

Light within the ASEAN gloom? The Vietnamese economy since the first Asian Economic Crisis (1997) and in the light of the 2001 downturn

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Introduction

The Vietnamese economy has performed rather well in recent years. While there are a number of conflicting opinions as to why, many arguing for 'fundamental economic weaknesses' (such as the likely formal bankruptcy of the state commercial banks),¹ it is nevertheless striking how the economy has grown rather fast, and how macroeconomic stability has been maintained. In this paper I will focus upon a 'review of the books', that is, I will look at the picture revealed by the economic statistics, and I will examine only briefly some of the competing explanations for this outcome. One striking aspect of discussions of the Vietnamese economy, however, is the frequency with which it is referred to as suffering from 'fundamental weaknesses', *despite* the evidence of considerable success. Perhaps the success would have been even greater, had different policies been followed; or perhaps, as is common with other Asian economies, some economic perspectives need adjusting.

I will start the paper with a discussion of the recent background: a very quick overview of the 1990s prior to the 1997 Asian Crisis, and I will then examine the 1997 Crisis and compare it with the current situation, as the global economy confronts the consequences of the excesses of US capital markets in the late 1990s and 2000. I will then address the important issue of 'globalisation', given that Vietnam's exports are now close to 50% of GDP, before looking in detail at the current economic situation. It turns out that much of the story of the present is illuminated by looking at the historical trends apparent in the 1990s, and the impact and influence of the 1997 Crisis, which makes the current situation less confusing.

A tale of two crises: 1997 and 2001

To gather a sense of just where the Vietnamese economy has got to in 2001, and where it is going, it is useful to look at the effects of two international crises: those of 1997 and 2001, the latter taken to mark the first year of the abrupt downturn in the world economy that probably started in late 2000. At the centre of all this appears to be *adaptability*: for example, in 2001 export earnings were kept up as prices fell through increases in volumes. While both crises have created rather severe difficulties, they will, I think, appear contrasting in terms of the likely impacts upon economic performance: while the 1997 crisis acted to support various forces pushing for greater efficiency and faster growth, the current one is in effect testing the framework of an economic 'style' that emerged in the late 1990s: will it work? Time of course, will tell, but what straws are in the wind to suggest what the rest of the decade will bring?

¹ For example, a recent World Bank economist's presentation on Vietnam using standard EBRD Transition Indicators ranked her low in areas such as Structural Reform, Legal Transition, Infrastructure and Governance. I am grateful to Sally Marsh for this information.

Vietnam's comparative performance

The graphs compare Vietnamese growth since 1995 with those of some other ASEAN members (Thailand and the Philippines).² They show various things. First, that after the rapid growth of the early 1980s, itself in part due to increased Soviet aid and in part to the liberalisation of the economy prior to the 1986 Doi Moi Congress, a second period lasted from 1992 to 1997. Since then, however, growth has stayed around the 6% level, despite the 1997 and 2000 crises (data for 2001 and 2002 are forecasts). Second, that this relatively fast and stable growth is superior to that in both the Philippines and Thailand. Both the Philippines and Thailand saw negative growth in 1998, but since then the Philippines has preformed rather better. Thus, over the period 1996-2000 GDP increased by 28% in Vietnam, 11% in the Philippines and fell 2% in Thailand; and over the period 2000 to 2002, using ADB forecasts for 2002 and quasi official expectations for 2001 outturns, GDP should have increased by 13% in Vietnam, 6% in the Philippines and 3% in Thailand. Granted the major disruptions to export markets caused by the 1997 crisis and the recent signs of global recession, Vietnamese performance is clearly good.

'Reading the books': economic data and the policy record

Since the early 1990s the quantity, and also the quality, of data available on the Vietnamese economy has greatly improved. In this paper I mainly draw upon the following sources:

1. The basic 'book' on the Vietnamese economy, the Statistical Yearbook — Ni^an gi^m Th^ong k^o (NGTK). There are certainly 'internal' documents that track economic changes, but these are secret and unavailable.
2. Reports from the four main multilateral donors: the Asian Development Bank, the World Bank, the International Monetary Fund and the United Nations Development Programme. All of these are available on their websites. There are probably 'internal' documents, but again these are unobtainable. In general, there is rather little of the normal 'number-crunching' and economic monitoring from these agencies. The conjunctural analyses are somewhat perfunctory (eg World Bank 2001).
3. Vietnamese press reports.³ For a while now the better Vietnamese economic journalists, publishing in papers such as the Vietnam Economic Times, have provided an often puckish series of views into economic change and policy.
4. The Official Gazette (the C^ong b^o). This tracks policy directly, though of course does not print Party documents.

² Date came from the relevant websites of the Thai Central Bank and the Philippine statistical authorities.

³ The Aduki Pty Ltd proprietary database on these adds around 500-600 articles monthly.

The most significant omissions from this list are two: first, the Vietnamese academic reports that can be found in journals such as *Economic Research*; second, various ad hoc reports written either in English, often for bilaterals, that cover macroeconomic conditions, or in Vietnamese, which again are often limited circulation. I refer to only a very small proportion of these reports.⁴

It should be relatively clear that the above provides a somewhat rich set of sources to analyse what remains a poor and underdeveloped economy. In particular, the Vietnamese-language press is rather good.

Some underlying assumptions and hypotheses

It is not easy to find political analyses of medium-term trends in Vietnam that can easily be related to economic analysis. This is in part because, like economics, political analysis of Vietnam faces major problems (for example, is it a communist country?);⁵ it is also because, however, much economic analysis does not seek to go far in exploring the validity of its political and institutional assumptions.

Here I have found most useful the position taken by Thaveeporn 1996, which I interpret to mean that the pressures from 'the market' upon the state and its 'techniques of rule', importantly corruption but also a generalised erosion of authority relations within the apparatus as well as the incoherence in its relations with 'outside', led to fundamental re-thinking and a break with certain aspects of Leninism, especially the tendency to view 'outside' activities as necessarily politically hostile.⁶ This she associates with Public Administrative Reform (PAR), and I think that this points towards a shift in the meaning of state policy and its practice, which, across a wide range of areas, should be expected to improve economic performance. The slogan of the 'state ruled by law' (Nhật n-ĩ c Ph-ĩp quy-ĩn) has been largely laughed off the stage by foreign analysts, yet, if understood as referring to notions of how internal state relations, and relations between state and the 'outside' should be ordered, it would seem to be part of this shift in thinking.

