

# Vietnam's successful turnaround and the intentionality issue

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## Introduction: explaining Vietnam's turnaround

In this paper I argue that Vietnam's successful turnaround was not 'intentional' in the sense of reflecting agency on the part of the political leadership and construction and implementation on their part of a planned and coherent set of reform policies. The lack of clear intentionality in can be seen in two ways. First, the changing political position in relation to economic policy issues of Party Secretary Le Duan over time. Second, the detailed policy record, which shows strong signs of following rather than initiating economic change. Following change in a post hoc manner does not make policy irrelevant, but it does change its meaning from that associated with the classic policy model that is valid in countries where turnaround is associated with a clear reform program.<sup>2</sup>

Le Duan became party leader after the problems of Land Reform, which saw Ho Chi Minh admit to 'Errors' and the then Party boss, Truong Chinh, forced to resign. In the late 1960s, during wartime, he became deeply concerned with the apparent problems caused by the central planning system, setting up an ad hoc research team to explore radical alternatives, since he was fed up with his existing conservative policy advisers. But this group, many of whom came into technocratic leadership positions in the late 1980s, found that he did not adopt their pro-market reform proposals either. It seems likely, though, especially in light of later events, that he had listened closely to what they had to say. In the late 1960s, however, local initiatives to permit a greater role for markets in the agricultural cooperatives came under attack from conservatives, led by Truong Chinh, an old political opponent of his. Le Duan initially defended these local practices, but then reversed his position as these conservative attacks mounted. He then supported a series of conservative economic reforms in the early 1970s (such as attempts to use East German 'kombinaten' in state industry and the introduction of greatly strengthened management structures in the agricultural cooperatives).

He was a strong supporter of the ambitious and conservative second Five Year Plan (FYP) (1976-80) which entailed high levels of investment with unreformed institutional models, and so logically implied strong pressures to attack the free market and rapid collectivisation of the peasantry of the Mekong delta. But at the end of the decade, and through 1980, he supported the introduction of pro-market partial reforms that introduced strong elements of the market into the state and collective economies. The overall reversal of policy stance that followed in the early 1980s is largely attributed to renewed attacks on these 'anti-socialist' measures from conservatives, including Truong Chinh.

Le Duan died in mid 1986, and was replaced as General Secretary by his long-time political opponent Truong Chinh, who now in contrast to his earlier positioning supported the reformist position, opening the way to the 'doi moi' VIth Congress and the election of Nguyen van Linh as Party General Secretary. Linh was then a major force for de-Stalinisation and implementation of the reformist precepts of 'doi moi'.

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<sup>2</sup> This view is the one I find most persuasive, and most defensible in detailed discussions with informed Vietnamese, though see the Postscript. Whilst in general policy studies terms it is somewhat heterodox, the view that policy typically lacks coherent meaning, securing maybe only in implementation receives support from scholars such as American political scientists such as Wildavsky (e.g. his 1973) and anthropologists such as Shore and Wright 1997.

This rapid overview confirms the opinion expressed by Tran Phuong, Deputy Prime Minister in charge of economic matters for much of the early 1980s, about the role of individuals in the transition process in Vietnam. In response to a question on this matter at a workshop, his categorical reply was that ‘context is everything’. If correct, this helps to understand Le Duan’s changing position, and suggests that, rather than looking for a clear ‘reform intention’ as driving change in Vietnam, we should look at the factors influencing policy and what in turn influenced those factors.

Second, there is the detailed policy record. It is clear that study of the sequence of policies during the reform period does not suggest that there was a clear *ex ante* reform program (de Vylder and Fforde 1996). Rather, it suggests that reformists would extract positive aspects from a reality containing much endogenous institutional change, express these in terms that suited political realities and conservative ideological opposition, and then get them embodied into policy. As such, therefore, such policies both approved much pro-market activity *ex post*, but also curbed ‘excessive’ pro-market behaviour whilst encouraging the timorous.

In contrast to an intentionality-based account of Vietnam’s turnaround, I suggest that Vietnam’s turnaround is best thought of as an historical process. In particular, I suggest that it reflected the emergence of a political economy characterised by a strong focus on SOEs and ‘insider’ domination of political and economic decision-making as well as various other developments specific to the Vietnamese context. In outlining this argument, I begin with a review of Vietnam’s performance *vis-à-vis* turnaround in recent decades. I then move on to outline my argument in detail and address issues related to the content and sequencing of reforms and the role of donors in the turnaround process.

## **Vietnam’s turnaround in overview**

The definition of turnaround followed here defines it in terms of economic growth, improvement in HDI, and the extent to which violent conflict has come to an end. Violent conflict within Vietnam ceased almost entirely with the fall of the Saigon regime in 1975. After that there were minor incidents in areas such as the Central Highlands, but these were not significant in terms of the problems we are analysing. After 1975 economic growth first accelerated but then stagnated in the crisis years of 1978-80, then grew rapidly in the early 1980s, and then slowed again in the years immediately prior to the 1986 VIth Congress. Growth then remained slow until the early-mid 1990s, when it shifted to a trend of around 8% annually. See Graphs 1 and 2. Graph 1 uses measures of aggregate economic activity based upon Soviet methodology, which differs from the standard Western system.

