

Economic transformation: some implications of Vietnam's economic growth pattern

Or

Reflections on the economics of Vietnamese capitalism and possible political implications

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Abstract

This paper examines the political implications of Vietnam's economic growth. Its point of departure is the observation in Ha-Joon Chang's *Kicking away the ladder* 2003 that normative development institutions prescribed for poor regions are very different from the generally undemocratic and/or corrupt state of affairs in today's rich countries when they themselves were developing. Starting from a situation in the late 1980s of widespread inadequate food supply, Vietnamese GDP accelerated in the early 1990s and has since grown far faster than population as a Vietnamese capitalism has emerged and consolidated.

Economic investigation suggests two central points relevant to political analysis and issues relating to the transformation of the Vietnamese state. First, that by the late 1990s at the latest it is clear that a Vietnamese capitalism had emerged and was relatively consolidated. Second, that - probably because of the strength of the informal capital market - political connections do not seem to have generated major benefits for business. This is consistent with the 'Vietnam paradox' of a rising share of the recorded state sector in GDP and the lack of the macro-economic imbalances expected in consequence by mainstream economic views. This suggests in turn that political power was important for processes of appropriation, but was far less important for 'rent-creation' influencing the relative profitability of capitals once classes had formed.

7584 words.

Introduction: Vietnam - Blue Dragon?

It seems to me somewhat self-evident that what we have seen in Vietnam since the emergence of a market economy at the end of the 1980s is some form of capitalism. Whilst at the start of the 1990s labour, land and capital were not acquired and rewarded in ways familiar from more developed capitalist countries, by the mid 2000s they certainly are. Research is needed to account for the histories in which these happened, and to puzzle over the effects upon, and how they were effected by, issues such as gender relations, politics and notions of the state. But the basic conclusion appears to me unavoidable.

It is also interesting that there exists information suggesting that a rather high % of the Vietnamese population views their capitalism relatively favourably. Thus Goertzel 2006 reports, based upon the Pew Global Attitudes Project, the finding that: -

Brazilians are divided in their opinions about the market economy, with 56% in the Pew survey agreeing that "most people are better off in a free market economy, even though some people are rich and some are poor". Only 26.7% of the Argentines shared this sentiment in the midst of their economic crisis, as compared to 72.1% in the United States and a remarkable 95.4% in Vietnam, 43.6% in India, 54.2% in Bolivia and 62.8% in Venezuela. The Pew researchers were unable to include this and many other interesting items in their China sample. [Goertzel:4-5].

Thinking in terms of a Vietnamese capitalism opens the door to bringing into play a wide and fruitful range of research topics. Not least, thinking about Vietnam's emerging and developing capitalism encourages thinking in terms that encourage reflection upon large national issues, and how they may be inter-connected. As Polanyi long ago argued [Polanyi 1975 and North 1996], even the 'fictitious commodities' of land, labour and capital have strong tendencies to project an existence at national if not international levels – people experience 'the' cost of capital, 'the' real wage and 'the' price of land. And economics suggests, and reports, that changes in such 'big things' interact – falls in 'the' real wage, perhaps associated with sharp changes in important prices such as 'food prices', appear easily linked to attempts, through organised strike action, to increase nominal wages, and wider political discussions then follow – in the second half of 2008, it is meaningful to ask whether '20%' is a fair increase for workers in foreign-invested light manufactures? The abstractions of economics and capitalisms may easily be related to big picture political issues.

The study of comparative capitalism has recently seen something of a resurgence. Marxist and Marxian analyses remain common, though often avoiding such labels. But there is nothing particularly Left-wing about an interest in the wider conditions and implications of questions related to 'a' Vietnamese Capitalism.

For example, in a growing literature, Hall and Soskice 2001 treat their work as opening a 'new stage' in the comparative analysis of capitalisms. One element that they stress is their view that existing studies tend to underplay the importance of intentionality – what they call the 'strategic interactions' between various agents [p.5]. This aspect has also been stressed by sociologists [e.g. Djelic and Quaack 2007] interested in applications of notions of 'path-dependency' that avoid treating such concepts as closed in the sense of limiting future change, and rather conclude that "path generation in open systems can be complex, dense, and somewhat messy in real life." [p.181]. Such views echo criticisms of practices within the 'varieties of

capitalism' approach that see many leading to policy prescriptions that are too 'deterministic' [e.g. Kang 2006:17].

