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Vietnam between developmental state and neoliberalism: the case of the industrial sector

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ABSTRACT

Since the mid 1980s Vietnam has launched a thorough programme of economic reforms, with a transition from central planning to a market-based economy. The gradual and pragmatic reform process achieved remarkable results in terms of sustainable economic growth and poverty reduction. With entrance into the WTO (in 2007), the country has become an important manufacturing hub and is attracting huge FDI flows, but with a risk of increased dependency from foreign capital and technology and vulnerability to exogenous shocks. This paper suggests that national authorities have so far (and rather successfully) relied on a large state sector to manage economic development but the government has not been able to design and implement coherent industrial strategies.

Keywords: Vietnam, economic reform, industrial development, Washington Consensus.
JEL: L52, O11, O19, O53

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During over 20 years of *doi moi*[1] Vietnam achieved major results in terms of economic growth, institutional development and poverty reduction. This chapter argues that these results depended on a pragmatic and gradualist reform process that scarcely conformed to the prescription of the Washington Consensus. A deeper integration in the regional productive system during the 2000s contributed to industrial development and resulted in wider income polarization and labour-capital conflicts. However, the new economic and social dynamics are too recent to draw conclusions about a possible convergence with neoliberal practices.
Contrary to the transitional models followed by Eastern European countries, the dismantling of the Vietnamese central planning did not imply a decline of the state's role in the economy. On the contrary, in the first years of *doi moi* the state sector actually increased as a share of GDP. The furthering of the reform process implied the need to rethink the state's role and the developmental experience of other successful Asian industrializers became an important source of inspiration. However, the Vietnamese adherence to the model was limited and often incoherent. For instance, the major state-owned enterprises were reorganized into large groups reminiscent of the Korean *chaebols* and some government agencies such the Ministry of Planning and Investment and the Ministry of Trade and Industry were apparently modelled in accordance with the North East Asian examples. But the ability of the Vietnamese state to lead consistent industrial strategies remained limited. Coordination among different central government agencies and provincial authorities was low and powerful SOEs were often able to indulge in rent-seeking behaviours. By the late 2000s, however, a number of signals – like the attempt to define selective policies for attracting FDI to strategic industrial sectors – suggested that the developmental state model remained a key reference for national policymakers. A developmental state-style approach may become more pronounced as integration into the regional productive order advances, generating more resources and a wider space for manoeuvre, and requiring more stringent policies for successful industrial upgrading.

Introduction: the Vietnamese *doi moi* – a pragmatic path towards unclear objectives (yet successful)

After 20 years of *doi moi* Vietnam has become internationally renowned as a major case of developmental success. Its economy grew at an average of 7.8% from 1989 to 2007, with a mild deceleration during the regional economic crisis of 1997-98. Compared to the other large Southeast Asian economies, not only was Vietnam more resilient during the regional crisis, but also it was faster in resuming a rapid and sustained growth (Figure 1). A similar resilience was demonstrated in the midst of the global economic crisis: GDP continued to grow at 6.2% in 2008 and at 5.3% in 2009.

The rapid economic growth was to a large extent a result of the country's integration into the regional productive system. During the 2000s Vietnam

[1] *Doi moi* (renovation) is the name of the reform process launched by the Vietnamese Communist Party in December 1986. The process became particularly significant after 1989 with the fall of the Berlin Wall. Like the Chinese case, the *doi moi* implied the transition towards a market economy 'with socialist characteristics', without major political reforms.

assumed the shape of a manufacturing hub – importing capital, technology and intermediate goods from more advanced Asian economies and exporting finished products (footwear, garment, aquatic products) to the United States and the European Union. The strong linkage with the regional productive system also contributed to the country's relative resilience. The industrial restructuring that followed the regional crisis (and the 2007 *subprime mortgage* crisis) involved the relocation of production to countries with lower labour costs – thus benefitting Vietnam, whose wages were low even by the regional standards. This process became even more pronounced by the mid 2000s (and especially after admission into the WTO) when China – due to higher labour costs and national policies supporting industrial upgrading – became less competitive for labour-intensive productions and many factories relocated from the Chinese coastal regions to Vietnam.

< Figure 1 about here >

By the late 2000s Vietnam was no paradise. *Doi moi* implied the *de facto* dismissal of universal public health and education through the introduction of user fees and the proliferation of higher-quality private services (London 2004; Gabriele 2006). Income inequality was on the rise. Agricultural land was scarce (the Red River and Mekong deltas were already overcrowded), while industry was not yet able to employ all the redundant labour – but the new Industrial Zones (and sometimes even golf courses) were encroaching on agricultural land, with limited compensation for the resident families. The extension of formal safety nets was largely insufficient. While all these problems were casting dangerous shadows on the country's social and political stability, however, there was a general consensus on the fact that living conditions had substantially improved for the large majority of the population. The reduction in poverty levels was dramatic: the number of families under the poverty line declined from about 58% in 1994 to about 16% in 2006 – making Vietnam an international champion of poverty reduction.[2] The impressive results in poverty reduction were, on the one hand, the consequence of an extended period of economic growth and relative resilience during the Asian regional economic crisis and, on the other hand, a consequence of the specific modalities in which the economic reforms had been implemented since the first phase of *doi moi*. The approach taken was gradualist and pragmatic, antithetical to the 'shock therapies' adopted by Soviet Union and other transitional economies. While we have no space to enter into a wider review of *doi moi* earliest stages (for this, see Fforde and de Vylder 1996; Beresford and Tran 2004; Van Arkadie and Mallon 2003) it is useful to underline that the reforms in agriculture and land tenure, and eventually agricultural diversification, contributed to creating *virtuous circles* (as originally conceived by Gunnar Myrdal) lifting rural families out of poverty and creating demand for domestic industry (see Masina 2006). Crucially, the Vietnamese gradualist approach allowed using

[2] Vietnam General Statistical Office, *Living Standard Surveys 1994, 2004 and 2006*. Although the definition of poverty lines is always problematic and the Vietnamese line is low by international standards (about 10 dollars per months in rural areas and about 13 in urban areas), there is a strong consensus that the results achieved have been impressive. The outstanding results were confirmed by different quantitative indicators (child mortality, access to clean water, etc) and by qualitative studies based on methodologies such as participatory poverty assessment (see Masina 2006).

agricultural intensification and diversification to reduce the social dislocation produced by a rapid process of industrialization. During the regional crisis, the GDP composition revealed acceleration in the growth of the agricultural sector, as a result of explicit national policies, *de facto* playing an anti-cyclical function and supporting rural income in a period of general economic downturn (Masina 2009). A similar pattern emerged in the midst of the global crisis, with the growth of the agricultural sector accelerating in 2008.

