isn't a political economic analysis that actually deals with how gender equalised changes might occur in





the economy like that. If you like what the paper doesn't address is the question of where the domestic political pressure might come from to promote the role of the state in investigating women, in supporting women's relative improvement in status. In particular what I think is a pity, the paper didn't make the case for state facilitation of stronger bargaining power for female wage workers directly through supporting for female wages, unions, female worker organizations, through direct intervention in legislation on minimum wages, health and safety issues out of work, working conditions etc. Through direct intervention in increasing strength of powers of the labour inspectors, the health safety inspectors etc within the economy. These are policy conclusions that if don't come from academic, certainly you don't come from international aid agency, given the current neo-liberal climate. More generally, with regard to the policy issue, I think there is a question of or at least I would like a bit more detail on how the state could discipline capital in particular domestic capital, rather than foreign private direct investment which is a bit more straight forward. In other words, is it true that the state must ensure demand quit-pro-quo for its subsidised credit, its privilege, the privileges it gives to domestic capitalists and large-scale investors, what sources of quid-pro-quo could the state demand with respect to females in Parliament, increasing female bargaining power? Could it not be as the quid-pro-quo for state supporting protection, favouring certain sectors, they would demand the sectoral pattern of investment in the sectors or sub sectors that increase the demand for female wage employment. Demands that as quid-pro-quo to receiving a state subsidy, protection of various kinds, there were eliminations of wage discrimination, there were training and promotion programs instituted. There's also the question of the role of state which I think probably extremely important still in Vietnam, if you like as possibly an exemplary employer. The state is still in many of these economies and certainly in Vietnam a major employer, does it always adhere to the source of policy in hurrying promotion, trainings, wage discrimination that would enable to set an example to the capitalists to strike disciplines?

Finally I think it would be helpful to put a little bit more flash on the broad proposals of gender awareness budgeting. *What sort of state expenditures would make a difference to poor women?* and here I think one has to look at the difference between, if you like, current changes and practices toward means tested and targeted benefits with the literature and the evidence, particularly from the Latin America, which suggests that there is strong case for universalised cash transfer not mean tested to women, particularly women with children. So I think that what I would like to see or perhaps would like to have discussion to go forward to discuss in more details forms of state actions that may make a difference, in particular to the bargaining powers in organizations or capacity of women, but as you can see I was struggling for negative things to say, and I enjoyed the paper very much.

## Ms. Le Thi Quy

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### 1. What is Gender and Development (GAD)?

Human society exists and develops by struggle, work and cooperation of the two genders: male and female. From generation to generation, woman has always been side by side with man to produce assets for the society. In biological terms the two genders are different in many ways such as figure, voice and reproductive function. In social terms it is very difficult to say who is better than whom because both men and women play an indispensable role in family and society. It can't be said that this gender is important and the other is not or this gender is born to rule and the other is born to be ruled. However, history is unfair to portray man as the innovator of everything while woman only plays a supportive role.

Woman is responsible for productive roles and plays the main role in reproduction: *biological reproduction, reproduction of working power and reproduction of community structure*. In the family, women give birth, bring up the children, maintain family ethics and tradition, and to the nation they contribute to preserving cultural tradition. The mother image is always the symbol of peace and happiness. Despite remaining at a low position, in world history and in Vietnam's history, in any era, there are eminent women in all fields: politics, economics, culture, army, diplomacy, astronautics.

*Why does gender inequality exist?* This originates from the movement and development of history. Throughout the history of human society from the slave regimes to now, there has been inequality among individuals, social and ethnic groups. Among numerous phenomena of inequality, there are three major and fundamental inequalities, namely: *racial inequality, class inequality and gender inequality*. These phenomena occur at the global level and also within each country to different degrees and scales. Though humankind has made considerable effort, the phenomena that the richer countries block, enslave and invade the poorer ones and the ruling class exploits and constrains the ruled class have not been erased in the current time. In that context, gender relations are also built on unequal principles. Compared to the other two forms of inequality, gender inequality is acknowledged as a particular form because it not only exists in society and among strangers but also exists in the family among relatives. This makes the gender inequality very deep, very sensitive and difficult to resolve.

Patriarchy is introduced and develops in almost all countries in the world. However, it does not appear at a specific point of time but depends on each



country and each culture. For example, Confucianism is the ideology representative for the patriarchy that was introduced in China in 500BC. In 40AD, while it was being restored in China, in Vietnam, there was an uprising by Trung Ladies (Hai Ba Trung) against the aggression by the feudal Chinese (South China). Most leaders of this uprising were women. This is the most unique uprising in the history of Vietnam and the world and the Ladies gained victory over the ferocious invaders and ruled the country for three years (people called them Lady Kings). These first Lady Kings opened a new era for our national history. The glory belongs to not only the Vietnamese women but also the Vietnamese nation.

However, the Confucian ideology followed the feudal Chinese invaders into Vietnam and confirmed its dominant position in the 15<sup>th</sup> century. With the Confucianism, Vietnamese women became the ruled class in the family and in society. From the ideology to the legal system, the religious system and customs, the patriarchy established a comprehensive ruling role in different fields and in the social structure. Women are oppressed in lifestyle and morality, hindered in approaching and controlling resources and also in enjoying labour production in family and in society.

Experiences of different societies show that: *gender inequality is one of great obstacles in the development of each country and the world. It is one of the reasons causing poverty and illiterate situation. It is an unacceptable phenomenon in a civilized society for the people's right and happiness.* Gender inequality, therefore, is the development objective of the UN and most countries in the world. Gender and development do not mean the personal matter between man and woman but it is the matter of changing the system and policies and how to place gender in the main stream of policies.

The term "Gender and Development" (GAD) originates from the international women's movement. At the beginning, feminists were concerned with studies of *Women in Development* (WID). But later, they realized the difficulty of the issue and that it did not attract male participation. Therefore, it became *Gender and Development* (GAD), i.e. to study the relations between women and men in a comprehensively comparative perspective in order to work out a solution to remove gender inequality in different fields. The feminist researcher Ann Oakley was the first person to introduce the term "gender" to sociology. Later on, researchers all over the world have affirmed the viewpoint of gender studies in Sociology, Gender is considered as a stratified system in which woman is ranked and considered lower than man in different social fields. S. Furier, who followed utopian socialism in the early 19<sup>th</sup> century in France, had a famous saying: *The level of the emancipation of women is the measure of the level of development of a society.* This means that woman is only truly emancipated



in a society with a high level of development and having achieved gender equality. Such a society not only recognizes the great role of women but also puts them into an appropriate position to their role and contribution. To compare the *role* and *position* of woman in relation to man in each particular society will lead to an objective, academic and accurate view.

## 2. Social situation and gender inequality

At present, though humankind has tried to reduce the gaps in various forms of inequality including gender inequality, in fact, gender inequality occurs to different degrees depending on the political regime, level of economic growth, religion and culture. The 3<sup>rd</sup> World Women's Conference in Nairobi (1985) outlined a general picture of the world's women: *Women make up half of the world population, work two third of the world's working time, produce half of the world's food, make up two third of the illiterate in the world and only hold one tenth of the world's property.* In later years, the UN also issued other figures that women make up 70% of over 1.3 billion poor and hungry people in the world. Therefore, women are associated with being *hardworking, poor and illiterate.*

Gender inequality firstly is apparent in unequal labour allocation. In addition to fulfilling the functions of childbearing, giving birth and feeding babies, women have to do as much production work as men, and in some cases their work is even harder. Housework is a burden almost entirely left to women and it is mistakenly thought as 'vocational'. Many sociological surveys in Vietnam show that the working time per day of a woman is usually 3 to 6 hours longer than her husband. For example, according to Japanese statistics at the end of the 20<sup>th</sup> century, women spent 3 hours per day on average for housework, while men spent only 5 minutes per day. Women usually do not have as high incomes as men because their work in society is usually more simple, demanding and low paid while the housework and childcare are unpaid work. This important finding of feminists, typically Betty Friedan, Ann Oakley, Simone De Beauvoir, contributed to changing the previous patriarchal sociology, typically the view of August Comte, Robert Merton, and Emile Durkheim on labour allocation according to gender and the theory of functional structure.

UNDP's Annual Human Development Report introduced Gender Development Index (GDI) in addition to the Human Development Index (HDI). Through these indexes, it shows that UN and many countries have tried to improve gender relations but the results are still not as expected. For example, in 1995, right after the 4<sup>th</sup> World Women's Conference in Beijing, the Human Development Report concluded that: "There is no place in the world



that woman is fully equal to man... The door to equality is just a little open in some places and in many others it is still closed... Women's work in the world that is ignored (or unpaid) every year amounts to 11 billion US dollars" (UNDP, Human Development Report, 1995).

Ten years have passed but the gender equality index is still a great problem in many countries. Women are still discriminated against in salary levels or income. Women's salaries in many countries is lower than that of men for similar types of work (about 70%) or not in the similar type of work. For example at the end of the 20<sup>th</sup> century, a female secretary in a US State received only 16,000US\$/year while a man, whose job was to fix toilets, received 32,000US\$/year. Even without the salary level difference, women's income is still lower than men's due to their health conditions and due to their family responsibility. These are reasons making women unable to access jobs requiring high skills and knowledge as well as decision-making positions.

Gender inequality is also reflected in customs and lifestyles with gender preconceptions inherited over thousands of years. In Vietnam, women are considered as persons with unfortunate fate who bring bad luck to others. For example, there is conception that it is a bad omen when meeting a woman at the entrance on the way out. Women are also considered foolish, short of knowledge, and superficial thinkers: "Widows worry about state affairs", "the hen crows for the cock", "Man is as shallow as a well, woman is as deep as a betel-tray". Women are considered to be of lower value than men: "A hundred girls are not worth a thing ... of a boy", "A man with a large mouth is smart, a woman with a large mouth destroys her house"... In such context, woman is not confident enough and does not have sufficient conditions to go forward as a man does and it is therefore easy to understand why many women accept their fate with resignation.

Similar to men, women are also victims of wars, conflicts and other violence, but different to men, they suffer from gender evils such as rape, sexual assault, genital mutilation, female infanticide, being main victims of forced prostitution and trafficking, and being the primary victims of domestic violence. According to a Mexican estimate, 90% of female workers suffered from sexual harassment, in South Africa, one sixth of women are assaulted, in India each day five women are killed due to the lust for dowry, in US, in each and every 15 seconds, one women is beaten, every 6 minutes one women is raped, each day four women are killed (APWLD, 2002).

According to the current estimates, the ratio of females having clitoridectomy is 98% and 70% in Somalia and Burkina Faso, respectively. In Nigeria, 6,000 females have their clitoris cut per day and in Sudan, those females not cutting



their clitoris cannot get married (World Women Congress 9<sup>th</sup>, 2005). In Asia and especially in India and China, abortion cases of baby girls number up to hundreds of millions. In China, gender inequality has become a big social issue with around 80-100 million men unable to get married (Conference on Prevention of Women and Children Trafficking, Beijing, 2001).

Domestic violence is a global evil that happens in every country, from the rich to the poor ones. That popularity proves that women's status in the family and society is very low. The fact that males grant themselves the rights to teach and beat women is due to the bequeathment of the patriarchal structure built over thousands of years in the lifestyle, customs and practice of people. Vietnamese people also say "Teach the child from the cradle. Teach the wife from the start of marriage".

The combination of the child with the wife shows that women are always subject to education and in the understanding of many people, education includes whipping. Pakistan is one of the countries with severe domestic violence. Approximately 99% of housewives and 77% of female officials are beaten by their husbands. Statistics in Canada, a developed country with a very high GDI, also show that every one out of four females is mistreated in the family. In France, about 2 million women are beaten every year. More than half of violence cases against women in Germany are created by their husbands or partners (Conference on Domestic Violence in Indonesia, 2000). In Vietnam, there are no official statistics at the state level but at the provincial level, there are many serious incidents resulting in death or injury (over 11% as specified by law), not to mention other lighter incidents or even serious cases where the victims did not take legal proceedings. In addition, cases of physical and mental mistreatment, even being driven to suicide, have not received proper attention. Many women accept with resignation the violence from their husband or close relatives in exchange for peace but they may also have to exchange their lives because of it.

### **3. Gender equality: an important factor for development – The case of Vietnam**

Vietnam is a socialist country following Marxism-Leninism in the national liberation, class and women's liberation movement, i.e. fighting for equal human rights. Basically, the Party and the State have cared for and created good conditions for women's development. This has been shown clearly in the State's consistent policies since 1945. Since 1930, the Political thesis drafted by General Secretary Tran Phu clearly specified three objectives of the Vietnam Revolution, i.e. *national liberation, class liberation and women's liberation*. The



first Constitution of the government of the Democratic Republic of Vietnam in 1946 (one year after the success of August Revolution in 1945) declared off all strict and unsound customs for women during the feudal system, improved women's status in the family and society. Up to now, State policies on labor, employment, land ownership rights of males and females, reproductive health, maternal health, children, family, education, health, public welfare, and prevention of social evils have been implemented throughout the country.

Economic renewal has created the pace for policy changes, creating changes in women lives and conditions for women's contribution to the common cause. Women's liberation means the same as liberating labour and promoting the creativity of women. In other words, the State has created conducive conditions for women to enhance their role in the building and development of the new economy. If women's labour was not properly appreciated during the feudal system, this has now been gradually overcome. Women are present in every sector of the national economy including the hardest sectors such as science and technology, social science, management and information technology. UNDP has for many consecutive years ranked Vietnam in the middle in the Gender Development Index (though there are also fluctuations), while Vietnam still ranks low in terms of economic development. This means that thanks to progress on gender, Vietnam has overcome several countries with more advanced economies.

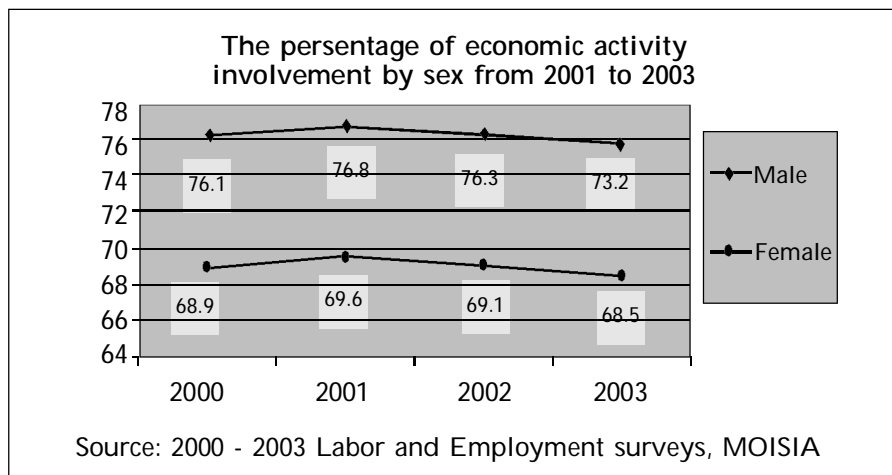
Gender equality is also an issue of domestic and international non-governmental organizations. The participation of social organizations including those doing research and acting for gender equality has contributed specifically and effectively to socializing state policies into specific human activities.

However, women's liberation is not simply a policy issue but also a matter of life, diverse and complex. Ways of thinking and lifestyles of "valuing men above women" that have existed for thousands of years cannot be changed overnight. Therefore, besides the achievements, there are still difficulties and challenges. In this paper, we only discuss three big issues, namely labour and employment, women participating in the knowledge-based economy, leadership and management and the family issue.

### **3.1 Labour and employment issues of males and females in the market economy**

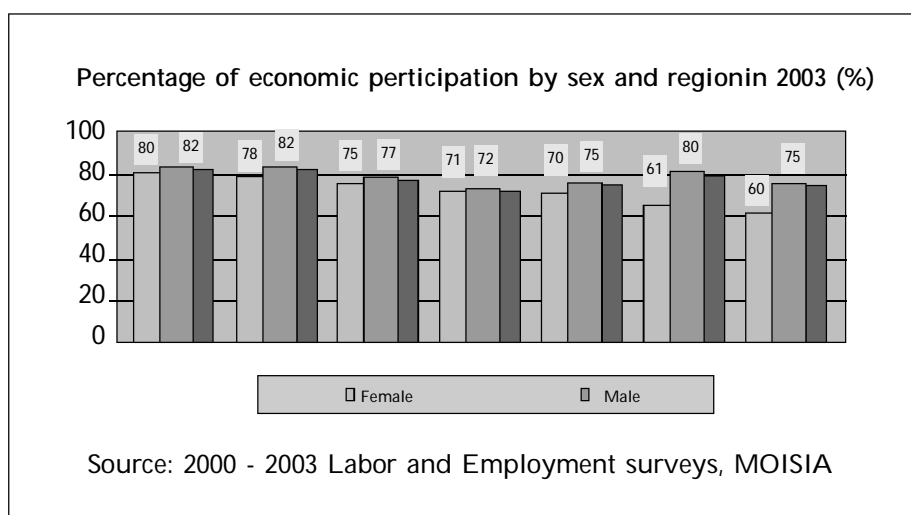
Currently, women account for more than 51% of the total population and 49% of the labour force. The ratio of females involved in economic activities in 2003 was 68.5% compared to 75.8% for males. The ratio of females with frequent jobs in 2003 was 95.5% and compared to 96.2% for males. The unemployment rate among females is 6.9% and that of males is 4.4% (Gender statistics in 2005).

Figure 1:



Due to gender characteristics, in some sectors such as heavy industry, mineral exploitation, construction, the number of female workers is smaller than the number of male workers. Vice versa, there are sectors in which the number of female workers is larger than the number of male workers. For example, over 60% in agricultural work, over 70% in garment industry, 60% in food processing. In the health sector, females also account for 60% and the ratio is 70% for general education. It means that in terms of paid labour, female involvement is not too different compared to males. It should be noted that females still have to do the hard work that used to be done mostly by males such as ploughing and raking, portering, pulling carts, building, road building, blacksmithing. Female jobs in general are paid less than knowledge-intensive and strategic male jobs.

Figure 2:







Family incomes by cash and in-kind are both created by males and females, and in some families females are the main earners. This phenomenon is changing the prejudice on the backbone role of males in supporting the family and the female's dependence on their husband or husband's family. Economic independence has given females the chance to learn, enhanced their ability to grasp the market, and gradually increased their status in the family and society.

