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Doi Moi

Ten Years after the 1986 Party Congress

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editor

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A.F.

Introduction

Adam Fforde

In December 1996 the Australian National University held the latest in its series of regular 'Vietnam Updates'. As is now usual, this had a main topic (the 'Mass Media')¹ and also updating papers on Vietnam's economy, international relations, politics and society. Because of the ten years that had passed since the announcement of *Doi Moi* (renewal) by the Vietnamese Communist Party at its December 1986 VI Party Congress, the 1996 Update also included a panel session on 'Ten Years of *Doi Moi*'. The panel was made up of: HE Ambassador Sue Boyd, Professor Tuong Lai (Institute of Sociology, Hanoi); Adam Fforde (ADUKI Pty Ltd and the ANU), and Ray Mallon, an independent consultant based in Hanoi. Ray's contribution to the present volume is based upon his oral presentation; Sue Boyd and Tuong Lai both delivered papers. The next section of the Conference saw four papers—Ben Kerkvliet's update on society, Thaveeporn Vasavakul's political update, Adam Fforde's economic update and Carl Thayer's update on international relations and security. These are complementary in a number of ways to the panel discussion, as the authors tended to take a historical perspective. One reason for this is the current tendency to take a fresh look at Vietnam's recent past. From the research angle, many issues certainly remain contentious. Fundamental appears to be the nature of the role played by the Vietnamese party

¹ The papers from this part of the conference are being edited separately by David Marr.

and state in the changes the country has undergone. More importantly, what conclusions can or should be drawn from the apparent economic success of the *Doi Moi* project?

A way in to these issues appears to be the different meanings people attach to two important years—1986 and 1989. The VI Party Congress of December 1986 indeed saw the emergence of the slogan of *Doi Moi*, and the shift of official policy towards an avowedly pro-market stance. This encouraged the private sector in what was officially referred to as the ‘multi-sectoral’ economy (*kinh te nhieu thanh phan*). Prior to the Congress, 1986 had seen the death in office of long-time party general secretary Le Duan. Afterwards, political manoeuvrings saw Truong Chinh temporarily take his place before being replaced by Nguyen Van Linh at the end-year Congress. In office until the 1991 VII Congress, Nguyen Van Linh saw Vietnam de-Stalinise; the social and political atmosphere changed beyond recognition as the country enjoyed a period of ‘fresh air’ (*thoang*). This did not happen overnight, itself a pointer to the processes that were going on, and the absence of a coherent reform strategy that could be implemented at will. In the period 1987-88, as Gorbachev presided over the move towards the fall of the Communist regimes in Eastern Europe and the eventual collapse of Soviet Russia, the private sector was certainly encouraged. Yet agricultural decollectivisation had to wait until 1988 (with Decree # 10), whilst planning reform took the shape of various steps to reduce planners’ controls over state enterprises (for example, Decree # 217 of 1987). Food rations remained in force, however, and the street life typical of a South East Asian country, with its plethora of foodstalls and other small-scale service industries, remained strikingly absent. Whilst there was certainly an easing of the political atmosphere, such crucial indicators as Vietnamese ability to have relatively normal relations with foreigners did not come until the end of the decade.

Major changes occurred in 1989 as well. Rationing was *de facto* abolished, and the streets returned to the normal polychromatic hubbub of a market economy. Loss of Soviet aid coincided with removal of the system of delivery of low price

supplies to state enterprises. Loss of Comecon markets forced attention to be paid to gaining new outlets. Indeed, it is possible to date to 1989 the emergence of Vietnam's 'market economy'.² But what were the reasons for this? Different positions taken on this issue started to re-emerge in the second half of the 1990s as, for various reasons, people started to re-examine what they thought of Vietnam, and what that implied for their business, lending, assistance or other strategies. Should the success of *Doi Moi* be attributed to good policies, implying that the Vietnamese leadership has retained the initiative? Or should it be seen as a process where bad policies have, for reasons to do with policy unimplementability, not mattered so much? Or what? These questions can and are answered in different ways. But they are increasingly being posed.

From around 1995, there are signs that many appear to have started to question the views about Vietnam that they had formed in the early 1990s. Across a wide range of opinion, from foreign commercial investors through to NGOs, the assumptions that drove the initial decision-making that led to commitment to operate in Vietnam had been formed in the very early 1990s. At that time the atmosphere was clearly heavily influenced by what was widely seen as the success of government policies in 1989: the decisions to raise interest rates to very high levels in order to attack inflation; the positive output response to the liberalisation of domestic and foreign trade despite the loss of Soviet aid; and the termination of the residual elements of central planning in the formal economic mechanism.

Certainly, economic activity recovered very quickly, despite the loss of Soviet resources. Real living standards leapt up a step. And the atmosphere in the country shifted to one of optimism.³

² This is argued in Stefan de Vylder and Adam Fforde, *From Plan to Market: the Economic Transition in Vietnam* (Boulder: Westview Press, 1996).

³ For a good Vietnamese description of 1989 see—*Viet nam co mot nam nhu the!* [Vietnam — What a year] by Nguyen Manh Hung and Cao Ngoc Thang (Hanoi: Su That, 1990).

Underlying the differences between the various papers in this collection is a fundamental question—to what extent can the Vietnamese government claim credit for these successes? It is quite natural to understand 1989 in terms of the consequences of state policy. Yet is this quite correct? The policy stance of the late 1980s clearly encouraged the emergence of a level playing field and a ‘multi-sectoral’ economy within which the private sector would play a central role. Yet through the 1990s industrial policy increasingly gave priority to the state sector, whilst, perhaps contradictorily, trade policy opened the economy to inward investment and increasing foreign competition. By the late 1990s no privatisation drive can be seen; policy at the VIII Congress strongly asserted the ‘leading role’ of the state sector; and gathering competition was revealing high levels of unpayable SOE debts.

The state focus of development can also be seen in the rural areas, with the signs of the emergence of movements to re-establish ‘cooperatives of a new type’ and the choice of SOEs as the preferred site for state support and credits. It was this policy set that was one of the main factors in encouraging ‘a revision of views.’ A second was the sense that transactions costs—the ‘hassle factor’ in doing business in Vietnam—were not only far too high but that any shift to a ‘Rule of Law’ (or ‘Rule by Law’) was too weak and too incoherent to do much about it. Foreign businesses noted that their Vietnamese private sector colleagues faced formidable bureaucratic hurdles to establishing and running their businesses. Many were giving up. How had this situation come about and what did it mean? The papers in this volume explore possible explanations. A key element is the meaning attached to ‘1989’.

What is clear is that the more 1989 is explained in terms of conscious top-down ‘reform’—in the classical sense—then the more difficult it is to understand the problems of the late 1990s. If 1989 is seen as evidence for the coherent and purposive

implementation of a series of policy measures, then that implies that the Vietnamese party and central government possess adequate authority and power to implement other measures. Yet the experience of the period that followed was that this was not the case. Muddle and confusion remained. During the 1980s muddle and confusion did not matter so much, as liberalisation simply required winning the arguments that broke down fences and barriers. However, when the issue was the establishment of new fences, of new 'rules of the game', then it started to become clear to many that confusion and muddle did not have their own built-in 'error correction devices'. Far more purposive and coherent policy-making and implementation was required to set up the institutions of a market economy that could compare with those in Vietnam's competitors. At the end of the day, as time passed people asked the question—why are these issues still coming up when we are now—in 1997—eight years from 1989 and the emergence of Vietnam's market economy?

If the nature of policy remains an issue for academic debate and investor concern, it is clear that there have been many important changes in Vietnam since 1989. Rapid growth has been a reality, although with increasing signs of distributional tensions. For many, things have not happened as had been expected. Central to these issues is the overall development strategy of the Vietnamese government, and the attitude taken towards important groups, such as private sector businesses and foreign investors. Another issue is the fact that operating in Vietnam has not become as easier since the start of the decade as many had thought and hoped it might be. These are fundamental issues and, with time, can lead to major shifts in views held.

The south-east corner of Australia, for various reasons, contains rather a large number of those foreigners who have, also for various reasons, developed programs of research into contemporary Vietnam. It also contains a number of communities who maintain an informed interest in the country. The 1996 ANU Vietnam Update shows part of the former community engaged in, once again, attempting to puzzle out just what is going on in Vietnam, and then (perhaps equally

difficult) find a way of presenting it to a very knowledgeable audience. This sense of audience-researcher interaction was heightened by the particular theme of the 1996 Conference: 'Mass Media' and the participation of a number of Vietnamese intellectuals whose overall attitude of sceptical inquiry was close to that of the foreigners.

The papers that follow very much reflect the 'work in progress' spirit of the Conference. They point both to what is known with reasonable certainty, and what is not. As a group, they also show up well the differences in conclusions and overall analytical thrust that come from the diversity of experiences and perceptions that are a natural part of most research activities, especially, for various reasons, those regarding Vietnam. The papers stand (or fall) on their own merits. As editor, it is perhaps useful to point out to the reader some elements of the context within which they were prepared.

Ray Mallon's contribution remains optimistic. It was written after the Conference and in Vietnam. It relies heavily upon official data and a sense that the overall direction of institutional change is positive and in the right direction. Ray tends to discount arguments that industrial policy is particularly state-focussed, and in particular statements from the VIII Congress pointing to the 'leading role of the state'. It is worth pointing out that others, taking different perspectives, have also at times argued that official documents do not reflect real policy directions. Certainly, Vietnam's economic performance since 1989-90 has been impressive. He points to worries that unless the pace of institutional reform is maintained economic difficulties will mount. He points to the employment creating capacity of the small-scale private sector, and the importance of encouraging new entrants to industries which offer opportunities for large-scale employment creation.