Most importantly, and by contrast with other political analysts, she sees somewhat basic change, where others (eg Beresford 1997; Abuza 2001; Thayer 2001) do not. Her position seems to be supported by Woodside 1997:⁷

⁴ A rather large number of focussed reports have appeared in English since the late 1990s, very often externally financed.

⁵ As of late 2001, the US State Department website, under 'regime type', described Vietnam as a 'Communist People's Republic'. What does it mean to say Vietnam is Communist?

⁶ This point, naturally enough, is rather hard to support empirically. Recent personal experience looking at the changes in local cadre opinion (not the same as practice) in the rural areas receiving Swedish support in the north found my Vietnamese colleagues arguing that there had been fundamental changes and a general agreement that Western development practices (eg participatory techniques, bottom-up planning) were better.

⁷ Fforde 1993 argued that the origins of the transition to a market economy in Vietnam could perhaps be found

“Global capitalism, far from simply threatening the Vietnamese state, is supplying an arsenal of techniques by which state-directed cultural borrowing will salvage and refine a managerial regime whose previous policies had seriously tarnished it” (p.74)

To use one of the ways of dividing the debates about globalisation, this fits within a ‘transformationist’ view of globalisation, rather than a ‘hyper-globalising’ position that sees the Vietnamese government as facing either a major challenge to its capacity, or a ‘sceptical’ position that would downplay the power of such forces.⁸ In any case, while the cultural impact of the outside world can surely be said to be extensive, if in detail worthy of debate, *economically*, Vietnam is now a very open economy, with in 2000 a GDP at current prices of some US \$ 32 bn, exports around US \$ 14 billion (44%) and recorded inward investment of US \$ 1.6 billion to compare with total investment of around US \$ 9 billion (19%). These trends continued in 2001, and it is clear that the Vietnamese economy is increasingly emerging as focussed upon active participation in the world economy.⁹ Yet, as we have already seen, her performance since 1997 has been rather good.

The economy and the 1997 crisis

Expectations and immediate background

The immediate background to the 1997 crisis was a gathering sense of economic tension. Through 1995 and 1996 the balance of payments was deteriorating, with very rapid growth in imports; the economy appeared to be over-heated, with boom conditions stretching resources; there were rising signs of corruption (Maitland 2000; Gainsborough 2000); and employment growth appeared strikingly low despite rapid increases in production. With others, I saw gathering probability of a political-economic crisis, with the Party forced to instruct the government to sell off State owned enterprises (SOEs) so as to meet IMF/World Bank conditionality, and also secure funds to maintain macroeconomic balance, such as to fund state spending (Fforde 1997; Kokko 1998).

Even at this stage, arguments were already being advanced that the pattern of inward foreign investment was of concern, as it was not creating very many jobs, and, especially in certain heavy sectors, was pushing for protection so as to gain super profits. Was this an ‘import

in the rise of a ‘state business interest’. I will return to this below when discussing the apparent emergence of a private sector in 1999-2001.

⁸Held et al 1999; see Hamilton-Hart 1999 for a critique of this typology of views.

⁹One can note that in sectors such as rice and coffee the Vietnamese are already significant global players, with their market tactics watched as important influences upon prices. For example, press reports argue that Vietnam, now the world’s third largest coffee producer, is being blamed for the closure of the international coffee cartel (the Association of Coffee Producing Countries) to maintain coffee prices — Vaughan Yarwood New Zealand Herald; Oct 24, 2001 *Asia view: Fresh brew offers hope for Vietnam*. For rice, Vietnam is now classified by the US Department of Agriculture as a ‘major exporter’, and resources therefore devoted to watching and assessing her trade tactics for their impact on world markets.

substituting' development strategy (Kokko and Sjöholm 2000)? Such a view sits badly with the argument advanced by Thaveeporn, to the effect that only from the late 1990s, after major reconceptualisation of the nature of the state, can one refer to the underlying coherence required for 'policy' to have meaning in the traditional sense (Cowen and Shenton 1996).¹⁰

In any case, it was reasonably clear before the Asian Crisis that 'there was a problem'.

The effects of 1997: some pointers

The 1997 crisis clearly had less effect upon Vietnam than upon other SEA countries. Just why this was the case requires more discussion than can be held here. It is worth noting, however, that many of the standard explanations are, on closer inspection, less convincing than they appear. For example, while Vietnam certainly lacked the high levels of international integration of formal capital markets that others had been led to enjoy, *informally*, this was not quite so true. Indeed, granted that around half of Vietnamese bank deposits were and remain in foreign currencies, and that the economy is highly dollarised (with gold also widely used), it is clear that the *Đồng* was highly vulnerable to Vietnamese and other domestically-based concerns; had the Vietnamese Moscow millionaires, for example, decided to take a major speculative position against the *Đồng*, what would have happened?¹¹

One of the most interesting revelations of the Crisis was, rather, the government's response. In a little-known article, the State Bank reported on its emergent strategy for mobilising the banking sector to support exports.¹² Examination of the press at the time shows the quality and extent of the information supplied to Vietnamese business, and the export performance (effectively a replacement of lost Asian markets by others) suggested that better efficiency could be secured, if and when the political economy required it.¹³ This was supported by the use of administrative controls to sharply reduce import growth, and the balance of payments crisis was avoided. The deficit on trade in goods and services (National Income Accounts

¹⁰ The point here is to highlight the inherent contradictions in the term development itself — is it 'product' or 'process' ('transitive' or 'intransitive' in Arndt's sense — Arndt 1981 and 1987). Whatever, without coherent state action, or the potential for it, surely any notion of 'policy' is inapplicable? Thus Vietnam, so long as such political conditions were unmet, could have had no 'Import Substitution Policy', and this seems to have been the case when authors like Kokko were arguing that it did. Foreign investors seeking joint ventures with SOEs (who usually had the land) and then developing political linkages to secure monopoly and other advantages may need appear as 'policy', but 'policy' is essentially political, and so intent and perception important.

