

Vietnam – A New Economic Dragon in Southeast Asia?

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ABSTRACT

This study investigates and identifies some of the primary determinants of Vietnam's growth during the Doi Moi era and provides an assessment of their relevance and application to contemporary challenges. The Socialist Republic of Vietnam has an impressive record of economic growth and poverty reduction over the past two decades. Capitalizing on the advantages of its cultural and economic features, the strategy of incremental Doi Moi reforms has demonstrated the strength and commitment of Vietnam's political leadership. The country has achieved middle-income economy status in 2009 and is aiming to become an industrialized nation by 2020. However, on the background of mounting domestic challenges and less favorable international economic conditions, the achievement of this ambitious goal seems uncertain. Growing economic affluence may have hampered some of the positive features, which had previously been instrumental in catalyzing growth and development, and the current reform processes appear to be stalling.

Keywords: Confucianism, Southeast Asia, economic growth, economic development, communism

Introduction

The Socialist Republic of Vietnam is one of the few communist regimes still in existence. This nation of 91 million people ranks among the fastest growing economies of the world, having forged ahead at an average growth rate of 7.3 percent between 1990 and 2010 (IMF, 2011). This remarkable performance has been largely attributed to the *Doi Moi* “Renovation” reforms program initiated in the late 1980s, which consisted of an outward-looking, market-oriented economic development strategy centrally

formulated and managed by the government. Vietnam has now embarked on an ambitious 10-year plan with the aim to become a fully industrialized nation by 2020. However, since the late 2000s, there have been several signs of possible obstacles to such development goals. This apparent change of fortunes is one of the focal points of this study's investigation.

Comparisons between Vietnam's ongoing transition, China's "socialist market economy" approach and the success stories of the East Asian Dragons – South Korea, Hong Kong, Taiwan, and Singapore – abound (Chaponnière, Cling, & Zhou, 2008; Wilkinson, 2008). However, despite inevitable points of similarity, Vietnam's approach to development and experience with both economic and social reform remains demonstrably unique. Vietnam has endured a long history of colonialism, protracted war, and national division, attributes not usually associated with economic prosperity. Yet through prudent reforms in parts of the entrenched socialist economic structures and opening up to international trade and investment, it has successfully managed the transition from one of the poorest countries in the world to middle-income economy status.

The second notable feature is Vietnam's transformation from an outlier in international relations to a pragmatic and successful player in regional and international diplomatic exchanges. This has been reflected in its fast-paced economic integration within the Asian region and the rest of the globalized world via trade and investment and its capacity to attract considerable amounts of official development assistance (ODA). Finally, Vietnam's recent development is notable in the way national identity and specific cultural inclinations have been underscored and encouraged by the authorities in order to support the reform process while maintaining social and political stability. Vietnam's well-coordinated execution of its domestic reforms and successful navigation through several periods of external crisis are testaments to its capacity to adapt and endure.

However, in recent years Vietnam's reforms appear to have lost momentum and its political leadership has yet to define a clear way forward for the country. Investor enthusiasm for the country, which has varied significantly with time, has yet to be efficiently harnessed through coherent industrial policies (Freeman, 2002; Perkins & Vu, 2008). As Vietnam faces rising competition from other low-wage Asian economies, a lack of clear policy focus could represent a serious threat for medium- and long-term growth prospects. Formerly an international darling in the eyes of the donor community, Vietnam is expected to see the phenomenal aid support it received prior to transitioning to middle-income economy status steadily decline (Cox, Hanh, Hung, & Dinh, 2011). Among the

most pressing internal structural problems facing Vietnam seems to be the persistence of inefficient economic structures and the reform of state-owned enterprises (SOEs) in particular. Periodic surges in the inflation rate, a decrease in the rate of job creation, and the unequal pattern of growth threaten well-being and create social tensions within society. Furthermore, as one of the few surviving communist states in the world, it remains to be seen whether the Vietnamese Communist Party would manage to hold on to political power as the economy grows, changes, and becomes more integrated with the rest of the world.

Considering the previous impressive achievements in terms of reforms and development, the current accumulation of adverse factors seems paradoxical. This observation has motivated this study's principal research question: *Which factors are likely to influence Vietnam's future development?* The ensuing analysis aims to identify the essential cultural and economic dimensions behind Vietnam's development, and to discuss the conditions needed to overcome present obstacles. The article's overall approach is to examine Vietnam's progress in terms of development since its reunification. The study focuses on the *Doi Moi* policies and their evolution during the past 10 years, and then attempts to identify and examine the challenges to future growth and development.

After looking into Vietnam's development background, the analysis starts by identifying some key features of Vietnamese culture and society that have underpinned the reform process. The focus then shifts to the economic factors and the policy choices made during the *Doi Moi*, their contribution to the success of reforms, and their limitations in sustaining Vietnamese economic development. It seems crucial to stress the importance of the political dimension – the communist leadership – in the selection process and incorporation of cultural and economic factors into the development processes. The political dimension, closely intertwined with its cultural and economic counterparts, plays a central role in the determination of Vietnam's development path. The next section puts previous and current reforms in perspective, highlighting the progress that has been made and considers the distance still to be covered in order for Vietnam to become an industrialized country. The final section provides reflections on Vietnam's future economic growth and development prospects.

Backdrop

Vietnam's 2,000-year history is marked by the struggle for independence and the resistance against foreign invasions. China's proximity played a

special role in this narrative, its constant threat functioning as a catalyzing factor for Vietnamese national identity (Porter, 1993). The giant neighbor also facilitated the diffusion of Confucian teachings during the fifteenth and nineteenth centuries, which were adapted and transformed in Vietnam's vibrant cultural environment (Roszko, 2012). During the nineteenth century, Vietnam succumbed to French colonialism, which led to more than 60 years of foreign occupation. Independence was finally achieved after an armed struggle lasting from 1945 to 1954, but it also resulted in the separation of the country between a communist North and market-oriented South. The divided parts soon became entangled in conflict, and following the involvement of the United States (US), the clash evolved into the highly destructive American War.

The capitulation of South Vietnam in 1975 marked the beginning of Vietnam's long and winding road towards reconstruction and development as an independent, unitary country (Ebashi, 1997; Vu, 1994). Post-war recovery became especially painful in the climate of international isolation that followed the US's termination of all bilateral ties with the communist regime, including an embargo on bilateral trade, the withdrawal of humanitarian aid, and staunch opposition to financial support from international institutions (Manyin, 2005). Vietnam's seclusion further deepened after invading neighboring Cambodia in 1978, and until the early 1990s most economic relief came from Soviet aid and trade, some financial support was provided by France as a means of colonial restitution, and a trickle of aid from the UN and a limited number of donors (Ebashi, 1997; Forsberg & Kokko, 2007). However, the reunification between North and South had always taken precedence and Vietnam resiliently proceeded with reforms in order to protect its newfound unity.

Harmonization between the North's centrally planned, industry-reliant economy and the South's market-oriented, agriculture, and service based system was challenging (Vu, 1994). Initial attempts towards harmonization, in the form of the 1976–1980 Five-year Plan, led to tight price controls, the collectivization of agriculture, and the nationalization of trade and industry in the South (Masina, 2006). However, this distorted incentives system resulted in the collapse of agricultural output and a general shortage of goods that, compounded by two consecutive years of natural disasters, led to widespread famine and the death of over two million people. The government was thus compelled to consider alternative approaches and gradually relaxed price controls, encouraging production in the non-state sector and in the agriculture (Ebashi, 1997).