Another advantage of treating capitalism as a central organising topic is that it avoids some of the pitfalls associated with categories such as 'transitional' or 'developing'. The problems posed by the latter are well illustrated by the points made by Chang 2003, who argues that the correct comparators for contemporary poor countries are not those we would examine if they were defined as 'underdeveloped' – the 'developed' – but rather those other capitalist countries as they emerged into international economic relations in the 18th and 19th centuries. This permits Chang to make the powerful but often ignored point that, in this sense, successful development to modern 'rich' status involves paths that have almost always involved major differences from those prescribed by most mainstream authorities. He stresses various elements, which include:

- Rather high degrees of protection
- An important distinction between his characterisations of the US, where high tariffs in a continental economy with a politics proclaiming the importance of freedom meant that business experienced state support as largely invisible, and countries like Germany, where a different politics saw protection matched by highly developmentalist state activities in areas such as mass education and welfare provision, which implied very different learning processes [Zysman 1983; also Wade 1988 and 1990].

In this paper I will attempt an overview of Vietnam's economic growth that seeks to relate this to the central issue of capitalism – the ways in which class relationships form and evolve. I for the moment take a simple view of class, linking it to the factors of production central to national income accounting – rewards to labour, to capital and to land.

The paper takes a number of ideas as its starting-off point. These relate to the economic context influencing the transformation path of the Vietnamese state.

First, *the unexpected output recovery from the loss of Soviet aid in 1989-90 saw rapid labour productivity growth in the state sector; this was not shared by workers, but went in part to restore the tax base, in part to create a ready source of resources for corruption.*

Second, *mediation of savings through the evolving financial system, still largely state in form, tended not to support the state sector as such [Beresford 2008]. The overall picture, reflecting the state of the banking system of the late 1980s, was one where rent creation was not generally used to support the state sector per se.*

Third, *such patterns suggest that Vietnam's emerging capitalists, initially largely based upon the state, lived (with exceptions) in an environment of 'competitive clientelism' [Doner and Ramsay 1997] so that whilst as a group they enjoyed considerable class power, there was considerable competition amongst them, so that surpluses tended to be used relatively competitively and so efficiently. Under such conditions if the regime was seen as threatened the key question for the status of the state would be the political capacity to mediate between highly competitive capitals, and so analytical focus should be upon the extent to which the evolving political culture stressed such issues.*

Underlying this set of issues is a sense that a classic political question facing powerful groups – when and how should particular interests suffer to preserve the overall game – has been increasingly hard for the Vietnamese polity to address. Central to this is the pattern of resources available to support Vietnam’s capitalist groups, the perceived costs of acquiring them (and the costs imposed upon others of their acquiring them). Put more simply, this is the pattern of ‘rent creation’, regulation of which is a clear aspect of any market economy (as indeed of others); such regulation may be mediated by a state, or others, or by both.

Getting what, by who?

Histories and popular memories record the 1980s as a period of great economic difficulty. One major element of the shift in the 1990s to a far happier sense of the possibilities of prosperity was the nature of the changes that saw the end of hyperinflation, for these tended to sharply reduce the extent to which household assets were held as stores of value, and increase their investment in a range of far more productive uses. These varied from consumer goods, especially durables, to family investments in petty production and services as Vietnam’s cities shifted from being closed to petty markets and services to more familiar SEA patterns.

Through the 1990s and the 2000s the Vietnamese economy, according to various estimates, grew in real terms by an average of near 8% a year. With population growing between 1 and 2% yearly this meant that GDP per capita was growing rather quickly. This accompanied other positive indicators, such as rapidly rising real per capita consumption and so on. Many donor reports, publications issued by official Vietnamese organs, and other observations tend to confirm these overall impressions, though it is as equally apparent that there are ‘negatives’ such as incivilities and unacceptably low levels of honesty amongst public officials. Sectors that seem to generate particular criticisms are health and especially education. Yet, as quoted above, according to various polls the population does not seem to attribute these issues to capitalism.