After 20 years of *doi moi*, there is broad agreement that the economic reforms were largely successful, but there is no consensus on the causes of this success. I have discussed elsewhere these different interpretations (Masina 2006). It is useful to recall here that since the mid-1990s the International Financial Institutions and mainstream scholars have systematically criticised Vietnam for the slow path of the transition, in particular for delays in the reforms regarding the state-owned enterprises, the financial sector, the trade system, and the role of the private sector. The World Bank repeatedly voiced its disagreement but, considering Hanoi as a key customer, continued to lend to it profusely.[3] The IMF was much more explicit in revealing the disagreement, up to the point of suspending twice the concessional lending to the country. After the positive results achieved by Vietnam became known internationally, the international financial institutions have eventually tried to reinterpret the history of *doi moi*, suggesting that, after all, Hanoi had applied correctly the advice it received from Washington.

While there is no doubt that Vietnam did indeed implement a number of reforms promoted by the IFIs, analysis of the data suggests that adherence to the neoliberal prescriptions was limited and ambiguous. Not only did Vietnam adopt a gradualist approach in contrast with the shock therapies of other transitional countries (promoted by the IFIs), but also, over 20 years of economic reforms, the country did not apply key aspects of the Washington and Post-Washington Consensus. The state sector maintained a prominent role in the economy and financial liberalization was resisted; trade liberalization was adopted through international agreements, but the country upheld features typical of import-substitution; the very notion of Western-style *governance* (which is the cornerstone of the revised Washington Consensus) remained totally extraneous to the national political system.

The resistance to the Washington Consensus was not supported by a clear alternative strategy.[4] However, it is possible to argue that, after abandoning the central planning system, Hanoi started to look at the experiences of other successful Asian industrializers – Japan, South Korea, Taiwan and Singapore – in

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[3] The Vietnamese government was skilful in attracting large ODA and to use these resources to promote its own agenda, rather than being coerced to adopt structural adjustment policies (Painter 2005). This was possible for at least four reasons: 1) the level of foreign debt was low, thus reducing the economic and political dependence; 2) a large amount of ODA came from Japan and conveyed a very different policy advice from the one promoted by the IFIs; 3) Vietnam was projected to be a success story and the different donors did not want to miss the opportunities that their presence in the country would offer; 4) the United States had a political interest in a strong Vietnam as a potential (direct or indirect) ally in 'containing' China and this made Washington based institutions (especially the Bank) more accommodating.

[4] These reasons included the need to avoid confronting the IFIs and Western countries, but also the difficulty in charting a course in unknown waters (Masina 2006).

search for inspiration. The East Asian developmental state model seemed particularly appealing because it allowed the state to continue controlling key levers of the economy. Adapting the East Asian model to Vietnam, however, posed two major challenges for the national authorities – and by 2010 these challenges had not been successfully addressed. First, state-led industrialization in North East Asia had been implemented as a modality of capitalist stabilization. For the Vietnamese Communist Party there was a need to adjust the model to a socialist country without a major change in the nature of the political system (Beresford 2008; Masina 2006). The second challenge regarded the kind of state capacity required to implement a coherent set of developmental state policies. Strategic planning is something very different from the central planning typical of a command economy. Strategic planning requires a skilful leadership able to use incentives and pressures to guide the different sectors of the economy towards intended outcomes. By the late 2000s the political will to nurture such a kind of economic and technical leadership and to grant it adequate power was still limited by the vested interest of major political and economic actors connected with State Owned Enterprises.

In the following we will argue that the Washington Consensus and the East Asian developmental state presented Vietnam with two largely alternative models for industrial development, integration into the world economy, and policymaking. Based on the analysis of transformations in the industrial sector, our conclusion is that Hanoi took elements from both models but did not consistently converge with either of them.

The convergence that never was – the reform of the Vietnamese industrial sector

State sector and state-owned enterprises (SOEs) – transitional phoenixes

With the end of the war and the reunification, the central planning system was extended to the entire country. All the industry that mattered was state-owned. Compared to other more advanced socialist countries, the industrial sector was rather small and shaped by decades of war. Industrial development was largely dependent on technology transfers as a form of foreign aid. Already by 1979, however, it became rapidly clear that a rigid implementation of the command economy was not a viable solution for the country, either in agriculture or in industry. Economic activities started to take place outside or around the plan (for a review, see Fforde and De Vylder 1996; Beresford and Tran 2004). In industry, this implied that a number of state-owned enterprises started to search for underutilized inputs and to produce outputs beyond what was prescribed by the plan. In 1981 these non-orthodox activities were officially recognized by a Communist party decree establishing a 'Three Plan System' similar to the Chinese dual-pricing system. These measures (parallel to others regarding agriculture) can be interpreted as the beginning of the official process of reform and the legal basis for the transitional model. The reforms resulted in a 'hybrid transitional model' in which elements of a market economy were experimented with inside the planned economy (Fforde and de Vylder 1996: 13).

The diffusion of activities 'out of the plan' within a centrally planned economy, however, increased the imbalances in the system. The 'Three Plan System' had been introduced as an attempt to strengthen the central planning but eventually contributed to its demise. In December 1996, the Sixth National Party Congress launched a new strategy – the *doi moi* – that in practice introduced a systemic change in the Vietnamese economy and society.

The first step in the reform was the abandonment of central planning. In the industrial sector, the state-owned enterprises (SOEs) became free to purchase input on the market, to sell their products to trading companies or directly to final consumers, to retain profits and to use them at their own discretion once they had complied with the compulsory transfers to the state budget. Only the prices of a small number of products remained controlled by the state (Loc 2006: 39). The SOEs were let free to operate on the basis of a market logic during a period of severe macroeconomic imbalances and in which market mechanisms were still rudimentary. As a consequence, most SOEs proved unable to cope and incurred large losses. The need for wider reforms became apparent. In the early 1990s the government decided that non-strategic companies with a poor economic performance and lacking adequate capital and technology should be dissolved or merged with more efficient enterprises. The process resulted in a sharp decline in the number of SOEs: from 12,297 in 1991 to 6,264 by April 1994 (Loc 2006: 39). Basically, the strategy adopted was that of 'keeping the big and releasing the small' (UNDP 2006: 23, for a recent review of the SOEs reform).

New legislation was introduced in 1994 and 1995 to regulate the organization of the large SOEs into General Corporations. These General Corporations were composed of firms operating in the same industrial sector and apparently were inspired by the South Korean *chaebols* and the Japanese *keiretsu*. The SOEs were free to decide their investment and output, to establish business relations with other companies (including foreign ones through joint-ventures), to use their capital and to borrow from national banks.

The new organization of the SOEs facilitated the revival of the industrial sector and contributed to high economic growth in the first half of the 1990s, until the economic downturn produced by the regional crisis started to impact also on Vietnam. In the aftermath of the crisis, new measures were taken to reduce the burden on the state budget from poorly performing enterprises, and to make SOEs better able to contribute to the country's economic development. The new reforms included the launch of a wide equitisation programme under which the property of SOEs could be transferred fully or in part to stakeholders (employees and management) or to new investors (through the creation of a stock market).[5] As in the previous phase, the equitization initially regarded small and medium enterprises, while the largest SOEs started to be involved only by the mid 2000s. Also, when the equitization process began to concern large and important enterprises, the state maintained a majority ownership or at least remained as a substantial shareholder (see Table 1).