Prior to the opening-up to the West from around 1989, after the withdrawal from Cambodia and the collapse of the USSR, there was no comparable data on HDI. The earliest composite HDI is for 1990, at 0.610. It rose to 0.649 in 1995 and again to 0.686 in 2000 and 0.691 in 2002. Vietnam in 2002 was ranked 112<sup>th</sup>, close to Indonesia, whose per capita GDP was somewhat higher. Vietnam’s relative poverty was offsetting high levels of education and life expectancy, though these had not been improving as much as had been desired.<sup>3</sup> Through the 1990s poverty levels reported in some rather large and well implemented household surveys showed rather large

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<sup>3</sup> See [http://hdr.undp.org/statistics/data/indic/indic\\_10\\_1\\_1.html](http://hdr.undp.org/statistics/data/indic/indic_10_1_1.html) and pages nearby.

falls. The underlying question that emerges from this is the causes of the rapid pro-poor growth of the period from around 1992. My analysis places this in the emergence of strong marketisation processes in the state sector around 1979-80, later supported by policy shifts, which eventually led to the emergence of a market economy around 1989-90 as Soviet aid was lost.

I think it generally agreed that Vietnam had clearly turned around by the mid 1990s. For example, it was at this point that significant multilateral lending started, argued by Dollar and Pritchett 1998 to mark the point at which Vietnamese development policy and performance overall had advanced enough to warrant such support.

## **Analysing Vietnam's turnaround**

### ***Policy and the marketisation process: endogenous and exogenous factors***

#### **Review of dates and the policy record**

Vietnam was divided into the communist north (the Democratic Republic of Vietnam - DRV) and south (Republic of Vietnam - RoV) as a consequence of the defeat of the French forces at Dien Bien Phu in 1953-54. Prior to this, communist-led anti-French forces, the Viet Minh, had shifted from a broad-based stance towards a more orthodox set of Leftist measures, partly due to the growing influence of the Communist Chinese in the late 1940s [Fforde and Paine 1987]. This saw inter alia increased advocacy of Land Reform and socialist planning, as well as a rising importance of economic and military assistance (the latter was crucial to the victory at Dien Bien Phu).

Whilst after 1954 the south moved towards the US, the north rapidly joined the then united socialist bloc, receiving increasing volumes of development assistance, which fed the reconstruction Three Year Plan of 1958-60 and then the First Five Year Plan of 1961-65 [Fforde and Paine 1987]. These saw introduction of the standard development package of neo-Stalinism familiar from many other countries: nationalization of most significant modern industry and its management through administrative methods of resource allocation (central planning); collectivisation of agriculture [Fforde 1989b]; extinction of much petty trade and almost all private foreign trade. However, there are arguments that the coincidence of Land Reform with the closing stages of the anti-French war, and the mixture of nationalist and communist elements within the Viet Minh, led to a situation where the Party was ill-equipped for a full-scale 'classist' stance [Fforde 1986 and 1989b].

Around 1963-64 macro-economic tensions mounted: with high levels of aid-financed investment in SOEs, monetary discipline was weak – yet as free market prices rose above state rice procurement prices the Party did not use standard neo-Stalinist violence. Communist donors underwrote this 'political compromise' and the structure of largely aid-funded imports shifted towards consumer goods.

Large scale US bombing started in 1965. By 1967-68 there was an evident food crisis in the north. However, spontaneous de-collectivisation and the emergence of

'household contracting' was condemned (see below p. 12) after being initially tolerated, and the north shifted to a chronic dependence on staples imports of around 1 million tonnes a year. By the early 1970s, despite official reports of continued growth in industrial output, policy-makers were deeply concerned about evident chaos and systemic failure in the SOE sector, initially looking for organisational solutions, such as the large 'Kombinat' of the DDR.

By the end of the war the north was chronically aid-dependent, with no real signs of any local dynamic to growth based upon central-planning.<sup>5</sup> Hopes, though, were high, for access to the Mekong Delta rice surplus should arguably have eased the main constraint to rapid Stalinist growth focused upon heavy industry: the lack of elastic wage goods supply – at then levels of per capita GDP, this largely meant access to rice surpluses to replace food imports. Yet the wartime aid program had also continued to deliver investment goods, thus creating a significant overhang of under-used capacity that could be used *if planners could find inputs to use it, or an expansion of market relations could generate additional resources for SOEs to increase their levels of capacity utilisation.*

National reunification in 1975 was a surprise. The country was formally re-unified as the Socialist Republic of Vietnam in 1976, terminating hopes for a 'Third Way' for the south.

Contemporary state policy as observed through the Official Gazette was a combination of the attempted imposition of northern institutions and techniques of rule upon the south with the drive to recover basic elements of neo-Stalinist rigor in the north [Fforde 1989a and 1989b]. Senior policy-makers (those around General Secretary Le Duan) faced a contradictory set of messages: acceptance (in private) that the northern system had not worked well contrasted with post-war hubris and over-confidence. Policy initially took a conservative and ambitious stance, pushing for rapid socialization of the south, reforms to collective agriculture in the north which sought to strengthen cooperatives [Fforde 1989b], and high levels of planned investment and growth. The collapse of this project in the late 1970s introduced both processes and policies that led to the emergence of a market economy in the very early 1990s.