In a market economy, the transformation of the economic system from the two basic components (state and collective) to five components (state, collective, private, joint venture and foreign investment) has affected and changed every person and social group. Like males, females have basic advantages such as new and broader opportunities to be involved in socio-economic building, and enriching themselves and their families. Hundreds of well known business women have emerged in only a short period after renewal (Nổi Mãi). They have established brand names that are recognized in the market such as Vinamilk, instant noodle, Tan A water tank. They are also owners of large farms that are tens and hundreds of ha, growing fruit trees, trading aquatic products or building ecotourism centres. Females also manage small and medium enterprises. This form has now been regarded as suitable for females and in fact it not only plays an important role in developing the national economy but also helps tens of thousands of females and their families escape from poverty.

Vietnam is still seen as an agricultural country with nearly 70% of the population living in the rural areas. In recent years, seasonal or frequent migration in many villages and communes has created changes in the rural areas and deeply impacted on the peasants' life, including females. Changes in the rural socio-economic structure can be clearly seen. Economic components have been initially diversified. Exchange of goods and markets are expanded. Some poor rural areas are better off. However, economic development also brings about indispensable socio-economic consequences. For example, the liberal environment and production competition have, on one hand, abolished the artificial equality of income but on the other hand, created a gap between the rich and the poor that no market regime can avoid. It is also necessary to combine poverty reduction with gender equality because in poor families, females usually work more but have less enjoyment than other members.

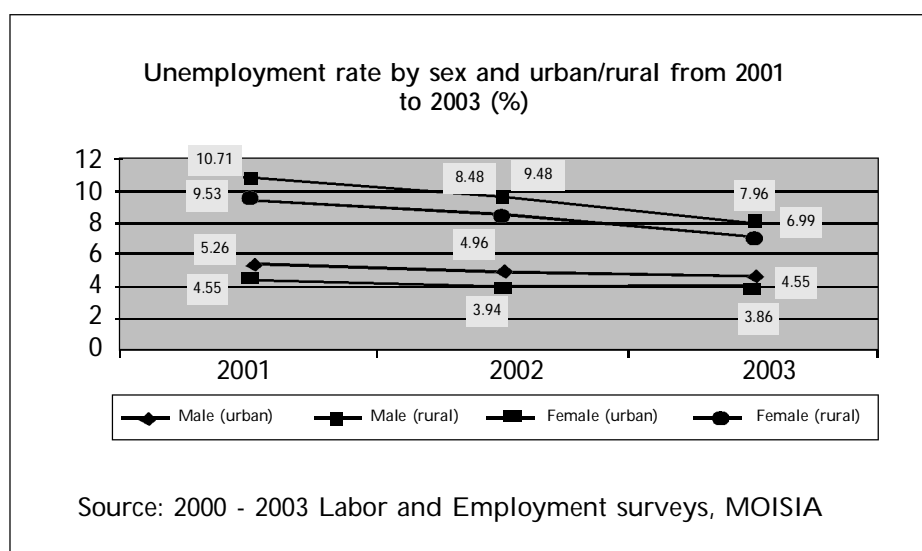
A new state policy on land allows not only the husband but also the wife to be the owner. The wife also has the same right as her husband in deciding whether to buy, sell or rent out their land as well as other real estate. The public recognition of equal land rights of females has been regarded as a big revolution in the rural areas, taking into account gender issues and it is a

catalyst to help females be involved actively and creatively in production and enhance the responsibilities of both males and females to their land.

Females are also a great labor force in “assistant” jobs in both the city and the rural. With their patience, diligence, resourcefulness and capability, many females have created stable incomes for their families. From females trading in the delta to those devoting to the looms to make brocade with not only economic but also high artistic value, from those in handicraft trade villages to those working as porters or doing other small errands in the city, no one is afraid of difficulty and hardship to get their families rich. Many highly professional females with business know-how have not only enough to eat but also have become wealthy.

The advantages help many females to develop but they also face great challenges. Gender differences and unequal division of labour in families is still common and creates disadvantages and unfairness to females. One big disadvantage for females in a market economy is the employment issue. It is not easy for females to compete with males because males are usually stronger, have higher professional level and more time to regenerate biology and strength. Many employers do not want to recruit females due to concerns on social policy and low productivity. Female unemployment induces them to accept hard work with low wage and unstable working conditions. Because of unemployment, quite a big number of females also accept any job for money even as prostitutes or heroin traders.

Figure 3:





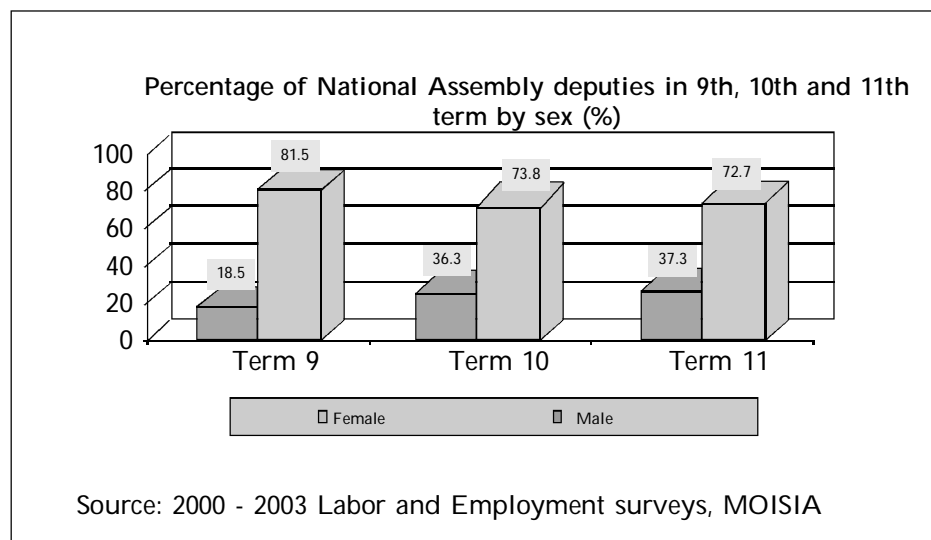
### 3.2 Involvement of males and females in the knowledge-based economy and government

Statistics show the differences in ratios of males and females in the apparatus of government at different levels. For example, the number of female deputies to the national assembly over the tenures during the state subsidization period and the post-renewal era has shown a decreasing trend: 32% (1971-1976), 27% (1976-1981), 22% (1981-1987), 18% (1987-1992) and 18.5% (1992-1997). However, this ratio has grown in two recent tenures, 26.22% in the X tenure (1997-2002) and 27.3% in the XI tenure (2002-2007) (National Assembly Office, 2005).

The female ratio in the People's Council at three levels has increased in two recent tenures. Specifically, in the 2004-2009 tenure, the female ratio is 19% at the commune level, 23% at the district level and 23.9% at the provincial level (Report from Ministry of Internal Affairs, 2005).

With the above ratios of female deputies to the national assembly, Vietnam ranks second in the Asia Pacific and ninth out of 135 countries in the World Parliament Alliance.

Figure 4:



Research has also pointed out reasons for the above situation, especially issues on the current unequal division of labour among males and females and its impact on enhancing the capacity and handing over authority to females; the perception and prejudice of some government officials and people to female leaders; limitations of females in education, training opportunities, utilization of female officials, preservation and development of female talents.



The literacy rate is high and the difference between males and females minimal, 95% for males and 89% for females in 2002. In 2003-2004, the enrolment rate at primary and secondary schools is also high, 45.7% for males and 45.2% for females. However, the ratio of females undertaking postgraduate studies is less than one third of males, 0.04% for females and 0.13% for males (Gender Statistics, 2005).

Over the last 60 years, the number of female intellectuals in different science branches of Vietnam has increased generally in terms of both quality and quantity. However, this number is still very limited if comparisons are made with the female ratio in the population (over 51%), in the labour force (over 49%) and the real capacity of females. Up to 1999, the female ratio among officials with at least college or university degrees is 37%, of which 132 are professors and associate professors or 6.7%, 1,635 are doctors or 19.9% (Ministry of Science, Technology and Environment, 2000). The number of female intellectuals at the bachelor level has now increased but at the postgraduate level, the increase is not much. At the Hanoi and Hochiminh National Universities, there are only a few female professors and associate professors, not to mention that in many departments there are no female associate professors.

In recent years, many female scientists have actively linked research projects with the reality of production and life and directly served people's lives. However, the involvement of female scientists in state management at different levels is still low and this ratio is even lower at higher levels of management.

### 3.3 Gender and family issue

Research has been undertaken into the current inequality in *power* and *responsibility* between males and females in families and also in opportunities to get access to information and education. Females, especially young girls in the rural and mountainous regions are at the most disadvantaged because they have little chance to go to school due to economic conditions (when their parents cannot afford for all the children to go to school, many girls usually have to "give up" to their brothers), or social conditions (currently in some rural areas, there is a recovering trend of backward perception and customs, including the perception that "girls do not need to study much, only knowing how to read and write is enough". Many people think that females should get married early and only need to learn how to do agricultural work, and manage and care for the family).

Many rural females are forced to get married early by their parents. A rural unmarried 20-year-old girl is considered to be an old maid. After getting



married, they are forced to give birth to boys or many children by their husband or the husband family. If they already have a few daughters and no sons, they will be forced to accept the husband's second wife. Polygamy is coming back to many localities amid the indifference of the local government and people and the resignation of women. The return of the patriarchal system at some localities marks a set-back for the women's liberation movement of Vietnam.

In the Tan Dau commune of Phu Xuyen district, Ha Tay province, nearly 40 km away from Hanoi, there is still an unsound custom that only applies to families without sons. Specifically, parents' wealth cannot be inherited by their daughters themselves but the closest family with sons in the kinship. Even if the daughters get the wealth, nobody will get married to them. This is also known as an unsound custom but a district official is still benefiting from this kind of inheritance. At Dong Pho village, even with inheritance rights as specified by law, women dare not protest because of the family disparagement and unfair treatment. Currently, the above kind of inheritance is under a "voluntary" cloak. Families without sons have to sell their land and houses without conditions. With sons, they can keep inheritance rights and receive money on their getting married but on the other hand, with only girls, they will have to treat village people. Therefore people still try to have sons here (Hoang Dieu Huong, 2000).

Negative gender-related social issues are also developing, i.e. violence against women including social and family violence, prostitution, trading of women and children. In terms of gender, these are the deepest inequalities. Fighting against social evils means protecting human rights including women's rights. Protecting women's dignity also means preserving their purity and progressing towards an equal and civilized society.

Enhancing women's capacity is an important condition for gender equality. This is not only their right but also the responsibility of the government and of both males and females. In the future, gender equality in our country will surely be further improved and contribute to the building of an equal and civilized system. Gender, renewal and development are not only the responsibility of women.

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## PANEL 3: RURAL DEVELOPMENT AND URBANISATION

Keynote Presenter: Dr. Philip Taylor, Department of Anthropology, Research School of Pacific and Asian Studies, Australian National University

Panellists: Dr. Steffanie Scott, University of Waterloo (Canada)

### **WEALTH IN DIVERSITY. A PLURALIST STRATEGY FOR VIETNAM'S RURAL DEVELOPMENT**

Dr. Philip Taylor <sup>1</sup>

This paper offers a review and ethnographically-informed critique of recent trends in rural development in Vietnam. Based substantially on ethnographic observations of changing conditions in the Mekong delta over the last decade and a half, it examines a number of developments that have received insufficient attention in previous studies. Recognising the plurality of strategies adopted by rural people during a period of great change and volatility, the paper interprets these modes as coherent and viable alternatives to the rural development strategies pursued by the Vietnamese state. The papers suggests that by shifting emphasis to accommodate the diverse paths to development found in rural Vietnam, the spirit of the state's rural development programs might be more effectively realised.

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## 1. What is rural Vietnam?

To situate this discussion of rural development in Vietnam, I first evoke a few common perceptions and familiar images of rural Vietnam.

Rural Vietnam is where seventy percent of Vietnam's population live. As a place of work and production, it is the rice basket for the nation, providing food and security for rural and urban areas alike.

Once a redoubt of a highly effective guerrilla force during the war against France and later the US and its allies, now rural Vietnam is winning Vietnam international reputation for its exports of rice, fruit and aquatic resources.

The countryside is densely populated, full of smallholding farms and household-based industries. Poverty is concentrated in rural Vietnam. Ninety percent of poor households are found in rural areas.

Rural Vietnam has low levels of industrialisation, and high levels of underemployment. Compared with urban areas it has poor infrastructure. Electricity, sanitary water, health services, schooling and cultural activities are less developed here than in urban areas.

A place rich in local traditions of commerce it is at the same time remote from markets, yet deeply integrated with the world economy.

Rural Vietnam is a place of rich traditions, a site of immense religious and ethnic diversity, a reservoir of deep cultural values and high moral rectitude. It is frequently seen in urban Vietnam as a cultural resource, a touchstone for Vietnamese identity, a place for spiritual and cultural regeneration, to which one might return at times such as New Year.

Rural Vietnam is often seen as a place full of superstitions, adherence to cultural traditions, insularity and parochialism. It is marked by gender inequalities and sometimes authoritarian attitudes. Yet it is also a place where resistance to authority has a long history.

## 2. Rural development

This section lists some of the main policies relating to rural development in the past twenty years and discusses briefly their rationale and results.

### 2.1 Liberal or market reforms in agriculture and land

Liberal reforms began in the early 1980s and were pushed forward strongly in the mid and especially late 1980s. These reforms included the endorsement





of household contracts to sell agricultural produce, agricultural decollectivisation, the change to a household-based economy, the shifting of ownership, decision making and economic responsibility to primary producers, a switch to market-determined pricing, granting permission to individuals to transfer land use rights and the restructuring of state enterprises. The rationale for the policy change was to escape the economic crisis provoked by the centralised subsidy system, create better incentives for production, and respond to changing local and international conditions. The results have been dramatic: from a struggling and impoverished planned economy, Vietnam has become a dynamic market-oriented society, with rapidly rising incomes, and a significant exporter of agricultural commodities. However, despite comparatively pro-poor or inclusive growth, socio-economic rifts have opened up between rural and urban areas, and between regions and ethnic groups.

## 2.2 Globalisation or market integration

As heralded in the open-door (*mo cua*) policy in the mid 1980s, from the early 1990s the government began to assertively position Vietnam within the international market system. It reduced subsidies and tariffs in accordance with a host of bilateral, regional and global trade agreements, liberalised and rationalised investment regulations to attract FDI, reduced subsidies to SOEs, implemented international standards, and promoted Vietnamese agricultural products on international markets. The rationale has been to increase growth and prosperity through trade, access new markets, increase efficiency through competition and access foreign capital. Compared with the war years when the two Vietnams relied heavily on imports, and despite the prolonged post-war US trade embargo, which was lifted only in 1994, Vietnam quickly became a major exporter of agricultural commodities. It has significant trade relationships with countries in and beyond the region and has attracted large amounts of investment capital. Yet rural areas have seen relatively little foreign investment. During the market integration period rural Vietnam dramatically stepped up production for trade, yet this has been a time of great economic volatility and uncertainty.

## 2.3 Modernisation and industrialisation of agriculture

This longstanding policy orientation, dating from the DRV, received a renewed boost in the mid 1990s. It has included the mechanisation of agriculture, the rural electrification program, infrastructure development,



improvements to irrigation, dikes and flood control, sanitation, sedentarisation, introducing new seed varieties and breeds, research and development into new farming techniques, and agricultural extension. Its major rationale has been to use and transfer technology to increase productivity, improve the quality of life in rural areas and stabilise living conditions for farmers.

## **2.4 Diversification of agriculture**

Beginning around the 1990s one strand of agricultural diversification has included programs such as VAC, shrimp/rice farming and integrated farming systems. The rationale for these programs has been to diversify market exposure, increase micro-synergies within farming households, recycle resources and sustain the environment. A second strand of diversification, emerging around the same time, but more pronounced after the Asian Crisis, has entailed a move away from rice monoculture into new crops, such as different fruit varieties, legumes, coffee, cashews, pepper, livestock, salt and freshwater/saltwater aquaculture. These initiatives in diversity have been encouraged to realise the potential of new environments and markets, and to avoid losses and overexposure to declining commodity prices. This tendency has been characterised by fads and much spontaneity. The results have been rather explosive, booms and busts, copycat-induced gluts and slumps, disease, environmental damage, trade disputes and tough competition from high subsidising nations.

## **2.5 Rural industrialisation**

This policy, a longstanding objective since the 1950s, has gone through many phases and has attracted different rationales. In the last ten years, the emphasis has been on developing rural-based agricultural processing industries and decentralising industrial production. One objective has been to reduce the proportion of agricultural contribution to the economy as a whole as this sector is low value-adding and offers little growth potential. The rationale for decentralising industry is to overcome the pooling of industry in the Southeast, North and urban areas and create poles of growth that draw in labour and other resources from surrounding rural areas. As agriculture offers low wages and absorbs too little labour, a recent objective of rural industrialisation has been to create more rural employment and reduce rural poverty. To date rural areas account for little more than 20% of gross industrial output (UNIDO 2000).



## **2.6 Rural communications network development**

The program to develop the national communications grid accelerated dramatically in the mid 1990s. This program has included the upgrading and extension of the national road network, the enhancement of major waterways, the development of ports and the universalisation of the telecommunications network. The feature I focus on in this paper is the program to develop a network of all-weather roads between administrative centres. The rationale of this program has been to improve communications for improved market participation, increase rural access to services and overcome the barriers faced by remote communities. Assisted by loans and grants from international agencies, and large contributions from national and local budgets the results have been impressive and have transformed the face of much of rural Vietnam.

## **2.7 Developing human resources**

Providing educational access for rural people has been a major government priority since the 1950s. The base-line aims for socio-economic development in 2001-2010 were to consolidate illiteracy elimination and the universalisation of primary and secondary schooling, and ensure that the majority of children in rural areas completed secondary education or vocational training. Other aims were to modernise classrooms and improve rural access to high school, university, overseas study, technical training programs and special boarding schools. The aim of the school program has been to instil national values, develop competencies for employment and, notably, train people for vocations, agricultural extension and rural and remote area development. The results: educational participation in mountainous areas and the Mekong delta is much lower than the national average; rural areas have a low proportion of trained workers; in 2002 female illiteracy was more than two times that of males, rural ethnic minority illiteracy in Vietnamese was four times higher than their Kinh/Hoa counterparts, urban people were twice as likely as rural people to complete upper secondary school (18.24% / 9.29%), and were more than eight times more likely than rural people to have a university or higher education (Vu Quoc Ngu 2004, pp. 215-222).