But what do these statistics mean? Just what is meant by ‘output’?

National Incomes Accounting – productivity and profits

Profits and savings

Whilst it is often implied that the central measure of aggregate economic activity is oriented towards production, through the term Gross Domestic Product (GDP), this may slightly mislead. GDP is simply one way of presenting the information generated within National Income Accounting (NIA), which, as its name suggests, is primarily focused upon measuring incomes, understood as rewards to factors of production generated through market transactions. These add up to the total ‘value-added’ in the economic space under consideration, which is typically either ‘national’ (of those economic agents defined as subject to a national government) or ‘domestic’ (generated within the economic space subject to the sovereignty of a national government). If this value-added is distributed between productive sectors (industry, agriculture etc) then the sum in each sector is called the Product of each sector. If there is some measure of inflation, then the sum of value-added (the factor incomes) can be expressed in inflation-adjusted, or ‘real’ terms.

This is the commonly-used meaning of GDP. It is clear that it refers to constant price factor incomes. And if the agents receiving factor incomes ('workers', 'capitalists', 'landlords') are considered in terms of their transactions with each other and the rest of the world, then it is clear that if in these accounts we subtract from the value of what they buy the value of things they buy that are inputs to their productive activities, and then divide what is left into investment and other – 'current' - goods and services, then we have another way of allocating the total value of factor incomes.¹ This gives us the current price measure of national income, or national expenditure, divided into current consumption (including exports but less imports), investment and so on. And since these measures refer to real things, it is easier to find some measure of inflation and produce a 'real' measure of these categories.

Since, thus, GDP is primarily a measure of factor incomes, NIA offers valuable information about factor incomes: profits, wages and rents. This in turn offers insights into ways in which economic change is interacting with social and political economy processes, and vice versa. It directly measures who gets what, and, in broad brush, from where. It is based, quite clearly, upon the classic modern Western sense of the classes into which capitalism divides a capitalist society, even if the same person may belong, if they receive wages, profits and rents, to all three classes; even if it takes no account of their gender; and, hardly surprisingly, it ignores arguably socially productive activities of considerable importance, such as child-care, looking after the aged, and artistic pursuits that do not get paid for. Such easily deconstructed categories show rather clearly attitudes and views underpinning GDP, and these are as equally clearly rather different from those of other times and places, such as traditional or pre-transition Vietnam. NIA, thus, apart from offering us measures, also reveals something of the beliefs and values that underlie them.

The Vietnamese National Income Accounts only, however, but rarely published statistics on factor incomes. Rather, they stress, first, national incomes divided according to sectors (such as industry, agriculture etc), formal ownership categories (state, non-state ...); and second estimates of how those incomes are spent on the various categories of final demand – consumption, investment, exports, imports. But at times the veil has been lifted and we are given data for the fundamental categories of factor incomes. We can note that the techniques used to derive these are heavily influenced by various surveys as the statisticians build up their estimates, and these surveys tend to focus upon gross output measures, and then seek ways to net out non-factor inputs [Hoang 2004].

These statistics suggest that the overall political economy of Vietnam, viewed in terms of an emergent and then developing capitalism, is one where, as one would expect, there was a rapid growth of returns to capital. There are many interesting questions to ask, though, and one of these is the extent to which investment derives from profits, or from the mediated savings of wage earners, or from state subsidies recycled in various ways, such as through capital injections to state banks (similar to that seen likely to be happening from 2008 with Bear Stearns in the US, inter alia, and Northern Rock in the UK).

¹ Lest economists jump on me, of course here we must take out the 'factor cost' adjustment, since things like indirect taxes add to the value of sales without adding to the value of factor incomes.

The rapid rise within factor incomes of a substantial return to capital, can be seen from Table 1. I take it as uncontentious to assert that returns to private capital and land rents were not that significant until, say, the mid 1980s.

<<Table 1 >>

An interesting point about the information in Table 1 is that, whilst the private sector is generating a higher operating surplus as a share of total factor incomes generation than the state sector, it paid a lower share of total factor incomes in taxes. The high share of total factor incomes generation that is recorded as operating surplus in the household sector may simply reflect problems in deciding what % of these flows should be treated as operating surplus and what labour remuneration, when the statisticians are confronting activities such as family farming.