¹¹ By the mid 1990s it was frequently related that, helped by their facility with operating in chaotic conditions, there were at least 50 Vietnamese US \$ millionaires in Moscow, usually northerners. Could they not easily have taken short positions against the *Đồng*?

¹² The best analysis we have read of the effects of the crisis is that reported to have been presented at the national conference of State Bank managers in January 1998 (*Tuổi trẻ* 17/2/98:11).

¹³ For example, *The Hai* (*Th-ng m'i* 27/5/98:8) reported the steep falls in commodity export prices (crude oil - 21%; rubber - 42.5% etc) and, in the first quarter, the steep falls in exports - to ASEAN, 48%, to China - 20% and to South Korea - 60%. The Vietnamese business community was well-informed as to what was happening; numbers of government missions were sent to investigate key branches (eg garments, where product was diverted to the EU to compensate for loss of demand in non-quota countries). They were advised to accept re-badging of Vietnamese products as well as to pay enough to insure against trade risk (*Võ Tráng Hñi Nh@n D@n* 27/4/98:5).

definition) peaked at near 11% of GDP in 1996, but then fell in 1997 to near 8%; by 1999 it was down to near 3% - far from crisis levels.¹⁴

State policy and practice: pointers from events since 1997

The basic conclusion to be reached from the aftermath of the 1997 Crisis is, thus, that there was sufficient resilience, probably adaptive, in the Vietnamese economy for it to maintain macroeconomic stability and rather rapid growth *despite* the loss of export markets in Asia and the associated slowdown in inward investment.¹⁵

It is export performance after 1997 that is most interesting. Here it is worth stressing the delayed effects of earlier investments. As Hill has argued (Hill 2000), lack of access to US markets as well as a somewhat murky business environment (but see below) did not prevent Vietnamese garments exporters from securing rapid market penetration. Indeed, towards the end of the 1990s various medium-term trends likely appear to have come together, manifest in rapid exports growth despite the wide-ranging problems in the Asian economy. This points to the emergence of a robust outward-oriented trading nation, certainly still facing opportunities for securing better performance, but, in engaging with global competition, progressing rapidly up a rather steep learning curve. Detailed research is needed to establish the precise origins of this trend, but its existence is relatively certain. One can point to various policy changes that have freed up participation in exports, removed quotas and licenses and so forth; what is not certain is to what extent these had a real effect upon economic activity. To give one small example, nowadays the 1 million tonne sugar plan is criticised at the highest level, in reports of government meetings. Yet, as tariffs were put on to protect domestic producers in 1997-98, reported smuggling into Hà Chi Minh City reached levels near 300,000 tonnes.¹⁶ Detailed micro investigation, and a sound sense of what is actually happening to the major aggregates, is needed before the real policy impact can be gauged. Similar remarks apply to the much-vaunted effects of the changes in Company registration procedures that came in during 2000; despite much confident assertion to the contrary, detailed surveys actually had showed that registration problems had *not* been felt by businessmen to be a significant problem.

Vietnam's export performance since 1997

Between 1996 and 2000, Vietnam's exports rose from US\$ 7.2 bn to US\$ 14.3 bn — that is, they nearly doubled (NGTK 2001). With growth rates of 23% in 1999 and 24% in 2000, it is clear that in these two years they increased by around a half. In 2001, growth is expected to

¹⁴ NGTK 2001 and 2000. This is a different definition from that used in some other places, but reflects the overall impact of foreign trade upon total economic activity.

¹⁵ I will discuss below the idea that the loss of FDI was largely the result of fundamental problems in the Vietnamese economy.

¹⁶ Hue Huong, Th--ng M'i 12/5/1999:1. A front page article reporting rapidly increasing smuggling of sugar.

be around 7% (if you believe the World Bank) or 8% according to recent government forecasts (World Bank 2001; Nguyễn Đình 31/10/01 in SWB). Such growth rates, bearing in mind that they are occurring in an economy that is now more than a decade away from its 'break for the market', are suggestive. They are fast, and correspond to the major opening up of the Vietnamese economy already discussed. What has been happening to the composition of exports?

Export composition

In terms of who has been exporting, there are three interesting trends. First, foreign-invested companies increased their share of exports from 11% in 1996 to near 25% in 2000 (NGTK 2000, 2001). *However, through 2001 exports from foreign-invested companies have tended to slow relative to those from Vietnamese businesses.*¹⁷ This likely reflects their relative lack of exposure to global 'specialisation risk': Vietnam remains rather diversified in terms of exports, without the high degree of specialization in certain light manufactures lines seen in some countries with governments perhaps over-proud of their active economic strategies.¹⁸

In terms of commodity group, it is possible to see a three-fold basic division of Vietnam's export structure. First, there is oil, which more than doubled in volume between 1996 and 2000, benefiting initially from OPEC's measures to boost oil prices, but then lost out badly through 2001 as prices fell. In 2000 crude oil earned some US\$ 3.5 bn, around 24% of total exports. Second, there are the rather wide range of other primary products, including rice, coffee and sea products, which were around 42% of total exports in 1996 and 30% in 2000 (NGTK 2000 and 2001). While rice was an important earner in the early 1990s, the relative success of coffee and sea products is striking. Rapid gains in seafood in 2000 and 2001 offset the weak growth in rice and coffee. Third, is the emergence of light industrial exports. This is the most interesting. From 30% of exports in 1996, they had risen to 34% in 2000. Through 2001, footwear and electronics have collapsed, while garments had continued to show some growth. *This suggests that diversity of export commodities has been valuable.*

This overall picture, of diversity and adaptation, comes also from a rapid examination of the destinations of exports. One can note immediately that rapid export growth came despite lack of access to the US market (Hill 2000), but also that Vietnam has shown considerable capacity to re-orient exports. Rather severe losses in markets such as Singapore and Taiwan were offset by rapid gains in others, such as China, the EU and ASEAN members such as

¹⁷ The newspaper *Thời báo* reported this (26/10/2001:4), expecting domestic firms to increase exports for 2001 by 14%.

¹⁸ There remains an intriguing research topic for some economist willing to argue that policy, as something without coherent foundation, was irrelevant, thus allowing them to explore whether it was underlying economic forces that determined Vietnam's export structure, whose relatively low degree of specialisation compared with other countries would then suggest the far greater importance of state action in those countries.