## **2.8 Creating market subjects**

Since its inception, the Vietnamese state has placed great emphasis on the development of national subjects in support of shifting policy orientations.



In the 1980s there was a shift away from the collective to the household as the primary unit for economic management, decision making and economic activity. The dismantling of the bureaucratic subsidy system moved economic responsibility away from the state to individuals and families. Various programs shifted cultural and moral responsibility onto non-state actors as well (eg. *nguoi tot viec tot*, the cultural family, the happy family, the cultural hamlet). The rationale has been to redefine and mobilise new social identities to act as self-regulating and self-sustaining economic and cultural agents in an increasingly marketised society. Socialisation (*xa hoi hoa*) was introduced in the late 1990s. It is a user pays policy that expects individuals to contribute materially to social services: school fees, health, cultural activities and insurance. These exercises in neoliberal governmentality have been successful in that there is a strong popular identification with the state's preferred notions of social identity and today one hears many claims that these new identities reflect the traditional Vietnamese 'cultural essence' (*ban sac van hoa*). Yet there has been contestation of these identities, and wilful assertion of identities in tension with state constructions.

## 2.9 Ethnic minority development

Policies to integrate ethnic minority areas and develop ethnic minority groups have been in place since the 1950s. These include sedentarising swiddeners, the promotion of migration into the hills and ethnic domains, 'uplifting' ethnic minorities from a perceived low technical, social and material base, and 'selectively preserving and developing' their culture within a vision of a multi-ethnic socialist nation. Military activity in ethnic minority areas in the 1960s and early 1970s was replaced in the 1980s by active resource development: rubber, coffee, mining, hydropower, and rice in the lowlands. These policies have been driven by a desire to secure frontier areas, exploit regions of perceived untapped potential, promote the affiliation of ethnic groups to the Vietnamese nation state, and a kind of civilising mission informed by perceptions of disadvantage and a ranking of ethnicity that placed lowland, wet-rice, literate peoples higher than highland-dwelling, shifting cultivators. Spontaneous migration into ethnic minority areas, mainly by Kinh people, has continued rapidly. The results have been the marked social and cultural Vietnamisation of ethnic minority areas, rapidly changing lifestyles, pronounced geographical and cultural dislocation and some noticeable degree of destabilisation and disaffection.



## 2.10 Summary

Changes to rural areas over the last twenty years have been rapid, quite unexpected and have come in many guises. There have been many incremental adjustments and fine tuning of the reforms. But there have also been big sea changes in rural development policy, most notably the state's retreat from the rural economy in the late 1980s and its significant re-entry (through rural modernisation and infrastructure programs) in the late 1990s.

Why did policies take this route? The Vietnamese government has been responsive to multiple poles of power. A lot of pushing and shoving from below has had an undoubted impact on the direction of policy. The government has also responded to the changed international context: the capitalist world order, pressure from overseas critics and from carrot-and-stick-wielding foreign governments and aid agencies. Additionally a balance has been struck between different domestic constituencies: urban and rural, different regions and classes and between past supporters and opponents of the regime. The government has shown itself to be pragmatic, realistic and flexible, defying and surprising those who see it as unbending, a relic from an era of war with a commandist orientation unsuited to survival in a world marked by fierce economic competition and openness.

Vietnam's positive results in terms of 'inclusive growth' have taken place during a period in which agricultural economies and developing nations around the world have been undermined and fragmented by globalisation. The urban-rural gap has increased, showing a perceptible shift in power from rural to urban poles. However, quite a number of long-term policy emphases show the government's consistent vision for a strong, rationally-managed and cohesive society in which rural areas play a major role and their development remains of paramount importance.

## 3. Troublesome trends and implications

In this section I advance some criticisms of the broad direction of rural development policies. These comments primarily draw upon my observations of conditions in rural areas of the Mekong delta since the early 1990s, and conversations with many different groups of people in this region. Some effort has been made to draw parallels with other parts of the country, although some of the criticisms here may not be applicable elsewhere.



### 3.1 Size matters

Among the most feted accomplishment of Vietnam's liberal reforms has been the increase in agricultural production. Attention is given in official assessments to productivity increases, the quantity and value of agricultural exports and per-capita export earnings. These figures paint a picture of progress in rural Vietnam. The Mekong delta comes off particularly well as the country's biggest rice producer and contributor to up to 90% of rice exports. However, this focus tells us little about local outcomes. Notable among these have been the high costs and declining returns to farmers from agricultural commodity production: indebtedness, distress land sales, dislocation and the increasing cost of living. The indicators used—productivity and export earnings—can be viewed, quite negatively, as measuring resource extraction, rather than returns to farmers. As the goal of rural development is to improve the wellbeing of rural people a locally more sensitive indicator is needed.

In the five year plan for agriculture and rural development 2001-5 praise is given for improvements in 'food security', measurable by increases in food produced per capita. However, farmers in the Mekong delta consume only a portion of the food they produce. For them, food security is not the issue. The pressure to increase food production has in fact brought about increased insecurity in other areas of their lives, such as school drop-outs, poor access to health care, indebtedness, landlessness and loss of employment.

Rising rural incomes are another visible measure. These receive less prominence, however, and indeed have declined relative to urban incomes. National poverty reduction statistics are extremely positive, but confirm rural Vietnam as a place where poverty is concentrated. The indicators for this gloomy trend are household monetary expenditures. By this measure, the Khmer in the Mekong delta do particularly badly. Yet a young Khmer person can obtain years of education, food and board supported by non-monetarised transactions between monasteries and their supporting communities. That same person may have no close connections to the local authorities, no relatives in urban centres and may not speak Vietnamese, non-monetary disadvantages that have a critical bearing on social mobility in the Mekong delta.

What we need are indicators that assess the quality of outcomes for rural people and the nature of the difficulties that they face, not the quantitative indicators of progress or disadvantage currently in use.



### 3.2 Whose globalisation?

What leaders point to as benefits of globalisation are seen by many rural people as pathological. Declines in the price of rice combined with rising input costs lead farmers to describe export rice farming as 'an occupation of the poor', and 'a sure way to lose your land'. Agricultural production has steadily increased but returns have declined in a market that is seen as unstable and unfair. Due to high start-up costs and the need for the right connections, explosive new export industries like floating cage aquaculture are off-limits to many Chau Doc residents who have, for generations, made a living from capture fishing in the same waters. Coffee farms in the highlands have displaced indigenous locals and a severe slump in the global price of coffee bankrupted many smaller investors. Digging ponds for shrimp raising has been too expensive for many people in coastal areas, some displaced from their fields by salt-water incursions. Scholarships are allocated to rural people who have established themselves in the city, using their rural residence permit to qualify for the scholarships and their urban based networks to break into the monopoly.

It is not simply globalisation that has caused the turnaround for better and for worse in rural Vietnam. Rather it is the development of new alliances by people with vested interests: profits accrue to those with favourable connections, access to markets and favourable trading terms is guaranteed to those well-connected to the political centre. Exclusive networks are strengthened excluding from participation the majority of people with no such vested interests. From the 1930s to the 1980s communist critics of colonialism had a good term for a somewhat similar system. It was called comprador capitalism (*tu san mai ban*).

Rural forms of globalisation that respond to difficult local living conditions are, in turn, seen as pathological by national leaders and urban elites. Young women from the rural Mekong delta marry husbands from rural Taiwan. These rural-to-rural alliances have generated outrage and anxiety among urban elites who fear that vulnerable young brides with no other options are being exploited and abused in these relationships. I do not doubt that cases of exploitation exist. They have been meticulously documented. Yet do these critics believe that domestic conditions at home are better than in Taiwan? Are such young rural people welcome into the cities? I sometimes wonder if the Taiwanese bride controversy is inspired by concerns for vulnerable rural people or by nationalistic paternalism. In the Central and Northern Highlands ethnic minority people are turning to transnational Christianity as a solution to their many dilemmas, provoking concerns about foreign intervention. The Cham in the Mekong delta are



turning to a form of reformist Islam that has aroused anxiety among authorities in neighbouring Cambodia and Thailand. The Khmer in the Mekong entertain irredentist notions, ideas studiously ignored in publications on the Khmer. These non-elite alliances are stigmatised although, as a form of people's globalisation, they often stem from rural people's exclusion from normative globalisation.

### 3.3 The limits of modernism

Rural 'modernisation' has been one of the big themes of development planning in the last ten years. Among other things, this implies using science and technology to modify and control the natural environment: harnessing nature to overcome scarcity and expand production. Examples of rural modernisation include improvements to irrigation, flood control, genetically modified seeds and breeds, mechanisation (such as water pumps and mechanised tillers), electrification and investments in livestock and aquaculture.

Certainly this has resulted in impressively increased yields, increased exports, an end to hunger and the emergence of new sources of rural wealth. Proof surely, of the capacity of science and technology to tame nature and bring progress. If we can only extend this to social relations, making the rural economy socially progressive (e.g. delivering profits back to farmers and creating fair market access) will the right fundamentals be in place? Is the modernisation of 'a market economy with socialist characteristics' the recipe for success?

Let us focus on some of the main problems and setbacks in rural Vietnam of the last ten years. Many of these are to do with cataclysmic environmental occurrences: the category 5 storm in 1998 and a succession of smaller storms, the floods of 1999-2002 followed by droughts and saline incursions, shrimp disease, the destruction of the mangroves and the bird flu pandemic. On top of these have been crises in global society, such as unstable markets, sudden price slumps, various states' arbitrary non-compliance with free-trade norms, sudden hikes in the price of petrol caused by war and environmental catastrophes elsewhere.

As Tran Thi Thu Trang has shown, even well-off rural people, who have favourable access to political capital and information, have been badly affected by unstable prices of the export commodities they produce. She noted that such people frequently fail in their economic ventures and do not know how to invest next (Tran 2004). As I have shown the people whose lack of connections and information exclude them from access to large scale





investments in shrimp ponds and fish cages have been spared the massive losses in these sectors caused by dramatic price slumps, disease and trade disputes (Taylor 2004).

These occurrences are referred to in economic literature as 'crises' (*khung hoang*), fluctuations or perturbations. This optimistic perspective assumes that stability is the norm, interrupted by episodes of crisis. There is a deep seated conviction that nature will be progressively subdued and turned to human advantage by technology. Economists pursuing market integration are convinced that the rural economy will grow if only brought into line with a global economy in equilibrium.

Is this scientific scepticism and realism or an inflexible belief, against a weight of evidence, in progress and harmony? Surely a more pragmatic and rational approach is called for: that the macro environment is not infinitely subject to control. Rather than assume that nature will be progressively subdued, it seems more rational to count on continuing environmental crises: rising sea levels, lowered fresh water levels, violent storms, new epidemics. Stabilisation through macro-economic integration is an illusion. Market integration has been a rough and dangerous ride.

### 3.4 Fixed on industrialisation

Another major theme in rural development policies of the last ten years is industrialisation. Official reports are unanimous in saying that rural Vietnam has too little industrialisation. Why is industrialisation good? It increases productivity, absorbs local labour, adds value to local resources, achieves economies of scale and exploits modern knowledge for human benefit.

What do planners mean when they speak of industrialisation? Usually 'secondary' rather than primary or tertiary industries. Reading the 2001-2005 Five-Year Plan, the 2001-2010 Strategy for Socio-economic Development and Vietnam's Rural Industrial Development Strategy (2000) we see three privileged areas:

1. Manufacture: refining, processing, assembling or other processes that add value to natural products.
2. Extractive industries: mining in particular, that use technology to tap otherwise inaccessible resources.
3. Energy: processes that convert natural resources (coal, oil, gas, gravity) into electricity and mechanical power.



How can we characterise the Vietnamese vision of industrialisation? Processes that maximise speed, scale and power to access and convert natural resources. Terrestrially-based, fixed facilities in a specialised production zone accessible by year-round road, rail and air links, and drawing on available services. Employing trained, technically specialised, differentiated workforces. Absorbing local labour, delivering income growth and adding value to local goods.

Vietnamese industrialisation also has socialist characteristics: the state attempts to introduce this benefit to rural and remote places, rather than simply respond to market driven demands to locate industries in places where profits can be maximised. However, this strategy to entice industries into rural and remote areas has had limited success.

There is a lot of emphasis on agricultural processing in rural industrialisation plans, which is seen as situationally relevant to rural areas. But agricultural processing is volatile and frequently unprofitable. Sugar refineries have been built in several provinces but have floundered. When the price of sugarcane is high consumers prefer cheaper imports. When the price is low farmers stop planting sugar. Rural-based refineries are caught in a constant tug of war.

The official vision of rural industrialisation is gender biased. Although many rural women work in urban factories, 'industrialisation' tends to exclude most of women's contribution to the economy: marketing, agricultural labour services, paid and unpaid home-based work, food preparation, waitressing, hospitality.

On these terms, I agree that rural Vietnam lacks industrialisation. But is this a problem? Are there not other economic forms in rural areas that absorb local labour, add value to local resources, achieve economies of scale and exploit modern knowledge for human benefit?

What of the craft and service sectors that use art rather than science, local rather than imported knowledge, skills rather than power?

Where is the craft sector found? Like all industry, in sites where there are material resources and access to markets. Yet the craft sector utilises local resources which are concentrated in rural areas. It also draws heavily on local technologies and traditions of knowledge. The craft sector is frequently small-scale and household or neighbourhood-based, but as in Bat Trang village, can be stepped up to become rationalised and large scale. As Binh Duong province demonstrates, a local craft-based economy (pottery, lacquer-ware, wood-



working) can provide a good foundation for movement into a factory-based manufacturing economy.

Where is the service sector found? It is located in existing social relationships, which it adapts to and subtly modifies. This is a different place than the manufacturing industry, which is organised around specialised sites (mines, plants). The service sector is found wherever people live and interact. Yet it can be large scale and employ technically sophisticated processes and many labourers.

Current approaches to industrialisation are modelled on production, whose perceived virtue is that it adds to the sum of resources, in what to the current mindset is an imagined economy of scarcity. By contrast consumption feeds on scarce resources; it must be limited, for it subtracts from what is available. However consumption of local and domestic resources spurs growth, generates employment, widens spatial relationships and stimulates communication and transport.

What of the distribution, transport, marketing, finance, communications and tourism sectors, which are not fixed in place?

These alternative rural economic forms deliver what is expected of industrialisation but are frequently excluded from planning and discussion.

### **3.5 Standardisation of space**

The drive to rationalise space has come to dominate the Ministry of Agriculture and Rural Development and not a few international aid agencies as well. Every commune must have a sealed road accessible 365 days in a year. Every administrative centre in the country is to be connected to the terrestrial communications grid. Every 'monkey bridge' in rural areas is to be eliminated.

Does road infrastructure deliver? One of the reasons given for the Mekong's low industrialisation and high poverty is that there is too much water: rivers, flooding, lack of roads and rail connections. In an attempt to remedy this, the Mekong is getting a huge terrestrial upgrade: roads, bridges, land heightening, flood control, sealing and solidification. I have elsewhere voiced my doubts that this is good policy (Taylor 2004). The economic stagnation and industrial weakness of the well-connected province of Tien Giang provinces forces us to ask if this a sound investment. The displacement of indigenous people by roads draws attention to their costs. The remarkably high economic growth, entrepreneurial dynamism, and



economic diversification of remote, unconnected, flood-prone Chau Doc should make us ask: is this the only way?

The creation of a standardised national communications network attracts very modern and progressive justifications from local and international authorities: to increase access to markets and enhance growth, make services accessible, reduce poverty, and facilitate rural modernisation and industrialisation.

Yet the emphasis on roads has some feudal overtones—absorbing vast resources, much of them local, to achieve the symbolic homogenisation of space and the appearance of government. It is a form of corvée, extracting a large tribute of labour and resources from the localities who by these contributions demonstrate their fealty to the plan and their subordination to the centre.

This project also has some affinity with magical principles.

Putting infrastructure in place in rural areas transfers the qualities found in the centre to the provinces. The city is the model. The cultural practices and standards ‘up in the city’ (*tren thanh pho*) are to be copied ‘down in the rural areas’ (*o duoi que*) to ‘raise’ them to its level. In anthropology this is called sympathetic magic. If you make a copy of something, like a votive offering shaped like money or a motorcycle, you can magically appropriate the powers and the properties of the thing you copy. You transfer these qualities through sacrificial destruction to the hungry ghosts. By channelling taxpayers’ money into infrastructure projects the charisma of the city is captured and transferred to the provinces.

Urban centres are well-endowed with resources and international linkages. The rationale for roads is to connect rural areas to these places to share their prosperity. Every hamlet is connected to a commune, every commune to a district, every district to a provincial capital, these capitals to the big regional cities and these cities to the national capital. This connection improves trade and increases growth. This is what anthropologists call contagious magic. If you put a 10,000 dong note on the altar of a powerful god the direct contact with the god transfers its power to the note, which then produces more money. If you do the same with food and eat the food you are filled with the power of the god and you become healthy and immune to disease.

By emulating this centre or connecting to it, rural areas’ fortunes will rise. Yet the centre at the heart of the road universalisation project is merely an



arbitrary centre. Why arbitrary? Rural areas like Chau Doc are only geographically 'remote' when seen from the perspective of Hanoi. Places like Tra Vinh are only communicatively cut-off if one takes Viet or Kinh culture as the standard rather than Khmer culture. The people of Vinh Chau in Soc Trang lack knowledge and information, because they do not understand Vietnamese, although they speak Teochau as the lingua franca. If the goal truly is marketisation and economic growth one should commence with an open mind as to what geographical or cultural features work best to bring that about. From the perspective of Hanoi it is obvious that rural people need terrestrial connection to Hanoi, or familiarity with Vietnamese culture or language. However, this does not seem self-evident in much of the Mekong delta.

Ritual and culture are powerful drivers but what are the geographical realities against which this project of symbolic homogenisation takes place? Rural Vietnam is marked by a great deal of geographical variability that a unitary mode of transport infrastructure cannot hope to overcome. There are all sorts of routes and many forms of mobility. There are barriers to mobility apart from those posed by geography.

### **3.6 The light of the CAPITAL**

The culture of the capital may be arbitrary, but it matters, because power is concentrated here.