[5] In Vietnamese parlance 'equitization', seen as an alternative to privatization, emphasises the role of the management and workers as important shareholders.

Table 1: State's Ownership in Equitized Enterprises

	Until 1998	1999	2000	2001	2002	2003	2004
No. of equitized enterprises	123	251	211	215	164	539	715
State ownership ≥ 50%	12.0%	10.0%	7.2%	8.3%	8.0%	50.0%	42.0%
State ownership 20% ÷ 50%	50.0%	46.0%	28.8%	31.7%	33.0%	18.0%	28.0%
State ownership < 20%	38.0%	44.0%	64.0%	60.0%	59.0%	32.0%	30.0%

Reproduced from: Perkins and Vu 2007: 24.

The hesitation of the Vietnamese authorities towards a rapid equitization of large SOEs was partly (and understandably) related to the fact that these companies made an important contribution to the state budget.[6] The long-term motivation, however, was of a different nature: these companies were meant to serve strategic national interests. The eligibility of SOEs for total or partial equitization depended on the industrial sector in which they operated, and on the strategic importance of that sector for the country. Although the state increasingly defined its role as that of an investor both for fully state-owned companies and for those in which the state had only a majority share, it did not intend to relinquish control over enterprises operating in strategic sectors (UNDP 2006: 23).

The declared objective to maintain control over key levers for industrial policy is obviously in contrast with the principles of mainstream (neoliberal) economics but is consistent with historical experience of a large number of countries, particularly with the East Asian developmental state.[7] To limit our comparison to two economies often debated in Vietnam as potential models, we can recall that in Taiwan, as late as in 1980, the six largest public enterprises had sales equal to the fifty largest private industrial concerns and that similar proportions existed in South Korea in the same period (Wade 1990: 178). Large state enterprises played a leading role in a number of heavy and chemical sectors, apart from the provision of public utilities. State enterprises were typically used in capital-intensive sectors in which the level of investment was too high for private enterprises. And the 'main import-substituting projects of the 1970s – petroleum and petrochemicals, steel and other basic metals, ship-building, and nuclear power – were carried out by public enterprises; and major expansion projects in heavy machinery, heavy electrical machinery, trucks, and integrated circuit production have been undertaken by public enterprises' (Wade 1990: 178-179).
In other terms, the reluctance of the Vietnamese authorities to release the control over the state-owned enterprises could appear coherent with the intention to emulate the development pattern of successful Asian industrializers. However, a number of caveats need to be introduced regarding both the statistical data and the very nature of the Vietnamese SOEs.

According to a standard interpretation, the aim of the Vietnamese reform process is (must be!) convergence with a neoliberal market economy. Like every other developing country (and especially for a former socialist state) a key indicator of

[6] Still in 2007 revenues from SOEs were the third most important contribution to the state budget: with 15.9% they followed only the revenues from oil (24.4%) and customs (19.1%).
[7] See for instance Ha-Joon Chang's chapter in this book. I must add that the economic boom of my own country – Italy – after the Second World War was enabled by large state-owned enterprises in all the strategic sectors (from steel to oil, from telecommunications to energy) and by state-owned banks that dominated the national financial sector.

the success of the transition is the shrinkage of the state sector in the economy. Interestingly, in Vietnam the GDP state sector share *increased* during the first years of *doi moi* from 31.1% in 1991 to 40.5% in 1997. This share remained around 39% until the mid 2000s and then declined to about 34% in 2008.[8]

The relative decline of the state sector in the economy since the mid 2000s was the result of faster growth of the national private sector and the foreign invested sector. This could be read as good news for neoliberal observers; but a closer review of the data reveals a reality in contrast with the convergence hypothesis – or, at least, suggests that the convergence was less pronounced than it may seem. First, as the equitization process gained momentum, a number of companies previously reported as 'state' came to be counted as 'non state'. In a majority of these companies – and certainly in the largest and most important – the state maintained a substantial control (up to 50% of registered capital). That is, the government came to control a large number of enterprises classified as 'non state'. Although a precise calculation is almost impossible, the output of this state-owned share of the 'non-state' sector must account for a few GDP points.

Second, similar considerations can be made for the foreign invested sector. Within this sector, the number and importance of one hundred percent foreign-owned companies started to increase by the mid 2000s, but a very large number of companies remained joint ventures – and the Vietnamese partner in the largest joint ventures was always an SOE. Still in 2006, among the 212 largest foreign invested companies by size of capital resources, 88 were joint ventures. In the same year, the join-venture contributed for 44.4% of the net turnover of the entire foreign invested sector (GSO 2008). Also in this case, a precise estimate of the SOE's share of the output produced by the foreign-invested sector is not available, but it must be a very significant amount.

The data on the industrial output value by ownership structure (Figure 2) show an even larger relative decline of the state sector due to a very rapid increase of the foreign-invested sector in the second half of the 1990s and an acceleration of the non-state sector since 2001. As we have just seen, however, these data do not reveal the effective dimensions of the state as an important shareholder for both non-state and foreign invested enterprises.[9] Further, recent qualitative research on equitized enterprises suggests that, through administrative and legal mechanisms, the state continued to exert a hold well beyond the amount of shares it officially controlled (Gainsborough 2008).

< Figure 2 about here>

The permanence of a very large state sector in the Vietnamese economy after the *doi moi* is even more a conundrum for mainstream scholars because it coexisted with a track record of macroeconomic stability and high GDP growth. Such was the trouble for neoliberal scholars and institutions in making sense of the

[8] GSO data online.

[9] As the equitization process advances, joint ventures with foreign investors are created by non-state enterprises in which the state maintains significant shares. Thus, the understanding of what is what – state, non-state and foreign invested – becomes even more complex. (I thank Do Ta Khanh for this comment.)

Vietnamese reform process that since the mid 1990s they have repeatedly predicted a collapse of the national financial system, or a strong deceleration of growth, or the inability to recover after the regional crisis, or the fleeing away of foreign investors – only to see their doom prophecies contradicted by performances constantly above those of the other large Southeast Asian nations (Masina 2006). More to the point, Adam Fforde explained the apparent paradox for which a large state sector coexisted with high economic growth with two very pertinent observations: first, that the SOEs should be understood as 'virtual share companies' controlled by a wide range of 'virtual shareholders', blurring the divide between private and state; second, that the rent-seeking behaviours that could have derived from a similar situation were kept at bay by a very competitive environment (Fforde 2004 and 2007). These observations shed light on the complex relationship between the state, the state sector, and the politically connected urban bourgeoisie. On the one hand, looking at the state-enterprises as 'share companies' reveals a key feature of the Vietnamese transition and explains the large support the *doi moi* continues to have among the emerging middle-class. The creation of a modern capitalist class from within the state sector may nonetheless become a major challenge for a socialist country as Vietnam (Gainsborough 2002; Masina 2006). However, the existence of a high level of 'competitive clientelism' among different groups inside and around the state-sector has contributed to a higher level of efficiency in the use of resources (Fforde 2007: 3), thus explaining the overall positive contribution to the state sector to economic growth during the reform process.