Indonesia, Thailand and the Philippines (NGTK 2000 and 2001).

Foreign Direct Investment (FDI)

Much has been made of the reportedly positive role played by FDI in the Vietnamese economy, and the need to create 'suitable' conditions for it. The politics of all this are pretty obvious. It is the case that Vietnam received rather large inflows of FDI during the mid 1990s, and that these tended to slow as 1997 approached. It may have been that some investors had formed a certain 'view' of Vietnam, which then shifted as they learnt more. Certainly, while Vietnam's domestic savings remain low, FDI will appear as an important contributor to domestic investment (rather more than in other export-oriented SEA economies). This is likely to change as SMEs, with their characteristically high levels of investments from retained profits, emerge. Certainly also, the current high rates of growth of exports from foreign-invested businesses point in both ways: both to the relative success under current conditions; and to the role played by FDI in linking Vietnamese production to global markets.

Here it is interesting to recall the structure of output. The way in which the non-state sector has replaced foreign-invested companies as the fastest grower, and also the relatively low rate of employment creation in foreign-invested businesses, which, being often rather hi-tech, tend to use rather more capital per worker than domestic companies.

It is also striking to note that, for FDI as for other instances, Vietnamese relatively wide 'openness' shows a pattern of risk spreading that appears to pay off. Thus through 2000-2001 FDI from EU members appears to have risen, helping to offset declines from regional sources that are now suffering from the 'second shock' of the US-led global slowdown (eg Singapore, Taiwan and Japan). It has also been argued that Vietnam's apparent relative social and political stability compared with some other ASEAN members may mean that "investment sources may find Vietnam to be a more stable and safer place for their foreign investments in this region than many other countries where there is a higher risk of instability' (World Bank 2001:2).

As in the case of SMEs (see below), it appears that far too large a part of what has been written about FDI remains unfounded in data, and it may well be that when and if we do get a clearer picture of what actually motivated investment decisions, there will be (as with SMEs) some challenges to received opinion.¹⁹

¹⁹ For a rapid overview of some possible lines of approach, see http://www.aduki.com.au/june_99.htm.

Early effects of the global recession that started in late 2000

The Vietnamese economy in 2001 appears to have suffered from the onset of global slowdown through various channels.

First, through the further weakening of important export prices: oil, rice, electronics and computer parts. Luckily, however, exports were sufficiently diversified for other lines – seafood, vegetables and fruits, garments – to continue to grow. Also, the underlying dynamic trend of ‘emergence’ into world markets meant that there was a continued momentum of growth.

Second, through the probable effects upon consumer and investor confidence: retail sales, always an indicator worth watching, but rather inaccurate as measure of consumer spending as it includes things that are probably inputs to production, weakened distinctly by mid year.²⁰ Such changes in confidence can also be expected to weaken private investment.

Third, through weaker inward FDI. However, for the first 10 months of 2001 registered capital in new projects was up nearly 20% on the year. Most of these new projects are now in industry.²¹ Thus the weakening is from a rather good base.

If we move on from these purely economic factors, the policy response seems to have been to continue the stress upon exports and the “Programme to promote exportation of commodities for which Vietnam has potential”.²² Under current severe competitive market conditions, and with Vietnam closely tied to trade liberalisation through AFTA and the bilateral trade agreement with the US, the gathering crisis can be viewed as a useful trial for this emergent trading economy.

Other elements of the Vietnamese economy

The structure of output

The Vietnamese economy changed much in the 1990s, and this process continued after 1997. Industrialisation has been occurring rather fast, with its ‘shock’ impacts (due in part to the relatively low employment generated) offset by relatively fast growth in agriculture and services. After the very slow growth in agriculture expected for 2001, this sector has shrunk from producing near 40% of total output in 1990-91 to nearer 22%.

²⁰ Trung Sợc Sợu T- 1/9/2001 p.14; the change likely took place in the third quarter, as year-on-year growth in July was still over 7% - substantial in real terms given price deflation – n/a Sợu t- 4/8/2001 p.3.

²¹ Aduki internal economic news summary for October, p.3. This draws upon newspaper reports, and is available occasionally at the Aduki website (www.aduki.com.au).

²² The World Bank is very happy about Decision 46/2001 on export and import management for the period 2001-2005, which “provides consistent and transparent, long-term directions for all export-import businesses” (World Bank 2001:4). See for example V--ng Thnh Sai gBn Gi¶i phng 30/10/2001 p.1 and the Nh©n D©n report already mentioned for discussion of the government’s focus upon exports.

The overall picture is thus one where, granted macroeconomic stability, there are extremely high profits in industry driving, granted the social and political norms to suit (more factories, less Johnny Walker Black Label), very high levels of investment. These, however, are accompanied by relatively solid incomes and jobs creation in services and agriculture. The question, of course, is how this pattern will continue, especially if rural incomes growth slows. Much, of course, will depend upon a shift (hopefully associated with exporting SMEs) to a more labour-intensive growth pattern in industry. The looming threat is of a flood of farmers coming into the cities. So far, this has not happened.

The rural economy

By the late 1990s, with rather weak agricultural prices and other opportunities, farmers' incomes were starting to be well-diversified away from farming. Trend growth rates in agricultural output had been rather high since the early 1990s, helping farmers to build up equity and start to confront the severe risks involved in world market trade.²³ This helps explain the extremely good responsiveness to market opportunities, as Brazilian and other established coffee producers have found to their cost.²⁴ Across a wide range of products, and not greatly assisted by state-supported marketing efforts, farmers' have managed to increase output and exports. Through 2000 and 2001, as rice prices have weakened, things have got worse (but then rice since the early mid 1990s has not been a particularly profitable crop for farmers).

