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Key issues in the political economy of post-*doi moi* Vietnam

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In the first half of the 1990s – after 1992, but before 1996 – Vietnam was surrounded by an air of collective euphoria on the part of foreign businesspeople, analysts and academics. The achievement of a trade surplus and a debt agreement with the Paris Club in 1992, France's President Mitterrand's visit in 1993, and normalisation of relations with the US in 1995, all contributed to a new mood of hope. Vietnam was declared the ‘Next Asian Tiger’. Foreign investment poured in, economic growth rates soared, and for a period Vietnam could do no wrong; yet this mood did not last long. By 1996, unhappy foreign investors were swapping tales of double-crossing joint venture partners, infuriating red tape, and crippling levels of corruption. Economic growth and foreign investment approvals began to slow in 1996, well before the effects of the Asian financial crisis began to be felt in 1998–9.[1] The run-up to the Eighth Communist Party Congress in June 1996 provided an obvious occasion for rethinking. Susan Boyd, then Australian ambassador to Vietnam, spoke of the Eighth Party Congress as having given the ‘forces of control a renewed mandate’, suggesting that foreign businesses and others were ‘suffering increased harrassment’ as a result (Boyd 1997: 142). The change in sentiment was also reflected in popular writings about the country. Shadows and Wind, a 1998 book by a former Agence France Presse Hanoi correspondent, epitomises the new ‘cynical’ view of Vietnam (Templer 1998). It provides a sharp contrast with the more ebullient *Chasing the Tigers*, a book published just two years earlier by another journalist with chapter headings such as ‘Asia’s Youngest Tiger Roars’ and ‘Vietnam Awakes’ (Hiebert 1996).

How can this changed mood be explained? A common interpretation would be to suggest that the early corporate pioneers simply got it wrong. In their thirst for business profits they closed their eyes to the difficulties, painting a picture of Vietnam which was wildly divorced from reality. As unrealistic expectations were dashed, their accounts inevitably changed. However, it was not so much Vietnam that had changed, but rather the perceptions of observers. This apparently plausible line of argument leaves unanswered the question of how to characterise Vietnam's post-*doi moi* political economy, which is the main task of this chapter.

Another often-heard interpretation is that the reform process actually slowed. This is evident in writing which began to emerge in the second half of the 1990s, chastising Vietnam for its lack of progress on reforms, and calling for a ‘*doi moi 2’* (Kokko and Sjoholm 1997; Truong 1998; World Bank 1997b). The implication here is that at some point prior to the late 1990s there was a commitment on the part of Vietnam's leadership to a programme of change, a commitment which later waned.

But is this assumption of a slowed or stalled reform process correct? Answering this question is important not just as a matter of empirical fact, but because it goes to the heart of contemporary debates about how we understand Vietnam's political economy, including the relationship between 'ideas' and 'interests' in explaining change or the relative balance between 'policy' and 'informal activity'.[2] This chapter considers the relative importance of these concepts as a way of getting at the key issues in Vietnam's post-*doi moi* political economy. It does so by seeking to answer the following main questions:

- What is reform typically said to have consisted of, and how does this compare and contrast with reality?
- How do we explain the direction that change has in fact taken?
- Is there any evidence that at some point in the 1990s, a decision was made that reforms had gone too far and needed reining in? If we cannot identify such a decision or set of decisions, was this in fact what happened?
- How do we explain the rapid increase in private-sector activity since the end of the 1990s? That is, was it because of policy or in spite of it?

The chapter will conclude by asking how, given our findings, Vietnam's political economy might be expected to evolve in the future.