As rightly reminded by Melanie Beresford (2008), a blurred distinction between the state and the private sectors is quite common in East Asia. The Vietnamese hazy industrial structure should be understood against the backdrop of the regional experience. Thus, while we argued that for over twenty years of *doi moi* the state sector has maintained a paramount position in the economy, we should also underline that it is not always clear what exactly the state sector is and who controls it. Contrary to mainstream perceptions, Bersford (2008) indicates that government support towards SOEs has been substantially ambiguous since the *doi moi*: while the presence of a strong state sector was seen as an essential instrument for a market economy with socialist characteristics, the state enterprises continued to receive little financial support (as in the pre-*doi moi* era). The financial weakness of SOEs forced them to explore different strategies in order to continue operating. For instance, it became common for SOEs to enter into trading activities, or even to form joint ventures with foreign partners, in fields far from their core business. The diversification of the business portfolio allowed many SOEs to obtain financial resources for their core activities but also created tensions in the economy. The lack of a capable and coherent government coordination of state enterprises became apparent in the late 2000s and was as such discussed openly in the Vietnamese media. For instance, in 2008, large SOEs were considered responsible for an overheating in the real estate market also contributing to inflationary pressure. A number of scandals – notably, in summer of 2010, the case regarding Vinashin (the conglomerate dominating the shipbuilding industry) – were associated with excessive diversification and poor governance.

The same SOE weakness was also a major obstacle for their equitization, as their

managers and workers were reluctant to lose state protection without any guarantee that the privatized firm would be able to survive in the open market (Painter 2005). The lack of financial resources, or possibly of a clear strategy, made the Vietnamese government maintain the SOEs – especially the largest ones – in the peculiar position of state enterprises with private sector characteristics – that is, they were given the autonomy to provide for themselves. Even the creation of the General Corporations, which was meant to allow a stronger coordination of specific industries, failed to provide an adequate instrument for industrial policy (Painter 2005: 271).

The rise of the private sector around state-owned industry

Since the early 2000s, the major change in Vietnamese industry was the rise of a privately owned national sector. Two laws, in 2000 and 2005, simplified the procedures for establishing new firms and defined a single regulatory framework for all the national enterprises, regardless of their ownership. After the Enterprise Law of 2000 the number of registered private firms increased very rapidly (also giving legal coverage to companies that had so far operated informally): between 2000 and 2005 over 160,000 new private firms were established, corresponding to almost five times the number of these created during the 19990s (Perkins and Vu 2007: 25). The major increase in the number of private enterprises also resulted in a rapid growth of the industrial output generated by this sector (Figure 2).

The Enterprise Law of 2005 was intended not only to consolidating the private sector but also to creating a level playing field for all the national enterprises – that is, this law became the key reference also for the SOEs. As we saw already, by the time in which the second Enterprise Law was approved the non-state sector also comprised a large number of equitized SOEs (in which the state often maintained substantial shares). This obviously increased the support to more clear rules for the entire industrial sector.

Notwithstanding its increasing importance, by the late 2000s the Vietnamese private sector was still dominated by small and medium enterprises. A UNDP study indicates that in 2007, among the largest 200 Vietnamese enterprises, 122 were state-owned, 56 were foreign invested and only 22 private. The same study also indicates that a small number of very large companies dominated their respective industrial sectors in terms of share of total labour, assets, turnover and tax payments, and this was particularly the case for the SOEs and the foreign invested enterprises (see Table 2). Their prominence was such that the study concluded that 'in some [industrial sectors], the largest firms *are* the sector' (UNDP 2007: 3).

Table 2: The position of the largest 200 companies, 1997

			Share of top 200 on total number enterprises			
	Total number	**In top 200**	**Labour**	**Assets**	**Turnover**	**Tax**
State	4,083	122	29.6%	65.5%	41.9%	41.5%
Private	105,167	22	1.9%	13.7%	4.8%	4.6%
Foreign	3,697	56	15.9%	10.1%	24.3%	67.8%

Source: UNDP 2007

The high level of concentration was particularly relevant in those strategic sectors in which the SOEs maintained their leading function. The fact that by directing a small number of companies – large by Vietnamese standards but not much by international ones – it was possible to control an entire industrial sector was seen by some observers as an enabling condition for developmental state-style industrial policy (Perkins 2001). At the same time, the mushrooming of small and medium enterprises around state-owned giants reminds onr of the industrialization patterns of other Asian economies such as Taiwan and more recently China.

The position of private industry in the Vietnamese economy, however, also presented clear differences from the North East Asian model. In Japan, South Korea and Taiwan, the private sector was subjected to clearly defined industrial strategies (Amsden 1989, Wade 1990) or was part of tight cooperative and coordinated government-business relations resulting in 'governed interdependence' (Weiss 1995). In the Vietnamese context the private sector seems to be scarcely addressed by the quite embryonic industrial policy defined by the Ministry of Industry, which still sees as its only leverage the SOEs (and to a much lesser extent the regulations for FDI). Even after the recent transformation into the Ministry of Industry and Trade – with a name that seems to evoke the once-powerful Japanese MITI – it seems still to lack an adequate strategy for the private sector.

High dependence on FDI – the perils of a foreign-led integration into the regional economy

From the start of the economic reform the Vietnamese government was quite open toward foreign direct investment. Foreign capital was seen as a major resource for increasing the level of investment in the economy, contributing to the diffusion of new technologies and capabilities, and helping to generate employment in the industrial sector. Already in the early 1990s – after withdrawal from Cambodia and the end of the Western embargo – the FDI flow to Vietnam became sizeable. By the mid-1990s, also due to the speculative tendencies existing in the region, foreign direct investment to Vietnam was over 2 billion US dollars per year, that is, above the level of Thailand and the Philippines, but also of Taiwan, South Korea and India (Masina 2006).[10] After the regional crisis, the FDI flow declined to more realistic levels for the size of the Vietnamese economy until the mid 2000s. Then, in 2006, when Vietnam was finally admitted within the WTO, the inflows increased tremendously to reach 8 billion US dollars by 2008 (Figure 3).

<Figure 3 about here>

[10] Such a high level of FDI flows was obviously unsustainable for the Vietnamese economy as the comparison with other countries in the region easily reveals. In the months before the regional crisis unfolded, however, the World Bank used the argument of a relative contraction in FDI commitment (from Asian countries whose economies were already facing difficulties) to push for a *doi moi 2*, that is an acceleration of the reform process.

The volume of FDI flows indicates the importance that this country is assuming in the regional division of labour and, increasingly, as a market – one should not forget that with more than 85 million inhabitants it has the 13th largest population in the world. However, the significance of foreign investment for the Vietnamese economy is even more evident as a contribution to gross fixed capital formation (Figure 4). The FDI share reached a peak of around 25% in 2007 and 2008 while on average it was above 15% in the decade 1995-2005. This level of contribution to the gross fixed capital formation was far above the level of developing countries in general and of China and Southeast Asia in particular.