Carl Thayer's chapter looks at the medium-term shifts in Vietnam's official thinking regarding international relations. It spends more time on alliance and strategic issues than on commercial or economic matters. It shows the profound rethinking that has happened. It also argues that there is a

certain 'lightness' in foreign policy, with little real commitment to any particular direction. How can this be related to concerns expressed in other papers?

Ben Kerkvliet looks at social issues. These are strongly related to the impact of the policy concerns discussed by the economists upon the sensitivities of ordinary people. How can they have recourse when regulations are flouted? What do they see as the core communities to which they belong? What do they feel about corruption?

Thaveeporn Vasavakul attempts the most difficult of all analyses—the political. She uses two main analytical tools. The first is the argument that the shift from central-planning to a market economy imposes constraints upon, and structures, political reforms. She uses this to examine various measures taken by the Vietnamese Communist Party, and on the whole concludes that they have had not inconsiderable success. A second line of approach, which is more implicit, is that Vietnamese political leaders tend to look for balance and harmony, and so attempt to adapt to and co-opt emerging political groups and forces. Again, she sees a certain degree of success in this area. The contrasts between her paper and others are useful and should point the reader to areas where they can ask themselves relevant questions. For example, what are the interactions between political and economic factors? And, how can we understand processes of change?

Ambassador Boyd's presentation shows the importance a country such as Australia, with its regional perspective, attaches to attaining a suitable commercial relationship with Vietnam. Uncertainties clearly abound—Will Vietnam remain a high risk-high return prospect, perhaps analogous to some parts of Africa? Instead, will it settle down to a more orderly and predictable state of affairs, encouraging quite different strategies of investment and ways of managing a company's involvement? The view from the diplomat's chair is one of studied caution, with pointers to fundamentals such as a 9 per cent annual growth rate' and a certain 'unpredictability and inconsistency in decision-making', with no 'major or sudden

change in the political system itself.' The view is still one that encourages involvement, with the warning that delay now may lead to missed opportunities. Yet the lack of Australian commercial organisations to provide mutual support and reduce costs (probably most crucially for the medium-sized ventures) is striking—maybe the law firms are supplying some of these services.

Adam Fforde presents a more pessimistic viewpoint, based upon a view of the nature of change in Vietnam. He argues that political economy considerations lead to an analysis of the situation in 1995-97 that points to a rather high level of risk. There is a possibility of a 'fire sale' of state assets as the need for funds for a state drained by its over-commitments to SOEs threatens macroeconomic stability.

Professor Tuong Lai's paper concludes the collection. His arguments are based upon important survey work, which showed that households with officials as their heads tended to be amongst the richest in Hanoi. This is despite official incomes that are extremely low. He points to the energies and dynamism released by the market economy, and the positive as well as negative aspects of these. He seems to feel that the need is for 'rules of the game' that are better suited to these unleashed forces, lest they become a source of confusion and disturbance. This has obvious implications for the nature and tasks of official policy.

***Doi Moi* and Economic Development in Vietnam:
A Rapid Overview of a Decade of Reform**

Raymond Mallon

Introduction

In commenting on some of the major impacts of a decade of *Doi Moi* on the Vietnamese economy, I take a somewhat more optimistic view of the current economic situation in Vietnam than that of some other analysts. This reflects both the longer time perspective, and the fact that I would not be too concerned about a moderate slow-down in economic growth from recent high levels. An average annual growth rate in excess of 8 per cent year over the five years 1996 to 2000 would still be an impressive performance, even by regional standards.

An overview of changes in the economic environment

The magnitude of the changes that have taken place in Vietnam since the introduction of *Doi Moi* is reflected in a comparison of key indicators at the time of the VI, VII and VIII Party Congress (see Table 1).

When the VI Party Congress was held at the end of 1986, the country was facing a major economic crisis. Despite price controls on most goods and services, the annual rate of inflation was over 700 per cent. The value of exports amounted to some US\$ 500 million, considerably less the half the total value of imports (US\$ 1,221 million). While the Government had recorded some notable achievements in the areas of health and education, the

fiscal deficit was not sustainable, people had to queue for food, and sections of the population faced regular periods of famine. There was virtually no foreign investment, visits by Vietnamese nationals to market economies were very rare and, apart from a limited number of diplomats and aid workers, there very few foreigners from market economies working in Vietnam.

When the VII Party Congress met in 1991, reforms already implemented provided greatly improved incentives to make investments to increase the level and quality of production. Farmers had been given medium-term rights to the use of land; prices and the exchange rate were largely market determined; laws on foreign investment, private enterprises, and companies had been enacted. Economic growth had accelerated to 6 per cent, but part of this growth (oil and electricity) was the result of previous large USSR financed investments. The value of exports, at just over US\$ 2 billion, was about four times that recorded in 1986, but exports were dominated by three main commodities (oil, rice and sea products) and there were doubts about whether this growth was sustainable.

The Government also continued to intervene in micro aspects of economic and personal decisions. Travel by Vietnamese citizens continued to be restricted. The number of Vietnamese being permitted to travel and study in market economies was beginning to increase, but the number of policy and decision makers with such exposure was still limited. The number of foreigners working in Vietnam had increased, but official permission was needed for internal travel, and any travel was limited to those provinces specified in the travel permit. Foreign business people, embassies and international agencies had limited flexibility in the recruitment of local staff. The (1980) Constitution provided little protection for the private sector and foreign investors.

Continuing major macroeconomic imbalances, partly as a result of the sharp decline in economic cooperation with the former Eastern European countries, meant that the prospects for sustained economic development were still uncertain.

Table 1: Key Indicators of Economic Transformation

Indicator	VI Congress 1986	VII Party Congress 1991	VIII Party Congress 1996
Economic Growth (%)	3.4	6.0	9.5
Income/capita (US\$) 2/	n. a.	128	290
CPI (% , year to Dec.)	775	67	< 6
Food grain production (kg of paddy/person)	301	323	385
Fiscal Deficit 3/	-6.2	-3.7	-0.5
Budget revenue 3/	14.0	13.5	23.0
Capital Investment 3/	6.3	2.8	5.3
Government Social Service Expenditure 3/	3.2	4.4	8.2
Domestic Savings 3/ -government	n. a.	13.2	17.7
-non-government	n. a.	1.3	5.0
Foreign Savings 3/	n. a.	11.9	12.0
National Investment 3/	n. a.	1.9	11.8
FDI - US\$million	-	220	2,300
ODA - US\$ million	-	110	764
Exports -US\$million	494	2,042	6,800
Imports -US\$million	1,121	2,105	10,200

1/projected based on preliminary Ministry for Planning and Investment (Vietnam) data as of November 1996. 2/ sharp increase partly due to inflation differential being only partly offset by a depreciation in the Dong. 3/ per cent of GDP.

Sources: General Statistical Office, *Impetus and Present Situation in Vietnam Society and Economy after Ten Years of Doi Moi* (Hanoi: Statistical Publishing House, 1996), World Bank, *Vietnam: Economic Report on Industrialization and Industrial Policy* (Washington, 1995); World Bank, *Vietnam: Fiscal Decentralization and the Delivery of Rural Services* (Washington: 1996).

Inflation was running at a high 67 per cent, after having being brought down to single digit levels in 1989.

The previous large levels of external assistance and other forms of economic cooperation with the former USSR had stopped. Vietnam's access to financing from the IMF, World Bank and the Asian Development Bank continued to be blocked by the US Government. State enterprises were being restructured and State employment was falling. Redundancies in State enterprises and Government agencies (including the military) were of major concern, particularly in some of the larger population centres, but also in rural areas.

Despite low levels of public investment the fiscal deficit remained high, with government revenue a low 13.5 per cent of Gross Domestic Product (GDP). National investment, at 15 per cent of GDP, was less than half that of most East Asian economies. Foreign investment approvals were increasing, but disbursements remained low. There remained considerable domestic and international concern about whether initial economic improvements could be sustained.

The situation by the time of the 1996 VIII Party Congress has changed markedly. The economy has grown by an average 8.2 per cent per year during the previous five years. Inflation has been brought down to an annual rate of under 3 per cent by October 1996. Convertible currency exports continued has grown strongly—from US\$ 2.1 billion in 1991 to a projected US\$ 6.8 billion for 1996. Exports are more diversified, with strong growth in exports of garments, footwear, and processed agriculture commodities such as coffee, tea cashews, and rubber. The ratio of Government revenue to GDP has almost doubled to 25 per cent. Importantly, in terms of sustaining economic growth, national investment has doubled to almost 30 per cent of GDP, mostly as a result of growth in Foreign Direct Investment (FDI). The ratio of domestic savings to GDP has not changed greatly, but has increased in absolute terms.

While it would be difficult to find any foreign investor claiming it is easy to do business in Vietnam, FDI inflows have increased substantially and, as a ratio of GDP, inflows are high

even compared to other East Asian economies. Inflows of ODA are also beginning to increase. Private property rights have been better clarified under the 1992 Constitution, the recently approved Civil Code, and other legislation. The number of registered private enterprises are increasing rapidly, albeit from a small base. Permission is no longer required for internal travel, and the number of Vietnamese visiting and studying in market economies is growing.

Table 2: Sector Share of GDP

	VI Party Congress -1986	VII Party Congress -1991	VIII Party Congress -1996*
Agriculture	43.8	39.2	32.2
State	1.3	1.0	0.9
Non-state	42.5	39.6	31.3
Industry	25.7	23.1	28.4
State	16.1	15.1	20.0
Non-state	9.6	8.0	8.3
Services	30.5	37.7	39.4
State	15.7	17.0	18.2
Non-state	14.8	20.7	21.2
Total	100.0	100.0	100.0
State	33.1	33.2	39.2
Non-state	66.9	66.8	60.8

* projected - based on preliminary Ministry of Planning and Investment data for first ten months.