Reform in theory

According to most accounts, reform of centrally planned economies involves 'doing certain things'. First, reform is said to be outward or export-oriented. Second, the reform process is said to be pro-foreign investment. Both these policy approaches are seen to mark a shift from more autarkic, inward-looking policies associated with central planning in the era of the Cold War. Vietnam passed a Foreign Investment Law in December 1987, which in terms of its drafting was regarded as very liberal (Beresford 1997: 190). Select trading firms were said to be experimenting with trading on the international market from the 1980s (*Thanh Pho Ho Chi Minh Hai Muoi Nam* 1996). Moreover, despite a variety of ups and downs, the 1990s saw a dramatic increase in Vietnamese exports and inflows of foreign direct investment (*Business Monitor International* 1994, 1999). Third, reform is commonly associated with greater acceptance of the private sector. Gareth Porter notes a series of decrees issued in March 1988 which 'recognised the long-term importance of private industry, guaranteeing its existence as part of a "multi-component economy" and lifting all limitations on its hiring of labour' (Porter 1993: 149). While doi moi (renovation) is usually viewed as dating from the Sixth Party Congress in December 1986, many accounts recognise that partial, reform-oriented changes occurred before this. These go back as early as the late 1970s when limited market incentives were introduced in both agriculture and industry (Beresford 1997: 187). Nevertheless, the planned economy remained very much in place (Fforde and de Vylder 1996: 13–15).

If partial reforms occurred before 1986, most accounts of reform give pride of place to changes introduced in 1989 against the backdrop of a seriously deteriorating fiscal situation. In separate accounts, Gareth Porter and Melanie Beresford write:

> At its Sixth Plenum in March 1989, the VCP leadership decided to end budget subsidies to state enterprises immediately ... The dismantling of special privileges for state enterprises came as part of a broader package of liberalising reforms in 1989 ... the VCP broke completely with orthodox Leninist economic policy on prices. It pledged that the state would, henceforth, use only economic levers, such as tax and fiscal policies, rather than administrative measures to influence prices ... These measures were accompanied by two other economic stabilisation measures: a rise in interest rates and a currency devaluation ... In just eighteen months, the SRV [Socialist Republic of Vietnam] regime had gone from cautiously edging towards economic liberalisation to carrying out a package of adjustment and stabilisation measures that even the bastion of conservative capitalist banking [the International Monetary Fund (IMF)] found exemplary.
> (Porter 1993: 150–1)

> During 1989 the government abolished official prices (except for a handful of government monopolies), floated the exchange rate and introduced positive real interest rates in the banking system ... Direct subsidies from the state budget to SOEs [state-owned enterprises] were effectively ended. Positive real interest rates ... were used to encourage savings, halt the `dollarisation' of the economy, eliminate SOE subsidies via cheap credit provision, halt the growth of the budget deficit and bring inflation under control.
> (Beresford 1997: 191)

Thus, freeing up prices, devaluing the currency, raising interest rates and eliminating cheap credit to state enterprises either through the budget or the banking system are regarded as key reforms.

Reform is also associated with decentralisation and a smaller state.[3] The rationale here is that with the dismantling of the central plan and greater reliance on the market, there is a need to devolve decision-making to local authorities and enter-prises, which are better placed to respond to market imperatives in their geographical locale or sector. Thus the late 1980s and 1990s saw state enterprises granted greater autonomy to manage their affairs. Provincial and city authorities were also given greater control over local expenditure, notably on infrastructure, and increased freedom to approve foreign investment projects (see Fforde and Seneque 1995; Porter 1995; *Vietnam Investment Review*, 20-26 March 2000). In terms of the size of the state, the rationale here is that as the state relinquishes its planning role and stops interfering in the market, it will also reduce in size.

The actual components of reform since the changes of 1989 are often less dearly spelt out. However, the mantra of the international financial institutions has been the need for further progress on key structural reforms. These are commonly said to include public administration reform, trade reform, state enterprise reform, and banking reform (IMF 1996; World Bank 1999b). In this sense, reform in the 1990s can be understood as involving a deepening or extension of previously introduced changes.

Reform in practice

In fact, there are many problems with the above characterisation of reform. Leaving aside the question of whether there was ever a reform ‘blueprint’, or the way in which the above account overly emphasises the role of policy as a component of change (which will be addressed later), this depiction of reform is also a rather poor record of what has actually happened. To illustrate why this is the case, we will now focus on four aspects of the above characterisation of reform. The claims are that reform:

- is export oriented
- emphasises the private sector
- implies that the state should shrink
- involves a tightening up of access to credit on the part of state enterprises.

The chapter will also examine a fifth aspect of the above characterisation, namely the association of reform with decentralisation. However, this will be dealt with later in the chapter, when the question of whether it is appropriate to talk in terms of reform slowing is addressed.