< Figure 4 about here>

The ability to attract such a high volume of foreign investment can be understood as a further positive indicator for the Vietnamese economy. The appeal of this country as an expanding manufacturing basis was confirmed by two assessments conducted by UNCTAD, indicating Vietnam as one of the most attractive locations for foreign investors: the *World Investment Prospect Survey* ranked Vietnam respectively number six in 2007 and number eleven in 2009. Also on the positive side, most investments were connected to *green-field* operations rather than to the acquisition of national firms – thus contributing to a net increase in employment generation (mostly in manufacturing, but also in services).

On the negative side, a high reliance on FDI implies the risk of a reduction in national sovereignty and dependency. In this regard, the Vietnamese case clearly departs from those of South Korea and Taiwan, in whose industrial development FDI played only a marginal role. This departure from the developmental models of the first generation of Asian NIEs cannot be attributed to decisions by the Vietnamese government. Rather, it depended on the changed nature of the regional productive order since the late 1980s. Although the so-called *flying geese* model described by Akamatsu can be criticized for its exploitative nature, it allowed technology diffusion and industrial upgrading to the first Asian NIEs. Under specific historical conditions, the East Asian developmental state was compatible with a system of regional division of labour that enabled vertical mobility both for countries and firms. In parallel with the diffusion of neoliberalism in the Western hemisphere, the organization of the regional productive order became much less favourable and the countries at the bottom of the regional subcontracting system were exposed to an increased competitive pressure connected to the inclusion of China in the system (Hart-Landsberg and Burkett 1999). While in the 1960s and 1970s a typical Japanese firm would rely on independent subcontractors (to which it was ready to transfer technology in order to guarantee adequate standards), in the 1990s and 2000s the same firm would rather operate through FDI – relocating production overseas but maintaining a proprietary control over technologies and patents.

Given the changes in the regional division of labour, a development strategy highly dependent on FDI may be a risky business, although it may also be the only possible choice. This is, in any case, the path that Vietnam increasingly adopted since the mid 1990s, reaching the status of major manufacturing hub in labour-intensive production by the mid 2000s.

The case of Singapore (and to a lesser extent, Malaysia) indicates that, even in an open economic environment and with an industrialization strategy highly dependent on FDI, it is still possible to implement successful industrial strategies. In Singapore the government was able to guide foreign investments to specific targets through incentives (and disincentives), thus facilitating a positive process of industrial upgrading (Chang 2006b). The experience of Singapore was considered by the Vietnamese government as a valuable source of inspiration – but very little was done in trying to emulate it. On the contrary, during the 2000s the decentralization of licensing for foreign investment below a certain ceiling resulted in a fierce competition among the Vietnamese provinces, with an excessive proliferation of new industrial zones and a scarce assessment of the concrete benefits that the foreign invested projects would bring to the country. By the late 2000s the situation had become so critical as to be officially recognized by the Ministry of Planning and Investment in its *Mid-Term Review of the Five-Year Socio-Economic Development Plan 2006–10* (MPI 2009: 51). Policy measures were being discussed at the time of preparing this text – although the critical question will be the ability to implement new policies that require stronger guidance over (often undisciplined) provincial authorities.

It should also be added that in the first phase of *doi moi* the creation of joint ventures with SOEs had also contributed to give some leverage for state guidance. However, in the second half of the 2000s, the weight of joint ventures was declining significantly, either because foreign partners took over existing companies or new investments were directed towards fully foreign-owned operations (Beresford 2008).[11] As it was to be expected, joint ventures continued to dominate in terms of net turnover in the extraction of oil and natural gas, but maintained a very important role also in heavy industry, chemicals and automotive – sectors in which the SOEs had a typical stronghold. By contrast, joint venture became less important in export sectors such as garment and footwear, and almost insignificant for hotels and restaurants (GSO 2008).

An emerging manufacturing hub – with ambitions for industrial upgrading

The position of Vietnam as an emerging manufacturing hub is confirmed by the data on investment and trade. On the investment side, the data indicate that the bulk of FDI originated from Asian countries since the launch of *doi moi* and this trend was confirmed during the 2000s. For the entire period from 1988 to 2008, Asia accounted for almost 70% of committed FDI.[12]

The position of Vietnam as a new manufacturing hub emerges even more clearly by a review of trade flows composition after admission in the WTO. The review (conducted on the Comtrade database online) reveals that by 2007 the main import components were producers and intermediate goods, i.e., the five largest

[11] Vietnamese unofficial sources suggest that some joint ventures were intentionally mismanaged by foreign partners in order to facilitate their take over by foreign parent companies. The case of Coca-Cola is often quoted in this regard.

[12] In the period 1988-2008, the share of Asian countries as counterparts of FDI licensed projects was (calculated on current US dollars): Taiwan 14%, Malaysia 12%, Japan 11%, South Korea 11%, Hong Kong 5%, and Thailand 4% (source: Vietnam General Statistical Office, Online data).

sectors were mineral fuels (14%), machinery and mechanical appliances (14%), electrical machinery and equipment (9.5%), iron and steel (9.0%), plastics (5.7%). The export structure, instead, besides crude oil (20.7%), was dominated by labour intensive manufactured goods: apparel (8.6%), footwear (8.4%), aquatic products (6.8%), electrical machinery and equipment (6.7%).

For both exports and imports, Asian countries were the largest partners, but with the typical asymmetries of a country importing machinery and intermediate goods from higher echelons in the regional multilayered subcontracting system and exporting labour-intensive consumer goods to industrialized countries. The position of Vietnam as a new Asian manufacturing hub was clearly visible in the trade balance: in 2007 Vietnam had a large trade surplus with the United Sates and the European Union, an even balance with Japan, and a large trade deficit with the other East Asian countries (Figure 5).

< Figure 5 about here >

Although we suggested at the beginning of this chapter that the high inflow of FDI and the increased exports of manufactured goods helped Vietnam in coping with the regional and global crises, the position of a manufacturing hub is problematic for at least three reasons. First, the country may be trapped in weak relations with those countries and companies that dominate the sector, thus having limited scope for local value adding. Second, there may be a tendency to concentrate on sectors in which the country has a comparative advantage, thus being confined to labour-intensive production with limited profit margins. Third, in an increasingly competitive environment, depending on cheap labour may imply a strategy that applies downward pressure on workers' wages, rights and skills. Up to a certain extent all these negative tendencies were visible in Vietnam at the end of 2000s.