In the second half of the 1970s the country as a whole was clearly weary of war. Demobbed northern soldiers married, started families, and expected the system to provide rewards in terms of jobs, growth, security and – if they were state employees – the benefits package typical of Soviet socialism (pensions, wages, rations, free education and health services, childcare facilities, housing etc.). In the south, full of

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<sup>5</sup> This is one element of difference between Vietnam in the late 1970s and China at the same time, when reforms also started. This relative failure of central-planning to generate a growth dynamic in Vietnam had many causes, but is marked by the far lower investment rate [Fforde 1999].

<sup>8</sup> Reflecting the 'constitutionality' of VCP practice, this plenum had been scheduled to discuss economic problems by the previous Congress, as part of the regular process of policy debate. But this provided an opportunity for great pressure to be exerted by a range of 'insider' interests, so that the overall policy stance had, by the end of the plenum, changed radically.

northern troops and where most of the killing had taken place, people also looked forward to peace. Local VCP cadres, hardened by war, had to make up their minds about the effects of the northern neo-Stalinist system as it loomed over them.

By the end of the 1970s policy was in deep trouble. Vietnam had tilted towards the Soviet Union, abandoning the balance between the USSR and China that it had managed during the war [Fforde 1985]. It lost Chinese and much Western aid. Tensions with the Khmer Rouge had ended in the use of Vietnamese troops to topple the Pol Pot regime; in response, the Chinese commenced military operations against Vietnam's northern provinces, leaving only when they had taken most relevant border province capitals. There had been close to a 'procurement strike' in the Mekong as local cadres refused to extract rice from farmers at gunpoint.

### **The marketisation of state sector: exogenous and endogenous forces from 1979**

At the 1979 6<sup>th</sup> plenum, after heated discussions, the commitment to traditional central-planning was replaced by the view that any measure was acceptable so long as it 'freed up production at the base.'<sup>8</sup> By early 1980 this had been concretized into two partial reform measures. However, through 1979-80, partly in response to the changed incentives (loss of aid, lack of rice), there were many signs of the spontaneous dissolution of neo-Stalinist institutions: farmers stopped working collectively and returned to family-based production; SOEs developed direct relations with suppliers and customers; private trade grew; there were signs also of an erosion of the official state monopoly of foreign trade. The partial reform measures of early 1981 took two clear and apparently pro-market directions [de Vylder and Fforde 1997]:

- ? Introduction of 'household contracting' *within* collective agriculture (Order CT-100). This permitted farmers to carry out certain elements of the production process (but not all). They were paid in work-points for this, but they were allowed to freely dispose onto markets all output surplus to the amount contracted with the cooperative (which meant, since output rose, an increasing share of the crop).
- ? Introduction of a 'three plan' system for SOEs (decree 25-CP). *This was the single most important policy measure of the Vietnamese turnaround. All SOEs, once they had fulfilled their duties to deliver output to the planning system, now had the right to 'self-balance' (acquire inputs on markets, and sell resulting output) for both those types of goods that they were delivering to the plan, as well as other goods (for example those using by-products).*<sup>9</sup>

At the same time, there were changes to the system of state prices, including increases to state procurement prices. However, inflation in the early 1980s eroded positive effects on farmers' terms of trade.<sup>10</sup>

It is interesting and useful to view 'household contracting' and the 'three plan system' as essentially *conservative* in intent [Beresford and Fforde 1997]. This is because, and

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<sup>9</sup> This was not only earlier than, but also far more radical and extensive than, the Chinese SOE reforms [Fforde 1999]. This alone suggests that views that 'Vietnam followed China' are wrong.

<sup>10</sup> This again is quite different from Chinese experience, where hikes to state grain procurement prices had real effects upon farmers' terms of trade [Fforde 1999].

this is confirmed from their texts, they sought to *preserve* agricultural cooperatives and central-planning. However, whilst this is the clear proximate intention, we cannot discount predictions from some policy advisors that, once market forces had been unleashed, they would grow more powerful and eventually come to threaten Socialism, *and that this was deliberately intended* but not formally stated in policy terms.

Certainly, economic developments after 1981 strongly suggest that these two measures, and especially 25-CP, created a strong dynamic. In terms of policy doctrine, however, neither of these two measures confronted the definitional elements of neo-Stalinist Socialism (for example, public ownership). However, by not doing so they effectively shackled the Party to an economic growth process that would, by being SOE-focused, cause chronic problems for the development of rational and independent policy processes predicated upon a relatively strong executive [Fforde 2004a].

During 1981-84 output grew rapidly (see Graph 1). This resulted both from efficiency gains and the Soviet aid program, which largely replaced lost Chinese and Western assistance [Fforde 1985]. SOEs and their clients and patrons built up resources outside the plan, benefiting also workers, whose real incomes also gained from the changing economic system. However, the policy stance was initially reversed in both sectors.<sup>11</sup> Planners sought to appropriate SOEs' 'own' profits by increasing plan targets; cooperatives were exhorted to maintain control over local economies through active measures, such as through their control over crucial inputs. And local export-import companies (such as those in HCM City) were closed down by Hanoi under Ministerial and ideological pressure.