A second interesting point is the treatment of depreciation, for this had been the subject of considerable contestation as higher-level structures successfully restored their power over SOEs through the 1990s [Fforde 2004 and 2007]. In the state sector, these flows were to a large degree treated as part of the state's (not the SOE's) surplus.

Conclusions

Two main conclusions from the economic data are, first, that by the late 1990s at the latest a form of capitalism had emerged in Vietnam, and, second, that this was one where factor income flows were not well recorded. This was probably in part because a high proportion of returns to capital and labour were occurring in the state sector, so called, where part of the profit was obtained by the state as a combination of tax revenues and depreciation payments.

Economic change, the nature of Vietnam's emergent capitalism, and some political implications

The 'Vietnam paradox'

What I have referred to elsewhere as the 'Vietnam paradox' is revealing for two reasons. The paradox is simple, and confronts standard economic views. This is that through the period since the emergence of a market economy the recorded state share of Vietnam's GDP has tended to rise, yet the macroeconomy has – until very recently – been characterised by a lack of the economic imbalances predicted by standard economic views.

Figure 6, Pham et al 2008:31, shows the relative importance of the so-called state sector very clearly. One complication amongst many in interpreting the statistics is that the 'non-state sector' includes foreign-invested companies, many of which are joint ventures where the Vietnamese partner is nominally and formally an SOE. But including these would presumably increase the reported share, making the point made here stronger rather than weaker.

Based on experiences in a range of contexts, standard economic views expect a market economy with a large and rising state sector to be unstable: the inherent inefficiencies of the state sector, combined with political pressures to support it, should lead to large and unstable support to it, which is manifest in indicators such as inflation, fiscal deficits, balance of payments problems and pressures to interfere in

the ‘big prices’ of the economy, so that SOE workers cost far more than those in the private sector, SOEs gain access to cheap credits and foreign exchange, and so on. It is argued that because of the sector’s political position and inherent inefficiencies compared with the private sector, there has to be such ‘rent-creation’ by the state, and that this is economically destabilising. Further, these macro-economic imbalances further reduce the capacity of the economy to grow, as resources are guided into areas where they will not be used well, rather wastefully. These arguments are fundamental to a range of political positions, perhaps the most famous of which are those of the so-called Washington Consensus [Williamson 1990 and 2000].

It is therefore a paradox, for some, that Vietnam should have managed to grow so fast whilst recording a high and growing share of the state in GDP and without suffering from these problems, at least to a degree sufficient to slow growth. Basically, ‘it cannot be like this’.

There are two reasons why this paradox is interesting.

The first is that it suggests that we should not take too seriously the pretensions of standard economic analysis.

The second, however, is that we can explore again the basic questions that the standard economic analysis asks – what institutions and incentives might guide the allocation of resources in Vietnam over this period, and what might the paradox suggest about this?

I would argue that this suggests that the social institutions guiding the allocation of resources need to be seen as far more capitalist and far earlier in their emergence than standard economic analyses would expect. Now, such analyses focus upon those institutions ‘close to home’, typically referred to as ‘formal’, but more usefully referred to as ‘familiar – for them’. As Chang argues, the logic here is that which links attribution of ‘developed’ status not to an account of process ‘in that place’, but to the existing set-up. Being developed in this sense is not a consequence of a process of development, but rather some set of plausible characteristics of what can allegedly be measured here and now. Thus, the absence of ‘formal’ institutions – for example formally (again, ‘familiarly’ is more accurate) constituted equity companies, stock markets, banks with familiar ownership structures etc etc – are then taken as markers. This then implies, for example, that a Vietnamese SOE is readily taken in terms of its apparent form, linked through analysis to ideas of, for example, an SOE in Alabama, and the argument developed.

But there are alternatives. The simple argument to be made here is that Vietnam’s social institutions and incentive structures were, by the early 1990s, capable of guiding resources in ways consistent with rapid economic growth in ways that were relatively benign in terms of macro-economic stability. They were not accompanied by the ‘big’ price distortions (cheap credit for some, at negative real interest rates; cheap foreign exchange for others, at a special exchange rate, etc) that the standard economic narrative expected.