At the time of writing, it is not possible to assess the long-term implications of the steep increase in FDI flows into the Vietnamese economy since admission to the WTO. A crucial challenge will be the ability to increase value adding in existing industries and to achieve industrial upgrading towards more value-added production. Results in this direction were very positive in the first phase of *doi moi* accordint to Perkins and Vu:

> Between 1990 and 2005 industrial (and construction) value added grew at an average annual rate of 10.9 percent for a 4.72 fold increase over the fifteen year period. This rate was only marginally lower than the extraordinarily high growth rate of industrial value added (including construction) in China over the 27 years between 1978 and 2005 of 11.3 percent per year (Perkins and Vu 2007: 22).

The question of increasing the value-added contribution for national industry is certainly of paramount importance for Vietnam in the post-WTO admission phase. At the end of the 2000s, leading Vietnamese scholars were discussing the risk that the country may face a 'middle-income trap', once having achieved the

status of 'low-middle income' country.[13] The risk of 'middle-income trap' was presented to Vietnam by Keinichi Ohno (2009) in an article suggesting that no ASEAN country has been able to break through the invisible 'glass ceiling' between the existing national system with a supporting industry still dependent on foreign guidance and a national system in which management and technology have been internalized and mastered. Vietnam, which is still at the stage of simple manufacturing under foreign guidance, according to Ohno (2009), should start developing industrial policies that prepare the ground for an eventual breaking of the 'glass ceiling'. By the late 2000s, however, there was no concrete indication that Vietnam was preparing to implement clear and consistent policy measures to guide national industrial development. Both MPI and the Ministry of Industry and Trade were defining new plans – e.g., a decree on support for industry and rules for improving supervision of FDI inflows – but it will take a few years to see if these policies, adopted in response to the new challenges and opportunities deriving from the WTO accession, will coalesce into a meaningful industrial policy.

Conclusions – liberalization without neoliberalism, development without a developmental state

In over twenty years of *doi moi* the Vietnamese leadership at party and government level has never presented a coherent project for the reform process. The development of a modern economy was officially presented as a necessary condition to strengthen the socialist state – but the implications in terms of social and class differentiation produced by the economic reforms were never really examined (at least publicly). The reform process dismantled central planning and the role of the communes in agriculture, liberating the *animal spirits* of capitalism. The demise of the socialist free provision of services such as health and school was only in part compensated by a still very rudimentary welfare system. Social inequality increased, especially between urban and rural areas and among different regions in the country. The industrialization process entailed land dispossation for many rural workers, especially for the creation of a very large number of Industrial Zones. The inclusion of Vietnam in a regional system of division of labour implied that many rural workers moved to urban areas in search of industrial employment – and often found very harsh working conditions and a precarious livelihood… And yet, Vietnam could hardly be considered a showcase for neoliberalism.

First, the Vietnamese reforms incorporated a transformative project that was distant from, and often contradicting, neoliberal prescriptions. The state remained at the centre of the economic reform, increasingly giving space to the market, but not renouncing a guiding role (although in unclear terms). The many reforms introduced in over twenty years certainly improved the system of *governance*, but the transition towards a neoliberal model of governance was very limited. Both in industry and in the banking system the state retained very strong leverage. The

[13] Comments received during interviews at the Vietnamese Academy for Social Sciences and at research centres within the Ministry of Planning and Investments (MPI) and Ministry of Industry and Trade in 2009 and 2010.

notion of a *rule of law* above the rule of politics still sounds heretical in Vietnam. In other words, some measures promoted by the Post-Washington Consensus have been implemented but overall the system remains quite distant from its vision.
By the late 2000s the role of the SOEs in the national economy was increasingly contested even within the Communist Party. On the one hand, it was criticised the waste of national resources produced by poor management and involvement in dubious economic operation. On the other hand, the largest SOEs considered being too independent from state control (and actually often able to influence policy decisions at government and party levels). Even this new debate, however, may lead to outcomes far apart from those prescribed by neoliberal advocates. A weaker position of the SOEs in the system may actually increase the ability to implement state-led development strategies.

Second, throughout the world the neoliberalization entailed a strong income polarization, with a small minority absorbing an ever-growing share of national wealth. In Vietnam, segments of the urban bourgeoisie used connections and political protections to create large assets, often through corruption. However, the main trend is represented by a general improvement of living conditions and the emergence of a rather large middle-class. Income inequality has increased, but not dramatically.

Third, industrial labour – especially in the export-oriented private and foreign invested sectors – is exposed to a global 'race to the bottom' in terms of rights and wages. The working conditions are often so arduous that the country has become known for a large number of industrial strikes, organized without the support of the national trade unions, and therefore illegal by law. Yet, when the workers go on strike the (state-controlled) media very often give wide and sympathetic coverage. The trade unions and local authorities intervene asking that the workers' demands be met, at least partially, and the workers are not punished for the organization of illegal strikes. There is no doubt that labour in Vietnam is exposed to severe exploitation (as it was in Taiwan and Korea at a similar level of economic development). But it does not appear that the Vietnamese state is promoting a neoliberal agenda – on the contrary, the legal framework is quite supportive of labour rights, although the enforcement of these rights is very weak.
On each of these points, Vietnam presents conditions relatively different from China: less income polarization, much less inequality, and more attention to labour conditions – although industrial upgrading in China has already resulted in substantial wage increases for urban industrial workers in coastal areas.

If the reforms and liberalization in Vietnam cannot be too easily understood in terms of neoliberism, so too the country's developmental stance cannot be entirely inscribed under the banners of the *East Asian Developmental State*. Probably the Vietnamese experience is closer to the model of the first Asian NIEs than those of other Southeast Asian countries -- such as Thailand, Malaysia and Indonesia, (although all were at least partially influenced by Japan and the other tigers). In key areas, however, the Vietnamese case departs significantly from the North East Asian model. In the North East Asian-style industrialization process, the strategic sectors were selected on the basis of a strategic industrial policy. The aim of industrial policy was to lead national firms towards specialization in

selected, more advanced industries and higher value-added production. State support was granted to facilitate the acquisition of new technologies and new capabilities. Vertical integration was a typical element of industrial policy and the existence of industrial conglomerates (notably in Korea, much less in Taiwan where instead SOEs played a major role) supported the achievement of this goal. On the contrary, the Vietnamese definition of strategic sectors is much more dependent on the attempt to defend national sovereignty in important industrial sectors than on a concerted effort to create competitive advantages (in the manner of the NEAsian states).