### **The rise of the 'state business interest', the VIth Party Congress of 1986 and 'doi moi'**

I have argued elsewhere, without disagreement in private from informed Vietnamese, that by around 1985 there had arisen a distinct 'state business interest', founded upon commercializing SOEs and their clients and patrons [Fforde 1993]. This group wished to reverse pressures from planners for 'de-marketisation', and had political contacts and resources to drive these to support their interests, understood in terms of reductions in pressure from the plan.

*Before* the VIth Congress of Dec 1986 (which is famous for introducing 'doi moi'), the Party adopted around March 1986 a U-Turn in SOE policy, attacking planners and promising reductions in pressure from plan targets [de Vylder and Fforde ???]. This introduced a policy trajectory that was continued until the end of the decade, steadily reducing, for example, the scope of plan targets and the extent to which they could be imposed against the interests of SOEs.

At the VIth Congress an alliance between pro-market reformers (drawing upon long traditions within the socialist world) and this 'state business interest' was strong enough to ensure that the stop-gap General Secretary who came in after the death of

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<sup>11</sup> The official press at this time carried a wide range of informative articles about SOEs' encounters with the market which were on the whole remarkably open-minded; in this way 'insiders' as well as the general public had opportunity to form their own opinions about these departures from 'pure' socialism, as well as to gain tips as how to benefit themselves through emulating various tactics.

Le Duan mid year (Truong Chinh, a famous conservative in earlier years), who was seeking political support, shifted the political balance towards liberalisation, culminating in the selection of Nguyen van Linh as the new General Secretary. Linh then, paralleling developments in the USSR, de-Stalinised social life.

Throughout the 1980s Vietnamese troops remained in Cambodia. This isolated the country from Western assistance and markets. Commercialisation of SOEs therefore took place in somewhat unusual conditions:

- ? Very limited foreign competition – FDI did not become important until the mid 1990s.
- ? Strong control over farmers - the regime retained relatively tight limits on farmers' freedoms. Rural real incomes did not start to rise significantly until the late 1980s, helped by a post VIth Congress decree in 1988 that further reduced the power of cooperatives but not decollectivising.
- ? The lack of significant competition from a private sector in the strict sense of the word. Clearly, a commercialized SOE should be considered to be as much a private as a public body, even with the characteristic soft budget constraint [Fforde 2004a]. The private sector was restrained in the production sector until the late 1990s, and petty trade did not re-emerge until around 1989.
- ? Absence of many forms of market-based rents [Fforde 2002b]. Rents derived in the main from central-planning itself. SOEs continued to benefit as the central-planning system distributed the Soviet bloc aid program, resources procured from farmers, cheap investment funds and labour. From around 1986 hyper-inflation resulted from erosion of the fiscal base by the commercialisation of the economy, with as yet no new tax base to replace the effects of central-planning. With direct control over goods and considerable rights of sale on markets, business interests within SOEs benefited from this situation.

Two major sets of policy measures reflect the steady shift to a market economy envisaged by the VIth Congress. It is only at this time, with intentionality relatively clear, that it becomes sensible to discuss reform 'sequencing'. One set of measures sought to liberalise trade and to attack inter-provincial trade barriers and state foreign trade monopolies – though the latter mainly entailed permitting SOEs increasingly to deal direct with foreign sources and customers. A second set involved strong attacks on rural planning: Decree # 10 of 1988 terminated rights to issue plan targets to rural cooperatives, whilst also further increasing farmers' autonomy. I have already mentioned the steady progress to reduce planners' power vis-à-vis SOEs. It is, however, not easy to see a clear sequence to these policies; rather, with the commercialized SOE sector now ever more politically powerful, reformers were focusing upon its further liberalisation, and, increasingly, coping with wider issues. These included securing better prospects for farmers, attacking local and foreign trade monopolies, and a shift in the wider systemic thrust of reforms. Also, they were attempting to get the state 'out of business', so as to secure a platform for more efficient development. These had wider political implications.

### **The break-out to a market economy in 1989-90**

The immediate background to Vietnam's rapid growth of the 1990s was the breakout to a market economy in 1989-91. The immediate cause was the policy response to the

loss of Soviet bloc aid and the imminent collapse of the Soviet Union after the unification of Germany in 1989. This response was not primarily systemic; as we have seen, the policy stance driving for systemic change had been in place since at least early 1986, and was gradually, much as in China in the later 1980s and 1990s, eroding the remnants of central planning [Fforde 1999]. Loss of Soviet bloc assistance, however, pushed the issue by removing much of the incentive basis for SOEs to participate in planning: late reform decrees had, by supporting SOEs against planners, stipulated that planners could only issue ‘balanced’ targets, that is, targets for output to be delivered to the plan that were backed by the required inputs. Planners needed material resources, therefore, to be able to secure SOE compliance with the plan. Thus, once Soviet commodity assistance was lost, planners’ bargaining positions vis-à-vis SOEs collapsed, and central-planning with it [Fforde 1990].