For this to be the case, the emerging ‘fictitious commodities’ of Polanyi had to meet at least three conditions. They had to be relatively stable, in a social institutional sense; they had to be priced well, in the sense that those who bought and sold them could readily make economic calculations; and they had to be priced properly, in the sense that these economic decisions had, in some sense, to work (given their context in terms of matters such as technology, competition from overseas etc). Clearly, these

three conditions were inter-related. But the central conclusion to be reached from this is that these three conditions had to be met very early. A useful hypothesis is that this was the case from around 1992-93 when increases in interest rates and fiscal adjustments saw inflation return to single digit figures.

In a nutshell, this then has two valuable implications:

First, that 'a' Vietnamese capitalism emerges far sooner than we might imagine. Since urban land markets do not emerge until the mid 1990s, this suggests that social institutions suitable to the management of capital should be observable in the early 1990s. I think these can be found, and would point to a number of issues:

- The evidence for the emergence of capitalist behaviour within the state banking sector during the late 1980s, which by the early 1990s was well institutionalised.
- Evidence for the emergence of deep and well-functioning informal capital markets within the emerging middle classes (and others) in the late 1980s, pushed by the situation in 1989-90 as hyperinflation ended, and petty services and production emerged. This history of course has its nuances, such as the effects of the collapse of many 'con rung' businesses as Soviet aid was lost, the failure of many informal credit operations and so on. But I would argue that these reflect the evolution of these institutions for pricing and allocating capital. In passing, it is worth noting the power of such systems – most of the 19th century construction of suburbs in London was financed through private personal mortgages, usually at call and arranged through local professionals, typically solicitors [Ball and Sunderland 2001].
- Renewed interest in the emergence of institutional preconditions for labour markets. In terms of Party ideology, acceptance of the hiring of labour came rather early, and was regulated by the state from at least 1992 [Council of Ministers 1992]. Yet if the common practice of post hoc policy was being followed, this would suggest that here as elsewhere the Party, through its state, was reacting to a perceived need to regulate and legislate for an existing institution.
- Strong arguments [Fforde 2007] that Vietnam's SOEs are more usefully seen as 'virtual share companies' than as 'bureaucrats in business', to use the World Bank's polemical phrase [World Bank 1995].

Second, the basic conclusion of this, combined with the 'Vietnam paradox' is that, for reasons as yet somewhat far from clear, it has been relatively rare in Vietnam for anything to maintain the characteristics of a 'rent' for very long. That is, that whilst political connections or social positioning may grant access to resources on favourable terms, resources once acquired thereafter tended to be treated as property, and to be well-priced. The powerful, thus, would acquire resources rather cheaply, if not freely, but once acquired they would then be able to maintain control over them and resist attempts to create similar advantages for others. To put it in the language of class, capitalists would use political power, social position and other familiar methods to obtain property [Greenfield 1994], but would then tend to quickly develop antipathy to the use of similar methods against their capitalist interests. To put it another way, official position would be very useful in the early stages, but would then rapidly become less important, though still relevant. There are of course many

histories of countries that are nowadays seen as developed that present accounts of the use of state power for initial patterns of appropriation.²

Some empirics - who benefits?

Businesses and politicians

In recent years a number of solid quantitative studies of aspects of economic history in Vietnam have become available. These produce a range of results, surprising to standard economic views, yet consistent I would argue with the picture painted above.

Consider Malesky and Taussig 2008. Based upon a large dataset, they seek to examine the value to businesses of political connections, which is of course a mirror of the resources politicians may bring to bear in preserving such connections. Their central belief is that such connections exist and are harmful to economic performance, and they site a narrow range of studies to support these views (I consider the range narrow as they are largely published in north America, in English, and reflect standard US views). Yet their empirics suggest a different interpretation. They use a set of proxies that permit quantification of their notion of political connections, and use these to conclude that:

{politically} {c}onnected firms are actually not very different from the rest of the private sector. They have very similar investment and profit levels and on average have seen similar levels of expansion over the past year. Connected firms have slightly larger employment, but not much. [op cit p.15]

This is a very interesting result. Would it have been the same if comparable research had been carried out in Alabama, or Missouri when Truman was put in charge of public infrastructure activities there in the 1930s so as to protect from rampant local political chicanery? What is familiar from one setting may perhaps not so easily guide analysis in another.