Conservative and reformist factions within the Party challenged each other for the most part of the 1980s, each proposing different experimental reforms whose results varied from moderate success to economic disaster. During this period, informal markets flourished, as spiraling inflation eroded the purchasing power and supply shortages diverted people from the market (Pham & Le, 2003). Following a particularly ruinous experience with price, wages, and currency shock therapy implemented in 1985, the government officially adopted the *Doi Moi* “Renovation” program in 1986 (Ebashi, 1997; Gainsborough, 2010).

However, the market-oriented reforms of *Doi Moi* were not fully implemented until 1989, and it took another three years before they began to show results (Masina, 2006). This lag is attributed to their timing, which coincided with the disintegration of the Soviet Union. Although timely, the reforms could not immediately offset the effects of the collapse of Vietnam’s entire external trade; inflation surged, and dollarization and informal markets became pervasive (Pham & Le, 2003). However, the political leadership’s commitment to reforms eventually paid off, and recovery was swift once Vietnam succeeded in re-establishing diplomatic and commercial relations with Japan, the US, and finally, normalized relations with international financial institutions.

Buoyed by strong economic activity in the Asian region and investor enthusiasm for transition markets, Vietnam’s liberalization reforms began to show their true worth. Average growth between 1990 and 1999 was 7.4 percent, FDI inflows took off, and economic integration with the region gradually deepened. Although the Asian financial crisis of 1998–1999 dampened Vietnam’s stellar growth record (Masina, 2006), the country was largely insulated from its worst effects, thanks to limited integration into financial international markets, and more importantly, to the incipient state of reforms in the banking and financial sector (Freeman, 2002).

Between 2000 and 2010 economic growth remained strong, averaging 7.2 percent over the entire period (IMF, 2011), and the country achieved middle-income status in 2009. Vietnam’s joining the World Trade Organization (WTO) in 2007 also opened up new possibilities for growth while at the same time adding to the pressures of advancing domestic reforms in order to increase the competitiveness and efficiency of the national economy (Wilkinson, 2008). However, Vietnam’s deepening integration in the international economy also exposed it to the negative

effects of the 2008 global economic crisis. Growth has decelerated in recent years as a result of weaker exports to industrialized countries and increased competition from other low-wage economies (ADB, 2012). At home, repeated surges in the inflation rate brought to light the inherent weaknesses in the current make-up of the national economy.

Table 1 summarizes the main challenges marking the different stages in Vietnam's post-war development up to the present day.

Table 1.
Challenges to Vietnamese Development

Challenges	1975–1990	1990s	2000s
External	International isolation	The fall of the Soviet Union	Global economic crisis
	US economic embargo	The Asian Financial Crisis	Poor international prospects: <ul style="list-style-type: none"> • Sluggish demand from developed markets • High competition from developing & emerging countries
Internal	Post-war reconstruction	Early 1990s: informal economy following export collapse	Macroeconomic restructuring: <ul style="list-style-type: none"> • SOEs • Banks/financial sector • Public spending • Inflation
	Reunification/harmonization of North and South structures	Post-1994: <ul style="list-style-type: none"> • Design policies to attract & manage FDI • Advance reforms 	Corruption
	Structural problems (up to 1986): <ol style="list-style-type: none"> 1. Domestic price controls 2. Tight restriction on domestic and international trade 3. Distorted incentives → Supply shortages 4. Lax fiscal and credit strategies → Inflation 		Inequalities

Sources: Ebashi (1997), Pham and Le (2003), Porter (1993), Vu (1994).

This apparent change of economic fortunes represents the motivation for analyzing the factors shaping Vietnam's past, present, and ultimately future economic development. The above brief overview of Vietnam's history serves as a frame of reference for understanding some of the features of contemporary Vietnamese society and policy-making. The next section more closely examines the sociocultural factors that may have underpinned Vietnam's transition and reform process, and which appear likely to continue to influence the future course of development.

Ethics, Values, and Identity

Vietnam has a history of constant experimentation with policy making. It has transitioned from central planning to milder versions of socialist economic structures and finally, 1986 onwards, incrementally implemented market-oriented reforms. While the approaches used to advance development have varied from period to period, the overarching goals of continued unity, independence, and modernization have remained unchanged. On the background of Confucian and communist influences, a number of sociocultural features appear to be integral in keeping reforms on course. Strong sense of filial piety, values of social harmony and equity, inclination towards thrift and capital accumulation, and the unique narrative of nationalism and self-determination will be explored.

Filial Piety

The importance of family and the values attached to this institution lie at the core of the Vietnamese society. The sense of filial piety has been especially strong in Vietnam, as reflected by the importance attached to family ties, and more importantly, that of cultivating one's relation with their predecessors through the practice of ancestor worship (Roszko, 2012; Sutherland, 2012). The worship of ancestors is a long-standing religious tradition deeply rooted in the consciousness of the Vietnamese people and it serves to unite all Vietnamese across religions and ethnic groups (ibid.). These traditions have been a part of Vietnamese society for millennia, but have been further strengthened by their interpretation through the lenses of various religious and philosophical currents, not least Confucian philosophy. Starting from the fifteenth century, some of the more paternalistic aspects of Confucianism were introduced in Vietnam with the purpose of consolidating and stabilizing the power of Vietnamese kings by creating a stronger link between the people and authority figures. Confucianism was also an important part of the revolutionary leaders' ideology during the fight for independence against the French occupation and firmly permeated Vietnamese communist thought (Porter, 1993). Communism and paternalistic propaganda from the American war filtered through and became firmly rooted during the reconstruction and reform periods. Filial piety has been consciously encouraged as a way of promoting social harmony and unity, and not least as a trigger of financial support from overseas Vietnamese (*Viet Keu*) and thus of aid to economic recovery.

Social Harmony: Poverty, Inequality, and Unemployment

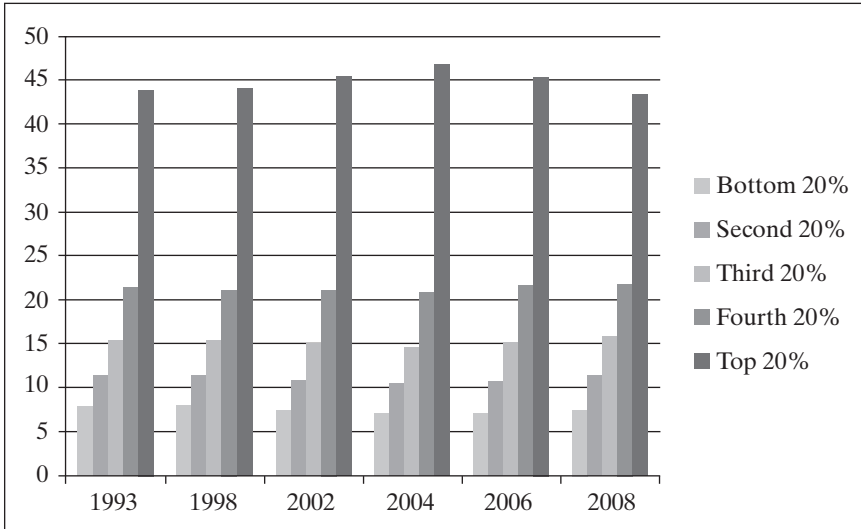
One aspect of transition periods observable in many countries is that of political instability, which stems from social unrest over difficult economic conditions. In countries where democratic processes are in place, political instability translates into frequent elections and changes of the party in power, often at the expense of furthering reforms and development. In the case of Vietnam, societal demands for political change have not yet manifested themselves in a way that could credibly threaten the rule of the Communist Party. This occurrence is not accidental, and is likely due to the reinforcing influence of the inclination towards social harmony and the party-state's explicit efforts to achieve inclusive growth and development.