The main policy response to the situation, however, took the form of a major attack on the hyper-inflation, associated with the collapse of the regime’s tax base, itself resulting from marketisation of SOEs and the wider economy, that had been endemic since the mid 1980s. In a well-managed set of policy measures, which could, interestingly, be implemented relatively clearly, inflationary expectations were transformed – economic agents moved from goods to money, freeing up resources, boosting incentives and radically changing popular attitudes to the regime. Policy saw an opening of the northern border, step-wise increasing supplies of consumer goods onto markets, hiking of real deposit rates to rather high positive levels, and an increase in real lending rates charged to SOEs (though not yet to positive levels). To everybody’s great surprise, SOEs not only survived this process, but prospered, growing rapidly and, as cash flow and profits improved, helping to rebuild the tax base (import taxes came in rather later).

At the same time, SOE readjustment was greatly assisted, perhaps unintentionally, by the re-emergence of petty-trade and services from around 1989, which soaked up most of those (some 1.5 million) who had lost their jobs in the state sector.

All-in-all, social tensions greatly eased in the very early 1990s as real incomes climbed. However, Vietnam diverged from the Soviet reform trajectory. Likely fearful of (and not seeming to need) democratisation to secure required change, there was no ‘Yeltsin’ solution; rather, what were clear moves in this direction were stopped, marked by the sacking from the politburo of Tran Xuan Bach in 1992 for ‘severe violations’ (he had been making public speeches in favour of democratisation).

The political economy underlying the success of the 1990s is therefore quite clear [Fforde 1997 and 2000; also 2002a]. Politics remained essentially exclusive and Leninist. The main actors involved in the Vietnamese policy-making process were ‘insiders’, often straddling the boundaries between plan and market that ran through units of the socialist economy such as SOEs and cooperatives. Their interests were rather simple: maintenance of the regime, to which they belonged, and their own local interests. In addition, they were influenced by a wide range of ideas: reformist market socialism influenced by Eastern European and Chinese thinking; conservative ideas that argued for greater discipline in plan implementation; Western pro-market thinking, derived both from the French period and the pre-1975 period in the south; the ideas of foreign advisers, both Western and overseas Vietnamese; and home grown ideas, derived from local policy debates and examination of Vietnamese realities. Superficial changes were made to improve, for example, the contribution of

the National Assembly and corporatist groups within the Mass Organisations to policy deliberations. As the structure of 'insider' interests developed, this widened the forum for maintaining relative balance between them (such as between SOEs, Ministries, provincial and other local interests) and to attain more sensitivity in responding to popular pressures.

At the same time, development was strongly SOE-focused. The creation of a partially commercialised SOE sector with strong regional and Ministerial support, within a 'constitutional' ruling Party and insider-dominated policy-making process, inevitably meant that these state-business interests could ally with the pro-market reformers within the state to work through the existing political structures to push for policy changes in their particular interests. *Historically, the creation of these interests was not initially caused by policy, but by the response of the political economy to the First FYP in the early 1960s, and then to the exogenous shock of the loss of aid in the late 1970s.*

FDI came in, but found no strong central personality to bribe as a means for protection and securing rents. Aid donors tended to find that they could secure their development goals by working through formal organisations (including Mass Organisations such as the Farmers and Women's Unions);<sup>12</sup> there was considerable confidence in the overall growth trajectory. Towards the end of the decade, however, tensions started to mount. By the early 2000s a private sector started to emerge, support by a liberalizing Enterprise Law in 1999; but it will immediately be obvious that this is strikingly late in the overall process – why had it not happened in the early 1990s? And, with a policy of imposing New-Style Cooperatives (a further reform of the existing ones, continuing the process started in 1981, if not earlier), the Party continued to preserve jobs for the rural nomenklatura.

From the mid 1990s there was a clear process of 'legalisation': large numbers of law were drafted, passed, promulgated, publicized and revised. Yet there was no evidence that the legal system was developing, in the sense of the emergence of processes and structures that gave law power to determine (rather than to suggest) what the state did. In consequence, and across a wider field, much of the formal structures of the state increasingly appeared as a façade.

### ***Reasons for the economic success of the early 1990s, and its limitations***

Explaining Vietnam's successful turnaround thus has two aspects to it: the causes of the removal of central planning, and the reasons for the attainment of good development performance thereafter.

Clearly, the end of central planning was the outcome of a complex mixture of factors and I have discussed these above. Here I move on to examine the reasons for the latter. I need to stress, however, and I develop this further below, that the same factors pushing for good development performance in the 1990s can be seen inhibiting a continuation of that in the 2000s.

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<sup>12</sup> The World Bank shifted its main counterpart around 1991, replacing the strongly pro-market institute assigned to it by reformers with the then highly conservative State Planning Commission.

Central to Vietnam's economic development in the 1990s was the position of her SOEs. This was paradoxical. On the one hand, a combination of fear of inflation, leading to great political pressures for preservation of macroeconomic stability and the extremely open nature of the economy combined to place SOEs under heavy pressure in the period 1990-92. Thereafter, as the tax base recovered, import tariffs were implemented and bank deposits rose, the government responded to pressure from SOEs to favour them and the budget constraint softened again. Yet, on the other hand, SOEs showed that they were sufficiently adjusted to markets to not only survive through the most intense period (1989-92), but also generate increases in output and cash flow, some of which went to restore the tax base. In my judgement, this relative competitiveness is impossible to understand without appreciating the depth of marketisation during the 1980s, going back to the partial reforms of 1981 and even earlier. And this is in turn impossible to understand without reference to cultural and social factors that ensured that adjustment took place.