Source: World Bank and Ministry of Planning and Investment.

Paradoxically, the reported share of the State sector has increased over this period despite the growing legal protection provided to the private sector. The reported State share of GDP increased from 33 per cent in 1991 to almost 40 per cent in 1996. This partly reflects data problems and a rapidly growing unrecorded informal sector. There is a continuing strong suspicion by the private sector of the State bureaucracy, and considerable incentive to avoid the official taxes, reporting requirements, and additional unofficial charges that may be incurred in moving to the formal sector.

Reported State enterprise output has benefited greatly from foreign investment in joint-ventures with state enterprises.¹ For example, foreign investment has played an important role in upgrading technology and transferring skills that have contributed to strong growth in telecommunication services and in oil production, but national statistics record output from these sectors as being 100 per cent State output. Continuing preferences given to State enterprises (access to decision makers, access to quotas and land, preferential access to credit) is also a factor in the relatively strong performance of this sector, and partly explains the strong interest shown by foreign investors in doing business with State enterprises in Vietnam.

Despite continuing constraints to private sector development, the number of registered private companies increased rapidly during the 1990s, from 770 in 1990 to nearly 25,000 by mid-1995 (compared with about 6,000 State enterprises). Private enterprises are mostly very small scale, but the numbers are continuing to rise, and the scale of operations of a number of these are beginning to become more substantial. Most of the former industrial and service sector cooperatives have been disbanded, but some have been reorganised as private enterprises. The number of individual or household business operations is

¹ Limited output data is sometimes made available in the form that identifies 'businesses with fdi' as being separate from SOEs.

estimated to have increased from 568,000 in 1986 to 835,800 in 1990, and 1,882,798 by 1995.²

More generally, *Doi Moi* appears to have had an impact on the lives of the majority of the population in terms of increasing the supply of basic commodities, in particular food, clothing and shelter. Strong economic growth has contributed to marked improvements in per capita income over the last decade. Growth in per capita incomes have been reported throughout the country, but strongest growth has been recorded in urban areas. The UNDP recently reported a reduction in the incidence of poverty from 70 to 50 per cent since the beginning of *Doi Moi*.³ These developments have been important in mobilizing sustained support for the reform process.

The VIII Party Congress documents include a recognition that there is a long term role for the private sector, whereas prior reports only recognised a role for the private sector in the transition period. However, given the range of possible interpretations of these documents, I believe that it is difficult to draw any strong conclusions about future policy directions from the Report of the VIII Party Congress.

Selected issues

Commitment to reform

Some international observers have recently expressed concerns about the Government's continuing commitment to reform. The political debates and delays in decision-making during the lead-up to the VIII Party Congress contributed to such concerns. These concerns were reinforced by the high profile measures aimed at reducing social vices, 'unhealthy' foreign influences

² General Statistical Office, *Impetus and Present Situation in Vietnam Society and Economy after Ten Years of Doi Moi*, (Hanoi: Statistical Publishing House, 1996).

³ UNDP/UNICEF, 1996, *Catching Up: Capacity Building for Poverty Alleviation in Vietnam*, Hanoi.

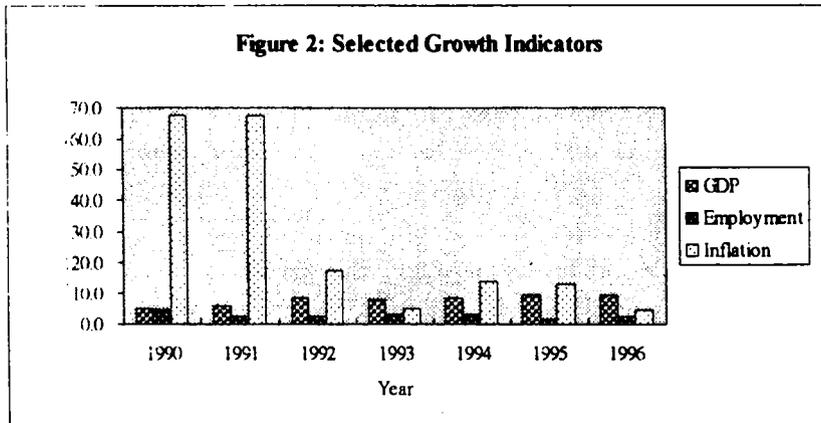
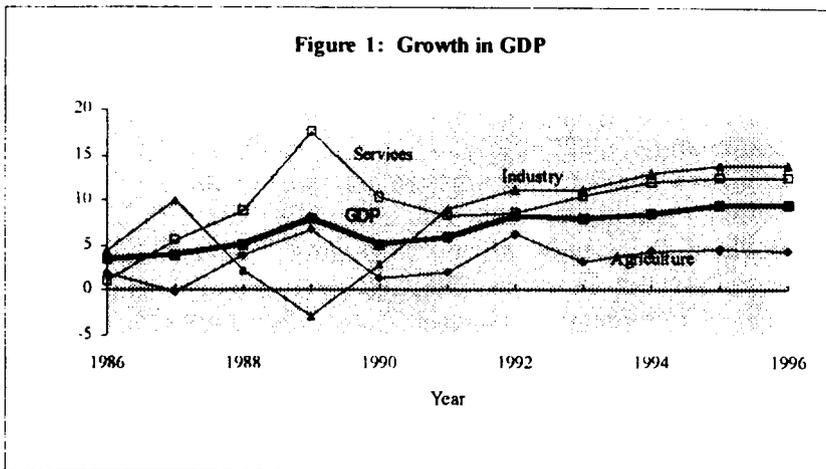
(including actions against advertisers and the press), and corruption. Inconsistencies in policy making (e.g., policies relating to land use, the property market, and bank operations), and frequent changes to policies directly affecting the potential viability of investments (e.g. tax policies) have not helped. There were also a number of high profile disputes between foreign investors and local partners, and concerns about mechanisms for dispute resolution.

Despite these concerns increasing inflows of FDI suggests that most major foreign investors—mainly East Asian investors—remain convinced of Vietnam's economic potential with actual inflows of FDI at high levels as indicated in a later table. Moreover, an increasing proportion of approved foreign investment is being directed away from property development to manufacturing activities, which are likely to have longer pay-back periods. Domestic private investors are also acting as if they have confidence in future economic prospects. The number of limited liability companies, and limited liability share holding companies, being registered continues to increase.

Distribution of economic growth and poverty alleviation

Since the introduction of *doi moi*, economic growth has been fairly broadly based with strong growth in coffee, tea, rubber, cashews, other industrial crops, horticulture, marine products and livestock in the agriculture sector; energy, construction materials, garments, footwear, foodstuffs, chemicals and electronic assembly in the industry sector; and in the service sector there has been strong growth in trade, tourism, finance and public services. While agriculture growth has been impressive by regional standards, most economic growth has been in the industry and service sectors, as shown below.

Reported private domestic savings (and investment) remain low compared with other East Asian economies. This partly reflects: under-developed market institutions; continuing suspicions about official institutions; and continuing preferential treatment to State enterprises and foreign



investment. If recent high growth is to be sustained, greater emphasis will need to be given to addressing these issues and increasing private domestic savings. The following chart is not encouraging in this regard. Growth in formal employment has been much lower than economic growth and only marginally higher than population growth.

Government policy statements indicate that the reduction of poverty and the reduction of economic inequalities are important objectives. The key to achieving this will be the creation of non-agricultural employment in rural areas. Given that capital availability is a major limiting constraint, this implies increased investment in small and medium sized enterprises that are most likely to generate greater employment (and output) for a given level of capital. There are, however, contradictions between stated poverty alleviation objectives and a public investment plan that included substantial allocations to capital intensive heavy industries such as the cement, steel and oil refining industries that require large capital investments and generate minimal employment.

There is also concern about attempts to protect capital intensive industries through import quotas and taxes. These restrictions are in effect a tax on unprotected sectors, including many light industries, that are likely to generate the greatest employment. There have also been concerns about lobbying efforts of some foreign investors, together with their State Enterprise joint-venture partners, to secure protection from competition.

Savings and investment

As noted earlier FDI has been a major factor in recent growth. National investment has almost doubled as a ratio of GDP during the last five years—to almost 30 per cent—and most of this growth has been financed from the rapid increases in foreign savings, particularly the sharply increased inflows of FDI and, to a lesser extent, ODA. However, there is some concern

about the level of commercial foreign borrowings, with implicit or explicit government guarantees.

Government savings and investment have also increased as a result of improved revenue performance. However, while private domestic savings have increased in absolute terms, the ratio of private domestic savings to GDP has remained unchanged at around 12 per cent. Private domestic savings (and investment) remain low compared with other East Asian economies. If recent high growth is to be sustained during the next five years, much greater emphasis will need to be given to increasing private domestic savings. Domestic private investment will be much more likely to be directed to small and medium size enterprises that are likely to generate a higher incremental output (and employment) for a given level of capital investment.

Recent economic performance in a regional perspective

Vietnam has recorded an average growth rate just above the average rate for all Southeast Asian countries during the last five years. During this period Vietnam's economy, as measured by the country's GDP, has grown at a similar rate to that achieved by Thailand and Malaysia, and well above the Philippines and Myanmar.

Per capita GDP in Vietnam, however, remains well below that of most other East Asian economies. Only Cambodia, Laos and Myanmar have similarly low levels of per capita income. However, there is a considerably smaller gap between the level of human development in Vietnam and other ASEAN members, as measured by the UNDP's Human Development Index.

Vietnam has moved rapidly from a closed economy to an increasingly open economy. External trade and foreign investment flows as a percentage of GDP now compare favorably with that of Vietnam's rapidly developing neighbors.