Vietnam's economic growth seems to have effected profound social changes across society (UNDP, 2011). Poverty levels have dropped significantly since the onset of reforms, from over 60 percent in 1990 to just 14.2 percent in 2010 (GSO, 2011a). Economic inequality, as measured by the Gini index, is relatively low by regional and international standards (HDR, 2011). The distribution of income also indicates relatively modest inequality compared to other countries in the region. In 1993 the highest quintile of income earners held almost 44 percent of Vietnam's total household income, while the lowest quintile received 7.8 percent (Figure 1). Despite a brief period of growing inequalities following the Asian financial crisis, the distribution of income has remained fairly stable and relatively equitable. The period of economic slowdown coinciding with the global economic crisis trimmed the income of the top quintile, while migration and poverty reduction programs supported revenues at the bottom (UNDP, 2011).

Despite relatively favorable statistics, other dimensions of poverty and inequality caution against an overly optimistic evaluation of socioeconomic development in Vietnam. The distribution of income across regions and population groups paints a more sobering picture of Vietnam's progress in terms of poverty reduction and social equity (Table 2).

First, the concentration of poverty among ethnic minorities continues despite overall progress at the aggregate level. Looking into the incidence of poverty in Vietnam, Minot, Baulch, and Epprecht (2007) found that lower income is accurately predicted by the level of education of the head of the household, the ability to speak Vietnamese, geographical remoteness, and in rural areas, agro-climatic factors. It is therefore not surprising

Figure 1.
Income Distribution among Vietnamese Households (1993–2008)



Source: General Statistics Office (GSO) and World Bank.

Table 2.
Disaggregating Poverty (in percent)

Percent	1993	2002	2004	2008	2010
Poverty rate	58.1	28.9	18.1	13.4	14.2
Urban	25.1	6.6	8.6	6.7	6.9
Rural	66.4	35.6	21.2	16.1	17.4
Kinh and Chinese	53.9	23.1	—	—	—
Ethnic minorities	86.4	69.3	—	—	—

Sources: World Bank; Vietnam Statistical Yearbook (2010).

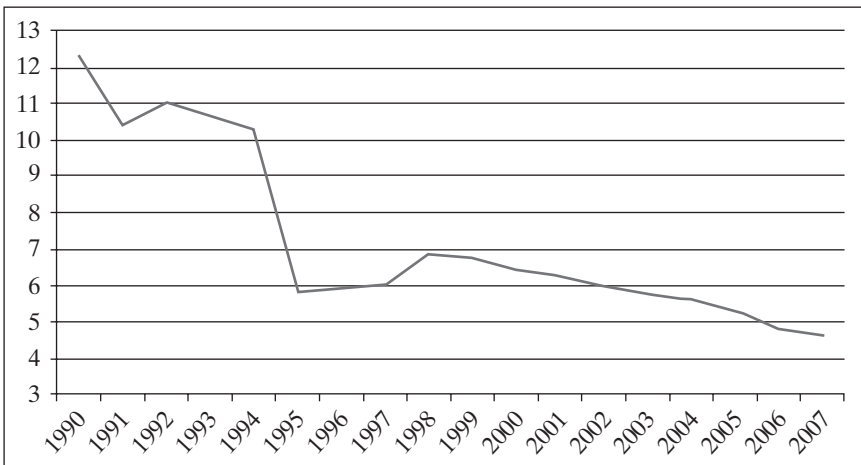
that minorities are particularly vulnerable, with both sociocultural barriers and geographical and economic odds stacked against them. However, poverty reduction in Vietnam seems to derive mainly from broad-based economic growth (Baulch, Nguyen, Phuong, & Pham, 2010; Minot et al., 2007), therefore the importance of creating better opportunities for the poor in general, and minorities in particular, is paramount.

Similar to other countries, the benefits of economic growth and development tend to disproportionately accrue in services, industry, and urban centers at the expense of agriculture and the countryside. Between 1993 and 2002, poverty rates dropped considerably across Vietnam, with faster

progress being achieved in the cities. However, by 2010 urban poverty levels were higher than those registered in 2002, and given the increase in urban dwellers, absolute poverty levels are much higher today than 10 years ago (UNDP, 2011). Rural poverty, on the other hand, continued its steady decline and now stands at half the level of 2002. These twin evolutions are attributed as much to targeting rural development through aid and public investment, as to a surge in rural–urban migration (GSO, 2011b). Wage differentials and perceived economic opportunities will likely support more migration towards urban areas (Coxhead, Phan, Ngan, & Ninh, 2010) and thus, potentially increase urban poverty rates in the coming years.

Averaging 2.6 percent per year, employment growth has a hard time keeping up with the dynamics of internal migratory flows (UNDP, 2011). In industry and manufacturing, job creation has been slower than output growth, at the same time productivity has decreased due to the overwhelming size of the state sector (Coxhead et al., 2010). Therefore, despite decreasing unemployment rates (Figure 2), most of Vietnam’s labor force continues to work in agriculture and the informal sectors where productivity, wages, and job security are low and workers are more liable to be underemployed.

Figure 2.
Evolution of the Unemployment Rate (in percent)



Source: IMF World Economic Outlook Database, 2011.

To sum up, although in general poverty and unemployment rates' reductions have been sizable, there are many obstacles still standing in the way of achievement of a harmonious society. Patterns of migration and urbanization, as well as the structural problems influencing job creation will likely need to be addressed if Vietnam is to continue on its historical course of poverty reduction.

Education

In Vietnam, as in the East Asian Dragons, education is held in high regard. Having a Western-styled alphabet, a legacy of French colonialism, is considered to be an advantage for facilitating the diffusion of global know-how. The Soviet-inspired model of education was swiftly rejected in the early 1990s, and ongoing reforms aim to modernize the education sector and make it an engine of economic growth (Hayden & Thiep, 2010; Wilkinson, 2008). In 2010 more than 13 percent of GDP was allocated to education and training, one of the highest spending proportions in the Asian region (GSO, 2011a). However, this financial investment does not seem to be reflected in the outcomes. Vietnam is relatively successful when it comes to the literacy rate (92.5 percent in 2008) and enrolment rates at the primary and secondary school level (Table 3). However, it is widely acknowledged that education quality in Vietnam is generally poor. In its 2001–2010 strategy for development, the government announced that it would give priority to the improvement of education quality by revising school curriculum, improving teaching methods, and introducing textbooks that combine theory with practice (Vietnam Strategy for Socio-economic Development, 2001–2010).

Furthermore, in 2010 less than 6 percent of the population held a certificate from a vocational or apprentice school, and although increasing, the number of people with university diplomas is similarly limited. Considering Vietnam's aspiration of upgrading to a more skills and technology intensive economy, the arguably small number of people with higher education degrees seems to be a major challenge (Hayden & Thiep, 2010; UNDP, 2011; Wilkinson, 2008). The Higher Education Reform Agenda (HERA) adopted in 2005 sets out very ambitious goals to be reached by 2020, aiming not only for a general improvement in quality but also to develop internationally competitive research and development capacity within the system (Hayden & Thiep, 2010).