As several observers have noted, one premise of recent rural development policies has been to avoid the flooding of the cities by rural migrants. To prevent that, barriers to urban residence have been set up, denying rural-urban migrants household registration permits they need to access services in urban areas (Dang Nguyen Anh 2005). In tandem with this defensive policy, there is a redistributive policy of extending infrastructure to rural areas. The goal is to implant the resources and conditions in the rural areas to develop strong economies that absorb rural labour and deliver equity in the countryside. These policies can be described as 'geographical socialism'. Resources and services radiate out from the capital to rural populations conceived of as rooted in place. However, the light of the capital is a beaconing one. Even the best rural schools and job opportunities cannot match those in the big cities. 'There is no future in rural areas' I have frequently been told.

The extension to rural areas of government services, infrastructure and centralised cultural standards aims to consolidate rural people's standing in place. Yet it precipitates three types of movement that are not



anticipated in this policy move. The first is an accelerated movement by rural locals to the urban centres that serve as the model for rural development. The second is opportunistic mobility into these new rural service centres by non-locals who can draw greatest benefit from them. The third is distress-driven relocation as locals find that the way of life they know or prefer has become unviable due to the changed conditions. These three forms of unanticipated movement are clearly visible in the newly-created Precinct 8 of Tra Vinh.

### 3.7 Doc Lap Tu Lo

There is great support for introducing and upgrading social services in rural localities, especially among the people who receive funds to build these and profit from delivering access to others at a price. The relevant ministries will hear nothing but praise for these developments from the localities. Meanwhile an education, good health, a business has become more expensive for ordinary people due to the user-pays approach that flourishes at the coal face of rural service provision.

To increase physical proximity to roads, marketplaces, hospitals, health clinics and schools has not necessarily improved local access to the services they are meant to deliver. Among rural people in the Mekong delta there is a perception that the 'socialisation' of government services is de facto privatisation. One rural trader in Tra Vinh explained the meaning of the state motto 'Independence and Freedom' (*doc lap, tu do*) as 'Everyone-for-himself' (*doc lap, tu lo*).

Farmers in An Phu district, An Giang have told me that the only time they will see a doctor is when their death certificate is issued. I know one former revolutionary cadre who actually died in hospital and then came back to life. He risked his life in the war against France, but hovering around death in the hospital, this service counted for nothing. He still had to bribe the doctors and nurses to receive basic medicine and care. To do this he had to mobilise his official connections and ask for money from a Viet Kieu relative. Many people do not have these advantages. People in Chau Doc tell of mafia-like (*xa hoi den*) relationships in hospitals where one must first find the right intermediary and pay them protection money to gain access to qualified professionals. I know cases of people who have sold all their land to care for an elderly parent. Teachers withhold crucial elements of the curriculum from students for delivery, at a fee, in supplementary private classes. Daughters have become prostitutes to pay for a brother's education or pay the debt on a failed investment. Young women enter into debt



bondage with private creditors who direct them into the sex trade to harvest interest payments. Government officials, teachers and doctors are held in low regard in An Giang: 'They use their good fortune and talents not to help others but to advance themselves.' From the vantage point of Chau Doc life is seen as the survival of the fittest.

For many ordinary rural people access to medical services, aged care or primary qualifications come at a punitive price. To obtain these services they must sell off vital capital or withdraw a child from school, a response to crisis that increases their vulnerability. One common response has been to withdraw entirely from state service provision, turning instead to self-help relations organised by kinship, neighbourhood networks, religion and ethnic solidarity.

### 3.8 Why won't they listen?

Why are rural educations so low? The field of rural education development is awash with expressions of frustration and perceptions of absurdity. The state reaches out to help the people, but they show no improvement and then criticise the state for not caring, despite all its best efforts!

The approach has been to focus on the weakness of rural people.

Rural people lack access to education. First it was that they lived far from schools. So the state brought the schools to them. Education outlets have been built and they are now ubiquitous. Teachers are encouraged to teach in remote areas. However, with socialisation ('user pays' contributions) schooling costs rise. Schools are now nearer than ever yet also farther away than ever.

Rural people don't have the time or the money to attend. So the state provides the poor exemptions from fee contributions. Yet this reduces funding available to schools in poor areas and decreases their quality (Vu Quoc Ngu 2004). Because quality is low, due to lack of funds, alternative classes spring up, an extra impost of time for the wealthy and simply unaffordable to most. It has been noted that Vietnam's budgetary contribution to education is lower than other regional countries (Nguyen Pham Thanh Nhan et al 2000). One solution is for the state to pump more central funds into local schools and at the same time provide fee exemptions and scholarships to the poorest.

Yet school attendance is still low in the Mekong delta, even among well-off people. Some explanations go that rural people are caught in a vicious circle.



They do not study because they are too busy chasing after profits. The example of the wealthier-than-average provinces of Ca Mau and An Giang show that the wealthier rural people get the less they may study (Taylor 2004). This is criticised as a self-defeating strategy. It is also said of people in the rural Mekong delta that they fail to appreciate the benefit of education because of their narrow horizons or ties to religious ideologies, traditional customs or stubborn habits.

More recently there has been some awareness that maybe the school system is to blame and a discourse of increasing the quality of education. The main focus is on the deficiency of the curriculum making it more relevant, providing more vocational training. This is mainly talk and it may not be effectively implemented because the existing teachers are not able to provide this curriculum. Enrolments are still low. The next discourse we might expect is about the low quality of rural teachers. Current plans are to send 1,300 teachers from Can Tho abroad for further studies.

This is where we are mired now, for many a perplexing and dispiriting situation. Meanwhile the Mekong delta is both wealthy and yet poorly educated, which is paradoxical to those who believe in the education as the gate to economic prosperity. It worries the government about rural people's possibly diminished sense of citizenship obligations or national belonging. It worries foreign observers about the social justice implications. But no-one seems to know the answer.

### 3.9 Majority rules

Official development policies towards the ethnic minorities are both ethnocentric and ineffective. They are seen to have a 'lower cultural level' that needs uplifting. This is a view that sets Kinh culture and language as a benchmark for development. To an outsider this is a remarkably arbitrary and self-centred approach. Firstly, is it ill-informed. Ethnic minorities have their own values, cultural standards and assessments of their situation, which we rarely hear, because their voices are drowned out by Kinh ethnologists and officials. Their own institutions, languages, networks and evolving identities, which are adapted to their changing situation, are seen as counter-productive, to be replaced by an unproven official model. Second, to state that the minorities have a 'lower cultural level' is patronising. The government sees as its mission to 'selectively preserve and develop' minority cultures. Kinh culture is assumed to have the answers to fit the problems of the minorities. There is an attitude of self-congratulation among Kinh people in the Mekong delta about how much is being done to





'uplift' the Khmer and a sense of frustration with the latter's lack of responsiveness, and gratitude. Thirdly, it is derivative. As one Cham man told me, this government only respects power: it looks up to foreigners and looks down on ethnic minorities, transferring onto us their sense of inferiority. The official view of development is arbitrary and unilineal: history flows in a line from the ethnic minorities through Kinh culture to places like America or Japan. And finally it does not work. After a half century of trying to 'lift up' the ethnic minorities, by the government's own standards, they remain 'undeveloped.'

Meanwhile, their domains have been invaded by migrants, plantations and development projects. Their land has been taken or surrendered; they are struggling with a new system, with new rules, where the odds of success are massively stacked against them. Hence they are angry, either withdrawing from all engagement, or looking for outside assistance or salvation in a radical religious alternative. The ethnic minorities in the Mekong delta are wealthier than the national average. Yet they feel colonised: suffocated, trapped, manipulated, facing loss of territory, and exploited by corrupt officials responsible for their 'development'. The official version of their culture is ahistorical, sees them as apolitical or living in grateful harmony with the Kinh. The Chinese, Khmer and Cham have a very different understanding of their own history of ethnic relations, which they never hear in public or in school. As a result they fear their cultural extinction. From what I read, Vietnamese people felt like this not so long ago, when they were colonised by France.

International collaboration: does it make a difference? On the one hand ethnologists are exposed to tough criticism and new ideas from their foreign counterparts, whose influence stems from the research and aid dollars they bring with them. We are beginning to see some small changes and self-criticism of former approaches (Huynh Thu Ba et al 2002). But I am not convinced that the changes are very significant. Unfortunately international aid collaboration has also had the opposite effect, reinforcing an attitude of superiority, patronising views and unilineal assumptions. The poverty discourse that flourishes in the UNDP, World Bank and many other institutions offers explanations for poverty that simply confirm Kinh ethnocentrism. The ethnic minorities are 'poor', according to some explanations, because they are 'remote' and communicatively 'isolated'. Their poverty is an effect of their cultural 'remoteness' from Kinh values (Baulch et al 2002). This tendency makes me believe that international collaboration in the field of ethnic minority relations will not necessarily result in a change for the better.



### 3.10 Summary

In contrast with assessments of Vietnam's reform policies as responsive, pragmatic and flexible, we can see that rural development policies have a number of opposite characteristics. Policies relating to education, infrastructure development, service provision and ethnicity are centrist, urbanist and top-down. Modernisation, industrialisation and human resource policies are to a degree marked by a faith in science instead of scientific principles of falsification, observation and induction. Development scenarios sketched out for rural areas are unipolar and unilinear, rather than recognising pluralism, diversity and multiple paths. Development interventions are sometimes applied in a uniform and rigid manner. Simplification has become something of a goal in its own right.

Recent rural development policies have also had counterproductive effects. 'Food security' has in many ways made life less secure for people in the Mekong delta. Globalisation has bred local monopolies. Infrastructure has often dislodged people rather than strengthening their local tenure. Market-based modernisation has drawn rural people out of schools into shrines. 'Socialisation' has reduced rural people's access to social services. Vietnamisation has pushed ethnic minorities into non-Vietnamese identities and alliances.

As for these policies' 'socialist orientation' I detect an unfair bargain between rural and urban areas. Rural people are to deliver resources and fame for the nation at the cost of declining returns and increased insecurity. They are to stay out of the cities in return for development projects that frequently dislodge them from place. They are to sign up for inappropriate programs and services, to which they must contribute, to boot. They must submit to unproven external standards, whose ineffectiveness is attributed to their own lack of knowledge.

Rural development is informed by perceptions of the countryside as a place of lack rather than a place endowed with its own motives, knowledge, links, resources and tactics. The countryside needs to be taught rather than learned from. Rural development is imposed rather than facilitated. The city and state offer a model and resource, but do rural people not have the right to reject these when not serving their interests? If rural areas are to prosper, the onus should not be on rural people to listen, perform or get with the development program issuing from the urban centre. The onus is on the centre to learn, adapt and adjust to what is going on in the countryside.



## 4. Some alternative indicators of rural development

In this section I draw mainly on examples from the Mekong delta to sketch an alternative picture of rural areas and of development indicators that have received little attention.

### 4.1 Against extraction

The Mekong delta has frequently been praised for its contribution to one of the proudest accomplishments of the doi moi reforms, the production of agricultural exports and a rise in rural incomes. What does a two province comparison tell us about these accomplishments?

Tien Giang province's 2004 per capita export earnings were half those of An Giang province and its per capita income was fourth fifths that of An Giang in 1999. Much of An Giang's wealth comes from the dynamic new aquaculture sector and from improved capacity for rice production. Meanwhile the export fruit sector, on which much of Tien Giang's wealth rests, is in decline. According to these indicators Tien Giang is less integrated in the market economy than An Giang. It is less economically innovative and it is also poorer.

This comparison seems to confirm the value of using rural export figures as an indicator of and explanation for rural well-being. But do these figures really tell us that people in An Giang are better off?

Almost twice as many students graduate from middle school (*cap hai*) in Tien Giang compared with An Giang province, where Vietnamese literacy is also much lower. It is a truism of Vietnamese government and international development reports that schooling leads to increased prosperity. However, consistently across the Mekong delta, high schooling does not imply high income. As An Giang (and Ca Mau) show nor does schooling correlate well with entrepreneurship or industrialisation. In regional terms, Tien Giang people's emphasis on schooling might be seen as economically irrational, and a possible reason for their relative poverty. Indeed, many families sell off their assets to put their children through school. People in Tien Giang also regard proficiency in literature, music and opera very highly and are active in the arts (for example *nhac tai tu*—amateur classical music—is commonly heard at wedding banquets), leading the writer Son Nam to describe Tien Giang as a centre of 'orchard civilisation' (*van minh miet vuon*). Clearly, the emphasis on schooling and the arts in Tien Giang is a localised standard of social status. Yet this emphasis is also locally rational. If you go up the road to Ho Chi Minh City



you will find many more teachers, journalists, researchers and musicians from Tien Giang than from An Giang. In Phnom Penh, you will find many people from An Giang engaged in occupations that do not demand proficiency in Vietnamese language and letters.

Less food is exported from Tien Giang and incomes are lower compared with An Giang. Yet this does not mean that the people of this province consume less or that they are less secure than those in An Giang. In the village of Vinh Kim most households have small but highly diverse land holdings (various fruit trees, rice, husbandry and fish ponds). Much of what families consume each mealtime is produced at home and their diet changes year-round. Vinh Kim villagers have a highly active ritual life, constantly holding and attending death anniversaries, funerals and weddings, each involving sumptuous feasts, to which they invite their neighbours. Much of the food and drink that people consume is produced by their neighbours and circulates locally in a non-monetarised ritual exchange economy.

A lot of the money that Tien Giang people do earn from the export of fruit and rice is invested in the staging of rituals, rather than in the construction of more solid houses or purchase of vehicles, which suggests their orientation is wasteful and non-rational. Yet such activities earn cultural prestige (*uy tin*), and build relations of mutual obligation between neighbours that can be activated for a range of endeavours. Indeed, the milk apple (*vu sua*) tree, for which the village is famed, is called a 'tree of disloyalty' (*cay bat nghia*), because when its fruit ripens people must harvest it quickly, sometimes forcing them to abandon the ancestral rituals held at that time. To forsake rituals for profits earns one disrespect among one's neighbours and a loss in their support. A local theory of why people become poor in Vinh Kim is that they do not take their ritual obligations seriously.

An Giang is more monetarised, partly the result of ecological conditions that inhibit crop diversification and encourage high-investment, high-yield ventures. Exporting much of what they produce, buying much of what they consume, economic life is volatile for people in An Giang. Investments frequently fail, indebtedness is high, and people are forced to relinquish collateral to creditors, change occupations and seek employment elsewhere. Their ritual networks (eg. Hoa Hao, Islam, Theravada Buddhism) are more universalist than in Tien Giang (gods are more important than ancestors), and offer a greater array of forms of collective support (religious education, language training, medical services, charity, burial), yet they are equally demanding of people's time and money.



To summarise, local culture in Tien Giang is a powerful force that restricts monetarisation, inhibits resource extraction and depresses local incomes. Non-monetarised expenditures in a ritual economy of prestige make for poor economic development indicators but indicate local wellbeing, security and status. An Giang's high export earnings correlate with high incomes, yet great economic insecurity as well. Much of what its residents earn from exports is spent on highly-developed religious safety nets that cushion the impact of their exposure to the market.

#### **4.2 Vernacular modernisation**

The strength and vitality of religious networks in the Mekong delta cannot be seen as a function of this region's lack of exposure to global market forces. Quite the opposite is true. Is it then due to the incomplete nature of the contemporary period of transition to the market? Is this market integration without modernisation? One possible explanation for people's recourse to religious solutions is that the people in these rural areas have been plunged into market relations and exposed to the vicissitudes of the global commodities market with inadequate technical resources. Is this a reason for the state to redouble its efforts to modernise the rural areas and strengthen people's standing in their market dealings through the provision of infrastructure and other services?

The case of An Giang whose intense integration with the market goes hand-in-hand with an extremely active religious life seems to support this line of thinking. An Giang is cut off from the rest of Vietnam by a branch of the Mekong river. Most of the province is covered annually for several months by flood waters. When the waters abate they pool in depressions that are highly acidic. Roads are washed away by the floods, settlements are swamped, children killed, clean drinking water and processing facilities are lacking. Efforts have been made to build up settlements, heighten roads, build bridges and drain swamps of acidic water. Yet much of the province has not yet seen the benefits of such technological developments. The difficulties faced in this part of the Mekong delta seem to come down to the problem of too much water.

Yet water is surely the Mekong delta's main strength. An Giang is the centre of the capital-intensive catfish export industry and a large freshwater capture fishery. Its dynamic cross-border trading economy relies on the Mekong river as a trading artery. The province has a huge and diverse flotilla of water craft and a thriving water-based transport industry. Vietnam's most water-bound



province, Ca Mau, is its biggest sea products harvester and processor. Rach Gia, the provincial capital with the most aggressive and ambitious urbanisation program in the delta is, mysteriously, also one of the most remote—a real end-of-the-road province (*tin h cung*). Water explains the mystery. The town area has expanded by reclaiming the sea, using dredged silt from canals. There are plenty of buyers for the houses in these new areas, which cost up to 200,000 USD each. Much of the money for these comes from Rach Gia's sea-based fishing industry, which exploits the waters of the Gulf of Thailand. The fishing fleet has grown rapidly in recent years thanks mainly to money sent back by Viet Kieu. Rach Gia has so many links to Viet Kieu because of its proximity to the sea.

Due to this abundance of water, the people in the Mekong delta are often seen as living close to nature. This in turn is often given as a reason for their religious proclivities, as a way to make peace with an all-powerful nature in an isolated, technologically backward region. However, the Mekong delta is perhaps Vietnam's most urbanised and technologically modified rural region. Its people live along watercourses which serve as lines of communication. Although typically at the back of each house is a rice paddy, orchard or fish pond, the front opens out onto a navigable waterway. Many of these watercourses have been dredged and widened over more than a century. As a result the whole delta is linked internally and with places beyond by water. The religions followed in the Mekong delta, the Cao Dai being a notable example, reflect a local preoccupation with communication, borrowing, mingling and connection that corresponds with this communicatively open way of life. Today there is great enthusiasm in the delta for the building of roads and bridges. People readily abandon the waterways to live along roads. Although described as a form of modernisation, the local passion for roads is the latest manifestation of a longstanding local emphasis on communication.

The ecological adaptations in Vietnam's rural areas differ markedly from region to region. One thing we can learn from the case of the Mekong delta is that it is a mistake to see ecological difference as underdevelopment or backwardness. Developing terrestrial infrastructure is not necessarily synonymous with modernisation just as religious orientations do not connote backwardness and isolation. One way, therefore, to improve rural people's market position is to understand and enhance local ecologies and cultural adaptations rather than to seek to transform them in a unitary vision of modernisation.