Domestic demand, the middle class and the rural economy

Whilst exports are clearly the most buoyant area of market growth for Vietnamese producers, the combination of a well-paid state bureaucracy (when all the additional perks are added in) with an emergent urban middle class helps to explain the relatively buoyant growth in private consumption since 1997 (see graph), although at rates well below GDP growth, making space for exports and investment growth. One can note that these resources were *not* instead taken up by public spending, a not uncommon outcome in many countries. It follows that, as can

²³ In this I continue to believe that widespread land access, in a pattern characteristic of a 'post-collectivised system', plays a strong positive role. This is preserved by the lack of a formal free market in land, supported in turn by various Party activities and measures. For a contrary view that argues for the importance of easing land title transfers, see the World Bank's rural sector review of the late 1990s, especially the earlier drafts. These were very hostile to various policy-supported mechanisms in place to secure high profits for SOEs and other prioritised businesses. My worries about land are to do with the sense that there would be considerable market imperfections in anything that was feasible, from the attitudes of cadres in charge of the local state (eg re enforcement of collateral pledges), through interlocking markets (especially credit and certain inputs such as water and power), through to even nastier manoeuvres to get people off their land, as we have seen in many instances throughout history. And that this atmosphere would be seen by farmers as amounting to a significant increase in the riskiness of their economic decision-making. I thank Ron Duncan for seeking clarification on this point.

²⁴ Granted the damage both to 'orderly markets' and to the environment, it could be argued that Vietnam's farmers are in many ways *too* responsive to market opportunities.

easily be seen, the urban middle class has continued to experience real incomes gains. Interestingly, reports from Hả Chi Minh City suggest that relatively stagnant wages for office staff have coincided with real welfare gains as new consumer goods have come onto the market, and durables stocks have tended to grow. Again, this is consistent with an emerging class structure poised for extremely rapid growth, reliant to a large extent upon SMEs as well as the more dynamic SOEs.

The 'emergent' SME sector: smoke and mirrors

The relative failure of the Vietnamese SME sector to grow fast in the 1990s is well-known. There was no equivalent in Vietnam to China's TVEs. Just why this was the case is a research topic that needs to be approached with caution, as there are too many assertions and insufficient data.²⁵

It is relatively well known that the Vietnamese private sector started to emerge with some force in 1999-2000. Probably in 1999, and certainly by mid 2000 it was growing faster than both the state and the foreign-invested sectors, and through 2001 seems likely to have shown a growth of around 20% compared with 12-13% for the state sector and around 13% for the foreign-invested sector (which includes crude oil). The official data remains somewhat opaque, however, as this 'private' sector includes things it ideally should not, and excludes things that it should, for it goes without saying in Vietnam that an important element of the so-called state sector acts essentially like private businesses, while a certain proportion of the so-called private sector, especially as the atmosphere started to change towards the end of the decade, acts as shells (Vá) for capital accumulated within SOEs.²⁶

Granted this, it is worth pointing out that around two-thirds of the so-called non-state sector in the late 1990s was in fact a household sector, operating with minimal regulatory burden. Parallel to this was a so-called 'mixed' sector,²⁷ growing very fast indeed (to near 30% in 2000 from 15% in 1995). It was the private sector *strictus senso* (T- nh^on) that included incorporated businesses, that was growing so slowly. Within the so-called domestic sector (so-called as many of these units had under the table (chui) investments from overseas), the state's reported share of total output in fact peaked in 1998 (NGTK 2001:253).

Thus, as of now, Vietnam's industrial structure is one where about one half or less of output comes from the foreign-invested sector, a bit more than a quarter from the state sector, and a

²⁵ The research work led by Per Ronnas at the Stockholm School of Economics (Ronnas 1992 and Ronnas and Ramamurthy 2001), by Leila Webster at the MPDF in Hanoi, as well as work by McMillan and Woodruff, and Baumgarte and Han, all serve to break many icons. I discuss these quickly below.

²⁶ This is one area where it is useful not to confuse form and content (see below). Indeed, I feel that it is probably impossible to understand Vietnam's program of 'equitisation' without any discussion of the extent to which this ran up against existing patterns of partial or even relatively complete de facto privatization.

²⁷ Vietnamese statistics are not infrequently unclear — this refers to businesses where the form is not simply one or another recognised category.

but less than that from the non-state sector. The political implications of this are well worth pondering. IF the Vietnamese polity should be considered as adaptive, and driven by a concern with associated interests, then it should have shifted from its earlier focus upon the dominant state sector to far greater responsiveness to the needs of the non-state sector, and also to a concern with the economic power of foreigners. But is this a good way of viewing political change in Vietnam?

Debates about the reasons for the relatively slow emergence of a private sector in Vietnam are a particularly clear example of confident assertion in the face of facts. To summarise a long story, it was often asserted that two major factors inhibited the private sector: an unfriendly state - or 'regulatory environment'; and lack of access to credit, again often attributed to 'policy' (Riedel 1997; Ramamurthy 1998; Mallon 1999). Yet, surveys from Ronnas and Webster appear to contradict this. To quote from a recent survey (L^a C«ng Luy«n Vi«t 2001:28-29):

"The strong consensus amongst these writers is clear. Yet, there are grounds for caution in judging the seriousness of this problem. In a survey undertaken in 1999 by the Mekong Project Development Facility (MPDF), one observation was: "counter to expectations, most sampled managers had not had difficulties registering their firms and obtaining licenses needed to be fully legal. In fact, 90% were able to register and license their firms in six months or less, 69% in three months or less."²⁸ This was mentioned by Webster whose opinions were quoted above." And

"The finding was supported by the Sida's 1997 survey which noticed almost all types of enterprise see no difficulty to get a license, except a small 1.3% of shareholding companies (see Table 5).²⁹ Therefore, it was concluded, "cumbersome government regulations, licensing procedures and unfavourable attitude of officials do not seem to have been a severe problem for most of the enterprises."³⁰

Similar findings come from Baumgarte and Han 2000:1, who argue that:

" .. while the evidence supports the common thesis concerning the specific weaknesses in some sectors such as the legal and financial, it contradicts the conventional wisdom that lack of access to bank credit constitutes a crippling impediment for entrepreneurial initiatives .. Further, contrary to expectations, most entrepreneurs found the commercial/market conditions acceptable; they also expressed a feeling of trust and confidence in the future of the business environment in Vietnam".

²⁸ Webster 1999:21(fn)

²⁹ It should be noted that the survey had been undertaken even before the streamlining took place in 1998

³⁰ Ramamurthy, "Origin and Development History" in Ronnas et al.200:67.

The basic problem with all such surveys, it has however to be noted, is that they survey those who managed to establish businesses. They do not survey those who failed. Yet it would seem to me that the picture we were often given, of a regime of state practice that was the central issue, should be rejected.