Table 3: Economic Growth in Selected Countries
(per cent per annum)

	1991	1992	1993	1994	1995	avg (1991- 95)	per capita GDP
Vietnam	6.0	8.7	8.1	8.8	9.5	8.2	215
Indonesia	8.9	7.2	7.3	7.5	7.6	7.7	880
South Korea	9.1	5.1	5.8	8.4	9.2	7.5	8,220
Laos	4.0	7.0	5.9	8.1	7.1	6.4	320
Malaysia	8.6	7.8	8.3	9.2	9.3	8.6	3,520
Myanmar	-0.6	9.7	5.9	6.8	7.7	5.9	235
Philippines	-0.6	0.3	2.1	4.4	4.8	2.2	960
Thailand	8.5	8.1	8.3	8.7	8.6	8.4	2,210

Source: Asian Development Bank, *Asian Development Outlook 1996 and 1997*, (Hong Kong: Oxford University Press, 1996).

Annual export growth averaged 25 per cent from 1991 to 1995, compared with 20 per cent in Thailand and 16 per cent in the Philippines.⁴ However, this was initially from a low base. Exports from Vietnam amounted to US\$ 3.6 billion in 1994 compared with exports of almost US\$ 13.4 billion from the Philippines and almost US\$ 45 billion from Thailand. In contrast, exports from Myanmar amounted to less than US\$ 0.4

⁴ Major exports are crude oil, rice, coal, coffee, marine products, textiles, garments and footwear. Major imports are petroleum products, machinery, vehicles, construction materials, chemicals and consumer goods. East Asian countries, including Japan, Singapore and Hong Kong are Vietnam's major trading partners.

billion in the same year. Vietnam's exports growth remains strong with exports projected to reach US\$ 6.8 billion in 1996.

Table 4: Growth in Trade in Selected Countries
(per cent per year)

	1991	1992	1993	1994	1995	annual (1991)	(1996) US\$ bill.
Exports							
Vietnam	18.0	21.2	15.2	26.3	45.0	25.1	3.6
Indonesia	10.5	14.0	8.3	9.9	11.1	10.8	40.2
Malaysia	17.0	18.1	16.1	23.1	26.6	20.2	56.9
Myanmar	11.1	25.6	10.8	7.6	8.0	12.6	0.4
Philippines	8.0	11.1	15.8	18.1	28.9	16.4	13.4
Thailand	23.8	13.7	13.4	22.2	24.5	19.5	44.5
Imports							
Vietnam	18.8	20.4	38.3	28.4	58.3	32.8	3.3
Indonesia	15.7	7.8	6.0	13.9	23.1	13.3	32.3
Malaysia	26.8	10.1	17.8	28.1	30.6	22.7	55.3
Myanmar	-42.5	18.5	8.8	0.5	9.0	-1.1	0.4
Philippines	-1.3	20.5	21.2	20.7	24.4	17.1	21.2
Thailand	15.8	6.0	12.1	18.5	28.4	16.2	44.4

Sources: General Statistical Office; Asian Development Bank, *Asian Development Outlook 1996*.

As previously noted, inflows of FDI to Vietnam have increased sharply in recent years,⁵ with other East Asian economies the dominant source of investment. FDI inflows to Vietnam during 1995 were high, even relative to other Southeast Asian countries, and the WB/IMF project a further increase to US\$ 2.3 billion during 1996. While foreign investors face many difficulties operating in Vietnam—especially during project start-up—major investors have subsequently expanded operations beyond that initially planned and approved. Given the continuing high levels of approvals, the ratio of FDI inflows to GDP are likely to remain at relatively high levels during the next few years. The greater challenge now seem to be the mobilisation of domestic savings and investment.

Table 5: Foreign Direct Investment (FDI in millions of US dollars)

	1989	1990	1991	1992	1993	1994	1995
Vietnam							
Total Capital of FDI Projects Approved 1/	539	600	1,223	1,937	2,800	4,071	6,616
IMF/WB est. of FDI inflows2/	100	120	220	260	832	1,048	1,781
FDI Inflows							
Indonesia	682	1,093	1,482	1,777	2,004	2,109	
Malaysia	1,668	2,332	3,998	5,183	5,006	4,348	
Philippines	563	530	544	228	763	1,126	
Thailand	1,775	2,444	2,014	2,116	1,726	640	

Sources: 1/ Ministry of Planning & Investment; 2/ WB/IMF. Other country data from ADB-Asian Development Outlook 1996. In addition to FDI, the other Southeast Asian nations have also received increasing levels of portfolio investments in recent years.

⁵ Major sources of FDI approvals to February 1996 were Taiwan (US\$ 3.6 billion), Japan (US\$ 2.2 billion), Hong Kong (US\$ 2.2 billion), South Korea (US\$ 1.5 billion), and Singapore (US\$ 1.5 billion).

Concluding remarks

While some aspects of reforms have moved ahead at a slower rate than some observers expected and/or may have considered desirable, a review of ten years of progress leaves little doubt that the reforms already implemented have been substantive. Reforms have contributed to marked improvements in macro-economic stability and growth in output, trade, and inflows of foreign direct investment. Economic growth during the last five years compares favorably with that of other ASEAN economies and the newly industrializing countries, but Vietnam has still a long way to 'catch-up' to other ASEAN economies in terms of levels of economic output and trade.

The country has moved from a situation where reforms tended to be crisis driven, to a situation where the authorities are beginning to develop a longer term vision of where the country is heading. While there continues to be a risk of an economic downturn, the risk of economic collapse that existed at the time of the VII Congress appears to have been averted. This provides the scope for greater consistency and predictability in policy making. It also provides an opportunity for various interest groups to be better organised, and in some cases this may imply the need for greater efforts to 'sell' reforms. This implies in turn a need for improved capacity to undertake more sophisticated analysis of the distribution of the costs and benefits of proposed reform measures.

The nature of the major challenges are also changing. In order to sustain medium to long-term growth, there is need for a greater focus on institutional reforms and development. Some key medium-term challenges include: financial sector development to improve domestic resource mobilisation and allocation; further progress towards a more consistent regulatory framework for all economic sectors in order to achieve increased and more efficient commercial investment ('leveling the playing field'); further reducing institutional constraints to small and medium enterprise development with the aim of ensuring more equitable distribution of the benefits of growth; improving corporate governance systems for State

enterprises; increasing competition faced by remaining monopolies; further trade liberalisation, especially in reducing barriers to entry to external trade; accelerating implementation of committed programs and projects to improve education, training, and other social services; and, accelerating the development of physical infrastructure. There is still much to be done to develop the institutions required to support a market economy, including capital market institutions, accounting and other professions, and to strengthen the legal framework and enforcement mechanisms for protection of property rights and commercial activity.

More generally, there remains need for further public administration reform to streamline decision making authority and to clarify and enforce established lines of authority and accountability. Regulations need to be simplified to reduce the administrative discretion presently exercised by some government agencies in order to reduce incentives and opportunity for corruption, and to generally reduce the transaction costs of undertaking business activities in Vietnam.

Party and Government documents include commitments to reforms in many of these areas. While past experience suggests that progress in addressing the issues will be gradual, the probability of maintaining strong growth (7-10 per cent per annum) over the next two to three years remains high, given the already approved pipeline of investment projects. The longer-term prospects for sustained strong growth will depend on further progress in developing market institutions, and further administrative reforms.

**International Relations and Security:
A Rapid Overview of a Decade of *Doi Moi***

Carlyle A. Thayer

Introduction

The topic of this paper is 'International Relations and Security'.¹ This is the first time since the 1990 Vietnam Update that foreign policy and national security has been addressed explicitly.²

This paper is divided into five unequal parts. I would like to begin with a brief consideration of the foreign policy models through which Vietnamese policymakers have viewed the region and the world. Next, I would like to discuss the seminal political event of 1996—the VIII National Congress of the Vietnam Communist Party—and its implications for foreign policy.

Thirdly, I will provide a brief update on Vietnam's foreign relations during 1996.

¹ I would like to thank Mr Nguyen Hong Thach for valuable research assistance without which this paper would not have been possible.

² See Gareth Evans, 'Australia, Vietnam and the region'; Vo Dai Luoc, 'Some problems in renovating Vietnam's foreign economic policy in the new situation'; and Gary Klintworth, 'Vietnam: forces of change'—chapters in Dean K. Forbes, Terence H. Hull, David G. Marr and Brian Brogan, eds, *Doi Moi: Vietnam's Economic Renovation: Policy and Performance*, (Canberra: Political and Social Change Monograph no. 14, Research School of Pacific Studies, The Australian National University, 1991), pp. 1-11, 136-142 and 215-233.

Fourthly, I will discuss the development of defence contacts which is a major new development in Vietnam's external relations.

Finally, by way of conclusion, this paper will offer a critical perspective on the orientation of Vietnam's international relations.

Changing foreign policy models — paradigm lost

During the mid-to late-1980s, a major transformation took place in how Vietnam's policy elite conceptualised foreign policy. The roots of this transformation are two fold. They lie in domestic circumstances arising from the socioeconomic crisis which confronted Vietnam at that time. And secondly, they lie in external influences arising from the 'new political thinking' fashionable in Gorbachev's Soviet Union.³

Vietnam turned from a foreign policy model heavily structured by ideological considerations to a foreign policy model which placed greater emphasis on national interest, balance of power and *realpolitik*. Vietnamese analysis tends to emphasise global economic forces and the impact of the 'revolution in science and technology' over military aspects of power.⁴ These models are not mutually exclusive, each contains

³ See Ramesh Thakur and Carlyle A. Thayer, *Soviet Relations with India and Vietnam* (London: Macmillan, 1992), pp. 53-61 and 69-70; Thayer, 'The Soviet Union and Indochina,' in Roger E. Kanet, Deborah Nutter Miner, and Tamara J. Resler, eds, *Soviet Foreign Policy in Transition* (Cambridge: Cambridge University Press, 1992), pp. 236-255; and Thayer 'Vietnam and the Soviet Union: perceptions and policies,' in Pushpa Thambipillai and Daniel C. Matuszewski, eds, *The Soviet Union and the Asia-Pacific Region: Views from the Region* (New York: Praeger Publishers, 1989), pp. 134-153.