### 4.3 Rural globalisation

It is not saying anything new to note that the two biggest cities of Vietnam have been transformed greatly in this era of global integration and diversified international linkages. Hanoi and Ho Chi Minh City are centres for foreign investment and trade, bases for foreign companies and organisations, sites for exhilarating and challenging experimentation with new ideas, cultural influences and lifestyles. By contrast, rural Vietnam is often depicted as the interior: remote, insular, for better and for worse shielded from this intense exposure to external influences. But if we consult a map we see Hanoi and Saigon are located just about as far as one can be in Vietnam from an international border. Because of the unusual shape of the country, most of rural Vietnam is closer to other countries than these supposedly cosmopolitan centres. The regions which are described as 'remote areas' (*vung sau vung xa*) are, in crude geographical terms, far less so than the residents of these cities.

People in the rural Mekong delta do not have access to an international airport. Most could not afford to fly if they did. However, they leave the country more frequently than people on far higher incomes in the places that do. Few residents of the delta have ever met someone from Hanoi, let alone visit their capital city, but they take full advantage of their proximity to the nearest border. Cambodia is full of people from all over the Mekong delta. The border is highly porous, formal travel documents are not required to cross it and there is a lively cross-border movement of traders and workers in both directions. Communication poses few problems. Many people in the Mekong delta know Cambodia's lingua franca of Khmer and Teochau. Those who do not find that Vietnamese is spoken widely. A 23 year old women from rural Bac Lieu does not know how to write Vietnamese. Speaking Cantonese and Khmer fluently she works in a Chinese-owned cafe in Phnom Penh to save money for her brother at home in Bac Lieu to study Vietnamese, and for her own planned trip southern China.

The Cham in An Giang province are the delta's best travellers. Although they live in tiny settlements on islands in the Mekong river and are reputed to keep to themselves the Cham frequently travel to Cambodia, Thailand and Malaysia. As travelling salesmen they are away from home for months at a time, visiting all the provinces of the Mekong delta, Saigon, the Central Vietnamese plain, the Central Highlands, the Red River delta and as far away as China. They speak Vietnamese well; some speak seven languages and can write three or four. They belong to a transnational network that spans much of mainland Southeast Asia. The polices of the Malaysian, Thai and



Cambodian governments are as important to them as the relationships they entertain with Vietnam's so-called economic and cultural centres of Hanoi and Saigon.

Another major concentration of Vietnam's rural population live along its lengthy coastal plain. Australia is home to a large proportion of people who come from the coastal regions of Vietnam, from Ha Tien to Quang Ninh. Making a living from the sea, owning boats, and familiar with sea travel, when life in Vietnam got too hard many weighed anchor and left for a port of call in the region such as Hong Kong, Indonesia or the Philippines, and from there gained entry to Australia. When they did so, they were retracing sea routes that pre-date their regions' incorporation within Vietnamese territory. The entire coastline of Vietnam bears the marks of this most recent wave of transoceanic engagements. New houses, vehicles, boat fleets, storehouses, processing facilities, and businesses of all kinds have been built with the remittances sent home from the departees. The wealth and power of local authorities in coastal areas have also been boosted by these water-borne interactions, which historians tell us, have been a vital dimension of local state formation for many centuries (Cooke and Li 2003).

The situation in the mountainous areas of central Vietnam, the northeast and north-west is similar. The mountains do not impede cross-border movements, which are continuous with older patterns of migration and trade, policies of sedentarisation notwithstanding. These movements bring into play existing networks, knowledge of different locations and familiarity with languages spoken on both sides of the border. Those who live in the Red River delta have access to several border gates with China. I am also struck by the strong linkages between much of rural northern Vietnam and the former Soviet bloc countries, a trajectory of rural globalisation that is not as developed in the south.

From the perspective of most of rural Vietnam, whose residents are involved in a diversity of globalised networks and have a wealth of cosmopolitan experiences, it is the cities of Hanoi and Saigon, which are remote, isolated and lacking knowledge of different languages and cultures. To remodel these regions in the image of the country's purportedly more cosmopolitan urban centres risks undermining their situational advantage, basically making these people remote.

#### **4.4 On and off the farm**

The countryside is not uniquely a site for farming but for many other enterprises as well. The activities in Chau Giang hamlet, on an island,





inaccessible by road, across the Hau river from Chau Doc, give us an indication of the variety of ways rural people make a living. They include food and hospitality services (including vegetarian and *halal* food stalls, fixed and mobile food vendors), entertainment (*ruou de bars*, video cafes, karaoke machine hire and travelling circuses, drag performers and opera troupes), retail (in neighbourhood markets, housefront stalls, door-to-door peddlers, boat-to-boat paddling sellers, floating markets), herbal medicine manufacture and distribution, lottery ticket sales, long-distance trade, weaving, fabric dyeing, sewing, embroidering, sewing classes, hair-dressing, domestic work, road and river-based transport services, public telephone rental, credit provision, construction, photographic and video services, chair and table hire, furniture construction, coffin-making, boat-building, repair services (vehicles, boats, motors, electronic equipment), government employment, dredging (of river silt), ice production, food processing (*mam* and *prahoc*), husbandry (cattle, pigs, chickens, ducks), aquaculture (in fields, ditches, ponds, netted enclosures and floating cages), fishing (drag and cast lines, cast and trawl nets, spearing, trapping), hunting and gathering, and farming (of rice, soybeans and maize). Virtually all of these activities, save government employment, are household-based enterprises, with the allocation of work duties and outputs arranged by kinship.

As we have seen, one of the goals of rural development has been to implant value-adding industries into rural areas. The main comparative advantage of these otherwise investor-unfriendly areas is generally seen to be their access to outputs from agriculture (and husbandry and forestry). This leads to a focus on agriculture-linked development and agricultural processing as the virtually exclusive objectives of rural industrialisation plans (eg. see 5-year plan for agriculture and rural development 2001-2005).

However, as the case of Chau Giang illustrates, farming is not the only activity that takes place in rural areas. Likewise, rural-based industry is not restricted to agricultural processing, or using technology to enhance agricultural productivity and post-production.

Some of the industries that absorb the most labour are not productive industries but services that organise consumption. Travellers in the Mekong delta are able to eat on an industrial scale in a string of huge barn-like restaurants in between population centres that serve cheap, speedy, nutritious and clean local food. These each employ a small army of labourers. They also serve as an outlet for local families to display for sale various processed local delicacies. On a smaller scale but far more numerous are the tens of thousands of cafes that line the transport routes of the delta and cluster in intersections, confluences and marketplaces. Run by female family members the larger ones



provide employment for several young women. Marketplaces are another major employer for women. Each village has at least one market with multiple stalls and these are supplemented by smaller open-air markets and small goods stalls. Many localities in the Mekong delta are turning themselves into foreign and domestic tourist destinations. Locals artfully turn the tables on outsiders' stereotypes of the delta, marketing themselves as representatives of natural simplicity, pure uncorrupted culture, unchanged traditions and heightened religious experience.

Handicraft villages are not as developed as in the Red river delta. However, there are a number of focal areas where diverse industries cluster together that utilise specialised techniques and local resources. One of these is around Sa Dec, in the true centre of the delta, where one finds a concentration of incense making neighbourhoods, brick kilns, tile makers, rice warehouses, fish hatcheries, pickled mince processors, milk toffee manufacturers, commercial flower gardens and bonsai nurseries. Several areas specialise in boat production on a large scale, such as Phung Hiep in Can Tho province. Many other areas focus on processing and distributing a single local speciality: rice wine, coconut candy, pickled fish, or serving a particular delicacy such as seven-dish dog meat or seafood.

Some of the most significant rural industries are not fixed in place. Transport is one such industry. It is highly developed in rural areas and demands a great deal of labour. The most lucrative businesses in rural Vietnam are those that service the economy of mobility: petrol station owners, car, bus and truck fleet owners, motorcycle dealerships, warehouse owners, fertiliser distributors, people who make a business from moving earth around, mobile team labour service providers, transport engineers and construction contractors. Add to this non-land based industries: water transport (which remains significant despite all the roads that have been built), aquaculture and fishing.

At any given time a high proportion of people from Chau Giang work away from home: trading or working as hired labourers or employees in service and manufacturing industries in Chau Doc, Cambodia and further afield. Long-distance traders get to know a particular network of clients in a distant location and what they sell changes according to prices and demand both at home and away. Remittances from these ventures support family members who stay behind as well as community religious institutions that provide schooling for their children. Households retain a small plot of land to provide a subsistence base, but this is rarely the main source of income. Income earned from local trade and craft activities (the sale of embroidered caps to Malaysia has recently replaced the weaving of scarves for rural Khmer communities) supplements that earned from extralocal activities in a diverse household



economy whose various components are constantly being adjusted in responses to changing conditions at home and away.

Rural areas in Vietnam owe much of their vitality to the very active exchanges that take place between them and proximate urban centres. Each of Vietnam's urban centres is integrated with a rural hinterland in a particular way. Ho Chi Minh City is where most fruit and rice grown in the Mekong delta end up for consumption, processing, marketing and export. It also serves as the gateway for most inputs into agriculture and other economic ventures in the delta. For centuries it has added value to primary produce from the delta but it has also impeded the development of value-adding centres within the delta. The city and surrounding industrial zones also absorb a great deal of labour from the delta. Adding value to products from the delta and providing services for the delta, these migrant workers also repatriate remittances that boost the delta's economic and social standing. Gaining an education at home and exploiting it in the city, or sending young children home to be brought up by relatives, the delta subsidises much of the city's social expenditures. There is concern among some urban people that if not reduced this influx of rural migrants will undermine their standard of living. Yet the economies of urban and rural areas are so intertwined that this isolationist suggestion, even if realisable, would be self-defeating.

Vietnam's urban hubs are places where rural people extend and supplement their networks with other places as well. Ho Chi Minh City is the place where a young woman from the rural Mekong delta is most likely to meet a prospective husband from rural Taiwan or Quang Nam. It is where Muslims from An Giang province meet co-religionists from Malaysia and receive funds from Saudi Arabia to go to Mecca. Teachers from Cho Lon administer exams for Chinese language students in Long Xuyen. Khmer women from Tra Vinh work as domestics for wealthy families with Viet Kieu relatives. Businesswomen from Dong Thap open hotels in Pham Ngu Lao St for backpackers. These types of interactions pretty much constitute urban life. Subtract them and there is very little left.

#### **4.5 A wealth of knowledge**

Urban people often speak of the 'low cultural level', narrow horizons and lack of knowledge of people in rural areas. This is said to be even more of a problem among ethnic minority people in rural areas. This perspective is troubling for its smug self-assuredness, which to me is a sign of ignorance and a parochial mindset. It is disheartening to hear this line repeated in development reports. It suggests that the international donor community has



had no real exposure to rural areas, despite the enormous amount of money that has been expended on delivering advice to Vietnam on how they should be developed.

Take the case of Vinh Chau district in coastal Soc Trang. It is a rice, fruit, vegetable and seafood-exporting district, well-connected by road and water to two provincial capitals. However, few people in the district marketplace have spent more than a year or two in a state school. Many cannot write much more in Vietnamese than their name and address. Hardly anyone in the district can read the newspapers. Many people in Vinh Chau's rural areas cannot speak Vietnamese or even follow the news on TV—those who have a TV, that is. When I visited Vinh Chau the first time, one young man thought that I must be Taiwanese. Someone thought that northern Vietnam was a foreign country.

Is this a district desperately lacking in knowledge? Vinh Chau has three ethnic groups, Kinh, Chinese and Khmer. Each speaks their own language at home. Many are fluent in the other two languages as well. They normally use the Teochau dialect of Guangdong province to communicate with each other. Teochau is the main language spoken in the district marketplace. I do not know this language but Khmer people spoke it with me, assuming that I would. Young Khmer men spend up to twelve years in their monastic schools. They study Buddhism: its history, philosophy, fables and psychology. The language of instruction is Khmer. They learn to read and write Pali, the language of the sutras. They also learn to read and write Khmer, along with maths, geography and Vietnamese. Outside they learn Teo chau in a class in the nearest village. Of the four languages learned, they are strongest in Khmer. As monasteries teach just one or two years of the Pali curriculum, they travel to another monastery to take the extra classes they need. When that class is finished, they move to another monastery, elsewhere in Soc Trang or in another province. One finds monks from every province of the delta gathered together in the larger monasteries of the region. One can study many subjects, including computing, English, pharmacy and tourism, in this vast interconnected Khmer-language-speaking educational network. The goal of many monks is to travel to Thailand or Burma to study Buddhism at the university level. Many go to Cambodia, although this is done informally and with difficulty.

Khmer people are said to have the lowest cultural level in the Mekong delta and in need of uplifting to the level of the Kinh. To the contrary, I have found them to be enormously educated. The Khmer monks in Vinh Chau know more languages than me and more than most of my educated friends in Ho Chi Minh City. They have wide horizons and have travelled extensively. The



languages they speak are contextually relevant. It is hard to see how they might be better equipped to deal with the realities of their region. The main obstacle they face is the prejudice of their supposedly better-educated neighbours. Yet I do not see how adjusting themselves to that 'level' constitutes development.

## 5. Strategic implications

1. Since agricultural export statistics or even per-capita income levels provide a poor sense of how rural people are coping with market integration policies there is a need to replace the emphasis on resource extraction measurements and narrow, quantitative measures of incomes with more nuanced, local and qualitative indicators of rural wellbeing. The voices and experiences of rural people should be given far more prominence, and their assessments should be the true measure against which rural development performance is assessed. Anything less is merely marketing by elites.

2. The emphasis on diversifying globalisation is not in itself rural-friendly. Attention should be given to decentring globalisation. Indeed decentralised globalisation is a reality in rural Vietnam, however, too often this is ignored or even demonised. There is a need to recognise and enhance the diverse exchanges entered into by rural people in Vietnam. To achieve decentralised globalisation 'with socialist characteristics' it is necessary also to distinguish between the practices that exploit and tighten monopolies of power and the vulnerable bargaining position of those excluded from such protected relationships. Failure to keep globalisation inclusive means people will just opt out of the national project.

3. Experience has shown the agricultural commodities market to be both chaotic and unfair. Religiously-mediated communal self-help activities, ideologies of fate and the search for spiritual patronage have developed strongly in areas of rural Vietnam where exposure to capricious and unfair markets is most intense. Strict adherence to market fundamentalism may well lead to the re-emergence of theocracies in the Mekong delta. The state might take its cue from these spontaneous activities and find in them a coherent local critique of how the market works and how it can be better regulated.

4. Neither rich nor poor benefit from an approach to the environment as infinitely amenable to technological control. The gains from nature-conquering technologies (rice, shrimp, coffee) have been both ecologically and economically unsustainable. Only those able to defer costs onto less powerful groups, or onto the state, have been happy with these approaches. The former



has caused social upheaval, the latter is unfair and is also impossible to universalise given Vietnam's limited budget and vulnerable environment. A better approach is to understand and enhance diverse local ecological adaptations. Sometimes one might be able to win a big science dividend that improves the performance of practices that already work but not if the 'discovery' is to radically alter the ecological parameters.

5. If the definition of 'industry' includes the crafts sector and tertiary industries such as transportation, services and consumption (and not just large-scale manufacturing and agricultural processing), then rural Vietnam is quite industrialised. The seemingly wasteful domain of consumption is a major rural employer as is the economy of mobility. One suggestion for testing is that manufacturing industries may find fertile ground in places with pre-existing craft and service economies.

In much of the Mekong delta, farming is just one of a diverse and complementary set of activities practiced by rural people. The diverse household economy includes local and extralocal activities. Rural-urban labour migration is one of these strategies and it sustains and is sustained by those who remain at home. It is also highly beneficial to urban economies and there seems little reason to not make it work fairer and better. One way to do this is to provide better access to social services for migrants. Migrants should have a voice in local government authorities.

6. Improving transport infrastructure is a worthwhile objective, yet standardising transport access seems less effective than facilitating locally suitable and equitable movement. Rather than moving infrastructure to populations conceived of as rooted in place, it is time to recognise that much of Vietnam's rural population is moving around and provide services that address the needs of a mobile population. Training could involve flexible delivery of modules that are accessible to labour migrants. The Khmer provide one model of an education that is accessible in stages in various locations.

7. Rural Vietnam has human resources in abundance and education should draw out, articulate and enhance this knowledge and experience rather than continue, fruitlessly, to attempt to transfer knowledge that is not relevant to people's situation. Rural people should be able to listen and learn from rural localities, experiences and voices. The Ministry of Education should shift from a paradigm of centre as authoritative model and provider to centre as clearing house for ideas. Different groups should be consulted about access problems and needs so that education and training can be available in ways that are flexible and responsive.



8. 'Socialised' health, schooling, child care, business licensing and other government services have become inaccessible to ordinary rural people. To brush with them is a damaging and destabilising experience and they are best left alone. The private market in these services is also inaccessible to the majority. Community schools and medical services, mutual support groups, credit circles, charities, faith healers and neo-traditionalist gender ideologies that impact strongly on women fill the deficit of government support for people's needs. These draw on locally salient notions of reciprocity, obligation, prestige, charisma, merit, compassion and patronage. Rebuilding a system of social services around these notions provides a way for the government to re-establish itself as a reference point in people's lives.

9. Ethnic minority experiences are a neglected resource. In areas such as the Central Highlands and the Mekong delta, the government and the new settlers it sponsors need to 'raise their cultural level' to that of the ethnic minorities, who have expert knowledge about how to deal with environmental precariousness, economic instability, dispossession, rank inequality, and how to organise communal self-help to counter vested interests. Official representations of ethnic minorities as local, ancient, integrated and apolitical are strongly countered by people's alternative affiliations to transnational ethnic and religious identities, nativist revitalisation aspirations and self-representation in contexts outside of Vietnam. There is a need to understand the contemporary dynamics of ethnic identifications and values, the array of collective responses to present day problems and the internal exclusions that are associated with these responses.

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## PANELLISTS' PERSPECTIVES

### Dr. Steffanie Scott

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Thanks very much for the opportunity to be here. It is a very exciting and interesting theme and I hope for you to take a lot of interesting ideas from all discussions and presentations from the past two days. So the theme for this panel is rural development and urbanisation. And I think as we heard already from Mr. Son and from Philip's presentation, the notion of rural and urban are employed academically to refer to 2 roles but increasingly I think it is probably realised that this language is really inadequate to capture the dynamic of integration between the two. We can no longer talk about rural development in isolation from the urban, and Philip Taylor's presentation really hints at the intertwining of cities and countryside, particularly through very rich images of social interactions, of livelihood strategies that expand the people's networks in their home, villages and towns, and in largest urban centres, in Vietnam and beyond. Vietnam as we recognize faces some pretty enormous struggles and changes in the next few years in terms of change in the rural areas and urban transition, shift from agriculture and land-based employment to non-farming employment. And within this I think the rural and urban geography are immediately connected, particularly for talking about migration, about markets, about regional economies.