The final success of 'rational priority development of heavy industry?

In the early 1960s and late 1970s Vietnam's economic managers tried hard to build up a heavy industrial base. This was then based upon received neo-Stalinist doctrine, and for both Five Year Plans ambitious targets ran into various sandbanks, and failed. Investment in heavy industry in Japan in the 1960s and 1970s, as in other East Asian countries, in part reflected planners' calculations that returns would be high (Johnson 1982). For many, who sought later to emulate this trick, over-supply naturally forced down returns, as did bad business decisions (an example would be South Korean car manufacturers, whose steel suppliers suffer).

If we look at the pattern of industrial output growth in Vietnam in the late 1990s, we find that a large part of a heavy industrial sector appears to have sprouted. Steel output, the traditional basis of a military-industrial complex (tanks, artillery ...) nearly tripled from 1995 to 2000 (from 470,000 to 1.7 million tonnes). Similar or higher rates of growth can be found in cement, sulphuric acid and other such lines. In terms of constant price gross output, we see rapid growth in chemicals (doubling between 1995 and 2000), rubber and plastics (tripling), etc. What is quite different from the old pattern, however, is the lack of Stalin's favourite, the machine tools sector, which is, by comparison, stagnating.

Macro stability: how and why?

After the hiatus of the 1996-97 period, which I have already referred to, the Vietnamese macro-economy has been generally stable. Inflation, which can be seen as a manifestation of certain political conflicts, has been very low, and prices have indeed tended to fall since early 2000. Such a 'deflation' largely reflects the combination of a relatively fixed exchange rate with rather sharp falls in certain agricultural prices. It therefore corresponds to a shift in resources away from farmers. As we have seen, their real incomes may actually have declined in 2001.

In any case, the basic indicators of macroeconomic stability have showed that whatever conflicts there are under the surface, the state has not been used to mediate between them (Beresford 1997) in ways that involve inflation, negative interest rates and/or limitations on people's freedoms to hold different sorts of financial assets (such as dollars). Crucially, interest rates on US \$ savings deposits at the state commercial banks have remained close to international levels, with depositors thus presumably treating them as relatively liquid; Sãng interest rates have been kept above US \$ rates, but the margin has been so low that short

positions against the ₫ would have been proven unprofitable, as the ₫ had not in fact depreciated very fast. There has been no appreciable gap between the exchange rate at the official exchange sites, and black market rates.

From the point of view of the fiscal position, we see that official reports on the budget are now far more detailed than before. Although Party spending remains 'off-budget', tax revenues appears to have been sufficient, granted controls on spending, to prevent any need for inflationary finance. In 2000-2001, domestic credit has expanded rather fast, but prices have tended to fall, suggesting that the demand for credit and ₫ in the domestic economy has been increasing relative to nominal GDP (ie the velocity of circulation has been slowing), which would seem intuitively to fit with the ongoing change processes, especially the likely increase in markets' depth associated with the buoyant 'private' sector. Under such conditions government yields from seignurage should also have been rising relative to nominal GDP, adding to the tax base.

SOEs and Vietnamese state capitalism

Ever since Greenfield's widely unread but seminal study of appropriation processes in SOEs (Greenfield 1993) it has not really been legitimate to analyse SOEs as 'state' property forms, simply because that is what they were called. The large and, until 1998 rising share of the 'state sector' in Vietnamese official statistics, I have long believed, could not easily sit beside the combination of rapid GDP growth, economic openness, macroeconomic stability and a competitive polity (albeit amongst insiders). The logical contradiction could only be resolved if SOEs were not treated, analytically, as 'state' bodies. Recent research of my own has pointed to the same conclusions as Greenfield, if not quite so starkly (Fforde 2000): the argument that a given SOE is a state-run body has to be made, rather than assumed. Most, this research shows, are better approached as de facto 'virtual share companies', where owners' rights are varied and essentially commercial in nature and operation. It is not, as family companies in the West well-know, simply being run by a state bureaucracy that can make a business uncompetitive. Loss-making can go on for a long time if amongst the owners can be found those willing to continue to pump in money - for whatever reason (such as a desire to keep hold of valuable real estate ..).

It follows, though in the absence of better research somewhat unconvincingly, that much of the great mass of consultants' reports and not a few academic studies on the SOE problem have largely missed the mark. We will have to wait and see what happens through this decade, but what is for me clearly emerging is an economy with a wide range of commercial forms, some of which gain privileged access to various resources, which are sometimes, as is not uncommon in market economies, then treated as valuable capital, and required to generate a return. With macroeconomic stability and high levels of competition, the question is how

frequently this latter outcome will be. So far as can be gauged from Vietnam's economic performance since 1997, a reasonable response to this question is: quite high.

Policy or what? Causes of the economic outturn

A view: Historical processes and the emerging 'new structure' of business

In my own view, by far the greatest mistake in the examination of the Vietnamese economy is the tendency to make superficial analyses of 'institutions'. The classic mistakes are, and remain, three: first, to confuse form with content; second, to view institutions as static rather than adaptive in nature, and related to this, to have no sense of determinants of the *pace* of change; third, to ignore the complex but by now rather well established politics of it all. After all, the Party remains in power, and the entire business of 'transition' (in terms of formal policy change rather than earlier conservative fumbling under the late General Secretary L^a Du'En) now at least two decades old.

Various lessons drawn from even the sketchy examination of this period that we have suggests that resource utilisation has tended to improve during times of trouble, σ , since we are dealing with human beings with imaginations, threatened trouble. This happened in 1979-81 and 1989-90, and, it appears, in 1998-99. At all these points, the adaptive politics allowed change that appeared to ease social tensions (and thus, *pace* Thaveeporn, enhance 'balance and harmony' in the body politic), with the major socio-economic events of these periods being: the legalisation of SOEs' involvement in markets (decree 25-CP), the euthanasia of central planning as Soviet aid was lost; and the emergence of the private sector from around 1999, with what might be described as a certain degree of 'unconditionality'. At this early stage, and especially granted the problems in the literature on SME already discussed, it would not be wise to go too far into this. However, I would like to hazard the following explanation for this event.