**Table 3.
Education – Breakdown According to Diploma Achieved (in percent)**

	Highest certificate level											
	Never go to school	No certificate	Primary	Lower secondary	Upper secondary	Primary vocational	Secondary apprentice	College vocational	Technical worker	Professional secondary	College, university	Postgraduate
2006	8.1	14.5	24.0	28.7	12.6	–	–	–	3.3	4.3	4.4	0.1
2008	7.5	13.5	23.1	27.9	14.1	3.2	1.8	0.3	–	3.3	5.1	0.1
2010	6.0	14.3	22.7	27.1	14.0	3.5	2.1	0.3	–	3.5	6.4	0.2

The effectiveness of any education system may be more accurately reflected in the employability of the people who graduate from it. Vietnam's labor force has long been considered a strong point in attracting investors, not only because of comparatively low wages but also because it was considered to be well-educated and well-trained. In light of the statistics presented earlier however, it seems that the appreciation was directed at the literacy and the higher rate of female participation in the labor force (which is correlated with more equitable education), than to the level of knowledge and skills (Coxhead et al., 2010; UNDP, 2011). Although by 2010 unemployment rates had fallen below 3 percent, youth unemployment remains high. More than 65 percent of the unemployed population in 2009 belonged to the 15–29 age group (UNDP, 2011). It is claimed that most university graduates do not possess economically relevant skills, and as a result, are struggling to find employment in their supposed areas of expertise (Wilkinson, 2008). It therefore seems that despite the government's commitments to reform the education system, there are many unaddressed issues that hinder this sector's contribution to economic growth.

National Identity and Self-determination

A strong nationalistic sentiment is the legacy of Vietnam's 2000-year history of struggle against foreign invasions and resistance to external attempts of domination (Porter, 1993). The massive effort put into fighting off the colonial rule of the French, and then to unify the country and resist American forces deployed to the aid of South Vietnam, was a catalyst of renewed nationalism, a nationalism that was not only a natural response in the face of foreign oppression but also carefully cultivated by authorities in order to maintain morale and stability.

In post-colonial Vietnam, history was subject to extensive debates that resulted in new perspectives on historical events which emphasized historical continuity and the national identity and pride of the Vietnamese people. The diverse ethnic, cultural, and religious make-up of the Vietnamese society has been knit together through a careful sociopolitical discourse. The government directly worked towards constructing a common narrative of Vietnam's historical background, readily incorporating new events in the greater pattern of long-lasting resistance against foreign invasions, resilience, and unity (Porter, 1993; Roszko, 2012). Filial piety and ancestor worship have also contributed to the consolidation of a strong

sense of national identity, partially through the respect and admiration inspired by the recollection of past heroes and historical figures.

The paternalistic structures on which the government has come to depend in order to maintain political and social stability, seem to be a legacy of Confucianism combined with Marxist–Leninist teachings. The cultural preference for social equity, consensus, and harmony appears to be reflected in Vietnam’s relative egalitarian society and the strong government commitment to reduce poverty and unemployment rates. Furthermore, as elsewhere in Asia, education seems to be a foremost aspiration for most Vietnamese and the government dedicates considerable efforts to make Vietnam a knowledge-based society. As will be illustrated in the following section, these selective cultural traits have been well-employed in Vietnam, amplifying the effects of economic factors to drive development.

Development – A Winding Road

Vietnam’s *Doi Moi* embodies the commitment to remodel the country’s economic structure from a planned economy to more open, market-oriented structure. Similar to other countries in East and Southeast Asia, Vietnam has embraced incrementalism over radical reforms. Incrementalism appears to have been a prudent choice, given the Party’s desire to retain the stability and integrity of its political rule even as the economy would become more modern and market-oriented. Although slow-paced, these reforms have been transforming Vietnam in fundamental ways, especially in terms of the economy and society, and to a more limited extent, the political processes. This section looks into some of the economic factors that seem to have been central to the success of the *Doi Moi* period.

Domestic Savings

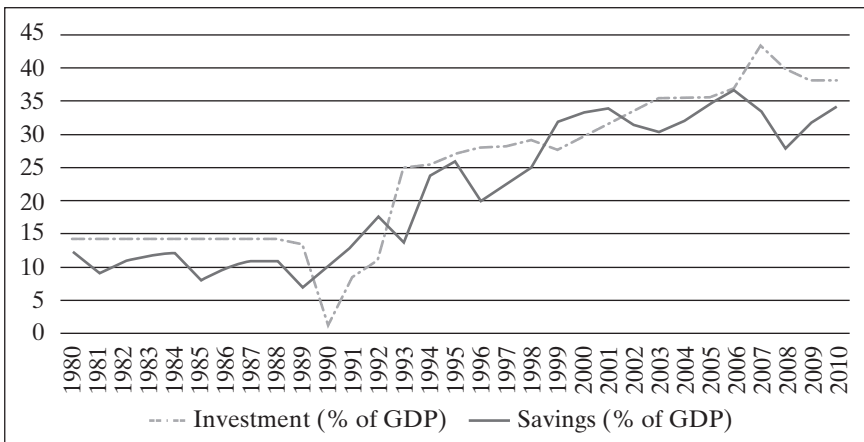
Similar to East Asian societies, Vietnam exhibits a notable inclination towards thrift and capital accumulation. The limited scope of consumer markets and government policies designed to maximize the amount of savings are important considerations, but Vietnam’s long history of high domestic savings rate seems to warrant some credibility to a shared cultural heritage with East Asia. From an economic standpoint, domestic savings play an important role in funding home-grown investment and thus lowering the reliance on foreign sources of finance. Vietnam is often singled out because of the independence of its development agenda, even

while receiving massive inflows of foreign investment and aid which normally come with diverse interests attached. Domestic savings are likely to have provided a stable and reliable source of finance which bolstered Vietnam’s autonomy, allowing it to pursue the course of incremental reforms and thus maintain social, economic, and political stability.

Between 1980 and 1988, the domestic investment rate was fixed at 14.3 percent of GDP, a hallmark of the planned economy. Domestic savings rates during the same period were marginally smaller, an average of 10.7 percent a year. However, the statistics for this period may be misleading, since most economic activity was not recorded being part of the black market. It is plausible therefore to assume that real domestic savings rates were higher even during the period of economic hardship. As liberalization took hold and more opportunities presented themselves in the formal economy, the official rates of savings increased accordingly. After the deep economic crisis of 1990–1991, the saving rate increased to 17.5 percent in 1992 and has since been on a general upward trend (Figure 3).

The current rates of savings and investment are high even by regional standards (Welle-Strand, Chen, & Ball, 2011), and if current trends are not derailed by macroeconomic instability, savings are likely continue to represent one of the more stable and reliable sources of capital for domestic investment. Despite being on average smaller than the rate of

Figure 3.
Domestic Investment and Saving Rates in Vietnam (as percentage of GDP)



Source: IMF World Economic Outlook Database, 2011.

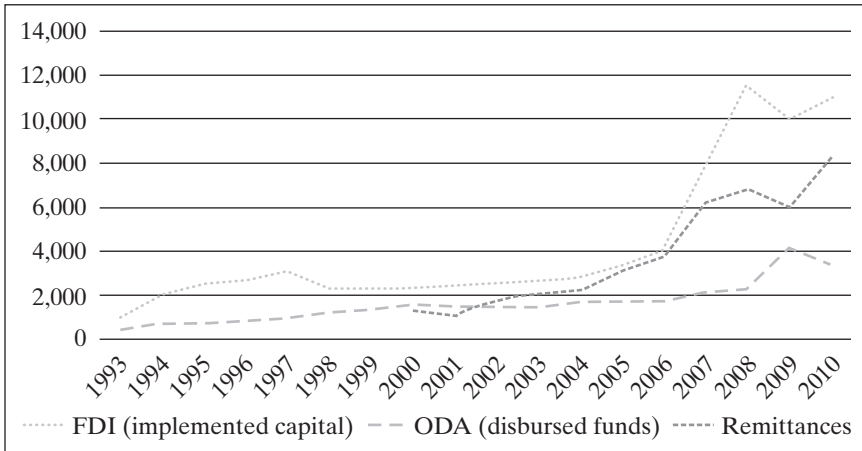
investment, the degree to which the preference for saving has affected Vietnam's development, both in terms of insulating the domestic market from fluctuations in global capital markets and in providing a steady and reliable source of investment funds, should not be underestimated.