Export-oriented reform

The literature on East Asian development models distinguishes between an export-oriented economic strategy and one which relies on import substitution. Countries are usually seen to be pursuing one or other strategy, although as domestic industries strengthen they often switch from import substitution to export-led growth (Haggard 1990). Vietnam is commonly depicted as pursuing an export-oriented development strategy -- a fact seemingly confirmed by the four-fold increase in exports between 1990 and 1996. However, this is not the whole story. The period since 1986 has also seen large amounts of import substitution. At the centre of this activity are state enterprises targeting the domestic market and shielded from international competition by high tariff barriers, quotas and import licenses. High levels of protection have the effect of creating a captive market for local producers. Moreover, while the international financial institutions are associated with calls for trade liberalisation, foreign investors have invested substantial amounts of capital in protected companies engaged in import substitution. This has usually been in the form of joint ventures with state enterprises, which was the dominant pattern for foreign investment in Vietnam in the 1990s.

Ari Kokko has suggested that a significant portion of Vietnam's imports, which increased six-fold during 1990–6, were destined for import-substituting firms, not export-oriented ones. He also notes the existence of an overvalued exchange rate as a telltale sign of an import-substitution trade regime (Kokko 1997: 14, 16). Key import-substitution sectors include steel, cement, coal, sugar, paper and fertilisers. Here, the government has typically been vulnerable to lobbying from interest groups within these industries pressing for a continuation of protection. It was against this backdrop that state enterprises continued to outstrip private enterprises in terms of industrial growth right up until the last year of the 1990s.

The role of the private sector

Reform is commonly associated with the growth of the private sector. However, aside from a rapid expansion of household enterprises, growth in the private corporate sector was a much more limited affair during the 1990s. Instead, at the forefront of moves to take advantage of business opportunities which emerged with reform were state business interests. This process comprises three principal strands: first, existing state enterprises diversifying into new sectors; second, the formation of large numbers of new state enterprises, especially at the city and district level; and third, the establishment of private companies with state share-holders, the latter often involving asset-stripping from the state sector. These companies have tended to operate in a clearly defined set of sectors, namely foreign and domestic trade, real estate and construction, hotel and tourism, and light manufacturing The choice of sectors was no coincidence. These were areas which saw rapid growth in the 1990s. They also included areas, such as foreign trade, where entry was restricted at least until the end of the 1990s. State business interests were also well-placed to take advantage of preferential access to contracts, licenses, land and credit – areas where private firms generally did not do so well (Gainsborough 2003: 16–39).

Some of these companies that emerged in the 1990s have been so successful that they have begun to resemble diversified business conglomerates, with interests extending well beyond their core business. Apart from having subsidiary or associate companies active in a range of business sectors, a defining characteristic of these new conglomerates is that they have developed interests in banking. Even in Ho Chi Minh City, a city widely associated with the private sector, 64 per cent of domestic industrial output was derived from state companies in 2000. This is little different from the nationwide average, where the share is 65 per cent (*Nien Giam Thong Ke* 2000-2001).

The size of the state

With its emphasis on growth of the market and the dismantling of the mechanisms of central planning, reform is often associated with the retreat of the state. However, the picture in Vietnam is much more ambiguous. Looking at patterns in state sector employment as an indicator of the size of the state, the trend was for a consistent rise during the second half of the 1990s, after a fall in the first half. This pattern is also evident in data distinguishing between centrally and locally employed public sector workers (*Nien Giam Thong Ke* 2000-2001 and *Nien Giam Thong Ke* 1995 1996). In Ho Chi Minh City, widely associated with reform in the popular lexicon - and hence where one might expect a smaller state sector - the trend in state sector employment was upwards for most of the 1990s. Thus the numbers employed by the state sector in the city were larger at the end of the 1990s compared with the beginning. Some of the most significant increases were in the area of party and state management and construction (*Nien Giam Thong Ke Thanh Pho Ho Chi Minh* 1997-1998).