During the 1990s, as the surveys from Webster and Ronnas can be read to show, it was *not* mainly the regulatory environment or the lack of credit that explained the relatively slow emergence of SMEs.³¹ Rather, it was the need to build up a combination of resources and contextual conditions, which required time. These probably included:

- o Realisation amongst the soon-of-retiring age commercialised SOE managers that private companies offered more viable methods of transferring assets to their children, so as to secure their old age, than their existing stakes within un-equitised SOEs.

³¹ See Wong 1995 for an exposition of the ways in which China's TVEs actually emerged, the role played by access to various appropriable resources, buoyant demand and so on. See Fforde, 2000, for a similar discussion related to Vietnam

- o Realisation amongst the 'younger sons' of good family that their elder brothers had secured the jobs in the state sector that they themselves would be unable to attain; so, if their children were to get to the good schools (where fees are now appreciable), they had to make money in business. And by the late 1990s, with the real estate boom over, and services and foreign companies increasingly saturated, why not try making something?
- o Accumulated experience through the 1990s in a range of areas: how to set up a business (for many tried and went bust); how to mobilise and manage mobilisation of equity capital within informal networks; how to employ, to market; perhaps how to exist as a class. By the late 1990s, many middle class families could generate investable funds close to US\$ 100,000, thus offering scales capable of generating competitive tradable goods. Also apparent here is the steady harmonisation ('Thích nghi ho,') of the tricky social relationships between various elements of Vietnamese society involved in international economic integration: overseas Vietnamese of various types and origins; Vietnamese with various relationships with foreign companies, suppliers, banks and so forth; and various state and party officials. All share a common interest in successful exports, but come at it from very different directions. Practical politics involved working through ways of exploiting these opportunities. Trust was clearly an important issue, since at the start of the decade it was often very low (MacMillan and Woodruff 1999).

Fforde 1993 argued that a 'state business interest' had emerged through the early 1980s and had played a crucial role in the politics of the *Đại hội VI* Congress of 1986. From this longer historical perspective, the late 1990s emergence of a private sector must clearly be seen as having its roots in these earlier processes.

Conclusions: light in the gloom?

The performance of the Vietnamese economy since 1997, and through 2000-2001, has been good. It might be possible, bearing in mind the opinion of the World Bank about her relative political and social stability as perceived by some investors, to argue that she has outperformed all other ASEAN members.

Partly, naturally enough, this is the result of luck. As a 'latecomer', for various reasons she avoided creating the conditions that now seem to plague those who went wholeheartedly for conscious (and so 'model-' and 'state-' driven) specialisation and financial market opening of a certain type.

However, for what it is worth, it can perhaps be argued that Vietnam shows the relative value of the following:

- o Avoidance of 'specialisation risk'; the corollary of this is a politics that avoids too much focus upon what might be called 'development programming', perhaps because of inability to do so (for others have far greater resources available to play this game), or perhaps due to a scepticism, based upon bitter experience with central planning, as to whether human intellect can get things that right, that often.
- o Utilisation of existing inefficiencies as a basis for ongoing experimentation and advance.
- o Taking expert advice with large handfuls of salt.

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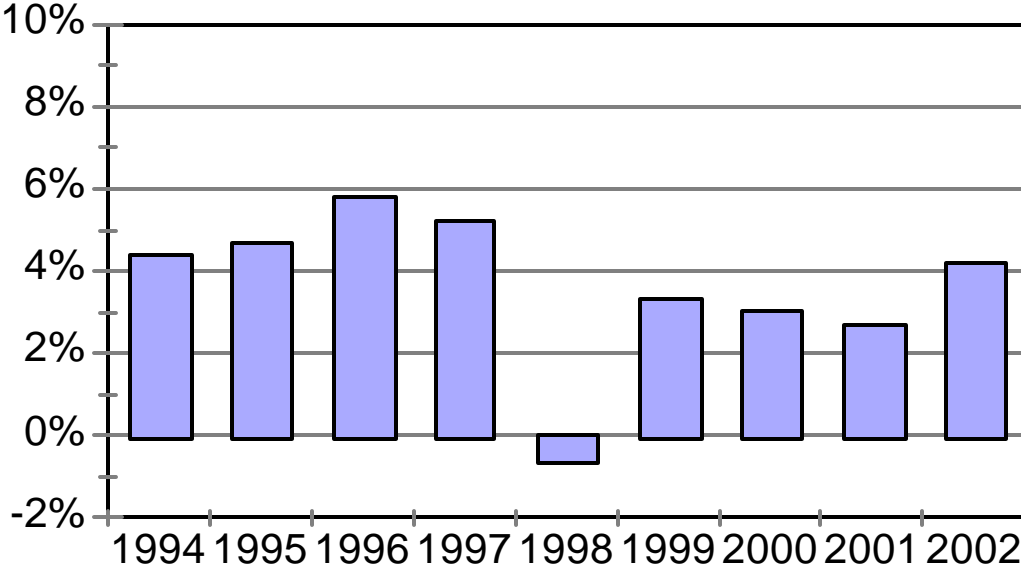
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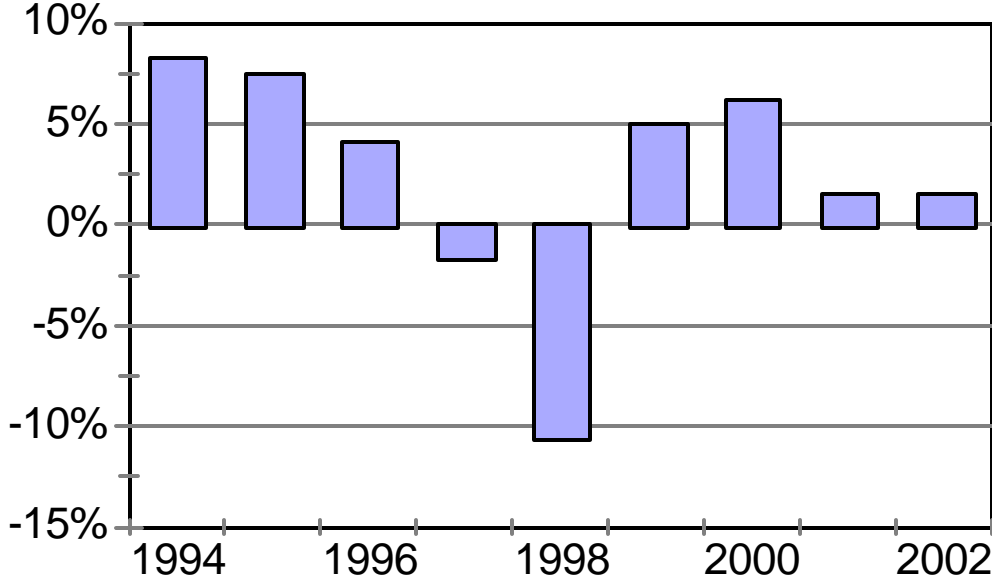
Total Output Growth