Remittances

Strong family ties, filial piety and the sense of national identity have also had an economic impact on Vietnam's development through migratory and remittance channels. Remittances are broadly defined as "unrequited transfers, sent by migrant workers back to relatives in their country of origin" (Jongwanich, 2007, p. 2). The number of Vietnamese living abroad (*Viet Keu*) was estimated in 2010 to be around 2.2 million, the largest communities being located in North America, Australia, Europe, South Korea, and Japan (Ratha, Mohapatra, & Silwal, 2011). It is estimated that between 1975 and 1990 the *Viet Keu* sent back to Vietnam between six and eight billion dollars, and perhaps even more since remittances data is notoriously inaccurate (Jongwanich, 2007; Pham & Le, 2003). These financial inflows are considered to have been essential in mitigating the impact of the dire post-war economic conditions on the population (Pham & Le, 2003). The exact influence remittances have on development is still debated, but it is generally accepted that they contribute to poverty reduction by increasing incomes, facilitating consumption, and easing capital constraints (Adams & Page, 2005; Jongwanich, 2007; Fajnzylber & López, 2008). In Vietnam dollar-nominated remittances were used for transactions on the informal markets, mitigated the effects of spiraling inflation and provided capital for domestic investment (Pham & Le, 2003). In all likelihood the inflow of remittances continued during the 1990s, but there is little information about transactions made during this period.

World Bank data indicates that between 2000 and 2010 the *Viet Keu* generated more than \$42.8 billion in remittances inflows, almost twice the amount of disbursed aid over the same period and 70 percent of all implemented foreign capital (GSO, 2011a; MPI, 2010a). Remittances grew rapidly, outpacing international aid by 2002, and matching FDI flows up to 2006 (Figure 4). The global crisis appears to have taken a toll on remittances inflows which took a dip in 2009 down to "only" \$6 billion compared to the previous year's record of \$6.8 billion. However, they swiftly bounced back to \$8.2 billion in 2010, and an estimated \$8.7 billion in 2011 (ADB, 2012).

Figure 4.
Remittances, Investment, and Aid (million US dollars)



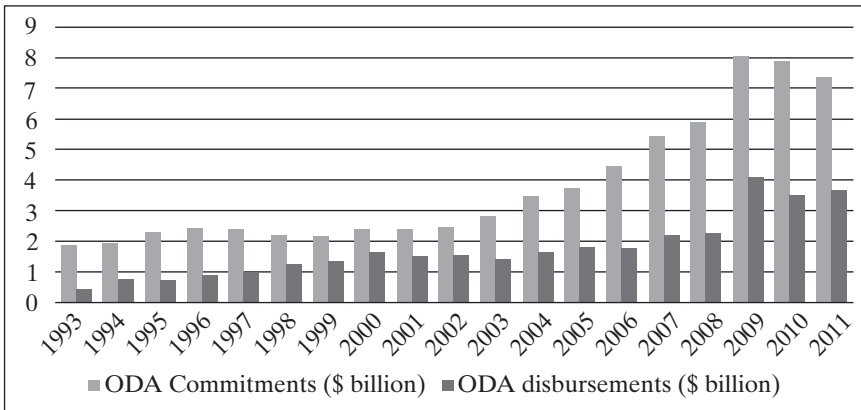
Sources: GSO, MPI, OECD.

Improvements in tracking and reporting procedures have given a clearer picture of the size and dynamics of remittances to Vietnam. This new set of information seems to indicate that remittances may still represent a vital element in the country's development. Despite fluctuations in response to global economic tides, remittances are recognized as a reliable and important source of foreign-denominated liquidity which helps offset Vietnam's negative balance of payments. Whether they also function as an engine for poverty reduction and domestic investment is debatable, but there seem to be reasons to believe that they play a part both in the survival of informal markets and supporting private sector economic activity.

International Aid

The regime of international aid in the *Doi Moi* period has evolved from the circumspect relations following the re-establishment of ties with international donors and financial institutions into a balanced interaction (Forsberg & Kokko, 2007). Compared to the early 1990s when disbursements were a modest few hundred million dollars, aid inflows surged to more than \$1.65 billion by 2000, reaching an all-time high of \$4.1 billion in 2009 (Figure 5). According to World Bank data, during the 2000s Vietnam has consistently ranked among the world's top five recipients of

Figure 5.
Official Development Assistance (1993–2011)



Sources: MPI, World Bank Consultative Group Meeting Reports.

ODA in terms of net disbursements. The impressive size of yearly ODA commitments, even during periods of economic crisis, seems to provide additional support to the claim of Vietnam's successful partnership with international donors.

Between 1993 and 2007, ODA represented approximately 11 percent of total social investment in Vietnam and some 17 percent of total State budget investment (MPI, 2010a). Funds were allocated according to government priorities – 28 percent to infrastructure development; 21 percent to energy and industry; more than 15 percent to agriculture, rural development, and poverty reduction; 9 percent to water supply and drainage, and urban development; and 9 percent to health, education, and training (MPI, 2010b). However, thanks to high growth rates, robust exports and equally impressive flows of foreign investment, Vietnam is not depicted as an aid-dependent country. Indeed, during the same period the average ratio of disbursed ODA to GDP was only 3.91 percent (IMF, 2011; MPI, 2011). The falling proportion of aid to GDP has provided some reassurance as to the country's ability to cope in the absence of large amounts of aid finance, which is deemed inevitable after the World Bank's reassessment of Vietnam as a lower-middle-income economy in 2009.

As the structural reforms needed to modernize Vietnam's economy unfold in a particularly difficult time for international trade and investment, the concomitant reduction in aid receipts could potentially hamper ground-level social reforms. Vietnam's success in reducing

poverty has been a combination both of inspired policies and of the prior economic boom. With economic growth predictions at more modest levels than before and with policy makers focused on resolving the “big,” structural challenges – SOE reform, the taming of inflation, and reforming the productive sector – “soft” policy goals may run the risk of being overlooked. Indeed, as 2011 drew to an end, the discussions within the Vietnam Consultative Group Meeting of Donors concluded with the renewal of ODA commitments up to \$7.4 billion for 2012 and of the goals to which these funds would contribute to, namely, macroeconomic reforms and poverty reduction (MPI, 2011). Both the Vietnamese government and its development partners have stressed the importance of achieving urgent improvements in the reform of public investment, state enterprises, and of the banking and financial sector.

Today Vietnam is identified as a “best practice” example when it comes to aid management and government ownership of the development agenda. More than a source of financial support per se, international aid has shaped the development of Vietnam through the partnership that the government and the development partners (DPs) were able to construct (Cox et al., 2011; Forsberg & Kokko, 2007). Unlike in many other cases, the DPs supported rather than imposed the government’s development agenda, providing funding and expertise to objectives selected and prioritized by the Ministry of Planning and Investment (MPI) and other relevant government bodies. While transparency and accountability remain problematic due to widespread corruption and underdeveloped institutional capacities, a report of the second phase evaluation of the Paris declaration highlighted many positive aspects of the aid efficiency agenda in Vietnam (Cox et al., 2011). It seems important to recognize that Vietnam’s relationship with its development partners has been exemplary in many ways, not least because it represents a rare instance of a developing country maintaining a firm grip of its development priorities and effectively harnessing support from external actors to reach its goals.