With admission into the WTO, Vietnam has become a significant manufacturing hub, increasing its integration into the regional multi-layered subcontracting system. Although a large FDI flow is helping to create jobs in the industrial sector, the experience from the other ASEAN countries (Thailand, Malaysia, Indonesia and the Philippines) indicates that the regional productive order is much less favourable to technology spill-over and industrial upgrading than it was in the first decades after World War II. In this context, in the future Vietnam may try to promote policies to support the development of national industry (both private and state-owned) towards a higher level of technological and managerial capabilities. While current evidence suggests that the country is still missing a strong and clear industrial strategy, East Asian-style policies continue to be seen by scholars and policymakers as an alternative to 'market-driven' Washington Consensus policies. As to whether the Vietnamese developmental trajectory will continue to maintain a degree of autonomy from the neoliberal project, however, will depend on the evolution of the capital-labour relation. It is highly unlikely that integration into the global and regional productive system will enable labour-friendly policies in a country at the bottom of the commodity-chain. But the state may still try to promote a transformative project serving also the medium and long-term interest of the working class. Alternatively, a revision of the developmental state model could be adjusted to accommodate the prevailing neoliberal tendencies in the capitalist systems – possibly achieving some industrial upgrading but at the price of a radical rupture of Vietnamese society and the complete demise of the socialist project. Both scenarios are open at the present and they will also depend on the evolution of the international economic and political system. The results achieved over twenty years of *doi moi*, however, give space to a moderate optimism. While the objective of socialist orientation is very unclear in terms of concrete policymaking, the notion of equity and national solidarity may be strong enough to guide the country through the challenges ahead.

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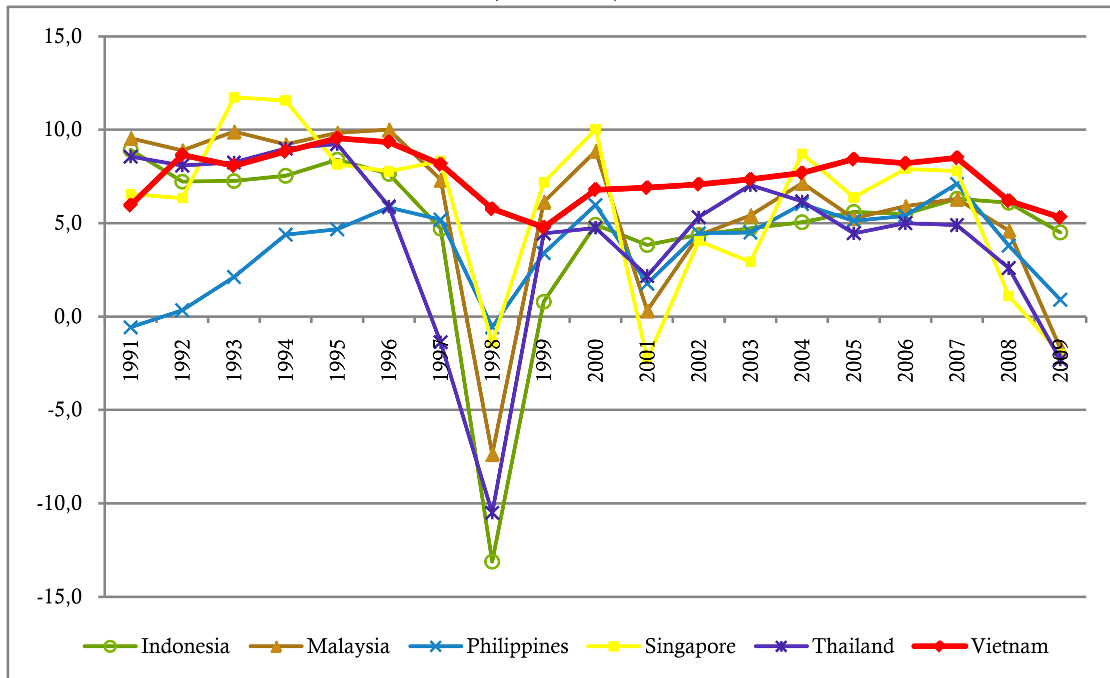
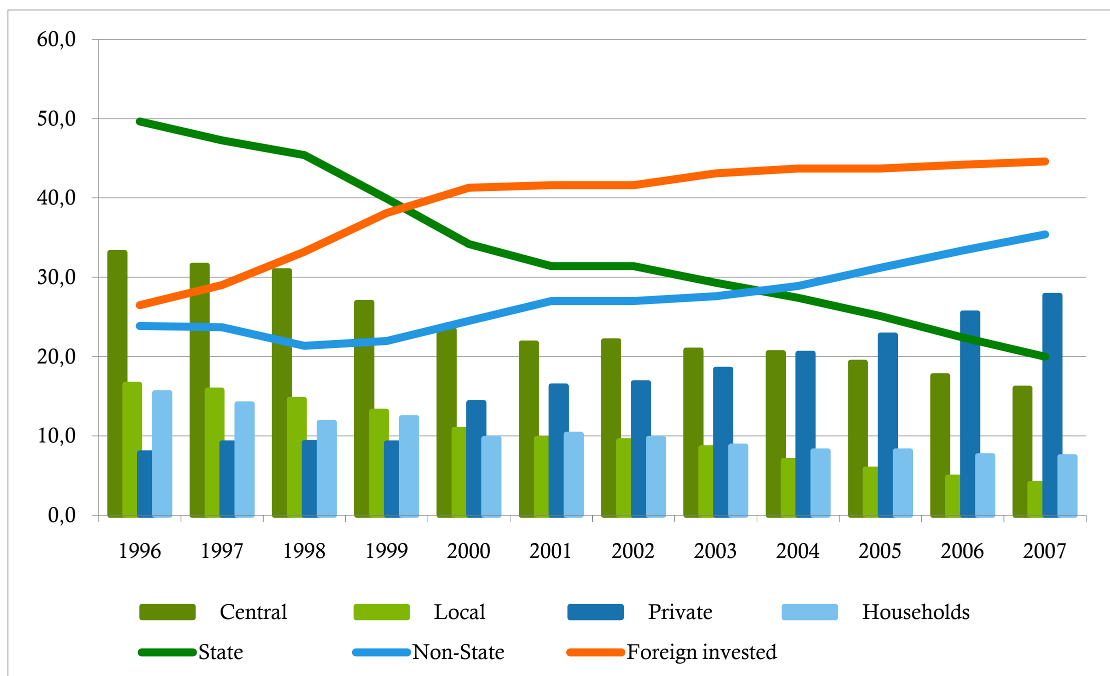
Figure 1: GDP Growth, 1991–2009
(ASEAN 6)