Contextual factors were also important, especially as the decade progressed. Vietnam was 'in the right place at the right time': once liberalized, with substantial under-utilised assets, any emergent economy in SEA should, in the early 1990s, have become rapidly integrated into one of the most dynamic regional economies in the world. Vietnam's commercialized SOEs, with capital relatively well-priced and seeking profitable outlets, provided a suitable (if relatively inefficient) mechanism. Add to this the recovery of family-based petty-trade and services, and a rural society where farmers had more or less recovered autonomy in production [Fforde and Seneque 1995], and rapid growth should have been hard to avoid.

From 1992 macro-economic distortions were rapidly removed, as real interest rates charged to SOEs were shifted to positive levels. With ongoing fears of inflation (which was at the time showing signs of returning), and adequate cash flow in SOEs generally to finance such rates, this is understandable. There was no need, with such high profits, for SOEs to receive support through distortions to exchange rates or other big macro numbers. Yet, as the tax base recovered and import tariffs were imposed (at the start of the decade they had been close to zero and the economy extremely 'open'), the path was opened to what many saw as ISI [Kokko and Sjöholm] and a growth pattern that was certainly focussed upon SOEs. SOEs received rents in high volumes, but not at such high volumes that major macro numbers (real interest rates, inflation) were threatened. Here the recent experience of hyperinflation in the late 1980s played an important role. The authorities would certainly agree to tax breaks, loan right-offs, allocations of FDI and ODA, but these were not typically allowed to threaten macro-economic stability. In this sense the national polity remained relatively integrated and coherent, without local authorities being able to deviate far enough from central norms to threaten overall stability.

Further, the relatively rapid reductions in poverty were in part driven by the relatively flat land distribution, itself a consequence of what had happened to the cooperatives, and to the Mekong before 1975, when US policy had created a middle peasantry through Land Reform. In the areas where the cooperatives had been strong, the return to family-based farming entailed land distribution to farmers following various formulae, in general resulting in relatively egalitarian land access.

In examining social and human development indicators, it is clear that it was the recovery of the tax base, helped by ODA, that permitted a recovery of funding levels to education and health, reflecting long-standing priorities. This can be directly

linked, therefore, to the first aspect of turnaround, the removal of central planning and the creation of a fast-growing market economy. However, funding levels to education were not fully restored, and in many areas local community and family contributions came to amount to 50% or so of education resources, reflecting long-standing cultural values.

Finally, it needs to be stressed that fundamental to the success of the early 1990s was the ability of the SOE sector to act as the primary growth engine of the economy *without* a need for state support in volumes that led to macro-economic distortions and/or severe pressure on the social sectors. Again, this success was both path dependent and associated with cultural particularities, such as savings and investment behaviour at family and community levels, but was ultimately reliant upon the way in which the removal of central-planning had focused upon a gradual commercialisation of SOEs. It can be said that the ‘state business interest’ turned out, in the early 1990s, to be sufficiently ‘business’ to compete, and adequately ‘state’ (or rather ‘party’) not to destabilise the economy and society through short-sighted greed: rents were kept under control, and taxes paid. I discuss below the politics underpinning this (p. 12).

## ***Content of reform, reform sequencing, and the role of donors***

### **The Content of Reform**

The content of reform programs in Vietnam was driven by three main forces: first, regime survival; second, patterns of interest (especially those close to SOEs); third, the evolving context. Given this, it is simple to point to examples of measures aimed to protect (possibly short-term) losers. Examples are: generous severance pay to dismissed SOE workers (though much was negotiable), their close monitoring after dismissal, and their emergence into a local economy where petty-trade and production had recently been allowed to re-emerge. A counter example, of relative ruthlessness, was the effective sacking of around one half of the rural cadres at commune level and below after 1988 (so far as is known, with no special measures to support them – but they had been heavily criticised as often being ‘red landlords’).

### **Sequencing**

The sequencing of reform measures needs to be understood in their historical context, not as an intentional package. The varying importance of the factors listed above then emerges persuasively from a historical account, which I have outlined above, not a discussion of policy logic and a detailed reform program (which did not exist). It seems that advice/pressure from donors did not play an important role: there is little evidence that Soviet bloc advisors attempted to stop what was happening in the early 1980s, nor that Western advice against the SOE-focus after 1990 had much impact either. One must look to the late 1990s to see the beginnings of impact, in such areas as participatory methods of managing decentralised state spending, the quantitative analysis of the quality of growth, and most importantly perhaps in core areas such as public administration reform.

## **The role of donors**

For much of the post-independence period aid took the form of commodity support from the Soviet bloc and China. This combined consumer and investment goods. Aid was reduced after 1975, partly in response to peacetime, and then sharply cut in 1978-79 as Chinese and most Western donors withdrew. Soviet bloc aid replaced this in the early 1980s, stabilizing at rather high levels around 1984-85. This was then lost in 1988-90 as the Soviet bloc collapsed, followed by the Soviet Union itself. This was then replaced by Western aid through the early 1990s. Given the peculiar pricing system used by central planning, it is not possible to construct reliable indicators for the % of aid in GNI. But overall trends, and the effects upon turnaround, are clear.