Access to credit

Reform is widely associated with a hardening of soft budget constraints for state enterprises, thereby ending the practice whereby firms obtained credit either directly from the budget or from state-owned commercial banks with little attention paid to performance. Porter talks in terms of the immediate ending of budget subsidies to state enterprises in 1989, while Beresford talks of the elimination of cheap credit provision for state enterprises following the raising of interest rates in the same year (Porter 1993: 150-1; Beresford 1997: 191). However, there is little evidence that these changes actually happened. In the absence of greater transparency in terms of public finances or patterns in bank lending, any assertion that there has been a hardening of soft budget and credit constraints has rather to be taken on trust. Moreover, what evidence is available suggests that even if direct subsidies from the state budget might have become less common in the 1990s, access to cheap bank credit for state enterprises remained widespread. Underpinning a continuation of soft credit constraints during the 1990s was the continued influence of politicians and enterprises over banks. Thus, if politicians (in their capacity as heads of enterprise-controlling institutions) made representations to a bank instructing it to lend to one of their firms, the bank was usually powerless to resist. Banks were similarly weak when it came to trying to call in overdue loans, especially if an enterprise had exercised the right to borrow without putting down collateral - as was permitted in the second half of the 1990s. Further-more, bank vulnerability to political pressures has not just been a problem affecting the state-owned commercial banks. The shareholding structure of the joint stock commercial banks is heavily dominated by state business interests, so that bankers are also vulnerable to political pressures (Gainsborough 2003: 32-7).

A good illustration of how the lending process actually worked came to light in proceedings associated with the trial of a Ho Chi Minh City-based party company, Tamexco, which was taken to court on alleged corruption charges in 1997. While this is just one example, a common refrain at the time was that many of the practices for which Tamexco was prosecuted were commonplace.' In the extract below, the Deputy General Director of the state-owned Bank for Foreign Trade (Vietcombank) is asked in court to explain why Vietcombank continued lending to Tamexco despite its debts:

> COURT: By December 1992, Tamexco's total debt at Vietcombank was $15.6m, wasn't it?
> MR LO: It was only $10m.
> COURT: Why then did you continue to lend a further $3m?
> MR LO: At this stage, we did not want to lend but because Tamexco was a fertiliser importer – importing fertiliser for the winter–spring harvest – this was a duty entrusted to us by the office of the government.
> COURT: Why did they not entrust it to a firm which could do business profitably?
> MR LO: The court ought to ask this question to the Ministries of Agriculture and Trade; why did they give [fertiliser import] quotas to Tamexco?
> (Tuoi Tre, 28 January 1997)

When Lo was pressed further as to whether he was aware that lending to Tamexco, given the circumstances of its debts, contravened bank regulations (sai so voi phap luat ngan hang), he said that lending to the company was guided by Document 8 (van ban 08), issued on 8 April 1991. Document 8 apparently permitted certain bank clients to borrow beyond the normal ceiling set at 10 per cent of a bank's legal capital for a single client. According to Lo, it was the result of collaboration between different institutions in Ho Chi Minh City, including the local Party committee:

> Document 8 was signed by [Deputy State Bank Governor] Chu Van Nguyen, and was the result of a collaboration between the State Bank and the Standing Committee of the Ho

> Chi Minh City party committee. It had the ability to overcome obstacles (no co gia tri thao go).
> (Tuoi Tre, 28 January 1997)

Lo did not say who had signed for the Party, and to this day the question remains something of a mystery.[5] According to the prosecution, Document 8 had been superseded by new regulations issued 28 days later by the then State Bank Governor, Cao Sy Kiem. Called to give evidence, State Bank Governor Chu Van Nguyen said that Vietcombank Ho Chi Minh City must have known about this. Lo, however, said that Document 8 continued to apply in Ho Chi Minh City, even after the new regulations were issued. Despite repeated high-level assertions of a commitment to reforming the banking system from the 1990s onwards, the influence of politicians over banks remains widespread.

Explaining change

If this is the reality of reform – import substitution in the context of continued protectionism, a constrained private sector, an expanding state bureaucracy, and a tendency for the credit constraint to be soft – how do we explain the direction that change has taken? Why is the private sector not bigger? Why has there not been more export-oriented economic activity and why has the state not withdrawn more from the economy? It is here that a distinction between `ideas' and ‘interests’ may be usefully employed.