Foreign Direct Investment

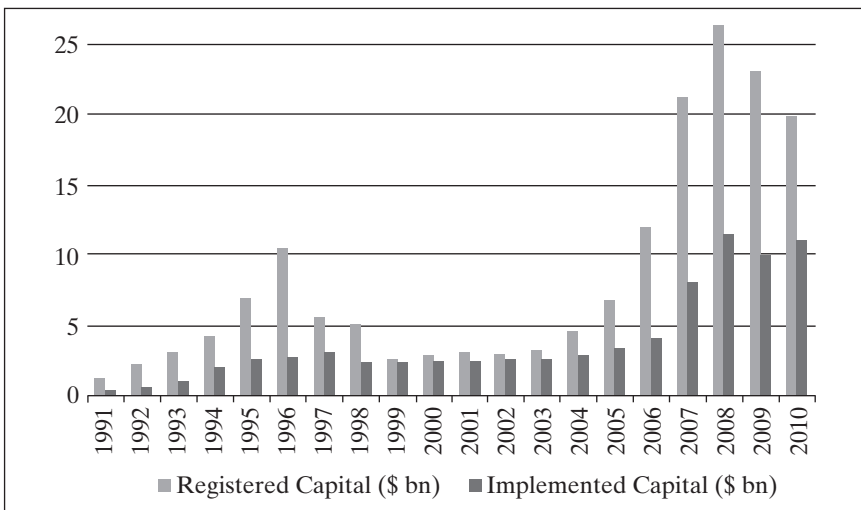
The impressive economic growth rates achieved by countries in East and Southeast Asia have generally been associated with substantial inflows of foreign investment and subsequently high exports. It can be argued that this is a model of economic development that has been emulated to some extent in Vietnam’s *Doi Moi* program. As such, Vietnam can be considered to continue in the footsteps of previous industrializing East

Asian economies, in that it seeks to advance development by attracting know-how, capital and industrial inputs from more advanced economies (Welle-Strand et al., 2011).

The link between FDI and Vietnam's economic transition and growth trajectory is gradually receiving more attention. Some studies underline the influence of FDI on the emergence and expansion of Vietnam's private sector, its significance for the high rates of growth and exports, and its role in the wider economic transition process (Anwar & Nguyen, 2010, 2011a, 2011b; Nguyen & Xing, 2008; Vu, 2008). Indeed, within half a decade, FDI had already left its mark on Vietnam. By 1999, despite employing less than 1 percent of the total workforce, foreign invested companies accounted for approximately 27 percent of the country's (non-oil) exports, and 35 percent of total industrial output. At the same time, the FDI sector contributed to 13 percent of Vietnam's GDP, and generated almost a quarter of all tax revenues (Freeman, 2002).

Compared to the 1990s, FDI inflows have been on average considerably larger during the 2000s, particularly following Vietnam's ascension to the WTO (Figure 6). In 2008 total registered capital was a staggering \$71.7 billion and implemented projects amounted to a record breaking US\$11.5 billion. The generally high level of investment activity has also

Figure 6.
Foreign Direct Investment (1991–2010)



Source: MPI.

been reflected in national indicators. Current statistics point out that despite significant growth of the national business sector, foreign invested companies, and joint ventures in particular, continue to have a disproportionately larger contribution to the economy and national budget than Vietnamese public and private enterprises (GSO, 2012).

Vietnam's FDI stock is relatively fragmented, although the manufacturing sector has attracted significant amounts of capital (*ibid.*). There is substantial foreign investment activity recorded in such diverse areas as oil and gas, construction, tourism, garments, and footwear. This has attracted criticism of the government's seemingly unfocused approach to FDI attraction (Anwar & Nguyen, 2010; Freeman, 2002), which, in recent years, seems to have resulted in what appear to be speculative capital investments in real estate, and a boom of tourism investments and construction work (GSO, 2012; MPI, 2011). There is also concern that recent FDI surges are contributing to the trade deficit and are overlooking some sectors in which Vietnam holds a competitive advantage (Anwar & Nguyen, 2010). Although government officials profess supporting Vietnam's upgrading to more sophisticated industrial processes, based on the development of a larger pool of skilled and highly educated labor, the proliferation of FDI with a short and medium term outlook for development does not seem to support this goal.

Between 2005 and 2010, the largest inflows of capital came from other Asian countries, Malaysia, South Korea, and Taiwan in particular (MPI, 2011). The sectoral concentration of FDI in Vietnam appears to be somewhat connected to the countries of origins of the capital itself. The rise of the manufacturing sector in Vietnam may be linked to its integration in the East Asian chain of production along the patterns of the "flying geese model" (Chaponnière et al., 2008). The strategy of attracting investment, technology, and know-how from more advanced countries in the region, and becoming a production and export platform before moving up in the production chain, has been the hallmark of East Asian industrialization. Nonetheless, the concentration of FDI in a small number of regional clusters and urban centers may ultimately lead to an unbalanced development outcome, the likes of which have already been experienced by countries like China and India (Anwar & Nguyen, 2010). In the early 2000s, it was estimated that almost 60 percent of Vietnam's FDI stock was based in Ho Chi Minh City, Hanoi and Dong Nai province (Freeman, 2002) and recent statistics indicate little change since then (GSO, 2011a).

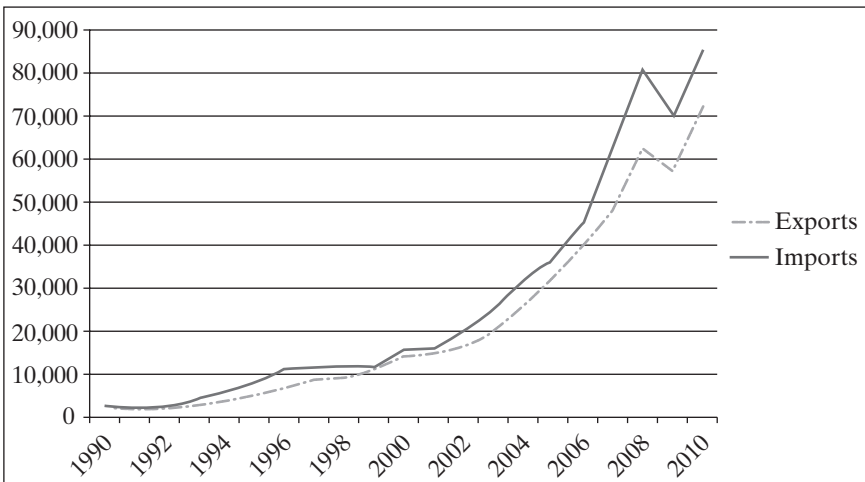
In sum, FDI appears to represent an important factor for Vietnam's industrialization project and its economic growth and development. The

substantial inflows of capital have jump-started Vietnam's early industrialization and the foreign sector represents one of the principal motors of growth for the economy and the export sector. Nonetheless, Vietnam has yet to demonstrate its capacity to attract a steady inflow of FDI and devise a comprehensive industrial policy in order to manage it. Over time FDI has varied according to international conditions and inside Vietnam it is dispersed across economic sectors while being concentrated in a limited number of regions. The next section explores in more detail the growth policies used in Vietnam as well as the roles of FDI and trade for these policies.