One of the most interesting arena which examines this rural urban link I think, is the agri-food system, a topic to which I will return in a moment. The first topic in my assessment of Philip Taylor's paper, Dr. Taylor's ethnographic observation on rural development in Vietnam offers refreshing complement and sometimes certainly a challenge to more conventional interpretations from economic perspectives. He discusses this market but also place very strong emphasis on people and on communities, and I think it is wonderful that he has so many images accompanying his presentation. He highlights the polarity of strategy that people employed to cope with quite volatile, economic circumstances, particularly brought about in the *doi*



*moi* period. He appropriately calls for more quantitative and culturally specific measure of the well being of the individuals and communities. Rice export for example, will not lead to community well-being, when you look at the record of insecurity access to education, health, land, and employment, among poor people in Vietnam. Dr. Taylor also draws attention to the decline in rural incomes relative to urban incomes, that is something I think too often it is forgotten among statistics of overall success through *doi moi*. So I think people, particularly young people need channels through which they express their creativities, for innovations, to experience fulfilments, to meaningful and dignified employment, as well as cultural expression. This will enhance community health, social cohesion, essential citizenship, and national belonging, and meaningful social goals require a focus not dominant on productivity and growth, but under wider ranges of concerns. Dr. Taylor point to a viable alternatives for rural economic development, that is too often overlooked by planners. He promotes an appreciation of polarity of development paths and practices, rather than feeding everyone in one boat, the diverse parts are not always state-driven, but instead acknowledge and evaluate successful means of people meeting their needs through informal friendship, ethnic community base , and religious networks.

His paper usefully highlights the role of state and non-state actors, and promotes the role of development. I think one of the lesson to take away from his presentation is the importance of appreciating the culture wealth and diversity of rural of Vietnam. We need to be very wary of the social costs of volatile economic integration which is too often a catastrophe for the lost of land and unstable and unfair economic returns for agriculture producers. Dr. Taylor's paper widely advises that we reframe our analysis of stability in economic and environmental conditions as being norms, and instead recognise that macroeconomic integration will not ensure stability and that our environment isn't influenced subject to human control. Epidemic and financial and ecological crises need to be anticipated and accommodated. Since *doi moi* was initiated nearly 20 years ago, Vietnam has seen an impressive rate of economic growth and poverty reduction, gathering much international attentions. This achievement has brought many benefits, it's an opportune time to reflect on long term well being of society and our environment. Having been interested in understanding and addressing the role of poverty for many years, I also question whether poverty reduction and economic development in Vietnam or elsewhere are really sufficient goals for rural development planners in the coming decades. Is making markets work for the poor really the key issue? Poverty indeed brings much suffering, but more daunting healthy environmental



changes suggest the need for a broader framework for setting goals and making action plans. So the remainder of my comments today focuses on the food system and its linkages to environmental and human well-being. On the one hand, you may see that a thousand of farmers are abandoning agriculture each year, food production is really not that central to a growing portion of the world population. Yes, a choice about what to eat is really an indication of what we value. They re-enforce particular kinds of food system. I'm turning our attention to the emergent culture of food consumption, associated with urbanisation. Forces simultaneously address rural and urban and social ecological dynamics, the lost of soils, biodiversity threats, air and water pollution. Human health impacts are all linked to a system of agricultural production that is supported by our daily consumption of foods. I think regionalized and local food systems can go a long way to address these concerns. Although in many ways Vietnam seems to be moving in the opposite direction. Dr. Taylor makes this point and recounting the non monetarised economy of Vinh Kien and Tien Giang provinces, where people diversify farms, provide them with seasons of food for home cook meal and community fish to celebrate social rituals with their neighbours. Such kinds of alternative food networks are an interesting exception to a broader trend. With pressures of globalization and industrialisation, food supply change and industrial food processing is expanding. In the process, frequently lower proportions of retail dollars actually end up in the pocket of food producers. Early this year in Vinh City, Nghe An Province, I compiled an inventory of food sold in Vinh market, a traditional market and one super market in the city Maximax. The survey identified the origins of food products and the degree of processing whether household-based processing or industrial skilled processing of the food items. This information points to some worrying trends for regional growth development and the future growth producers in these areas. Particularly the low level of value added production among food products in the province and the absence of any food products from Nghe An was sold in the super-market. As the purchasing and distribution functions of the super market are becoming increasingly centralised and all the trends point to this happening in at least the two larger urban centres, Vietnam will have specialised wholesalers acting as sole suppliers for a lot of these retail outlets. I think the opportunity for smaller producers to supply such markets, are often curtailed although not always, but there is interesting research about that in Vietnam right now. Overall in rethinking the market for the 21 century, I think we need to examine the potential for trade to promote equitable and ecologically sustainable development rather than only talking about sustainable development, in terms of sustainable economic growth which benefits two options, not just the minority.



The future of foods and farming is immediately linked to the household as the well being of community and to the population as whole. If we examine the global food system over the half past century or so, we can see many successes so called food revolution, that brought about the high consumption classes of the world. I said of the world but not without significant failure, Global agriculture productivity has increased and as has the need for labour intensive production, but chemical inputs have created agricultural pollution problems, top soil degradation, has reduced soil fertility, biodiversity has been depleted through dependence on a smaller number of varieties. Industrial food processing has broadened up ready made food at a consistent standard. But the volume of waste produced from the food packaging industry in the throw-away society has also created major problems and the energy required to process and transport of food has also sky-rocketed.

It is this trend that Vietnam is increasingly moving toward, as the country passes through a period of transition that reshapes the livelihoods and landscape of countryside, they tends to experience of parallel transition in diet and nutrition. Vietnam is currently in the middle of the shift through the nutrition transition, population increases the consumption of meat, fat, sugar, and soft drinks. And at the same time they consume less quantity of stable foods; fruits and vegetables, fibre and water. This unhealthy transition in diet or food culture is driven heavily by food industry advertising and this results in increases of BCD and diet related diseases.

In sum, we might conclude *that the global food system is in crisis* on at least 2 fronts: We have both over-consumption and extreme hunger. Is this the strategy that Vietnam wants to emulate, all arguments suggest that we should develop first, and worry later about the externalities, but I think the environmental and health impacts of this lifestyle shift are increasingly difficult to ignore. Some solutions could be found in developing local food economies that support cohesive self reliant community, bio-regional relationship and systems, healthy lifestyles, a sustainable environment, and equitable access to a healthy and culturally appropriate food . These criteria support greater *food sovereignty*, a term broader and deeper than the more common notions of food security. Broadening a notion of food security to a comfort food sustainability implies a combination of consideration of safe and healthy food, zero hunger, reducing inequality and access to food and an ecologically sustainable food system. When I say ecologically sustainable of food system, I consider a forth track in terms of supply chains from import production, processing, packaging, transportation and waste management. So strengthening local food systems offers an important



opportunity for rural entrepreneurship, partnership between farmers, food processors, and urban-based restaurants, and food service operators. Developing this kind of local food economy calls for making direct linkages between producers and consumers for shorter food supply chains, higher quality food, a healthy system that produces such food and a high proportion of price going to the producers. I think in recent years the quality of food appearance, the taste and safety of food are becoming a major concern for consumers. A recent study found the majority of Hanoi consumers consider their food to be dangerous. *Food safety has become a particular critical issue for Vietnam in recent years*, but the emergence of Avian Flu in addition to strings of incidents related to high use of agricultural and food preservatives residues, reserved uses on foods, vegetables, tea, and animal products. Yes, the initiatives to regulate so called clean vegetables and other products has not significantly enhanced consumer confidence. So addressing these concerns calls for understanding the food system in traditional, social, cultural, economic, and environmental dimensions. And I think further research can focus on understanding what motivates people to change their behaviour and act in ways that support a more sustainable food system? Avoiding a highly vulnerable food future requires specific planning for climate change, ozone depletion, contamination from chemical pollution, food safety, water shortages, top soil depletion, oil shortages, unemployment, irregular supply and uncertain supply, poverty and inequality, urbanization, wars and political uncertainty, and health care costs, it's a long list. Water availability is expected to drop by one third in the next 15 years, forcing up (nearly done) food prices and creating health threats, particularly in poor countries. Demand for oil is ever rising, and yet supply is limited. The food industry faces serious energy deficits with increasing reliance on energy-intensive food processing, and long distance freight transportation, greater urbanization, and declines in the land-base for agriculture mean that it will be dependent on increasingly intensive agriculture production to supply a growing urban population. So I think these concerns really force us to think out of the box, and considering all the bases in new ways. So in closing, I would like to leave you with a question of whether Vietnam is really taking advantage of its late-comer status to learn a lesson and avoid the perils of global integration that has been experienced elsewhere.

Xin cam on.





## PANEL 4: STRENGTHENING STATE CAPACITY

Keynote Presenter: Prof. Martin Pinter, Department of Public and Social Administration, City University of Hong Kong

Panellists: Dr. Dr Russell Heng, Institute of South East Asian Studies

### **WHAT NEXT FOR PUBLIC ADMINISTRATION REFORM IN VIETNAM? SOME LESSONS FROM INTERNATIONAL MODELS AND DEVELOPING COUNTRY EXPERIENCE**

Prof. Martin Painter

The challenges facing the Government of Vietnam on the public administration reform front are formidable, so much so that it is hard to know how to begin to answer the question: 'What next?' I will deal with four main issues, but I might have chosen many others. Two are about process: first, reform capacity and second, sequencing. The remaining issues are about the substance and achievements of reforms, where some big gaps and looming problems remain. I shall focus on the risks of decentralization, particularly with reference to public finances; and on policy and steering capacities at the centre.

Vietnam's public administration reform (PAR) programme is very ambitious. The PAR Master Programme states: 'By 2010, the public administration system will be fundamentally reformed to satisfy the requirements of managing a market economy with socialist orientation'. The programme is comprehensive, tackling multiple issues simultaneously at all levels; it has tight time-lines; it sets itself a difficult set of objectives; and it comes with strong political

backing and hence entails high political risks. The scale of the task lies not only in its breadth but also in its depth. The diagnosis conducted by the Government of Vietnam in the years leading up to the adoption of the Master Programme was frank and revealing: Vietnam's programme of administrative improvement and renewal was starting from a low base. Due to the inheritance of the former Soviet-style 'centralized and subsidized bureaucratic management system' many inappropriate procedures and habits remained in place. Administrative structures were 'overlapping ... inconsistent ... centralized and compartmentalized', while 'administrative procedures (were) cumbersome and complex' and 'administrative order and discipline (were) loose'. 'Appropriate financial mechanisms' did not exist for the operation of public service and administrative agencies; cadres and civil servants were deficient in skills, professionalism and ethical standards; and corruption and 'harassment for bribes' remained as problems.<sup>1</sup> Salaries were so low and systems of remuneration so decentralized, irregular and haphazard that '...the state is unable to control the real income of public servants and cadres'.<sup>2</sup>

In response to this diagnosis, the Master Programme targets four key areas: institutional reform, organizational structures, civil service reform and public finances and within these nominates seven sub-programmes: development and issue of normative legal documents; revising tasks, functions and organizational structures; staff downsizing; improvement in the quality of cadres and civil servants; salary reform; improvements in financial management in service delivery and administrative agencies; and modernizing administrative systems.

There are nine specific objectives associated with these programmes:

1. Stronger legal institutions and enhanced accountability
2. Administrative procedures that are more transparent, simple and convenient
3. The machinery of government restructured to focus on macro-management and regulatory roles
4. Socialization of public service delivery functions which need not be handled by government agencies

1. Government of Vietnam, *Master Programme on Public Administration Reform for the Period 2001-2010*. Attachment to the Prime Minister's Decision No.136/2001/QĐ-TTg of 17 September 2001. Hanoi: Government of Vietnam, 2001

2. Government Steering Committee, *Report of Group 4: Review of Public Administration Reform in the Field of Human Resource Management and Development (Applicable to Civil and Public Servants)*. Hanoi: Government of Vietnam, 2000, p. 14





5. Decentralization and reorganization of local government
6. A professional and capable contingent of cadres and civil servants, of reasonable size, by 2010
7. Salaries to be adequate to maintain their life and the life of their families by 2005
8. Reformed financial mechanisms for administrative and service delivery agencies by 2005
9. Administrative system substantially modernized

In one way or another, the issues I have selected to discuss touch on aspects of all of these nine objectives.

## 1. Reform capacity

Not many developed countries, much less developing ones, have attempted, much less succeeded, with a reform programme as ambitious as Vietnam's. Countries in Eastern Europe seeking to unravel decades of Soviet-style command economy administrative structures and processes have struggled to make headway with a similar agenda over more than a decade, despite copious amounts of external technical and financial assistance.<sup>3</sup> Michael Barzelay, looking at the experience mostly of rich, western countries, notes comprehensive reform of this scale requires three things: broad agreement that governmental organizations are inefficient; a 'unification of the public management policy domain' so that reform comes to be seen as a comprehensive change process affecting money, people and procedures; and the concerted efforts of budget-related and other central agencies (usually through expansion of the budget agency into the fields of others) to take on-going responsibility for steering and implementing public administration reform.<sup>4</sup> Here, Barzelay is referring to a more or less continuous, comprehensive reform effort driven by political leaders and managed by a coherent group of reform-driven government central agencies. One of the keys to the deployment of such capacity is the requirement placed on these central agencies to deliver and to account for the results.

Vietnam's reform implementation strategy has only some of these elements. Despite a strong commitment to some parts of the programme,

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3. A.J.G. Verheijen, 'Public Administration in Post-Communist States', in *Handbook of Public Administration*, eds. B. Guy Peters and Jon Pierre, London: Sage Publications, 2003, pp.489-97; Attila Agh, 'Public Administration in Central and Eastern Europe', in *ibid.*, pp. 536-48

4. Michael Barzelay, *The New Public Management: Improving Research and Policy Dialogue*. Berkeley: The University of California Press, p.11



‘broad agreement’ on all its elements seems to be lacking, judging by some of the results to date. One objective in particular has fallen short of the progress promised or needed, namely objective (3) on reforms to the structure and machinery of national government. Administrative structures at the very peak of the apex of public administration still await major reorganization, even though the number of government agencies has fallen from 48 to 39. There remains resistance to full structural and functional reviews with a view to streamlining the inherited agencies and sub-departments associated with the old Soviet style system of state management. There remains a legacy of excessively ‘flat’ structures without clear divisions of function or purpose, in which all matters tend to percolate to the top, many without clear prioritizing or strategic analysis. Top decision makers remain clogged with too much detail and do not get enough strategic advice. Lack of rapid action on this front is a symptom of two related problems: lack of agreement and commitment among all the leading players, and successful organizational resistance in the face of insufficient ‘reform capacity’.

The lack of clear division of tasks, the sharing and overlapping of mandates and the potential this carries for lack of clear, strategic policy direction can be identified in the management of the PAR process itself. There are four lead agencies – Office of Government, Ministry of Home Affairs, Ministry of Justice, and Ministry of Finance – and a top-level Steering Committee. Jurisdiction is divided rather than unified and, in the case of some sub-programmes, it is shared and overlapping, potentially adding turf wars to other coordination and steering problems. Much of the actual work is assigned to PAR steering committees at ministry and provincial government level and so on down. Overall, there remains a strong ‘bottom-up’ element to reform implementation, with agencies expected to come up with their own plans and programmes and to steer them to completion. Local ‘pilots’ are deliberately encouraged as a reform strategy. Direction from the top consists primarily of a series of decrees and other documents that provide frameworks, set out goals and call for continuing effort and of demands for periodic reports and reviews of achievements.

This style of ‘Government by Decree’ is not an especially Vietnamese phenomenon. It is also a common disease of many ‘public law’ based systems in the continental European tradition. Government by decree relies heavily on legal documents and on hierarchical command across all forms and levels of public administration. Many key senior public officials are legal draftsmen, not managers. Government by decree essentially passes responsibility down the line, leaving outcomes to be judged by ‘degrees of compliance’. It often



fails to distinguish between the important and the unimportant in substance, as distinct from the process. The leadership then blames its subordinates for failure due to 'disobedience,' when the failure to achieve results more often derives from unclear objectives and priorities, imprecise delegations, or insufficient commitment of resources to match the ambitions. In their turn, many subordinates meticulously go through the motions of complying with the legal, paperwork requirements and pass instructions (and responsibility) further down the line.

A serious 'implementation gap' is a recognized deficiency of the Vietnamese public administration system and it is not surprising that the same problem might characterize implementation of PAR itself. This is not to say the problem is not recognized: efforts have been made, for example, to collect and disseminate the lessons of local pilots and there is a process of monitoring and reporting by local PAR steering committees and higher level ones. The current 'mid-term' review is another such mechanism. But one missing ingredient is a strong capacity at the centre to evaluate and integrate the experience of successes and failures and to convert them into clear action plans. This central capacity tends to be dissipated if it only results in issuing yet more reports, decrees and ordinances.

Often, this manifests itself in bold pronouncements that, for lack of a clear mandate to deliver and account for the results by those that issue them, are unrealistic. A clear example of a key reform target that was not implemented for lack of central capacity to match the ambition was the Resolution in 2000 of the Party Central Committee to reduce overall staff levels by fifteen per cent. Agencies were instructed to submit individual downsizing plans. But the process resulted in reductions of only about three per cent.<sup>5</sup> Most downsizing plans contained poor quality data, were highly tokenistic and insisted upon the need for subsidy for the cost of redundancies. The prevailing staff budgeting system was largely to blame for the shortfall. Under this system, central allocation formulae were based largely on the size of the unit's workforce. Local managers tended to 'pad' their annual request for central budget allocations on the basis of an ever-growing establishment. Admission of the capacity to downsize amounted to self-imposition of a continuing budget cut.

Lack of reform capacity is a 'compound problem,' the solutions to which sometimes serve to make it worse. Thus, while a 'bottom-up' approach has some attractions for its potential to stimulate innovation, it is fundamentally

5. World Bank, *Vietnam Development Report 2003: Delivering on its Promises*. Hanoi: World Bank, 2002, p.94



a symptom of weak reform capacity. The more reliance is placed on it, the less control there will be over outcomes and the more 'gaming' there is likely to be as agencies bid for 'reform resources' and 'reform rewards', as distinct from achieving outcomes.