Interests

The direction that reform has taken can to a large extent be explained with reference to interests which became established in the party-state under central planning. As the plan broke down or was dismantled, these interests – located in state enter-prises and the bureaucracy – did not just roll over: rather, they sought to preserve what they had, whether it be control over material or financial resources, or the right to carry out certain regulatory functions. Where this was not possible, state institutions proved adept at re-inventing themselves. Thus, offices which had formerly been a cog in the wheel of the central plan took on new roles linked to the market economy. These included issuing licenses to foreign investors or private businesses, or regulating or overseeing activities linked to the emergence of the land market, or even the introduction of new taxes (Gainsborough 2003: 30–7, 60-6).

State enterprises which had performed a circumscribed role under central planning did not simply sit back as markets in the former Eastern bloc disappeared, or demands for their products dried up. Rather, they too sought to adapt to new opportunities which had emerged under reform. While this frequently involved embracing the market – including engaging in speculative activity often involving foreign exchange and land – state enterprises were also complicit in undermining its free play. If quick profits could be had by producing for the local market under heavy protective barriers or keeping out the competition, enterprises wasted no time in lobbying for such protection.

It is this metamorphosis from guardian of the plan to gate-keeping the market economy and exploiting new business opportunities which explains the increase in the size of the state. In all cases, the boundaries between public and private remained blurred, with politicians, bureaucrats and enterprise directors quick to reap the rewards of office.

Ideas

Ideas are also important in explaining the direction change has taken in Vietnam. While the government has signed up to structural adjustment programmes with the IMF – involving plans to tighten access to credit by state enterprises, and to lower tariff barriers – it is worth asking what Vietnam's politicians really believe in. After all, the philosophical tradition on which Vietnam draws regarding the role of the state in the economy is quite different from that of the West. In this respect, it has not gone unremarked that there may be a possible link between present-day hostility towards the private sector and the lowly status of commerce in the pre-colonial era (Fforde 1995: 5–6). Moreover, calls by the West for renewed liberalisation following the Asian financial crisis are not viewed in countries like Vietnam simply as the innocent application of the 'right policy', but rather as something much more political. Calls for the government to withdraw from the economy are often regarded suspiciously as possible attempts by the West to under-mine state power. Liberalisation, meanwhile, is not seen simply as being 'good for growth' but rather being motivated by a desire to force open Asian markets, so that Western firms may benefit (Higgott 1999: 101–4). Given such perspectives, it is hardly surprising that import substitution has been so prominent, and that 15 or so years after the Sixth Party Congress state involvement in credit allocation remains the norm.

The role of policy

While writings by the international financial institutions and some academics often place heavy emphasis on policy, both in its description and explanation of the change, a growing body of literature on Vietnam downplays the importance of policy in explaining how reform emerged. Popularised terms such as `fence-breaking' – or the idea that the market emerged out of the plan – encapsulate the view that the illegal involvement of state enterprises and bureaucratic institutions in markets during the era of planning laid the foundations for the market economy, ahead of any substantive moves towards reform by the state (Fforde and de Vylder 1996: 5–6). According to such accounts, policy-makers have played a much more passive role in determining the direction of change, often responding after the event.

If the above account offers a valid interpretation of the years immediately preceding *doi moi*, does it adequately describe the situation now given that the state has now formally adopted a policy of reform? To a large extent, the answer appears to be yes. State institutions and societal actors continue to operate in ways which are not formally sanctioned, but where the stipulations of policy-makers are widely flouted. The way in which the land market has emerged over the last decade – the land market heated up in Ho Chi Minh City in anticipation of changes expected with the 1993 Land Law which authorised the sale of land use rights – is a good example (Gainsborough 2003: 35–7).

Nevertheless, it would be wrong to suggest that policy has no relevance in explaining the direction of change. The state may be weak in a technical sense, insofar as it has difficulty getting different institutions to work towards a common goal, but it still exerts significant influence in setting – at the very least – the outer parameters within which informal activity happens. Thus, speculation in the land and foreign exchange markets only makes sense in the context of state restrictions on land prices and control over the exchange rate. Equally, illegal revenue collection by provincial or local authorities, or underdeclaring the total amount of revenue raised, only occurs in the context of a particular way of structuring intergovernmental fiscal relations, which is the result of policy.

In addition, the state still retains the ability to discipline those who step too far out of line. This was evident during the 1990s in the periodic clampdowns on speculative activity in the land and foreign exchange markets and in a number of court cases in which acts of alleged corruption were brought to book (Gainsborough 2003: 70–7, 78–97).