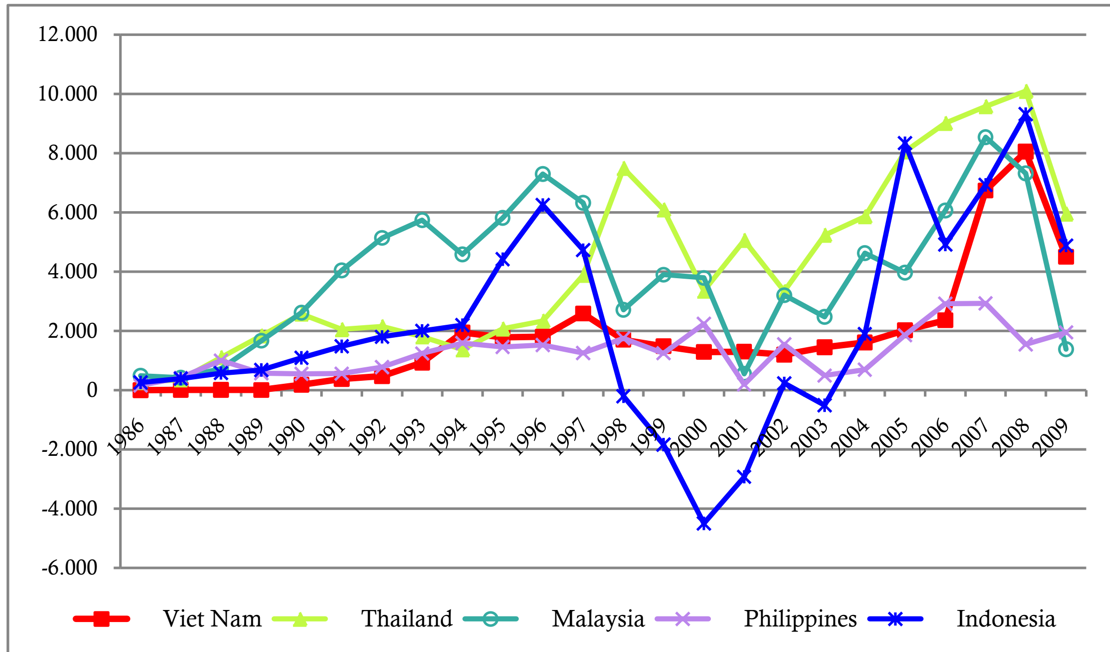
Source: World Bank, World Development Indicators Online, 2010

Figure 2: Industrial output value by ownership structure (%) calculated at current prices, 1996–2007



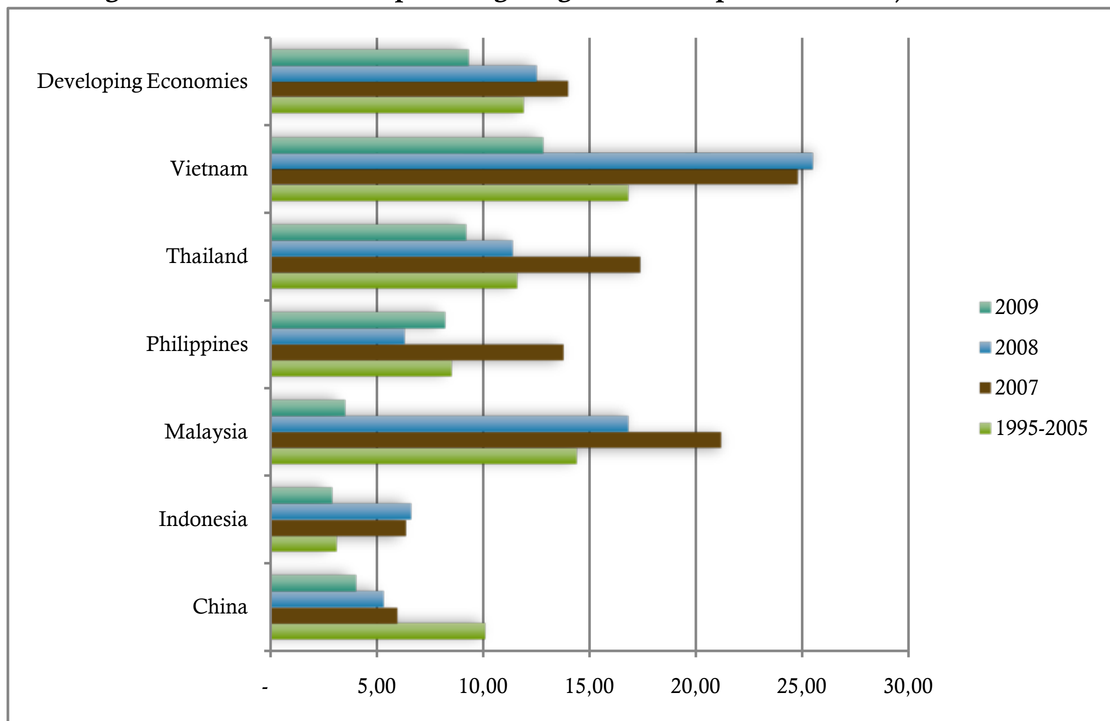
Source: GSO Statistics online

Figure 3: FDI inflows – ASEAN5, Millions US$ at current prices, 1986–2009



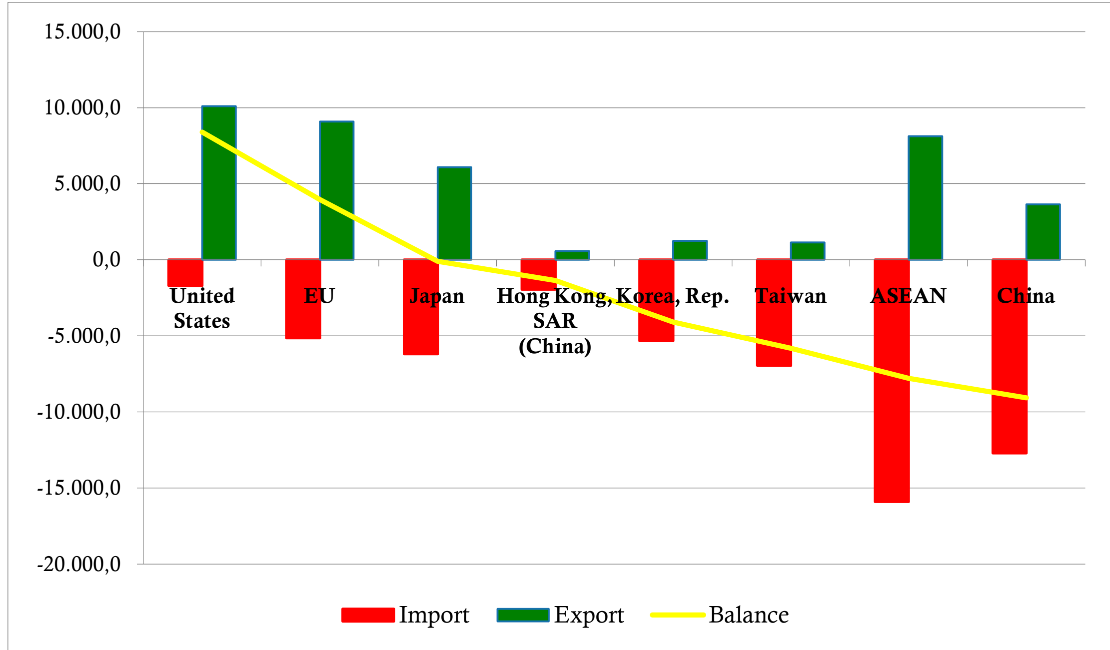
Sources: UNCTAD, *World Investment Review*, online database.

Figure 4: FDI inflows as a percentage of gross fixed capital formation, 1995–2009



Sources: UNCTAD, *World Investment Review*, online database.

Figure 5: Trade balance with major partners, Millions US$, 2007



Source: Vietnam General Statistical Office, Online database.