Their data permits them to investigate and gauge the value of political connections (as they measure them) to businesses, and they conclude:

The most robust finding from the model is that personal connections to the government matter a great deal. In the fully specified Model 5, with all other variables held to their mean, having one connection to the provincial government increases the probability of a loan by about 4%. ... While a firm with no connections has a 48% probability of receiving a loan, a firm with one connection to the provincial government has a 52% probability and those with two or three connections have 55% and 59% probabilities of receiving loans respectively.

In short, political connections are important in all types of investment environments. [op cit p.20].

Personally, these seem to me to be extremely low levels of benefit from political connections. And they are *gross* benefits - I am reminded of the maxim that 'everything has its costs' ('cai gi cung phai tra gia'), and would conjecture that, compared with the costs of resources that flow from businesses to those helping them get loans these numbers are mainly interesting for what they may say about the value of politicians to businesses, and the very limited net value of such relations to businesses. From a *political* point of view, the image I gain is of a situation where

² Thus the American comic who said that the Vietnam war meant that black people were killing yellow people so that white people could keep what they had stolen from red people.

connections are simply not that valuable. Getting an increased chance of getting a loan by a few percentage points, in a rapidly changing business environment, is not likely worth the costs incurred. The Vietnamese state, this implies, has been rather unsuccessful at rent-creating, in this situation, and political positions should therefore rely less upon such largesse and more upon other political tactics and strategies.

It is not, therefore, so strange that Malesky and Taussig conclude that the main business game is elsewhere:

The most profitable private firms in Vietnam are not attempting to access bank loans at all; they are content to operate primarily out of retained earnings. [op cit p.29]

The obvious political question to ask, then, is just what relations do exist between the most dynamic and profitable firms in Vietnam and their political contexts? This starts to look far less like Alabama and Missouri, and far more like situations where politicians may be expected to work through the institutional and social contexts, rather than handing out largesse to the chosen.

State workers

Another piece of empirical work is that by Hoang 2006, who examines data suggestive of differentials between the so-called private and state sectors.

The study concludes:

For men, public workers are paid lower than private workers. For women, public administration wages are lower than private wages. However, SOE wages are higher than private wages for women. The wage differential is mostly due to the differential in characteristics in which public workers have richer characteristics than private workers. In these worker characteristics, education is the most important element accounting for wage differentials. [op cit p.2]

This result, it is said, stems mainly from social and economic interaction, in that there is little attempt to enforce labour regulations [p.1].

The state sector contains on average the better-educated experienced workers; higher hourly rates in the sector are offset by lower hours, so that total remuneration is lower.

Again, this appears as a situation where rent-creation has not succeeded in creating groups of the population who appear to be benefiting greatly compared with others. The situation compares strikingly with the standard Stalinist view of state sector workers as a leading political force supportive of the regime. It suggests that the labour market that emerged from the upheavals of the 1980s was one where political actions did not – could not - rely upon the selective material benefiting of particular groups through selective economic measures. Of course, though, this view depends upon how one gauges the data that is being analysed here, the origins of which are the Vietnam Living Standards Survey of 2002.

Economic growth and structural change

A number of studies have looked at the issue of how to explain economic growth in Vietnam in quantitative terms. What is generally interesting about these is not the specific methodologies used, which reflect strong and particular assumptions about the essential and so modellable nature of an economy, but the strong capitalist dynamics revealed.