In my opinion, donors as such had little direct influence upon policy. Rather, periods when external resources were cut, such as 1978-79 and 1989-90 seem to have changed incentives in ways that accelerated ongoing processes; and periods such as the early 1980s and the early 1990s when external resource flows were growing perhaps encouraged less positive trends.

Donor activities did, however, have strong effects upon incentives and the ways in which structured interests shifted, with a conclusion reached that, in a historical rather than 'intentional' process, with a relatively effective 'insider' polity, aid acted mainly through the ways in which aid cuts changed incentives, shifting the balance of 'insider' interests towards markets and therefore increasing political pressures for further marketisation and preservation of existing marketisation. There is little evidence that aid donors, through their advice, offset the negative effects upon incentives of the ways in which aid eased budget constraints upon SOEs. Thus both the Soviet aid program of the early 1980s and the Western program of the 1990s acted contrary to donors' wishes. Of course in the early 1980s aid, by subsidising business development with SOEs, this was 'anti-socialist', whilst in the 1990s aid tended to support the commercialised 'state business interest', again contrary to donors' goals. Perhaps this can be taken to support to the robustness of 'insider' politics, and its ability to generate state-governed resource flow outcomes that suited 'insider' interests.

## **Relative importance of reforms and reform sequencing in the history of change**

Examination of the detail of the Vietnamese turnaround shows that reforms and reform sequencing appear relatively unimportant. External economic shocks (mainly loss of aid) acted to change the balance between plan and market, but did not create the mechanisms that constituted that balance. It is likely that, as research improves, most especially as we better understand the evolution of policy and the causes of it, that this picture will become more nuanced, but at the end of the day it is the process of SOE commercialisation, which like any such process is strongly endogenous, that was most central to Vietnam's turnaround. However, it is important to realise that the political battles of the early 1980s, which failed to stifle the growth of the 'state business interest' did not see policy passed that actually banned the market-oriented opportunities embodied in 25-CP, though policy did certainly seek to rein these in.

My judgement is that the growth of commercial forces *within* the state sector was largely a product of economic logics, so once the horse had bolted, which it largely did when, hungry due to the aid cuts, it decided to eat from the free market hay pile that it knew was the other side of the farmyard, the course of history was relatively

certain. All that 25-Cp did was get out of the way and attempt to pretend that the horse's reins were actually doing something.

## Conclusion

Since the onset of the Asian crisis, Vietnam has entered a period of less impressive economic growth than during the early 1990s, although it has continued to make good progress in human development and there have been few signs that the state is likely to collapse and violent conflict occur on a large scale. To a significant extent, these problems have their origins in aspects of the country that were part of the causes of the earlier successful turnaround. Whilst Vietnam's formal political structures were rather successful in the 1990s, with most growth coming from SOEs, problems emerged as the growth focus has shifted away from SOEs to FDI and the private sector in the late 1990s. Especially, as the private sector emerged in the very late 1990s, partly resulting from social change but also as policy sought for greater competitiveness and greater job creation, the 'insider' focus of politics changed from being a positive contributor to development and increasingly became, without what is likely to be far greater and real democratisation, a major problem. A particular problem has been the frequent unimplementability of policy – unimportant if not valuable when the main task was 'getting out of the way' of markets, of increasing importance when securing greater efficiency required far greater effectiveness in the pursuit and implementation of better policies [Fforde 1986; 2004a].

## Postscript

After this paper was finished, critical comments were received by staff members of the World Bank, and I have been asked to address these. They can be grouped as follows, and I address each in turn. Since such arguments seem rooted in 'disputable theory' (Fforde 1995), it does not seem likely that they will easily resolve themselves. But discussion is warranted. Their tone suggests that these staff members feel somewhat 'stung' by my position.

First, the assertion is made that this interpretation of recent Vietnamese history is 'wrong'. I repeat that this is the view I find most persuasive. For a view that it was the late 1970s rather than the VIth Congress that was crucial, see also comments from now important Vietnamese officials in Ed. Ronnas 1990. In my experience, though, many Vietnamese, especially officials, will discuss these issues in two quite different ways, depending on context and discourse. On the one hand, if asked (in Vietnamese) what policy was and what the Party did, they often reply in classic policy studies terms, stressing the coherence, importance and positive role of policy, and this can be viewed as consonant with both political legitimisation and a self-identity as, perhaps, Woodside's 'proletarian mandarins' (Woodside 1975). On the other hand, if asked (again in Vietnamese) what was happening in 'reality' (cuoc song) and how policy related to this, responses are in my experience typically in terms of the extent to which policy thinking had 'woken up' (nhan thuc ra) to reality, opening the way to the discussion of policy's meaning (positive, negative, or absent). It is in these terms that I understand the stark statement that my position is 'wrong'. The *existence* of policy, in documentary terms, does not tell us much necessarily about either its meaning or its impact.

Second, my stress upon the role of 25-CP is fundamentally to do with its social and political effects. Through the 1980s these laid the foundation for what was to come after 1990-91. Policy changes just before and after the 1986 VIth Congress are easily identified as 'pro-market' (Party decree 306 and Government Decree 217 are well-known here). But their origins in the changing political economy prior to 1986, and their impact, are not I think understandable without reference to 25-CP. For a trenchant description of the political economy of the 'state business interest', based upon extensive field work, see Greenfield 1993. I find his position unconvincing in some ways, but the empirics are significant.