Did reform slow?

It was noted at the beginning of the chapter that a common explanation offered to explain widely diverging depictions of Vietnam either side of 1995 was not simply that perceptions had changed but rather that there had occurred a substantive change in Vietnam itself — hence the idea that reform had slowed. Given what has just be said about reform, namely that it frequently has a momentum of its own largely divorced from the action of policy-makers, it is worth asking whether it is meaningful to conceive of reform as something which can be turned on or off like a tap. Many commentators clearly believe so. Former Australian ambassador Boyd suggested as much when she spoke about the ‘forces of control’ receiving a renewed mandate in the run-up to the Eighth Party Congress in 1996. Carlyle Thayer talks of party conservatives seeking to reimpose control in 1989 in response to liberalisation moves introduced by the then Party General Secretary, Nguyen Van Linh (Thayer 1992: 117).

How precisely reform is said to have slowed is not always clear. Part of the problem is the contradictory nature of change in Vietnam both at a macro-level (for example, import substitution and export-oriented economic activity occurring alongside each other) and at a micro-level (for example, calls for banking sector reforms versus actual practice at the level of the firm). Consequently, it is hard to be sure whether a certain development represents an actual slowdown, or just a reaffirmation of an existing policy or approach.

There is, however, one development that may constitute a substantive change in direction, namely the trend towards re-centralisation mentioned earlier as being the fifth `counter-intuitive' hallmark of Vietnam's reforms during the 1990s. This may well be what commentators are picking up on when they say that reform has slowed.

Reform is commonly understood in terms of decentralisation, and rightly so, for the reasons outlined earlier. The process of decentralisation also provides a good example of the limits of policy in determining the direction change has taken. While some moves towards decentralisation are formally granted by way of policy changes -- the right to approve foreign investment, for example -- many others are the result of unsanctioned behaviour. The rise of new state business interests at the lower levels of the party state, which has had far-reaching implications for the political balance of power between the centre and the lower levels, is a case in point. At best, this activity is very loosely overseen by the higher levels, and much of it is not overseen at all.

However, it appears that at some point in the early 1990s steps were taken to try and reassert central control, in the face of what were regarded as worrying levels of decentralisation which had occurred during the 1980s and especially after 1986. A reduction in provincial representation on the Party Central Committee at the Seventh Congress in 1991 has been cited as an illustration of a reversal of the decentralisation which occurred at the Sixth Congress.[6] Other examples include: an attempt by the Prime Minister's office to gain greater control over the appointment of provincial and city People's Committee chairmen (1992) (see Gainsborough 2003: 43-52); the reorganisation of state enterprises into *tap doan* and *tong cong ty* in an attempt to concentrate control over state resources (1994—5) (Jerneck 1997); and an increase in big corruption cases in the second half of the 1990s. The big corruption cases, which include Tamexco, Minh Phung-Epco and Tan Truong Sanh, are understood here less in terms of the state clamping down on corruption per se, and more about the centre disciplining the lower levels of the party-state in an attempt to counter decentralisation (Gainsborough 2003: 78-97).

Perhaps in view of its wealth, Ho Chi Minh City has been very much on the receiving end of moves towards re-centralisation. Since 1991 the Party Secretary in the city has always been a member of the Politburo – when previously he was not. This fits with the idea of re-centralisation, with the state seeking to lock the local Party Secretary into central decision-making processes. The formation of the Chief Architect's office in Ho Chi Minh City in 1993, with a strong central mandate to oversee activities in the city's land market, represents a further attempt by the centre to reassert its authority in the localities (Gainsborough 2003: 62-3). Whether such moves are conscious or instinctive, or represent a slowdown in reform, is a matter for debate. However, there is no denying they are having a significant impact on the nature of Vietnam's political economy.

The rise of the private sector

The characterisation of Vietnam's political economy offered here places heavy emphasis on the rise of new state business interests under reform, countering the usual tendency associating reform with the rise of the private sector. However, there is a sense in which this is changing. State business interests still predominate in Vietnam, but private firms are becoming more important. This became apparent in the aftermath of the Asian financial crisis. Since 1999, growth in the non-state sector has consistently outstripped that of the state sector, reversing a trend previously sustained since 1988 (Nien Giam Thong Ke 1995 1996 and Nien Giam Thong Ke 2000 2001). Understanding why this has happened is important in terms of our efforts to understand the key determinants of change in Vietnam's post-*doi moi* political economy. A search for an explanation also feeds into the debate about how much importance to attach to policy in explaining change.