Pham et al 2008 conclude this in a nuanced manner, after examining changes in the internal relations of the economy ('input-output' analysis). To quote:

In this paper we are trying to explain the economic history of Vietnam from 1986 up to present as a continuous historical process, in which many policies were, in one hand, endogenous (forced to be carried out by the economic conditions with only one choice), and in the other, in turns, by being dominated by the ideological views, had substantially influence the economic development. The result from three national IO tables strong support for the evolutionary movement of Vietnamese economy, or in our terminology, a bottom-up process, in which *Doi Moi* is a critical point marks the shift of Vietnamese economy from planned economy to market oriented one. Hence, we could say integration in to the international market is inevitable and domestic final demand, through its impact of consumption, investment and export, play a vital role not only in the wealth of nation (gross output) but also in improvement of welfare (GDP). [op cit p.33]

Tran and Giesecke 2008 also see nothing difficult in applying a model that assumes capitalist characteristics in their study of the Vietnamese economy in the period 1996-2003. They conclude:

In our story, we find rapid growth in GDP to be due to productivity and labour force growth. We trace rapid growth in exports to technical change towards usage of more imports and productivity growth in export producing sectors. Our results downplay policy reforms (such as the introduction of the VAT and reductions in trade taxes) as important explanators of rapid growth in trade and GDP. [26-27]

The story that builds up here, again, in one of a relatively freely operating capitalist system, where the role of the state is not found to be so very important.

Let me turn now to the issue of savings and their mediation, and within this of the meaning and role of capital markets.

Savings and their mediation

Central to the issues discussed here is the question of the supplies of capital to emergent and evolving capitals – businesses of various kinds. Here a central and classical question is that of ‘mediation’ – the channels through which savings and other resources can be thought to flow as they move towards those who invest them in various ways to seek to generate a profit.

I assert that real rates of interest within the formal banking system were not negative in real terms for most of the period from the last phase of the stabilisation that started in 1989 up until the recent outbreak of inflation that started in 2007. Indeed, I think it is the case that the rate of depreciation of the Dong against the US \$ was slower than the formal interest rate differential between the two, so that it would have been profitable to borrow in \$s, invest in Dong deposits, and then repay the \$ debt when the investment was repaid. A large share of the official banking systems liabilities in the 1990s was in \$s, and these deposits were not generally viewed by private depositors as risky.

It appears to me to be a central element of the story is the idea that an informal capital market arose early, to be precise through the 1980s, and offered ready competition for formal intermediating institutions, mainly the state banks. By the late 1980s these had already developed ‘soft’ plans that paralleled their ‘hard’ plan for delivery of cheap credit to favoured customers, but what I conclude from one of the best studies [Roman 1998] is that political attempts to use cheap credit as a strategy to build up classic developmentalist patterns of relationships between the Vietnamese state and business clients were hamstrung, mainly because the informal credit market, and the

existence of rather high \$ deposit rates offered, meant that formal intermediation did not develop with much strength, at least at that time (see Roman 1998 pp 117-142 'Intermediation and Performance', especially p.134).³

This pattern seems to me consistent with an overall picture where politics was important for appropriation, but not for securing favourable resource flows once that appropriation had occurred. Vietnam's emerging capitalists, including SOE 'virtual share companies', needed and exploited political power to gain control of assets, to 'separate the source of surplus labour from the means of production', as Greenfield documents [Greenfield 1994]. But, this once done, social institutions (of types to be researched, but most importantly the informal capital market) then operated with vigour to ensure that capital gained what was seen as a proper reward; if it did not, then something happened to make sure that it did.

Politically, this way of thinking opens up I think useful conjectures.

First, in that this was rather clear rather early, then the creation of the urban land market in the mid 1990s would have accentuated and resourced *existing* class patterns, rather than creating them anew.

Second, in that appropriation processes were, in their full vigour, largely over once the urban land market had arisen, this could help explain the apparent political crisis of the late 1990s, and its theatrical presentation as a problem of Public Administration Reform. Here I cite, as elsewhere, work by Thaveeporn [e.g. Vasavakul 1993 and 1996], for she (or so I read her) stresses the deeply felt instability of the regime at the time as its political base seemed profoundly threatened. Perhaps, though, this was simply an indicator of a shift away from political support for appropriation and towards the more contemporary problems of the politics of a capitalism where, as I read Taussig and Malesky, a business simply does not gain much (if anything, net) from political connections. If so, then what we would perhaps expect to emerge is something far more mundane, where political support for the regime stems from its ability to rule, and to govern, and to generate a politics (and institutions) to suit. Is this what Abrami et al 2008 are driving at?