⁴ Nguyen Manh Cam, 'Gia tri lau ben va dinh huong nhat quan,' and Vu Khoan, 'Mot vai van de quoc te cua dai hoi VII,' *Tuan bao Quoc Te*, 8/1991 both reprinted in *Hoi nhap quoc te va giu vung ban sac* (Hanoi: Nha xua ban chinh tri quoc te, 1995).

elements of the other. Ideology and national interest should not be viewed as dichotomous terms. They can and do overlap and co-exist.

The influence of ideology on Vietnam's foreign policy prior to the mid- to late-1980s may be illustrated as follows.⁵ From the inception of the Democratic Republic of Vietnam as an established state in Southeast Asia, its elite accepted the 'two camp' thesis that the world was divided between the forces of socialism and capitalism.⁶

In the late 1960s Vietnam adopted a framework known as the 'three revolutionary currents'.⁷ According to this model, global order was determined by three trends (or revolutionary currents): the strength of the socialist camp headed by the Soviet Union; the strength of the workers' movement in advanced industrial countries; and by the strength of the forces of national liberation in the Third World.

In practical terms, Vietnam allied itself with the Soviet Union as the 'cornerstone' of its foreign policy. Hanoi's leaders

⁵ Carlyle A. Thayer, 'Vietnam in world affairs,' *Dyason House Papers* 3 no. 5 (June 1977):5-8; Thayer, 'Vietnam's External Policy: An Overview,' *Pacific Community* 9 no. 2, (January 1978):212-231; Thayer, 'Vietnam's foreign policy,' *World Review* 20 no. 2 (June 1981:30-40); Thayer, 'Vietnam's foreign policy: the background factors,' *Current Affairs Bulletin* 62 no. 9 (February 1986):21-30; and Thayer, 'Vietnam: ideology and the lessons from experience', in William S. Turley, ed., *Confrontation or Coexistence: The Future of ASEAN-Vietnam Relations* (Bangkok: The Institute of Security and International Studies, Chulalongkorn University, 1985), pp. 49-74.

⁶ Gareth Porter, 'Vietnam and the Socialist camp: center or periphery?', in William S. Turley, ed., *Vietnamese Communism in Comparative Perspective* (Boulder: Westview Press, 1980), pp. 225-264.

⁷ Carlyle A. Thayer, 'Vietnamese perspectives on international security: three revolutionary currents', in Donald H. McMillen, ed., *Asian Perspectives on International Security* (London: Macmillan Press, 1984), pp. 57-76.

also viewed Indochina as a strategic entity and sought to develop an integrated alliance system with Laos and Cambodia.

In December 1986, at the VI National Congress, as is well known, Vietnam adopted the policy of *Doi Moi* or renovation. This policy was mainly concerned with domestic socioeconomic reform. In the foreign policy field the main new feature was the stress on the encouragement of foreign investment.

In 1987, the Politburo adopted Resolution No. 2 which set in motion a strategic readjustment in Vietnam's national security policy.⁸ Vietnam made the decision to withdraw from Cambodia and Laos and to downsize its large standing army.

It was not until May 1988, however, that Vietnam's new foreign policy orientation was codified. This took the form of Politburo Resolution No. 13 which stressed a 'multi-directional foreign policy' orientation.⁹ This resolution is now recognised as a major landmark. It is important to note that this followed, and was not contemporary with, the adoption of renovation in economic policy. The emphasis was 'to maintain peace, take advantage of favourable world conditions' in order to stabilise the domestic situation and set the base for economic development over the next ten to fifteen years.

An important modification of Vietnam's 'multi-directional foreign policy' was adopted by the VII National Party Congress in June 1991.¹⁰ Vietnam now sought 'to be friends with all countries' or to intensify the process of diversification by

⁸ Carlyle A. Thayer, 'Vietnam's strategic readjustment', in Stuart Harris and Gary Klintworth, eds, *China as a Great Power: Myths, Realities and Challenges in the Asia-Pacific Region* (Melbourne: Longman Australia Pty Ltd., 1995), pp. 185-201; and Thayer, *The Vietnam People's Army Under Doi Moi*, Pacific Strategic Paper no. 7 (Singapore: Institute of Southeast Asian Studies, 1994), pp. 14-17.

⁹ Nguyen Dy Nien, 'Tiep tuc doi moi va mo cua vi su nghiep cong nghiep hoa, hien dai hoa dat nuoc', *Tap Chi Cong San* 12 no. 6 (1996).

¹⁰ Vu Khoan, 'Mot vai van de quoc te cua dai hoi VII', *Tuan Bao Quoc Te* 8 (1991) reprinted in *Hoi nhap quoc te va giu vung ban sac* (Hanoi: NXB Chinh Tri Quoc Te, 1995).

developing its foreign relations a step further—by becoming partners.

The major accomplishments of this new orientation were fourfold: normalisation of relations with China (November 1991), and in 1995 normalisation of relations with the United States, membership in ASEAN and the signing of a framework agreement with the European Union.

For the first time, socialist Vietnam had established relations with all five of the permanent members of the UN Security Council, and more importantly, with the world's three major economic centres: Europe, North America and East Asia (Japan). Vietnam, also for the first time, began to directly address the new post-Cold War foreign policy and security agenda. In short, Vietnam had achieved the most favourable circumstances for its integration with the region and the world.¹¹

The transition from a model stressing ideology to a model stressing national interest was not without debate.¹² It must be noted that there are still elements within Vietnam's foreign policy establishment who still cling to ideology. An article in the May 1996 issue of the *Communist Review*, for example, argued that Marxism-Leninism and Ho Chi Minh's Thoughts had to be defended along with the country's air space and land and sea territory.¹³ Another article in the same journal, written three months later, noted that one danger of developing a market

11 For a current assessment see William S. Turley, 'Vietnamese security in domestic and regional focus: the political-economic nexus', in Richard J. Ellings and Sheldon W. Simon, eds., *Southeast Asian Security in the New Millennium* (Armonk: M. E. Sharpe, 1996), pp. 175-220.

12 For a discourse on different aspects of foreign policy consult: Nguyen Manh Cam, 'Gia tri lau ben va dinh huong nhat quan', and Tran Quang Co, 'Tuong lai cua cac quan he giua Viet Nam va cac nuoc chau A - Thai binh Duong: tac dong den phat trien kinh te cua Viet Nam', in *Hoi nhap quoc te va giu vung ban sac*; and Phan Doan Nam, 'Ve mot so mau thuan noi len tren the gioi hien nay', *Nghien Cuu Quoc Te* no. 13 (1996):7-18.

13 Le Xuan Luu, 'Ve moi quan he giua xay dung va bao ve to quoc trong giai doan cach mang moi', *Tap Chi Cong San* 10 no. 5 (1996).

economy was its negative effect on political and cultural values and the loss of Vietnam's socialist orientation.¹⁴

In sum, not only has a 'paradigm been lost' but Vietnam is still suffering from a crisis of faith.

The VIII National Party Congress

Foreign policy issues barely figured in Vietnam's public discourse in the lead up to the VIII National Party Congress.¹⁵ What I would like to do is to review the foreign policy section of the Political Report to the VIII National Congress.¹⁶

¹⁴ Bui Phan Ky, 'May van de ve xay dung va bao ve to quoc XHCN trong boi canh the gioi hien nay', *Tap Chi Cong San* 16 no. 8 (1996).

¹⁵ The one exception was the 'Hoang Minh Chinh affair' which attempted to reverse the verdicts of the 1960s. Up until 1963 Vietnam had maintained an independent line in the growing Sino-Soviet dispute. In the words of a contemporary British diplomat it walked 'a straight zig-zag line'. In 1963, however, Vietnam suddenly lurched towards China and in doing so condemned Soviet revisionism. Vietnam's pro-China tilt was not universally endorsed. Vietnamese officials in the Soviet Union, including high-ranking military officers, refused to return home. Domestic critics were quickly imprisoned for opposing their country's anti-Moscow stance. They and their families suffered physically, materially and psychologically. From the vantage point of the 1990s, it appeared that the critics had been right. China, after all, had been declared the 'direct and most dangerous enemy' of Vietnam by mid-1978 even before the border war of 1979 in which Beijing sought to 'teach' Vietnam a lesson'. Hoang Minh Chinh's re-arrest in 1996 was directly related to a petition he circulated calling for the redress of past wrongs including the rehabilitation of the victims and their families. My reading of this affair is that the party's fallibility in policy matters was being called into question. An admission by the party that it was wrong in 1963 would also raise the question of whether they had got foreign policy wrong in 1996 as well.

¹⁶ For a general overview see Vu Khoan, 'Dai hoi VIII va cong tac doi ngoai', *Tuan Bao Quoc Te* no. 26 (26 June-2 July 1996):1 and 10.

There are at least three such reports known to me.¹⁷ The first was a 'for internal circulation only' draft prepared in late 1995. The second was a public draft released in April 1996. The third was the final public Political Report delivered at the VIII Congress.