## 2. Sequencing

One answer to the inherent, ever-present problem of limited reform capacity is to take things one at a time. Where the programme is ambitious and comprehensive, this means sequencing over a medium-term time frame. While this was attempted in the Master Programme, it was not done with any clear design or logic. The international public administration reform community has debated issues of sequencing for many years. Allen Schick puts a strong case for a particular view of sequencing in a discussion of the limited transferability of New Zealand New Public Management reforms to developing countries.<sup>6</sup> Essentially, Schick's argument is that developing countries need a rule-bound neutral, professional, centralized Weberian-style bureaucracy and firmly established basic public sector budgeting and accounting procedures before they can safely introduce more decentralized, 'market-mimicking' models of public service delivery. To take an obvious case, you can't decentralize effectively until you have first centralized, that is built the necessary policy and steering capacity at the centre (that is, unless complete local autonomy is the goal). In a similar vein, the World Bank advises 'choosing and sequencing public sector reforms carefully, in line with initial capacities, to create firmer ground for further reform'.<sup>7</sup> 'First stage reforms'; should aim to achieve or strengthen 'formality, discipline and compliance with the rules', while second-stage reforms (after a 'formality threshold' has been reached) should aim to 'strengthen flexibility, discretion and a focus on results.'<sup>8</sup>

On the surface, there are signs that this strategy has been followed in Vietnam over its history of public administration reform since the early 1990s. Vietnam has a comprehensive and updated civil service ordinance, as well as a continually strengthened set of budget rules and financial management procedures. In many respects, the Vietnamese system of public administration is accustomed to discipline and to 'rule by law', as there are strong political and social norms and conventions respecting central direction and unified

6. Allen Schick, 'Why Most Developing Countries Should Not Try New Zealand Reforms,' *The World Bank Research Observer*, 13. 1998, pp.1123-31

7. World Bank 2004, *World Development Report 2004: Making Services Work for Poor People*. Cary, NC: Oxford University Press, p.194

8. *Ibid.*, p.195



political leadership, as well as powerful incentives for local obedience to legitimate directives. Thus, on the surface, 'informality' may not be a serious problem. However, in later sections I give strong reasons why this is not the case, and draw on experience from elsewhere that provides lessons about the particular dangers of informality in the transition to a market economy.

Leaving aside for the moment particular issues of sequencing in the Vietnam case, the general principle deserves closer attention. The logic behind many arguments for sequencing is both deductive and inductive: it has in mind a particular model of 'good governance' and it draws on a history of experience of public administration in developed countries. As to the first, the standard model of good governance places a heavy emphasis on the existence of a framework of rules and on a clear delineation of accountabilities that stem from well-designed formal structures. Thus, to prevent corruption (for example), the first priority is a set of clear duties and obligations that are strictly enforced by effective policing. Historically, the achievement of such a state of affairs (or something close to it) in European and other nations was the product of a century or more of slow administrative and legal development – essentially, the institutionalization of a Weberian bureaucracy, held in check by a system of accountability that relied in various ways on strong institutions of quasi-judicial review and enforcement.

But contemporary good governance models also tend to promote initiatives and partnerships that involve non-government sectors in public affairs: there is a bias in favour of decentralization, both to social organizations and to the market. The influence of New Public Management is strong here, as the emphasis in NPM is on devolved management, market-type instruments and customer power. In the sequencing debate, it tends to be argued that these reforms are of the 'second-stage' kind (indeed, many of them are advocated because they claim to overcome some of the deficiencies of large-scale, rule-bound bureaucracies). Once a firm framework of rules and norms of rule-compliance are in place, the rules may be relaxed to permit more flexibility under more 'arm's-length' forms of supervision, such as contracts.

Of the nine objectives in the PAR Master Programme, at least half either propose or result in greater degrees of decentralization, flexibility and (in some cases) marketization. The remaining objectives (especially 1, 2, 3, 6 & 9) clearly look to better frameworks of legal rules, routine administrative procedures and formal structures. Reorganization of local government in part also follows such an agenda. Under the logic of sequencing, should the latter have been given the first priority? And might this have given more



strategic focus to the PAR programme to date? I shall come back to these questions in the conclusion, as the following section of this paper deals with substantive issues in the reform agenda that will provide some basis for reaching a view on this.

### 3. Minimizing the risks of decentralization

There are a number of different areas of reform being undertaken in Vietnam that emphasize some form of decentralization. Indeed, decentralization is, in one sense, a *fait accompli* in Vietnam. As in China, there is a seemingly inexorable trend towards a greater sub-national share in service delivery and expenditures. In China, sub-national expenditures rose from about 45 per cent of the total prior to the economic reforms in the 1980s to close to 70 per cent; in Vietnam, sub-national expenditures in the State Budget increased from 26 per cent in 1992 to 48 per cent in 2002. The main reason seems to be the changing composition of public expenditures rather than a deliberate process of devolution. Local governments inherited many service provision responsibilities that formerly fell to state-owned production units and have had to take on new ones as expectations have been raised. At the same time, costs of provision in labour-intensive areas such as health and education have tended to grow faster than costs in other government sectors, and faster than the resources available in the total state budget. In the course of this transition, local bodies have had to rely increasingly on their own resources to fund these services.

In this overall setting, the focus of the discussion here is on decentralized service delivery and on the financial mechanisms that have been put in place to facilitate this. As well, in discussing these financial mechanisms, I shall also address financial decentralization in the context of administrative units. These forms of decentralization overlap with the issue of allocating responsibilities (including revenue-raising and spending powers) between levels of government, as many of the service delivery and administrative units in question are under the joint supervision of both central and local (including provincial) governments in Vietnam's unified, but increasingly deconcentrated, system of public administration.

China's experience with service delivery and decentralization provides important lessons. The local taxing capacity of local governments has not kept up with the growth in demand for services, with about 45 per cent of the subnational expenditures being funded from central revenues. These grants have been a constant source of conflict and have tended to be allocated according to political pressures rather than need, resulting in a high level of inequity between rich and poor regions, with local governments in the poorest



localities often unable to meet their payroll bills.<sup>9</sup> There has been a serious deterioration of service quality in poor regions as a result.<sup>10</sup>

More generally, centrally determined policies on standards and levels of provision (in the US they are called 'unfunded mandates') forced local governments to look to their own resources to meet the demands and needs of service provision. A plethora of new fees, charges, levies and fines were imposed to plug the gap.<sup>11</sup> The result was an escalation of extra-budget and off-budget revenues and expenditures, estimated by some to amount to up to half of total local government expenditures. In the case of provision of services such as health, education, family planning and so on, another result has been a creeping commercialization of the system. China now has a system of public service provision that may be one of the most commercialized of any in the world. In the case of health, service quality has declined for many (especially the rural poor), costs have escalated and numerous inefficiencies have been introduced into the system.<sup>12</sup>

The tapping of ready revenue sources through extra-budget fees and charges may have been seen as an expedient and fortunate outcome by central governments, but the corrosive effects of these local revenue-raising practices rebounded on the political authorities. These funds are aptly known in China as 'the three arbitraries' – arbitrary taxation, arbitrary fines and arbitrary expropriation or apportionment – and are held in *ad hoc* local bank accounts or 'small treasuries'.<sup>13</sup> While we can distinguish between 'extra-budget' and 'off-budget' – the former are legally sanctioned accounts outside the consolidated budget, the latter are illegal and may overlap with funds extracted by various forms of extortion and bribery – the line between the categories is blurred. Effective supervision and consolidation of all these various funds and accounts has come to be seen in China as a crucial step in bringing about more effective accountability and in cracking down on corruption among local party and state

9. Vietnam since 2002 has adopted a method of fiscal equalization based on tax sharing, with higher levels of the proceeds of taxes from which revenue is shared being retained by poorer provinces (Public Expenditure Review 2005, 80-1)

10. Edward Mountfield and Christine P. Wong, 'Public Expenditure on the Frontline: Toward Effective Management by Subnational Governments' in World Bank, *East Asia Decentralizes: Making Local Government Work*, Washington, D.C.: World Bank, 2005, pp.97-8

11. *Ibid.*

12. Socialist Republic of Vietnam and World Bank, *Vietnam: Managing Public Expenditure for Poverty Reduction and Growth. Public Expenditure Review and Integrated Fiduciary Assessment, Volume 1*. Hanoi / Washington: World Bank, 2005, p.110; Tony Saich, 'The Changing Role of the State in Reform China', Kennedy School of Government, Harvard University, available on-line at <http://ksghome.harvard.edu/~asaich/ChangingRoleoftheStateinReformChina.pdf>, accessed 25 November 2005.

13. Andrew Wedeman, 'Budgets, Extra-budgets and Small Treasuries,' *Journal of Contemporary China*, 9: 2000, pp. 489-511; Ting Gong, *Corruption and Local Governance: The Double Identity of Chinese Local Governments in Market Reform*. Paper presented to the Fourth International Convention of Asian Scholars, Shanghai, August 20-24, 2005.



officials. In China, protests against the 'three arbitraries' from the rural poor, which were part of a wider wave of unrest over abuses by local officials, led to periodic corrective campaigns and crack-downs against 'illegal' fees. However, the precise meaning of 'illegal' and 'legal' fees and fines was as much a matter of political expediency as being strictly legislated, just as the practice of holding 'off-budget' accounts was widely tolerated and only subject to sporadic, partly symbolic central interventions. Crack-downs on so-called local 'arbitrary' fees revealed that, in fact, many were officially sanctioned.<sup>14</sup>

Through the 1990s, the Chinese Government sought to increase levels of supervision and control over local revenue-raising (with only limited success) and recently, it has implemented a 'tax for fee' reform that seeks to eliminate these forms of revenue and to replace them with new sources of funds.<sup>15</sup> This is part of the Government's response to rising rural unrest and the threats it poses for continuing social stability. The underlying problem remains, however: the central government is not providing either sufficient direct grants or adequate local taxing powers to meet the growing service demands. One result is a continuing decline in service quality. As well, in the continuing absence of a mechanism of transfers that provides for sufficient redistribution from rich to poor areas, the impacts of both regressive revenue-raising measures and poor service quality remains worst in poor regions and localities.

In Vietnam, recent official discourse would seem to lend growing legitimacy to the imposition of various forms of user fees and charges and, in parallel, a degree of semi-entrepreneurial fiscal decentralization. In 2000, estimates from the national accounts showed fee revenues accounting for 22.5 per cent of hospital revenues nationwide, with accelerating growth since the early 1990s. Recent measures have succeeded in increasing that proportion.<sup>16</sup> There is in general a clear expectation that service delivery units will become more 'self-reliant' and hence remove the need for continuing 'state subsidy'. However, supervision of these local efforts is clearly also recognized as a matter of concern. A report by the Ministry of Finance in February 2002 assessing progress on financial and budget reform referred to supervision mechanisms of income-earning public service units, including a series of Government decisions on fee collection and utilization (for example Decision 70/1998/QD-TTg and Inter-Ministerial Circular 54/1998/TTLT/Bo GDDT-TC on school fees), while also noting that 'existing incentives are not adequate to encourage

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14. Wedeman, p. 506

15. Ray Yep, Can "Tax-for-Fee" Reform Reduce Rural Tension in China? The Process, Progress and Limitations', *The China Quarterly*, 2004, pp. 42-70

16. Socialist Republic of Vietnam and World Bank, *Vietnam: Managing Public Expenditure for Poverty Reduction and Growth. Public Expenditure Review and Integrated Fiduciary Assessment, Volume 1*. Hanoi / Washington: World Bank, 2005, p. 107





units to explore potential sources of extra income that could help them become self-reliant for the funding of their operations, increase compensation for their workers and reduce amounts allocated from State Budget.<sup>17</sup>

Measures have been taken to encourage local service delivery units to increase their revenue raising efforts by granting them greater fiscal and management autonomy. Decree 10/2002/ND-CP granted public service delivery agencies a considerable degree of formal budgetary autonomy, allowing them to: (i) manage their own revenue accounts; (ii) adjust salary payments to reward performance; (iii) restructure their staffing to gain efficiency; (iv) set administrative spending norms that are different from those set by the government; and (v) carry forward funds unspent in the previous year. An important element in this proposal was the discretion granted to managers to pay 'above award' rates to employees so as to reward efficiency-improving performance. In 2003, a new Ordinance on Cadres and Civil Servants spelt out the differences between employment conditions for civil servants in the administrative and productive sectors, sanctioning the greater flexibility in remuneration and other terms and conditions for the latter, including the use of contract staff.<sup>18</sup>

These measures in fact acknowledged what was already reality on the ground. Service delivery units have come to rely heavily on own-source fees and charges to pay salaries and bonuses and to meet other costs. Evidence shows that as a result the 'official salary' accounted for an ever-declining portion of total remuneration.<sup>19</sup> In granting salary increases of 38 per cent in 2003 and 30 per cent in 2004 (in line with Master Programme objective 7) local units were required to contribute at least half of the cost from their own resources. The Government was effectively asking them to bring 'on budget' some of the extra-budget revenue that they already contributed to employee remuneration. This was one way of trying to consolidate and regularize some of these extra-budget funds and accounts.

Decree 10 and measures in the 2002 budget law granting greater financial autonomy to service delivery spending units are thus in part designed to address the problem of supervision and accountability in an increasingly decentralized system. Some of the same issues of supervision, transparency and accountability also apply to increased managerial devolution in administrative units under Decision 192/2001/QD-TTg. Administrative bodies would now be funded from a lump sum allocation rather than by the existing

17. Ministry of Finance, *Programme no. 6, Reform of the Financial Supervision Mechanism for Administrative Agencies and Public Service Units*, Hanoi, February 2002

18. Joint Donors, *Vietnam Development Report 2005: Governance*. Hanoi: Joint Donors / World Bank, 2004, p.50

19. Derek Robinson, *Public Sector Pay Reform in Vietnam*. Consultant Report for International Labour Organization, Hanoi: International Labour Organization, 2002.

funding formula based on year-to-year levels of employment and salaries. This new 'block allocation' or one-line budget was first piloted in district administrations in Ho Chi Minh City, where it led to savings in administrative costs, stimulated restructuring and downsizing and allowed for local increases in salary.<sup>20</sup> The new allocation system proposed would, it was argued, assist both in meeting downsizing targets and in paying the higher salary bill. As pilots have been cautiously rolled out to other agencies under the oversight of the Ministry of Finance, savings have been made. Some evidence exists to show that the savings might be to some extent contrived, with some staff moved to other entities and budgets. The savings are generally devoted to meeting staff salary increases. On the one hand, these were long overdue; on the other, the danger (in the absence of some other mechanism) is that an excessive proportion of funds will be devoted to staff salaries as distinct from maintenance and other operating expenditures that affect service quality.

Clearly, in the face of such high levels of decentralization, there is a need to monitor both the process and the outcomes:

'...the issue is not whether to delegate authority to spending units but rather how to manage the process so as to minimize its risks. Good management means protecting access for the poor and other vulnerable groups, protecting against excessively high prices in markets with few alternative providers, ensuring the delivery of core service, and accounting for state assets. This certainly goes beyond accountability measures focused on inputs, such as number of personnel, facilities or expenditures.'<sup>21</sup>

Quality of service measures are an essential concomitant of this kind of decentralization, as well as mechanisms to ensure equity of provision for 'core services' if these measures show systematic quality shortcomings in poor areas. The risk is that service delivery units will put all their efforts into services that make a profit, at the expense of core functions. As the recently published Public Expenditure Management Review points out, there is a long way to go in developing effective performance measures and corrective mechanisms based on their findings.<sup>22</sup> The recently piloted 'citizen report card' approach in Ho Chi Minh City, Da Nang, Hai Phong and Nam Dinh is but a small beginning in this regard.

20. Ann Bartholomew, Stephen Lister, Edward Mountfield and Nguyen Van Minh, "'Crossing the River by Feeling the Stones": Vietnam's Experiment with Block Grant Budgeting,' *International Journal of Public Administration*, 28: 2005, pp.337-54.

21. Joint Donors, *Vietnam Development Report 2005: Governance*. Hanoi: Joint Donors / World Bank, 2004, p.83

22. Socialist Republic of Vietnam and World Bank, *Vietnam: Managing Public Expenditure for Poverty Reduction and Growth. Public Expenditure Review and Integrated Fiduciary Assessment, Volume 1*. Hanoi / Washington: World Bank, 2005, pp.55-7



Leaving aside the matter of how far commercialization should go within the state sector, in the process of implementing these decentralization measures the issue of sequencing is clearly relevant. In the absence of effective measures first to improve process and outcome monitoring and supervision, the implementation of Decree 10 and Decision 192 is a high risk strategy. Perhaps the risk has to be taken in the absence of other means to raise the necessary funds to pay salary increases or improve services. However, concentrated attention now needs to be given to better monitoring and supervision to compensate for and balance the growing levels of autonomy that have been granted to local managers. As the experience of China demonstrates, this is necessary both to prevent abuses and to maintain equity and access to core services.

#### 4. Core values and capacities<sup>23</sup>

As illustrated by the case of local abuses in China, some of the developments in local public finances discussed in the previous section can have an impact on the identity of public employment, such that private-regarding norms began to compete strongly with public-regarding ones. The result may be to encourage a view of the state as a springboard from which to engage in private enterprise (broadly defined). In transition economies, there is no shortage of anecdotal evidence of a multitude of forms of privatization of the asset of holding a public office, for the benefit of an individual, family or group: officials who use their position to leverage business opportunities in the emerging market economy, in the process spending more time on their private business than their public duties; doctors who contribute private income to invest in facilities on hospital premises with the agreement of management, and use them for private practice while contributing to 'off-budget' revenue with a share of profits; cohorts of officials in government departments who share in the distribution of de facto land use rights over parcels of surplus property on the urban fringe, and subsequently make substantial windfall gains; and state enterprises that spawn business opportunities for family and friends, to the point where most of their profitable assets are effectively (although not legally) transferred into private hands. The result is a view among public employees of the so-called public office as in part a private asset, in addition to being a repository of public service duties and obligations. This raises in stark relief the issue of core public service values and the preservation of capacities to foster and protect them.