Promoting Economic Growth

Arguably, the most visible reforms of the *Doi Moi* period were the liberalization of trade and the opening up to foreign capital. Combined, these reforms are associated with the rapid expansion of exports and the acceleration of economic growth (Anwar & Nguyen, 2010, 2011a, 2011b; Nguyen & Xing, 2008; Vu, 2008). Exports increased 30-fold between 1990 and 2010, from a paltry \$2.4 billion to more than \$70 billion (Figure 7). Their structure also changed, as Vietnam's integration in the regional and international economy deepened. While in 1995 the domestic

Figure 7.
Total Imports and Exports, 1990–2010 (million US dollars)

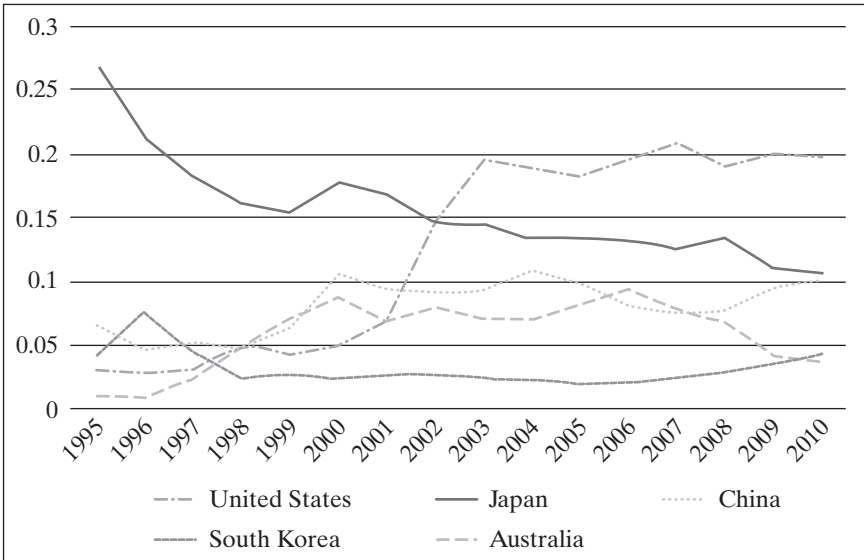


Source: GSO Vietnam Statistical Yearbook (2010).

economic sector contributed to almost three quarters of all exports, by 2010 the foreign invested sector had surpassed it and was generating almost 55 percent of total exported value (MPI, 2011). Also, the four main export sectors – heavy industry and oil, light industry, agriculture, and fishery – have seen their shares change in accordance with the transformations in the national economy. Light industry has grown from 28.4 percent in 1995 to 45.1 percent in 2010 reflecting the increased importance of the manufacturing sector. Agriculture and fisheries on the other hand have decreased from 32 percent and 11.4 percent to 15 percent and 7 percent, respectively, during the same time period (ibid.). Vietnam has nonetheless successfully established itself as one of the top five global rice exporters, and since 2006, has become the world’s second-largest exporter of coffee behind Brazil (ITC, 2012).

In pace with the domestic structural changes, Vietnam’s major trading partners are substantially different today from the 1990s (Figure 8). While Japan continues to be one of the five main export destinations, its share has decreased from almost 27 percent in 1995 to 10.7 percent in 2010, while China’s share has grown to 10 percent in 2010, making it Vietnam’s third-largest export market. One of the biggest changes has been the US

Figure 8.
Top Five Vietnamese Export Destinations (as percentage of total exports)



Source: GSO Vietnam Statistical Yearbook (2010).

becoming Vietnam's principal export market. Vietnam is presently the second-largest supplier of clothing to the US and the importance of the manufacturing sector – the footwear and apparel sectors in particular – for American–Vietnamese trade is apparent from the surge in exports observable in 2003 (Figure 8), which coincided with the signing of the Vietnam-US Garment and Textile Agreement. In light of the economic slowdown in the US and the low technology content of Vietnam's manufacturing sector, this represents a worrisome evolution.

These features seem to point to a strong commitment to the export-led growth strategy of the East Asian countries. However, the liberalization of Vietnamese trade also triggered higher levels of imports, which reflected the emergence of import substituting industries (ISI) and fairly strong protectionist policies (Gainsborough, 2004; Kokko, 2004). Due to the import-intensive nature of ISI, the levels of imports quickly surpassed that of exports leading to growing trade and current account deficits (Figure 7). Furthermore, and perhaps unsurprisingly, the main beneficiaries of this policy were the sluggish and inefficient SOEs that, as a result, were spared the pressures to restructure and improve performance (Gainsborough, 2004; Haggard, 1990; Kokko, 2004). The state sector's contribution to industrial output fell from 25 percent in 2005 to 18.3 percent in 2009, while its employment share dropped from 11.7 to 10.4 percent between 2000 and 2010 (GSO, 2011a). However, the ISI ensured their dominance in key sectors of the economy, as well as privileged access to land, capital, and research and development capacities (Coxhead et al., 2010; Hakkala & Kokko, 2007). This preferential treatment seems to be entrenched by corruption (Gainsborough, 2010) and has stifled the growth of domestic private companies and of the overall national economy as a result (Hakkala & Kokko, 2007).

In sum, Vietnam is becoming increasingly integrated in the world economy and seems to be gradually moving towards an export-led growth model. Nevertheless, the choice of pursuing an ISI strategy has produced significant challenges. Corruption, inefficient use of resources, low productivity, and slow job creation are largely a result of protectionist policies favoring SOEs. This should perhaps prompt a reassessment of Vietnam's overall growth strategy.

Discussion

The previous sections have examined some of the main cultural and economic features that are likely to be influencing Vietnam's development

in the post-reunification era. The country's leaders appear to have capitalized on the cultural and economic features characterizing Vietnam in order to achieve economic growth. The question of whether these historic growth patterns can be sustained will be addressed in this next section, and options for overcoming current obstacles and continuing economic development will be identified.

Supporting Social Harmony for Future Development – A Challenge

The achievement of middle-income economy status represented a moment of triumph for the Vietnamese government, reinforcing the message of a result-delivering leadership. However, the goal to double 2009 income levels within little more than a decade and join the ranks of industrialized economies by 2020 would require considerable efforts in order to surmount present challenges. As previously illustrated, there are still important obstacles to navigate in order to push the current poverty rate down further and maintain a reasonably equitable distribution of national income. ODA and public investment have been critical in targeting some of the factors associated with poverty: improvements to infrastructure, extension of educational opportunities and health services, and the targeting of rural areas for development have arguably contributed to falling rates of poverty across the country. Conversely, however, FDI and economic activities tend to favor regions already possessing a relatively high level of economic development, which has already resulted in unequal distribution of opportunities and of economic growth.

It seems therefore that current approaches need to be improved in order to achieve the kind of pro-poor growth needed to avoid the problem of destabilizing inequalities which has plagued many a transition process. When compared to neighboring Thailand or Malaysia, the most successful in terms of per capita income and human development among the ASEAN-4, Vietnam fares reasonably well. Vietnam's Gini index was 35.6 in 2008, one of the lowest in the region, while Thailand and Malaysia, whose reform process is more advanced, have considerably higher perceived income inequality, with Gini coefficients of 53.6 and 46.2, respectively. While reform processes are unique to the country in which they are undertaken, many Asian countries seem to experience growing inequalities on the background of deepening economic reforms and continued economic growth. This could arguably happen in Vietnam if economic growth remains unbalanced. Social

stability is likely to depend on maintaining low or decreasing inequality levels, which in turn represents a key precondition for continued successful development.

In Vietnam, Confucian traditions and the values endorsed by the communist leadership have helped to maintain a fairly egalitarian society. Stability and social harmony seem to have been extensively supported through the cultivation of a sense of filial piety and the continually renewed narrative of the successful common struggle against foreign invasions. Nevertheless, as the economy grows so do social expectations and attitudes. Studies on Taiwan and Japan have found that these traditionally Confucian nations have come to embrace increasingly Western conceptions of how happiness and well-being are to be achieved. As a result, the emphasis on thrift and hard work has waned while expectations of personal well-being have risen (Tjeldvoll, 2011; Welle-Strand et al., 2011). Vietnam's social and political stability has been achieved largely through strong economic growth and perceived increase in opportunities. The favoring of individual expectations over acceptance of a paternalistic authority may inhibit the positive effects of the preference for social harmony, and this potentiality could have serious implications for reform implementation and economic growth.