When all three versions are compared it is notable that the foreign policy section was the most heavily edited and amended of any section of the Political Report. In each successive draft the ideological sharpness of the language and terminology used was blunted and toned down. For example, the 1995 confidential draft version made reference to 'loyal comrades and friends' and to the world's 'main contradictions.' These were deleted.

Why? Some changes were made as a result of criticism arising from within the party. Most changes were made due to strenuous objections by Vietnam's ASEAN partners after they saw the April draft.

The most extensive changes were made to the April 1996 draft's eight major foreign policy tasks. In addition to being extensively revised and re-ordered, additional tasks were added for a final total of nine.

- (1) 'To consolidate a peaceful environment and create more favourable international conditions for promoting economic development in the area of national construction and defence'. Earlier wording referred to 'national industrialisation and modernisation and support [for] the cause of national defence and construction.' The priorities have been reversed.

¹⁷ *Dang Cong San Viet Nam, Du Thao Cac Van Kien Trinh Dai Hoi VIII cua Dang (Tai Lieu Dung Tai Dai Hoi Dang Cap Co So)*, Mat (Secret), Luu Hanh Noi Bo (Internal Circulation), December 1995; 'Du Thao Bao Cao Chinh Tri cua Ban Chap Nanh Trung Uong Dang Khoa VII Trinh Dai Hoi Lan Thu VIII cua Dang', *Nhan Dan* (April 10 1996) supplement; and 'Bao Cao Chinh Tri,' *Quan Doi Nhan Dan* (June 30 1996).

- (2) 'To continue our foreign policy of independence, sovereignty, openness and diversification and multi-lateralisation of relations in the spirit of Vietnam's desire to make friends with all nations and to strive for peace, independence and development.' This was left unchanged.
- (3) 'To promote multifaceted bilateral and multilateral cooperation with all countries and international or regional organisations on the principles of respect for each other's independence, sovereignty and territorial integrity, as well as on the principles of non-interference in each other's internal affairs, equality, mutual benefit and settlement of outstanding problems and disputes through negotiations'.

The order of regional and international organisations was changed to give priority to international bodies. A similar reordering took place with respect to the principles which were re arranged with 'equality and mutual benefit' listed last. References to 'effect regional and world integration' and to 'peaceful coexistence' were dropped. The object of negotiations— 'to ensure peace, stability and security for development'—was deleted.

- (4) 'To strengthen our relations with neighbouring countries and ASEAN member countries, to constantly consolidate our ties with traditional friendly states, and attach importance to our relations with developed countries and political-economic centres in the world while at the same time upholding the spirit of solidarity and brotherliness with developing countries in Asia, Africa and Latin America, and with the Non-Aligned Movement'. This point was added.
- (5) 'To participate *more actively* in the activities of the United Nations, *Francophone countries*, international financial and monetary organisations, the World Trade

Organisation and other international organisations.' The words 'more' and 'Francophone countries' were reinserted. References to unnamed 'international forums' and 'the settlement of global issues' were listed as a separate point (new point no. 6). Cooperation, as distinct from participation, in the activities of the United Nations and the Non-Aligned Movement was dropped.

- (6) 'To take an active role in the endeavours of international forums and in the settlement of global issues'. This was formerly a part of point four.
- (7) 'To support the complete ban against nuclear weapons and other weapons of mass destruction'. This was an entirely new point.
- (8) 'To promote relations with communist and workers' parties and other revolutionary, national independence and progressive forces, as well as broadening our relations with other parties, including ruling parties'. Formerly, this was point five of eight. The phrase 'on the basis of equality and non-interference in each other's internal affairs' was dropped.
- (9) 'To broaden external people-to-people relations and ties with non-governmental organisations [formerly point 6], to secure sympathy and support from broad sections of the world's people [formerly point 7]; and contribute towards the trend of peace, cooperation and development [formerly point 8]'. The new point nine was formed by merging the previous points 6, 7 and 8.

The VII Congress was attended by 35 foreign delegations. Most important was the inclusion of non-communist ruling parties from neighbouring states such as the PAP from Singapore, UMNO from Malaysia and FUNCINPEC from Cambodia. Indonesia's GOLKAR declined to attend.

The communist parties from all socialist states in power (China, Laos, North Korea and Cuba) as well as communist and socialist parties and national liberation movements not in power (eg. France, Russia, Japan, Belores, Ukraine, Bulgaria, USA, Germany, Italy, Portugal, Argentina, India [CPI (M) and CPI], Lebanon, Brazil, Greece, Chile) attended.

The VII Party congress was remarkable more for the public relations hype than for any concrete development or elaboration of new foreign policy directions.

Update on Vietnam's foreign relations

In this section I do not intend to review Vietnam's relations with each major partner in detail. Rather, I want suggest that there is a hierarchy—or priority—in Vietnam's external relations.¹⁸ Relations with Southeast Asia (ASEAN and non-ASEAN members) come first, followed by China, the United States and then 'other countries' including Japan, South Korea, the European Union and Australia.

Southeast Asia

As an ASEAN member, Vietnam attended the first summit meeting of all tens heads of government in Southeast Asia held in Bangkok in December 1995. Vietnam joined with other regional states in endorsing the Southeast Asian Nuclear Free Weapons Zone Treaty. In July 1996, Vietnam marked the first anniversary of membership in ASEAN¹⁹ and the ASEAN Regional forum. Vietnam has played a low-key role in both bodies. It lacks the human resources to participate fully in the more than 200 ASEAN meetings held each year.

¹⁸ Tran Quang Co, 'Tuong lai cua cac quan he giua Viet Nam va cac nuocchau A - Thai Binh Duong: tac dong den phat trien kinh te cua Viet Nam', in *Hoi nhap quoc te va giu vung ban sac*.

¹⁹ Nguyen Manh Hung, 'Nhin lai mot nam Viet Nam gia nhap ASEAN', *Nghien Cuu Quoc Te* no. 13 (1996):3-5.

While ASEAN states are moving to reduce tariffs Vietnam has been given a three-year exemption. This means, for the moment, its domestic manufacturing firms have extra time to increase their competitiveness.

At the 1996 ASEAN-United States dialogue, Washington's discriminatory treatment of Vietnam became an issue. Other members of ASEAN pressed Washington to treat Vietnam as a partner (not a former enemy) and to develop a full relationship. This is diplomatic speak for granting MFN status. ASEAN also supports Vietnam's membership in APEC (now postponed until 1998) and the WTO.

Thailand

As a result of continuing friction between Thai and Vietnamese fishing boats, the two countries' foreign ministers met in Hanoi in April 1996 and agreed to set up a joint commission to resolve the matter. Thailand is Vietnam's thirteenth largest foreign investor.

Cambodia

In January 1996, First Prime Minister Norodom Ranariddh alleged that Vietnam had encroached into Svay Rieng province and relocated bordermarkers. Vietnamese local authorities claimed that Cambodian troops had opened fire on unarmed civilians without provocation. Two months later Ranariddh threatened military action to stem what he termed Vietnam's 'border invasion'. This prompted a visit by Prime Minister Vo Van Kiet in mid-April to diffuse the matter. Both parties agreed to a set of procedures under which negotiation of border incidents would be dealt with first by local and then provincial officials before being raised at national level. High-level talks on the border issue were held in Ho Chi Minh City in May.

Refugees

In 1996 decisive steps were taken by the international community to resolve the long-standing problem of Vietnamese refugees in Southeast Asia. In mid-January a UN-sponsored meeting in Bangkok agreed that all camps outside Hong Kong should be

cleared of refugees by June 1996. The UNHCR terminated its financial assistance on 30 June. Throughout the year Indonesia, Malaysia, the Philippines, Singapore and Thailand took steps to empty their camps. Vietnamese boat people were offered the choice of returning voluntarily or being forcibly repatriated. This new policy provoked rioting and violent resistance by camp inmates in the Philippines, Thailand and Malaysia. While Malaysia succeeded in emptying its camps of those who refused voluntary return, the Philippines abandoned forcible repatriation after violent protests. As of the 30th June, refugee figures stood at approximately 1,000 in the Philippines, 3,500 in Indonesia and 4,000 in Thailand. China has brought pressure to bear on Hong Kong to empty its camps before 30 June 1997 when the city reverts to Chinese control.

China— 'sweet and sour'

Sino-Vietnamese relations have alternated between exchanges of high-level delegations and progress on economic matters and contention over contested territory since the normalisation of relations in November 1991. Vietnam and China have since signed some twenty economic and commercial agreements. In November 1995, Do Muoi led a high-level party delegation to China to step up the pace of economic relations. The only tangible result of this visit was the decision on 12 February 1996 to reopen rail links between Kunming in Yunnan province with Hanoi and Haiphong. Agreement to reopen the rail line had been agreed originally in 1992.

In the five years since normalisation, little progress has been made on contentious matters, such as outstanding territorial disputes. In November 1995, the first round of talks was held on maritime issues between expert groups of the two countries. In January and April, the seventh and eighth round of bilateral talks on border issues were held. No progress was recorded. In mid-April, Prime Minister Vo Van Kiet and Premier Li Pen, held bilateral discussions while attending the Asia Europe Summit Meeting in Bangkok. But relations remained strained over disputes in the South China Sea. In April Vietnam announced the award of an oil exploration and production rights

contract to Conoco, an American company, in an off-shore block claimed by China. This drew Chinese protests. In May China announced baselines for its coast line including the Paracel Islands, which were drawn together to create an archipelago. In effect, China unilaterally expanded its maritime jurisdiction by 2.5 million square kilometres.

In mid-year Premier Li Peng attended the VIII Party congress and was accorded treatment which seemed to indicate he was the most important foreign guest. Li's visit did not result in any noticeable improvement in bilateral relations, however. Vietnamese officials privately expressed their dissatisfaction at the 'imperial' manner adopted by Li Peng and his abrupt behaviour while in Hanoi.