Third, the point is made that the HD indicators of the 1990s drew upon earlier successes. The literature here is classically unreliable, in that the early position has not been well-researched, and much of the attribution of success to policy relies upon a 'pyramid' of materials. In health, it is worth trying to read Vogel 1987, which challenges many established beliefs. It is also worth remarking that many of the good results in social sectors at village level can be attributed, not to policy, but to local community values and practices, which maintained resource flows to schools (and to a lesser extent PHC) when state funding was increasingly collapsing through the 1980s (see the relevant chapter in de Vylder and Fforde). The investment in the system, therefore, was not in this argument policy-driven. The point remains to be elaborated and developed empirically.

Fourth, there is the question as to whether national reunification in 1975 was a surprise or not. Examination of the policy record (through the Official Gazette - the Cong Bao) shows that there was no state level planning for reunification, and concerns remained largely to do with problems in the north.

Fifth, the pattern of corruption in Vietnam, according to a range of personal interviews that I have carried out but which should remain confidential, is one in many ways different from some other countries, in that the lack of centralisation of power means that bribes paid to single individuals tend not to secure desired outcomes. People in Vietnam are well aware of the widespread corruption in the country, and it has been reported by a range of international organisations as such. It is an important characteristic of the political economy. Comparisons could be made with the 'competitive clientelism' concept used to explain the situation in Thailand. I therefore leave the statement in, despite concerns that "many would find it offensive, and it is not supported by evidence."

Sixth, the point is made that I largely refer to my own work. This does contain in various places literature surveys. There is now a large literature on contemporary Vietnam and there is not enough space in this paper to review it properly; rather, in this paper I advance my own view, and this has not on the whole been rejected by the academic literature. Regina Abrami is an exception I am aware of, and her so far unpublished PhD thesis starts the process of engagement with the view that policy was on the whole weak and relatively unimportant, and I welcome this. We badly need good political studies, especially of the origins of policy and position.

Seventh, two broad points are made: that there is little analysis of the interests involved in the SOE focus of both change and policy, and that the emphasis upon intentionality is over-done. These comments are followed by a range of points that seek to develop an analysis of the possible changing patterns of interests and their relationship to reform. My point is that the state of research so far points to the validity of the conclusions I reach, but does not permit us to go further. We lack

political studies of crucial events: for example, the origins and nature of the shift in 'line' between the start and the end of the 6<sup>th</sup> plenum of late 1979. It is all very well to seek to develop application of a respectable (but far from unchallenged) framework for political analysis that stresses the interaction between associated interests and policy; it is quite another to found this upon speculation, when the detailed secondary sources are simply lacking. We simply do not have good studies (comparable, say to Chalmers Johnson's work on MITI, itself challenged) to permit us to go much further than I dare to. My own conclusions are for me persuasive, and this is in part checked through discussions with Vietnamese I respect, and responses to the translation of the book I wrote with de Vylder. For example, the point is made that the "reasons for the 1979 reforms (sic) are not laid out clearly". How should they be, when to do so would be speculative? It is easy if not facile to read into the situation associated interests, construed as represented within political structures such as the Party Central Committee, and then from there to develop a narrative that would employ notions of cause and effect. But crucial steps in that story are hidden from us. Again, whilst the notion of the 'state business interest' that I advanced in the early 1990s remains interesting, and largely unchallenged (and sometimes acclaimed), it would certainly be nice to be able to establish with decent empirics just how and why this influenced political events through 1986. I feel sometimes that the belief that 'we know' inhibits the funding of basic research in such areas.

Finally, there is the issue of intentionality. A read of the literature on Vietnam often leads students to think that there are two Vietnams. First, the Vietnam of academic studies, which largely argue that policy should be seen in its context, often irrelevant, sometimes positive, sometimes negative. And, second, the Vietnam of many but not all of the development agencies, which is a Vietnam where, on the whole, positive change stems from correct policy, and negative change results from bad policy. Whether change stems from clear intentionality, or unclear intentionality, is at root best addressed empirically, and there is a vast amount of academic work that needs doing in this area. The formal policy record, especially 25-CP of 1981, shows that, whatever the impact, the Vietnamese Party was very early in permitting, formally, SOEs in all sectors to self-balance in list products. The Chinese Party did this on an experimental basis, and only partially, some years later. The CPSU carried out some trials, but never went beyond this. And if it is easy to disagree with my argument that this 'let the genie out of the bottle', it is pretty certain that any Vietnamese Communist who had openly argued at the time that such pro-market reforms were fundamental would have faced major political sanctions. In this sense, within this history, change cannot (unless we can find some 'conspiracy', and so far we have not), be seen as 'intentional'. Passage of a reform measure as fundamental as 25-CP, which would very likely lead to the emergence of strong pro-market forces, needs I think to be seen in this light. Therefore, I fully agree with the position that "leaders and policymakers always react and adapt to events (indeed, one could argue that this is part of effective leadership." Our problem in Vietnam is that we do not know enough, really, about that process of reaction. It would be nice, though, to do so. In the meantime, based upon what I think I know, and much discussion in Vietnam, I find the above account the most persuasive of those on offer.

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