Certainly, there is no shortage of policy measures relating to the private sector. In December 2001, the National Assembly voted in favour of a constitutional amendment stipulating that the private sector should be treated equally with the state sector. Much emphasis has also been placed on explaining the private sector take-off following the passage of the Enterprise Law, which came into effect in January 2000 (Business Monitor International 2002: 14–15). Certainly the law's implementation was followed by a surge in company start-ups, and private entrepreneurs confirm that setting up a company is easier than it used to be. Nevertheless, it would be unprecedented for a law in Vietnam to have such a ready effect, suggesting that other factors might be important.

In all likelihood it appears that a mixture of non-policy and policy measures are important. The Enterprise Law introduced in January 2000 was one of a number of measures introduced by the government following the Asian financial crisis, which together have led to enhanced confidence among private business-people. An important measure was the lifting of restrictions preventing private firms from exporting directly. However, a number of non-policy measures are also relevant, including the need for would-be entrepreneurs to accumulate practical experience in areas such as how to run a business, including mobilising capital through informal networks and learning how to negotiate tricky social relationships. This takes time. Thus it was not until the end of the 1990s that the effects of such processes started to become apparent. Also important in explaining private sector growth are various informal processes involving the migration of capital from the state sector, often known as asset-stripping (Fforde 2001 c: 25–6). Thus, a convincing explanation for private sector growth includes a range of factors in which policy is one of a number of variables.

Conclusion

It has been argued that Vietnam's post-doi moi political economy can be aptly characterised with reference to five broad components: import substitution against a backdrop of continued heavy protection; the continued importance of state business interests, many of which have developed quite successfully since the late 1980s; an expanding state bureaucracy, moving from administering the plan to gate-keeping the market economy; a drive by the central state to re-centralise power; and the continuation of strong political involvement in credit allocation to state enterprises. Moreover, all this has occurred in an environment where the direction of change is determined by the interaction between informal, illicit activity and state policy, where the latter is often rather an insignificant factor.

A final question concerns whether what we have observed is simply a transitional stage on the road to a more reformed economy. In some respects, this is almost certainly the case. We have noted faster growth in the private sector since 1999. The government has also signed up to far-reaching liberalisation measures through agreements with the international financial institutions, the Association of Southeast Asian Nations and the United States. Vietnam's desire to join the World Trade Organisation promises further such changes. Nevertheless, based on what we have seen over the last 15 years or so, state power in Vietnam has proved adept at reinventing itself and finding cracks in the reformed system in order to steal a march on others. Thus it is likely that the impact of the anticipated liberalisation measures will turn out rather differently from how they were originally conceived. It may be that the drive towards re-centralisation which has occurred during the 1990s – while resisted in some quarters – could lead to the emergence of a stronger, even more technocratic, state. More than a decade after outsiders first started talking about the need for politicians to withdraw from credit allocation to state enterprises, this remains an area of unfinished business. This highlights the way in which aspects of Vietnam's political economy, which we have suggested draw on deep philosophical underpinnings regarding the relationship between state and market, are likely to prove rather resilient.

Notes

1 For more details, see Chapter 13 by Freeman and Nestor in this volume.
2 Emphasising the informal dimensions of change has been a major theme in the work of Adam Fforde. See Fforde and de Vylder 1996.
3 This is more talked about in the literature on China than on Vietnam; while the idea of reform leading to a smaller state derives from the writing of neo-classical economists. See Duckett 1998; Nevitt 1996.
4 This inevitably raises the question as to why Tamexco was taken to court. For a discussion of this issue, see Gainsborough 2001.
5 One source suggested almost as a passing comment that it was the then Party Secretary in Ho Chi Minh City, Vo Tran Chi. Interview 4 February 1998.
6 See Thayer (1997c). However, developments at the Ninth Party Congress in 2001, which saw a sharp increase in provincial representation on the Central Committee, make sustaining this kind of analysis difficult, unless of course there has been a marked shift away from re-centralisation, which seems unlikely. See Abuza 2002.