During the year both sides continued talks on territorial and border disputes. Most importantly, they agreed in September at the fourth round of government talks to speed up discussions on the land border and to try and reach a resolution by the year 2000. This is the first time such a deadline has been indicated. In 1993, the two sides agreed on a document setting out the principles for a settlement of territorial disputes. It has been agreed this will be applied to discussions on delineating the Tonkin Gulf. Little progress was noticeable on the settlement of conflicting claims in the South China Sea.

United States

The posting of an American ambassador has been put off by the refusal of Senator Jesse Helms, chairman of the Senate Foreign Relations Committee, to approve President Clinton's nominee, Pete Peterson. A key player in the normalisation of diplomatic relations, Vietnamese deputy foreign minister Le Mai passed away unexpectedly in early June. In July US National Security Adviser Anthony Lake visited Hanoi on the first anniversary of the normalisation of relations, to discuss three sets of issues: economic cooperation, refugee resettlement and regional cooperation. However, Lake made clear that the full accounting of MIAs remained America's 'highest priority'.

Vietnamese-United States economic relations have also not yet been fully normalised despite the growth in trade and investment figures. In September 1995 Foreign Minister Nguyen Manh Cam and Minister of Commerce, Le Van Triet, visited Washington, D.C. to discuss economic ties. They were told that Vietnam was not qualified for most favoured nation (MFN)s trading status, Export-Import Bank credits, or for insurance cover from the Overseas Private Investment Corporation (OPIC) unless Vietnam complied with the terms of the Jackson-Vanik amendment requiring free and open emigration (or a Presidential waiver subject to annual review by Congress). Also, Vietnam would be required to negotiate a trade agreement which met with US Congressional approval. Negotiations on the trade agreement commenced in late 1995 when a delegation composed of representatives of the Departments of Commerce, State and Treasury and OPIC visited Hanoi. In April 1996 a US commercial office was opened. The United States is sixth among foreign investors in Vietnam.

In October, in a potentially significant development, Kurt Campbell, an official from the Pentagon, initiated discussions on regional security issues during the course of a visit.

Other Countries

Japan

In September 1993, Vietnam and Japan re-established full diplomatic relations and a year later Japan's prime minister visited Vietnam for official talks. Japan is Vietnam's second largest trading partner and largest aid donor.

South Korea

South Korea and Vietnam developed substantial trade and investment relations prior to the normalisation of relations in December 1992. In 1996 relations reached an all-time high with the visit of the Korean president Hanoi late in the year. During the year South Korea posted its first defence attache to Vietnam.

European Union

In February 1993 President Francois Mitterrand of France became the first Western head of state to visit Vietnam since reunification. He was followed in early 1995 by Foreign Minister Alain Juppé. In July 1993, Vo Van Kiet visited several West European countries, including the United Kingdom, France and Germany. In 1995, Vietnam and the European Union signed cooperation agreement which included a human rights provision. The two sides have reached agreement on cooperation for the period 1996-2000 and an action program for 1996-98. Vietnam has MFN status and benefits from the transfer of technology. The EU provides approximately US \$35-40 million in ODA each year in addition to the bilateral programs

Germany

Germany's relations with Vietnam have been strained by the issue of Vietnamese guestworkers originally sent to East Germany who have remained illegally after reunification and who now refuse to return home. Some Vietnamese gangs have been implicated in cigarette smuggling while others have attracted publicity as a result of violent gang warfare. Vietnam has been reluctant to accept them back. In January 1995 Germany agreed to provide DM100 million in development assistance (suspended since 1990) and an equivalent amount in export credits in return for which Vietnam agreed to accept back 40,000 of an estimated 95,000 Vietnamese living in Germany by the year 2000. The remaining 55,000 would be given official residence permits. As part of the agreement, Vietnam agreed to take back 2,500 in 1995 and another 5,000 in 1996. No progress was made until late June 1996 when Vietnam accepted an initial batch of 3,000.

Australia

In March 1996 the conservative Liberal and Country coalition parties were elected to office after thirteen years in opposition. Bilateral relations with Vietnam were briefly strained when the new foreign minister sought to withdraw financial support for the My Thuan bridge in the Mekong Delta which the previous

government had pledged to support. Vietnam stated that relations could be 'seriously affected' if funding for the bridge was cut. The new minister's attempt to cut the DIFF program proved to be another irritant in the bilateral relationship. China, Indonesia and the Philippines made their protests known in letters and verbal comments to the Australian government causing much embarrassment to the foreign minister. Vietnam, however, adopted a quieter approach.

Australia's original policy of support for the My Thuan bridge was reconfirmed during a well-timed visit to Hanoi by foreign minister Alexander Downer. He was the first foreign minister to visit Vietnam after its VIII Party congress.

During the year Australia quietly opened a regional security dialogue with defence and foreign ministry officials in Hanoi (see below).

Security and defence relations

In 1996 Vietnam's military strengthened its position in the ruling Vietnam Communist Party and thus ensured for itself greater political influence and a larger share of the national budget. Vietnam has set itself two priorities over the next half decade — 'industrialisation and modernisation'. In the defence area, this translates into a priority upgrading of the navy and air force. Vietnam's military budget is presently estimated at US \$900 million or 4 per cent of GDP and is set to rise.

Vietnam, like many neighbouring states, ranks internal security concerns above external threats on its list of national defence concerns. The National defence and security section of the Political Report to the VIII Congress highlighted the following, 'We must effectively prevent and crush all plots and activities of peaceful evolution and subversive violence and be ready to deal with any other complicated situations that could arise. We should strive to halt endpoint all criminal activities in order to maintain firmly social order and safety.'

Vietnamese defence planners state that their country faces a low-threat environment for the foreseeable future. They identify the most likely external threats as coming from 'hot spots' like the South China Sea which could erupt at any moment and escalate from low intensity conflict to a larger scale.²⁰

National defence, internal security and foreign relations are seen as mutually reinforcing. According to the 1996 Political Report, Vietnam's first foreign policy priority is 'to consolidate a peaceful environment and create more favourable international conditions in order to accelerate socioeconomic development, implement national industrialisation and modernisation, and support the cause of national defence and construction.'

Other objectives include 'diversification and multilateralisation of relations', the development of 'multifaceted bilateral and multilateral cooperation', the strengthening of relations with neighbouring countries, ASEAN members, 'traditional friendly states', develop and developing countries, and 'politico-economic centres' in the world'.

Vietnam's once highly secretive military establishment is avidly seeking to expand international relations. During 1996 defence contracts were made with at least nineteen countries. The list includes: Australia, Bulgaria, Burma, Cambodia, Canada, China, Cuba, India, Indonesia, Japan, Laos, Malaysia, the Philippines, Russia, Singapore, South Korea, Thailand, United Kingdom and the United States.

The following report by Vietnam News Agency is typical of these contacts:²¹

Late last month Singapore's Defence Minister Dr Tony Tan Keng Yam visited Hanoi for three days at the

²⁰ Foreign ministry officials are more circumspect, they see the 'Eastern Sea' as a region of 'cooperation and competition'. See Dinh Nho Liem, 'Qua trinh mo rong quan he voi cac nuoc cung la qua trinh vua hop tac vua dau tranh', *Tap Chi Cong San* (1996).

²¹ Vietnam News Agency, Hanoi, in English, 1447 gmt, 27 November 1996.

invitation of his counterpart, General Doan Khue. During the meeting, the two sides 'compared notes on orientation to boost cooperation between the two defence ministries, and armies, and on other issues of common concern...'

The Singapore Defence Minister was also received by General Secretary Do Muoi and Prime Minister Vo Van Kiet. According to the Vietnam News Agency, 'Dr Tony Tan Keng Yam said that Singapore is ready to share with Vietnam its expertise in industry, technology and management as well as in the training of technicians.' Singapore also wishes to strengthen bilateral cooperation between the two countries.

During 1996 defence attaches were exchanged with South Korea and the United Kingdom while discussions with Japan are still continuing. A Canadian warship paid a friendly port call. Australia inaugurated its first defence contacts in April through the medium of a 'security dialogue' held in Hanoi. A delegation from the Joint Services Staff College visited August.

In February 1996 it was announced that a consortium of Australian companies had signed in Perth an MOU for a A\$37.5 million contract to build 20 coastal patrol boats for the Vietnam Customs Department.²² The contract was due to be signed in Ho Chi Minh City on 22 February. The boats would enable the Vietnamese to upgrade maritime border security and crack down on smuggling. The deal was drawn up between Stolkraft International and Pacific Asia Industries (Vietnam) who then collaborated with boatbuilder Oceanfast of Western Australia. Under the terms of the contract, Oceanfast would build the first four boats valued at A\$7.5 million, at its Henderson yard, south of Fremantle. Then all three companies would form a joint venture with two other Vietnamese companies to build the remaining 16 boats in Vung Tau for A\$30 million. This deal

²² Ian Porter, '\$38M contract for patrol boats', *Australian Financial Review* 22 February 1996. Australia competed against bids from Russia, Japan and Sweden.

included a maintenance contract and raised the possibility of commercial sales elsewhere in the region. The 22.4 metre patrol boats will use the patented Stolkraft hull design. They will have a beam of 7.5 metres and a draft of 1.3 metres. Each boat's water jets will be powered by two V12 diesel engines of 1150hp each. Oceanfast was expected to provide plasma-cut aluminium panels and frames for the last 16 boats.