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23. This section draws on the author's contributions to the World Public Sector Report 2005, *Unlocking the Human Potential for Public Sector Performance*, New York: UNDESA, 2005



As suggested in the last section, in many respects Vietnam is heading towards a public employment and service delivery system that is decentralized and has multiple sets of employment terms and conditions. This is close to the model of market-conforming, flexible, quasi-privatized public administration that New Public Management advocates. New Public Management recommended 'unbundling' the unified structures and employment systems of traditional public administration and introducing competition between multiple, autonomous providers.<sup>24</sup> Most of the public sector should be run 'just like any other business.' Even core administrative functions, such as legal advising and state security, can be contracted out. In this view, there is nothing sacred about a unified system of public services and there is nothing special about a public service role or career. Senior officials can be hired in from outside and employed on contract terms; central personnel agencies are largely redundant; agency managers can do their own hiring, writing labour contracts with employees that suit their separate businesses and paying wages and bonuses as revenues permit; employment should be temporary so as to maintain flexibility and respond to market conditions; fees and charges should be set according to what the market will bear; and so on.

Increasingly, there has been an acknowledgement that in some Western countries these developments may have led to a decline in the quality, integrity and commitment (in other words, the professionalism) of the civil service. The diminution of the role of the central personnel agencies, with their eye for service-wide concerns has meant that some significant support systems for the maintenance of core civil service institutions and values have become neglected, with some potentially serious consequences. A UNDESA-organized High Level Seminar 'Building the Human Capital in the Public Sector' that took place at the *Global Forum on Re-inventing Government* in Mexico in 2003 concluded that 'while the delegation of recruitment of staff from central agencies ... has generally proved effective, the existence of adequate oversight and quality control mechanisms in this area is essential to avoid abuses and malpractices'.<sup>25</sup> As a consequence, there has been a renewed interest in the global PAR reform agenda on the integrative functions of central agencies such as development of service-wide value systems, career development and talent promotion.<sup>26</sup> The important thing is that institutional leadership is exercised by senior officials responsible for 'corporate' interests and values and that a strong framework of guidance, monitoring and supervision is in place.

24. The situation described in the previous section could be said to have created 'New Public Management by default', in that the same kind of 'autonomization' and devolution have been arrived at by a purely local route.

25. Global Forum on Re-inventing Government, Mexico City, 5-6 November 2003, Capacity Development Workshop, *Building Human Capital in the Public Sector*, paragraph 7



The problems caused by the absence of a service-wide 'corporate capacity' have been recognised in New Zealand, where NPM reforms have been in place for two decades. The initial reforms eliminated much, if not all, of the role and capacities of the central personnel agency. The State Services Commissioner in 1999 asked that he be given responsibility to develop a solution to the absence of a corporate capacity in the public service. Since then the New Zealand public service has moved to address a wide range of service-wide human resource management issues from an increasingly explicit corporate perspective.<sup>27</sup> At issue, as an Australian Public Service Commissioner has put it, is the need to 'integrate devolution with coherence so that we can move effectively as a whole as well as in parts.'<sup>28</sup>

In Australia, the solution adopted is a common service-wide approach to 'leadership capability development', known as the 'integrated leadership strategy'. It has three themes: innovation, sustainability and integrity. The first builds on the gains of devolution and tries to extend them to collaborative, cross-agency issues; the second seeks directly to promote sustainable improvements in leadership capability through training and career support; and the third stresses the need to 'uphold and promote values' through 'values-based management and leadership'. The Commission has placed a lot of emphasis on ensuring that a common code of Australian Public Service values has been promulgated, disseminated and incorporated in the daily working culture of agencies. Strong integrity frameworks consisting of codes of conduct and statements of core values are invariably found in these systems. Particular attention is paid not only to systems of financial rewards based on performance but also to offering senior officials varied jobs, strong support through training that is tailored directly to their career needs and interests and quick or accelerated promotion where merited.

The revival of interest in public service leadership and the focus on the special requirements of the core, senior public service as a leadership group is a common world-wide trend. 'Senior Executive Services' have been one response to some of these issues. Even in large civil service systems, these elite *corps* may number only in the hundreds or a couple of thousand. In a sense, Vietnam starts

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- 26. Peter Aucoin and Herman Bakvis, 'Public Service Reform and Policy Capacity: Recruiting and Retaining the Best and the Brightest?' in Martin Painter and Jon Pierre (eds), *Challenges to State Policy Capacity*, Basingstoke: Palgrave MacMillan, 2004
  - 27. New Zealand, State Services Commission, *Briefing for the Minister of State Services*, Wellington: State Services Commission, 1999; New Zealand, State Services Commission, *The Review from the Centre - One Year On: Getting Better Results for Citizens, Ministers and Staff*, Wellington: State Services Commission. 2002.
  - 28. See, for example, the case of Australia described by A.S. Podger, 'Innovation with Integrity – the Public Sector Leadership Imperative to 2020', *Australian Journal of Public Administration*, 63(1), 2004, pp.11-21



with an advantage here, in that there is a recognized core of leading cadres who are systematically recruited, promoted and trained to exercise leading state management functions. Cadre forms of organization and management have distinct advantages for many purposes of concerted change and reform, so long as the cadres are unified and competent, particularly in management itself.

Historically, responsibilities for recruitment and leadership development of senior public officials in Vietnam have been compartmentalized between Party and State, with separate roles and purposes. A similar division has in the past existed in the provision of training. Public Sector leadership in Vietnam clearly has special characteristics given the leading role of the Party, but these do not remove the need for unified systems of integrity management and skills development that raise the levels of professionalism among all public officials. Some important initiatives have been taken recently in Vietnam, such as a policy of transfers and nation-wide mobility among senior cadres to develop experience and guard against parochialism; and a new set of initiatives in the area of upgrading of training courses by NAPA and other training institutions. The remaining challenge is to set in place new frameworks and principles that set the parameters for professionalism in the whole public employment system. In countries that experimented with NPM, the value of these frameworks is once again being acknowledged. In Vietnam, the emergence of an increasingly decentralized public employment and service delivery system highlight the need to learn from this lesson. Again, sequencing is an issue – in this case, not to repeat the mistakes of some NPM countries, where the clock has had to be turned back in order to restore decayed institutions.

The lesson is that the values and principles underlying the developments discussed in this section need to be institutionalized, promulgated and protected by a prestigious and powerful guardian agency (or set of agencies) at the centre of government. The instruments used for this purpose should not, however, be ‘bureaucratic’ in the sense of relying on elaborate rules and detailed transaction controls. Rather, they should aim at promoting and replicating a set of values and behaviours through promulgating standards and advice on civil service employment policy, coordinating training and exercising special oversight of recruitment and career planning for the senior levels of the core senior management group.

## **5. Conclusion: the risks of leapfrogging**

The discussion of sequencing in an earlier section highlighted the potential risks of leapfrogging of the kind Vietnam is attempting. The examples drawn from China vividly illustrated some of these risks. However, it is neither



very helpful nor in any sense timely to reiterate the point that 'stage one should proceed stage two.' Decentralization, autonomization and user charges have occurred for very good and understandable reasons. The clock cannot be turned back. The lessons to be drawn from the stages model concern how to deal with the risks. For a variety of reasons, central capabilities of the kind needed to manage, monitor and supervise a decentralized system of management and service delivery are not well developed in Vietnam. Despite major achievements and considerable progress, there remain weaknesses in financial management and accountability mechanisms; in monitoring of personnel management processes and outcomes; in integrity management; and in policy implementation and feedback mechanisms. Management responsibilities are being devolved in the absence of many of the institutions and mechanisms for assuring the centre's continuing control over strategic outcomes. This is not to say that such mechanisms won't be mobilized and improved – there is still time, and the system continues to evolve. However, the main conclusion of this discussion is that a strategy to improve central, core capacities of all kinds is the next step for PAR in Vietnam.

Experience elsewhere suggests that this process involves both well-developed, routine support systems and also some major re-thinking about mechanisms of control and supervision. The support systems are of the kind that the Master Programme's modernization objective nine is concerned with – for example, rapid investment in networked systems of automated financial and personnel data entry and retrieval using common standards and protocols. As to the mechanisms of control, conventional hierarchical, legalistic mechanisms may be increasingly counter-productive where a system of decentralized management has been created. Government by decree, interspersed with occasional forays of top leaders into the field to take corrective action and to mete out punishment, is too blunt a set of instruments to manage such a system.

What is needed is a variety of instruments of control and regulation: clearly articulated strategic policy frameworks, including ones that identify and adequately resource basic standards of service quality and equity; tough and properly enforced laws to provide a basic framework of probity, legality and accountability; accounting and reporting standards, protocols and timetables that are uniformly applied and sufficiently resourced by investment in equipment and training; smart fiscal mechanisms that do more than control just inputs; process monitoring by both internal supervision and independent audits; outcomes monitoring both by customers and by independent, external quality auditors; and structured opportunities for mutual learning to build on the effective local initiatives that a decentralized system will encourage.







## PANELLIST PERSPECTIVE

### **Dr. Russell Heng**

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Thank you. It is very nice to come back to Hanoi, the city I know very well. So, thank you for the invitation to come to this very interesting and important conference. Reading Prof. Painter's paper, it is the view that reform has fallen short of public administration in Vietnam. The impact of the administrative structure is still weak, local the division of duty and too much governance by decrees and so on. The paper also highlights important issues of sequencing, and also talks at some length about decentralisation, pointing out that decentralisation has arisen in Vietnam, it is very much part of a sense of administrative reform. But it has also posed a question. Is the Vietnamese system equipped to monitor the results of decentralisation? The paper then pointed out that for proper monitoring of decentralisation, there would ironically have to be centralised capacity and then it concluded that next step would be to improve central core capacity of all kinds. Of course capacity needs to bring coherence to the system, for example to develop a service-wide value system to provide leadership. I agree with almost everything Prof. Painter has said in the paper. It then becomes a problem of what I say as a discussion than what is left to say. So for today I want to talk about things that are not in the paper which are what I am looking for, and also perhaps that since this topic is about looking at experiences of other countries and other systems. I want to draw some comparisons and raise some examples from Singapore where I come from, and hope that it would be able to take the discussion forward.

Prof. Painter has written the paper from the perspectives of public administration, the discipline of public administration. I'm trained in political science and it has become a habit for me to look for politics in any subject that I deal with. So it is fair to say that when we talk about public administration reform, it doesn't take place in the vacuum, public administration is influenced by the surrounding politic environment. So I guess when I was reading this paper, I kept looking out for *the politics of public administration in Vietnam*. I shall



put the politics of public administration into two broad categories. The first I call *systemic politics* and the second I call *everyday politics*. What do I mean by systemic politics? I think in any country or any system not just Vietnam, anywhere, any system when you try to reform an administrative process, we are talking about the redistribution of power and interest. And people who are working in that system, facing the reform, are very conscious about what they will gain and what they will lose when we implement the reform, and I think it is human nature that you always want to maximise your gains, and minimise your losses, and that to me is the beginning of systemic politics. I think of Prof. Painter in his paper talks about the need to monitor the results of the reform process, and here we think about the monitoring process, who you select to monitor the results, a kind of standard we are going to use to measure the results. It is a highly politicised exercise and it is again systemic politics. Another thing about systemic politics is that it is very opaque, it lacks transparency. Therefore I will not have enough ability to say too much about this subject in systemic politics, except to point out maybe in many conversations with Vietnamese and reading Vietnamese media or what scholars have written about it, that there is quite a lot of systemic politics in Vietnamese system. As I said earlier, systemic politics is really everywhere in every system, every country, it is the question of more or less. I also don't want to be talking too much about it because I basically believe that the Vietnamese know more about systemic politics than foreigners, so actually many around the table should have been telling us more about it. I believe that Vietnam has the capability now to analyse and to diagnose the problems of administrative reforms. I think the problems begin only when we talking about what solution you have to prescribe after you know about the problem. It is very a complex process.

Then before I move on to talk about the others, the second category of politics, everyday politics, let me say something about the example of Singapore, and *the example of systemic politics in Singapore*. Singapore is a highly depoliticized country and therefore the system of public administration is also highly depoliticised, that means politics is captured to minimum in the Singaporean system. In fact one of the scholars in Singapore has written a book which reflected Singapore very accurately. Singapore is always called the administrative state where politics has disappeared, where every social problem that we have to deal with is seen purely as a technocratic issue to be solved by the most efficient solution. And civil servants who need carry out the policy don't have to worry too much about the gains and the losses in politics. They just find what they think is the best technocratic solution and a system like that produces quick results. But I must stress that I am not recommending Singapore as a model to copy because of the following reasons: I think that is obvious to many of you would be that Singapore is a small compact island. It is also born



of a certain special set of circumstances that I think it hard to replicate, duplicate anywhere in the world. Vietnam on the other hand is born of revolution. It is guided by an ideology and that ideology today takes the form of institutions at many levels of administration, it determines the use of human resources and by its nature a revolution state is highly politicised and therefore I think that if we are trying to compare Vietnam and Singapore, one is a highly depoliticized system and the other one is highly politicised, and I really would not dare to try and suggest how you will reduce the politics in your system. I also might say that Singapore has a deeper depoliticised system and has been able to implement policy very efficiently. There is a down side to a depoliticised society but I am not going to talk at length about Singapore's downsize of depoliticisation, but if you want later we can raise it in the Q&A session.

Let me now talk about the second category of politics that effects public administration, what I call *everyday politics*. This concept use in a recent book written by Prof Ben Collier from Australian National University, the name of the book is "*The power of everyday politics: How Vietnamese passion transforms national policy*". Generally when politics is discussed, or when it's discussed in the discipline of political science, it tends to be based in the context of a Western liberal system, where it is about the competition between political parties , and a competition for power. But I think Ben's book tries to find a way of talking about politics other than to set it in the context for democratic election. I think he was talking about *localised politics on a day to day basis which then has accumulated effects over a period of time to change policy*. It is therefore not, I stress, about pushing regime or wanting to change it. It is more about consumers wanting things, better services and therefore trying to change policies in the way will benefit them, then give them a better services I think as Mr. Ryan in his speech used the term 'democratic citizenship' and I found it a useful term. In some way, the democratic citizenships is also everyday politics. Now let me then try to relate everyday politics to what Prof. Painter has raised in his paper, the issue of monitoring the results of reforms. One of the obvious, one of the needed means of monitoring the results of the reforms is that you probably have to set up some institutions to look at it, which means to hire an army civil servant and to set the standards and to measure the outcomes. It is unavoidable and it is necessary. But then again when you put the elements into the system, you trigger off the systemic politics and that is not always helpful. So the point I want to make is that *monitoring can also be done by society through this notion of everyday politics or democratic citizenship. The monitoring from outside the system rather than within administrative system*. So it is about the public demanding to be served better in the form of organization, or consumer rights. It is also about the media uncovering corruption, and systemic highlighting of incompetence



of cadres and so on. To some extent, these things are happening in Vietnam. What I want to point out is that when I said earlier that systemic politics reduced transparency, less transparent, everyday politics actually increases transparency of the system. It provides the window to engage the system and to know more about it. So therefore, let me conclude quickly, if I give any suggestion it would be that if we want to talk about reforming public administration other than trying to do it from inside with programs which train cadres, restructuring and streamlining of the bureaucracy, it may be useful to find ways of privileging the everyday politics, which then allows democratic citizens to engage the system from outside. And I think to some extent it is also mentioned in Prof. Painter's paper when he talks about the notion of a citizen report card, it is already a small beginning in the process. I saw it a interesting time. Thank you.



## ANNEX

Thursday, 15<sup>th</sup> December 2005

8:00 – 8:30 Registration

8:30 – 8:40 Opening Remarks

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

8:45 – 9:10 Welcoming Remarks

Mr. Jordan Ryan, UNDP Resident Representative  
H. E. Ms. Anna Lindstedt, Ambassador of Sweden to Vietnam

9:10 – 10:00 Keynote Address

*Chairperson:* Prof. Nguyen Xuan Thang, Institute of World Economy and Politics

*Presentation:* "Globalization, Economic Development and Social Welfare: The Long View" by Herman Schwartz, Prof. of Politics, University of Virginia

10:00 – 10:30 Plenary Discussion

10:30 – 10:45 Coffee Break

10:45 – 12:30 Panel Discussion 1: Regional Perspective

*Chairperson:* Mr. Dinh Hoang Thang, Ministry of Foreign Affairs

*Presentation:* 'Vietnam and the Asia-Pacific region: Opportunity or threat?' by Dr. Jorn Dosch, University of Leeds

*Panelists:* Dr. Jurgen Haacke, London School of Economics

Dr. Dinh Hoang Thang, Ministry of Foreign Affairs

Prof. Nguyen Xuan Thang, Institute of World Economy and Politics



12:30 – 14:00 **Lunch**

14:00 – 15:30 **Panel Discussion 2: Gender and Development**

*Chairperson:* Dr. Tran Van Anh, Institute of Family and Gender Studies

*Presentation:* 'The Macroeconomic Role of Hierarchies in Market Economies: The Case of Asia' by Prof. Stephanie Seguino, University of Vermont

*Panelists:* Prof. John Sender, SOAS, University of London  
Dr. Tran Van Anh, Institute of Family and Gender Studies  
Assoc. Prof. Dr. Le Thi Quy, Center for Gender and Development Studies, Hanoi University of Social Sciences and Humanities

15:30 – 15:45 **Coffee Break**

15:45 – 17:00 **Plenary Discussion**

Friday, 16<sup>th</sup> **December 2005**

8:00 – 8:30 **Registration**

8:30 – 10:00 **Panel Discussion 3: Rural development and Urbanisation**

*Chairperson:* Prof. Trinh Duy Luan, Institute of Sociology

*Presentation:* 'Wealth in Diversity: A Pluralist Strategy for Vietnam's Rural Development' by Dr. Philip Taylor, Australia National University

*Panelists:* Dr. Steffanie Scott, University of Waterloo, Canada  
Dr. Dang Kim Son, Institute of Agricultural Economy  
Prof. Trinh Duy Luan, Institute of Sociology

10.00 – 10.15 **Coffee Break**

10:15 – 11:45 **Panel Discussion 4: Strengthening State Capacity**

*Chairperson:* Dr. Thang Van Phuc, Vice Minister of Home Affairs

*Presentation:* 'What is Next for Public Administration Reform in Viet Nam? Some Lessons from International Models and Developing Country Experience' by Prof. Martin Painter, City University of Hong Kong

*Panelists:* Dr. Russell Heng, Institute of South East Asian Studies



Dr. Ngo Duc Manh, Director, Centre of Information and  
Scientific Research, Parliament Office

Dr. Thang Van Phuc, Vice Minister of Home Affairs

11:45 – 12:30 Plenary Discussion

12:30 Lunch



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In 500 bản, khổ 21x29,7cm, Công ty TNHH sản xuất Thông minh Hải Nội.  
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