The Philippines



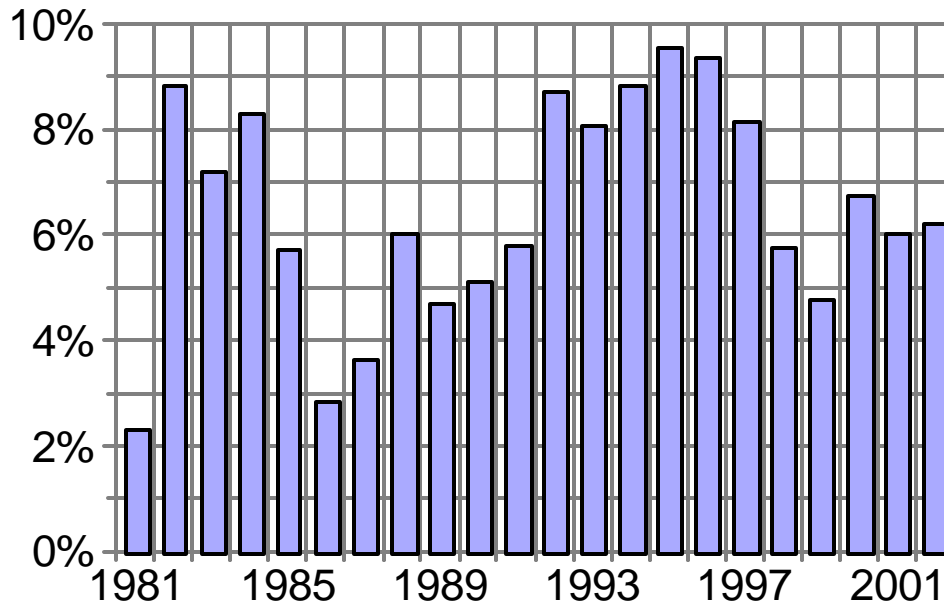
Total Output Growth

Thailand



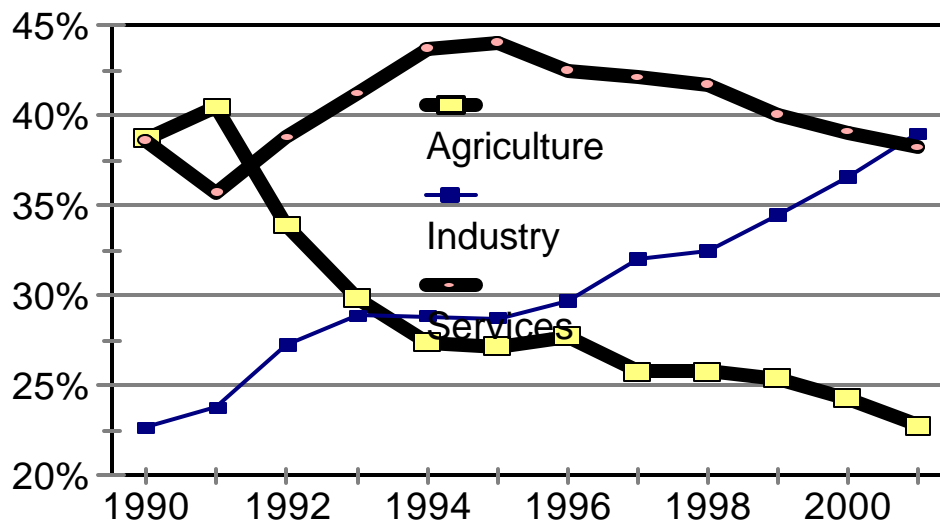
Total Output Growth

Vietnam



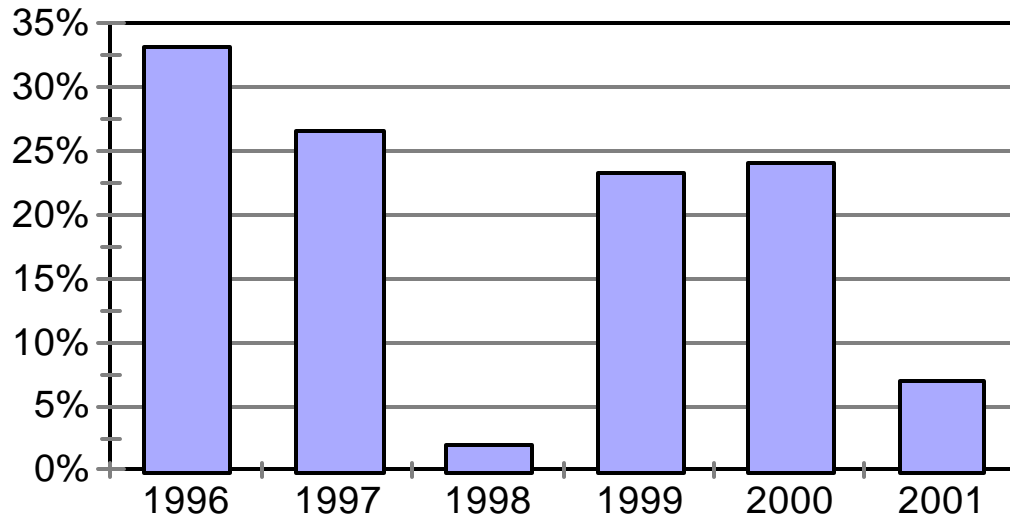
Sectoral shares of GDP

Vietnam



Exports - yearly growth

Vietnam



Private consumption growth (real)

% yearly