Vietnam's institutions empower a larger group of insiders (winning coalition) and place far more constraints on the party leadership, both through vertical checks and semi-competitive elections. As a result, Vietnamese economic policies must consider a larger cross-section of society. Consequently, Vietnam spends a far larger portion of its revenue on transfers and has been able to engender greater equalization among provinces and individuals. [Abrami et al:38].

Finally, such perspectives may also pose pertinent questions for the current crisis, which, it appears, was in part caused by the failure to avoid, by appropriate monetary measures, the inflationary effects of large capital inflows and increases in foreign exchange reserves. Could it be that the issue is, fundamentally, the problems involved for politicians in coping with a situation where the basic political rules of the game, dating back to the strategies of the late 1980s, are ones where it is fair game to use political power to get one's hands on something that becomes an owned asset, but from then on the playing field is relatively level?

Under such conditions pressures from select groups to 'create rents' (rather than things that can be treated as capital per se) are hard to manage. It is worth recalling

³ Roman's work was close to officials active in discussions about monetary and financial reforms.

that the World Bank, in its famous 'Miracle' study, so keen to create a normative basis for export oriented growth, argued that subsidised credit was a suitable policy measure [World Bank 1993]. Indeed, I have heard it argued that the entire export oriented growth 'model' can be treated as a vast market failure, in that it has relied – from a mainstream economic perspective - upon heavy levels of subsidy and market distortion. Could it have been that the political pressure upon the State Bank of Vietnam in 2007 not to take the standard measures to extract from the monetary economy the liquidity created by its exchange market interventions reflected the attempt to protect certain domestic business interests from foreign competition? And that the response shows that such 'rent-creation' is not politically acceptable?

Conclusions

Referring back to Chang's work there is perhaps little surprising in all this. The common experience of 'accelerated history' in the 1980s appears to be continuing as Vietnamese make their own history, their own mistakes and their own patterns in the sand. But various important points need to be made in the context of discussions about the political, economic, social and other contexts under which changes and transformations to a Vietnamese state may be occurring.

It is by comparing the 2000s with the 1990s that the power of economic trends is most striking, and the limits of the evolving political culture so striking. At root, the declining political authority of the Party as Vietnam moved further from war and transition, and limited political reform lost its efficacy, mattered less when the economy was posing rather easily-solved problems, such as the appropriation of things that would become Polanyi's 'fictional commodities'. As we go through the current (Third?) crisis its particular aspects show this rather clearly. Yet the economic rules of the game, as I have tried to argue, are ones that, as Abrami et al 2008 suggests, suggest a politics that is more rather than less inclusive, and that the mirror of this is a capitalism that, for all that (like others, as Polanyi argued long ago) its property distribution reflected political power, in its operation has been one where rent-creation, and so rent-seeking, has been less important. The problems this poses for politicians are therefore best seen, not as those of fat cats, and those who feed them, but of those whose political power is more to do with other matters.

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Tables

Table 1 - GDP 1999	Total factor income generation	Of which:			
	Tr. dong	Compensation of employees	Tax on production	Depreciation of fixed assets	Operating surplus
TOTAL	399.942	251.026	57.617	44.175	47.123
State sector	154.927	76.025	35.52	17.409	25.972
Collective sector	3.572	2.226	0.289	0.375	0.682
Private sector	13.461	7.766	1.781	1.155	2.758
Household sector	163.481	137.437	11.174	14.738	0.132
Mixed	15.543	7.236	2.457	1.327	4.524
Foreign invested sector	48.958	20.336	6.396	9.171	13.055
Import duties	11.48		11.48		

	Total factor income generation	Of which:			
	%	Compensation of employees	Tax on production	Depreciation of fixed assets	Operating surplus
TOTAL	399.942	62.8%	14.4%	11.0%	11.8%
State sector	38.7%	49.1%	22.9%	11.2%	16.8%
Collective sector	0.9%	62.3%	8.1%	10.5%	19.1%
Private sector	3.4%	57.7%	13.2%	8.6%	20.5%
Household sector	40.9%	84.1%	6.8%	9.0%	0.1%
Mixed	3.9%	46.6%	15.8%	8.5%	29.1%
Foreign invested sector	12.2%	41.5%	13.1%	18.7%	26.7%
Import duties	11.48		11.48		

Source: Nguyen et al
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