Another factor which is instrumental for Vietnam's aspirations of industrialization and modernization is the quality of the education system. Good basic education (primary and secondary) is a fundamental prerequisite for success in the global knowledge economy, and despite ongoing reforms of the education system, Vietnam may be in danger of falling behind in this regard. Furthermore, higher education is of paramount importance in order to advance in the global production chain and expand production to higher value-added activities. Developed countries continually struggle to improve their "knowledge power stations," the universities. While improving the quality of its higher education seems to represent one of the higher priorities on the Vietnamese leadership's agenda, there remains demonstrable need for improved quality in three key dimensions: teaching, research, and outreach (service). Internationalization and command of the English language are crucial for more fully integrating with the norms of global commerce. In addition to quality, higher education in the "instrumental fields," its cultivation of national culture, through teaching of history, literature, and philosophy, is paramount for keeping up its national identity and mental strength as a nation.

Progress beyond the Middle-income Economy

The initial stages of the *Doi Moi* comprised of radical, yet fundamental reforms needed to cope with the general state of crisis reigning in Vietnam at the time. The early 1990s presented a favorable international context for Vietnam's development, and the country was able to capitalize on investor enthusiasm in transitional economies in general and the Asian region in particular. The more advanced and complex reforms envisioned for the next period take place in a considerably different context: one of relative domestic affluence and less promising international conditions.

The tremendous growth experienced during the past two decades appears to have assuaged the sense of urgency associated with earlier reforms, replacing it with a certain level of complacency. Abundance has also engendered inefficient allocation of funds and widespread corruption, which may at least partially explain the government's continuous postponing of crucial reforms. However, surging inflation and the threat of economic crisis seem to have ultimately prompted firmer actions. In 2011, thanks to favorable international conditions, currency depreciation, and a restriction of imports, Vietnam experienced its first current account surplus in 10 years (ADB, 2012). However, the government has done little to tackle some of the major causes behind macroeconomic instability, namely, restructuring the inefficient SOEs and advancing reforms in the financial and banking sectors. These two reforms are crucial and closely connected. Without a comprehensive reform of the state banking system, it seems hard to envision a solution to malinvestment or corrupt state-business interests. Also, the close link between SOEs and banks has introduced significant distortions in the market and has been detrimental to the growth of the domestic private sector. The foreign invested sector remains the primary engine of the economy, which in the long term may become a weakness lest Vietnam succeeds in turning the domestic private sector into a reliable source of long-term growth.

Globally, the picture of rising competition between low-wage economies, slower demand from Western markets, and restructuring and re-orientation occurring among most industrializing countries leave less room for policy wavering. While instrumentalism has been the hallmark of the *Doi Moi*, it may be that some of the reforms – such as that of the state sector – are actually overdue. However, the slow pace of the reforms may be a result of the erosion under rampant corruption

of the Vietnamese state's capacity to implement transformations. In the absence of strong checks and balances, interest groups linked to SOEs and/or bureaucratic institutions of the party-state have prospered. They have thus developed "objectives that are inconsistent with the national goals of rapid modernization and industrialization" (Wilkinson, 2008, p. 49), since more advanced reforms would arguably threaten not only their profits but also their very existence. Therefore, despite general societal aspirations for further change and modernization, anachronistic political arrangements seem to be holding back Vietnam's progress.

Enlightened Autocracy – A Way Forward?

Yet another challenge to continued growth and development concerns the nation's political leadership. Whether the issue is economy or culture, successful development in these fields depends on the quality of the political processes of decision making. Vietnam has a long history of economic policy reform (Vu, 1994) and its leaders have generally proven themselves to be pragmatic reformers. As mentioned earlier, the initial stages of the *Doi Moi* reforms tackled fundamental and urgent problems of the economy, with more complex reforms being delegated to subsequent periods. Presently, conditions appear ripe to begin implementation of more advanced reforms, as the current system is weighed down by a number of dysfunctional features. Relatively decentralized decision making implies several levels at which corruption can impede progress on reforms and it also makes it difficult to push radical reforms from central government onto provinces. This has led to pressures towards recentralization and higher control by the central authorities. While in the West decentralization is seen both as the more efficient and democratic strategy, at this stage in its development Vietnam may experience decentralization as a structural decision-making problem.

Vietnam's particular cultural features may well influence the decentralization–centralization issue. The Vietnamese government has also been careful to cultivate a sense of national identity with a paternalist image of the party-state at its centre, by selectively promoting particular ideas and cultural inclinations which it found to be in its interest. For instance, encouraging the development of a common Vietnamese identity and ancestor worship may influence the propensity of *Viet Keu* to contribute remittances. Filial piety and acceptance of social hierarchy are key elements of Confucian legacy in Vietnam and this might prove an advantage

to the Vietnamese leadership, since the citizenry will be inclined to accept their given position in society. In China, Mao tried to fight against this legacy because it contradicted communist equality norms, but the present regime accepts and cultivates Confucian ideas about social harmony in an effort to maintain the stability of its rule. On the other hand, Confucius stressed that the ruler had strict obligations to care for his subordinates, in order to preserve the legitimacy of its authority. Most Vietnamese still identify the party-state with the victory in the American War, and since the beginning of the *Doi Moi*, with economic growth and increased opportunities. As long as improved standards of living are provided, it would seem that people will continue to support the government. In light of growing corruption and multiplying economic woes, this support may wane in the future, lest the government is able to credibly move forward with reforms and its ambitious development plans for 2020.

The historical development of other successful Asian economies suggests that issues of political liberalization may also be relevant to Vietnam. Taiwan's and South Korea's "enlightened autocracies" appear to have been crucial for these countries' development and were not replaced until a critical point of modernization was achieved in society and the economy (Haggard, 1990; Welle-Strand et al., 2011). This experience may be relevant for Vietnam and suggests that political development has not yet fully run its course. The paternalistic structures of the party-state have been effective in mitigating social action and debate regarding policies of reforms. It would seem that the country is far from the developmental stage where democratization could potentially occur.

Furthermore, Western conceptions of democracy may not be adequate for a country following Asian and Confucian cultural traditions. There is a continuous Western critique of China for its lack of democracy, which nonetheless has not put a damper on its economic growth and development. The Chinese claim that they are trying to develop a democracy with Chinese characteristics, by combining Confucian and communist ideas. Social harmony is the key dimension of this understanding of democracy. Moreover, even countries like Taiwan, Japan, or South Korea would arguably fall short of the quality of democracy expected by the Western standards. In Vietnam one can potentially observe the emergence of a democracy within the Party rather than the possibility of a multi-party system (Gainsborough, 2010). Therefore, in the near future Vietnam seems more likely to derive inspiration for its economic and political reforms from its Asian neighbors.

Concluding Remarks

During the 1990s and for most of the 2000s, the *Doi Moi* market-based reforms have proved successful, and Vietnam has prospered, particularly in times of general upturn in the world economy. However, the past reforms are no longer sufficient to navigate in the radically altered international conditions. In the domestic economy, Vietnam needs to tackle corruption, restructure and streamline the state sector, devise comprehensive strategies for foreign capital management, and continue poverty and inequality reduction policies. In the field of culture, education reforms are urgent, focusing both on maintaining national values and identity, and on improving the quality and competences in science and technology. In terms of political leadership, the primary challenge seems to be to achieve a better balance between decentralization and central efficiency in the decision making. In order to increase understanding of factors determining Vietnam's further economic development, research-based knowledge is needed about how key actors in the fields of economy, culture, and central leadership define the present problems and what they regard as relevant reform policies.

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