In April (17-20), Alan Behm led a delegation composed of representatives from the Departments of Defence and Foreign Affairs and Trade (including Commodore Chris Ritchie, Rosemary Greaves from DFAT, and Paul Dibb from SDSC ANU) to Hanoi for 'one-and-a-half track discussions with the Institute of International Relation'.²³ Senator Gareth Evans, then Minister for Foreign Affairs and Trade, approved the initiative in 1995 when he first raised the matter with his counterpart Nguyen Manh Cam. The Australian delegation also held talks with Defence Ministry personnel. There are conflicting versions of how these talks went. According to one view, talks with the Vietnamese defence ministry did not go well as the Vietnamese were not forthcoming on the issues discussed, including relations with China. In contrast, DFAT officials state that the 'one-and-a-half track' effort in April went well and that consideration is being given to upgrading discussions to an official 'track one' relationship. According to Greg Sheridan, 'Canberra is pursuing the possibility of a formal defence dialogue with Vietnam'.²⁴ Originally, Canberra planned to accredit a defence attache to Hanoi in 1996; this idea has now been shelved for at least one year.

Vietnamese military are also making their first appearances at region-wide security meetings. Vietnamese delegates attended the ASEAN Regional Forum inter-sessional

²³ 'Work in Progress', Strategic and Defence Studies Centre *Newsletter* (Winter 1996):2.

²⁴ Greg Sheridan, 'History, interest weave close ties', *The Australian* September 6 1996:17.

meetings on confidence building held in Tokyo in January and Jakarta in April, and the Asia-Pacific Security Dialogue hosted by Thailand in March. Vietnam also sent representatives to the Forum for Defence Authorities in the Asia-Pacific Region held in Japan in October. This was the first regional meeting of defence planners. Vietnam's Defence Ministry is reportedly preparing the first draft of a defence White Paper.

Vietnam is also attempting to upgrade its military inventory after a severe run down following the collapse of the Soviet Union. It is selectively seeking spare parts and electronic equipment in addition to making limited purchases. Russia is the main supplier. Vietnam is presently negotiating the purchase of air defence radars, surface-to-air missiles and missile boats. Plans are underway to establish a joint venture to build corvettes and fast attack craft. In February, the commander of the Russian Pacific Fleet paid an inspection visit to Cam Ranh Bay and announced Russia's intention to continue its presence after the present agreement expires in 2004.

Vietnam's most intense bilateral defence relationships are with China and Thailand if measured by the seniority and number of delegations exchanged. During the year China and Vietnam hosted visits by their respective chiefs of staff. Thailand's defence minister and army commander-in-chief made separate visits to Hanoi. ASEAN members Indonesia, Malaysia, Singapore and the Philippines were also active in exchange visits.

Conclusions

Somewhere between the VII and VIII National Party Congresses internal party critics have suggested that Vietnam has 'lost direction' or suffered from a 'loss of orientation'. That is why I used the expression 'paradigm lost' above.

Vietnam's foreign minister Nguyen Manh Cam has called for a 'deepening of relations'. What does this mean in practical terms? On the surface it means going beyond the simple framework of 'diversifying relations' and 'making friends with

all countries' to develop multifaceted relations. But Vietnam has hardly succeeded in going beyond the economic dimension of relations. After foreign direct investment, aid, and trade, where does the relationship go?

Vietnam emphasises its own independence, stability, socialist orientation and integration with the world. But political relations are not discussed publicly.

This had led to a shallowness or flatness in relations, especially on the political and security/defence planes. Ties in these areas have not advanced. Note the anodyne flavour of the following report:

The party leader [Do Muoi] said that the visit of the Singapore defence minister would make an important contribution to the promotion of mutual understanding and to the consolidation of bilateral friendship and cooperation between the two countries.

He expressed his pleasure at the fruitful development of relations between Vietnam and Singapore as well as between Vietnam and other members of the Association of Southeast Asian Nations (ASEAN), thus creating favourable conditions for Vietnam's socioeconomic development. He further said that Vietnam wished, together with other ASEAN countries, to build Southeast Asia into a region of peace, stability, cooperation, development and prosperity.

Prime Minister Vo Van Kiet highly appreciated the friendship and cooperation between the two countries. He briefed his guest on the socioeconomic situation of Vietnam.

Vietnam's 'loss of orientation' has led to a certain formalism in the conduct of its foreign policy. Relations are established but not consummated. It would appear that deep-seated insecurities within the party structure in the main account for this. There is a fear about developing close political ties with non-socialist states. The initiative in bilateral relations is left to the foreign partner. Superficial professions of friendship and cooperation

across a spectrum of activities, from business to defence ties, fail to develop further.

All in all, the development of Vietnam's international relations and defence ties are vitally dependent on a deepening and quickening of the process of socioeconomic reform. Vietnam must increasingly work harder to preserve the gains it has already won.

Partial Impressions of Society in Vietnam

Benedict J. Tria Kerkvliet

Introduction

From late August 1995 to early August 1996, my wife and I lived in Vietnam while doing research. It was not my first stay in Vietnam but it was my longest, during which time I began to have a better 'feel' for Vietnamese society, though I hasten to add that I remain a foreigner and cannot claim to understand many things that Vietnamese people almost intuitively can explain and comprehend. This chapter conveys some of my observations on society in Vietnam, augmented by newspaper accounts and other materials, which I have organised around three themes.

In the title I have used the word 'partial' for two reasons. One is to indicate that what is said here reflects merely some of my impressions, which I hope will be of interest to non-Vietnamese readers who want to better understanding of Vietnam and to Vietnamese readers who may find interesting, possibly humorous, but hopefully not offensive how a newcomer sees certain things about Vietnam. The second reason is that these impressions reflect my own inclinations and concerns. They are not impartial.

Rules and violations

One of my biases is a long held soft spot in my heart for Vietnam: its people, their twentieth century struggles against colonialism and the United States military, and those leaders who have given

so much to make the country a better place to live now than it was earlier this century. Previous visits in the 1990s for two months or less reinforced my favourable impressions of Vietnam. I still have them. While living there nearly a year, however, I began to appreciate better some of the gathering problems that are worrying many Vietnamese. A particular concern is the bending and violation of rules and laws through personal connections and corruption, about which the Vietnamese press publishes a lot.

I used to think that personal relationships and bribery could not be as readily used to get around laws and regulations as they often can be in the Philippines, a country I have studied and lived in for long periods since the late 1960s. Not only did rules and regulations seem to be less 'negotiable' in Vietnam than in the Philippines but there were more of them, covering a wider array of activities in society. Part of me still thinks this is the case.

One example concerns fireworks. A new law to prohibit the use of fireworks during the celebration of the New (lunar) Year was rather firmly enforced across the country in 1996, according to television and newspaper reports and accounts from friends who had returned to their home provinces during the New Year (Tet) break. My wife and I had also travelled from Hanoi to Ho Chi Minh City for about two weeks during the Tet period. In each place we stayed, we learned that very few infractions of the firework ban had occurred, and those who did set off firecrackers were often caught and punished.

I had an experience involving another realm of the law. In early October 1995, a month or so after renting an apartment on the second floor of a private residence located in a relatively quiet neighbourhood, my wife and I found our place droning with persistent, rumbling noises and vibrations. Seemingly overnight, the family next door, whose house sat wall-to-wall with the ours, had installed in their ground-level living room four heavy machines that whirred and clattered as several workers reduced large gauged copper wire to small gauged wire and spun it onto spools. Day after day this racket continued, from

about 8 a.m. until, as a written complaint said, 'the end of television broadcasting' (after about 10 p.m.).

The complaint was initiated by families living in the immediate area of what we came to call the factory (*xuong*). These families suffered the full blast of the incessant, rumbling, trembling noise. Others living along the narrow street were also upset and readily signed the petition. I also signed, with pleasure.

Initially I was confident that authorities would close down the factory. Neighbours assured us that the operation violated several zoning codes. But other Vietnamese friends, some of them visitors to our apartment while the factory was in full swing, were dubious. Several smiled and explained that the family with the factory had probably paid considerable money to someone high up before setting it up and/or had strong connections to influential authorities. Closing it down, we were told to our grief, was not a matter of rules and regulation but who knew whom and money.

Nearly two months went by with no sign of let-up from the factory. My wife and I considered looking for another place to live, but we learned that numerous areas that are supposed to be free of manufacturing, etc., in fact were not. Zoning laws did not seem to mean much. I was becoming more resigned to staying and coming to terms with the realisation that rules in Vietnam were more 'negotiable' than I had previously realised.

But our agitated neighbours were not so easily defeated. They made sure their petitions and other written complaints reached the People's Committee of Hanoi, and they visited several officials directly responsible for zoning matters. In early December, a neighbour reported, with a broad smile, that city authorities had given notice to the factory to close down. Forever, he emphasised, not just temporarily. I was delighted—and by then surprised. According to his explanation, he and other neighbours gave no bribes. After all, he said, the factory clearly violated the law. Helpful to the cause of those complaining was that some who had complained knew key city officials for environmental matters, but it was not as though the petitioners

had to pull strings in order to get the law implemented. It did involve a few lunches and drinks for some authorities, but that was all, we were told, plus patience and persistence.

Score a victory for rules and regulations. Confidence buoyed for my hypothesis of Vietnam being a more rule-abiding than a negotiating society.¹ That was in early December 1995. By the following August, I was more confused due to considerable evidence from local newspapers and other sources of rule bending and law breaking by means of personal connections and corruption.

Illustrating both methods is an account from a motorcycle-taxi (*xe om*) driver, whom I shall call Sy. Responding to my queries about his job, Sy noted that he would prefer being a postman. He is 28 years old and has diploma from a Hanoi technical college qualifying him to work in the post office, which is also where his father worked until the father died ten years ago. Had his father still been alive, Sy figures he could easily have gotten a job in the post office. But because his connections now are weak, he explained, the chances of getting work there are slim. He had recently approached his father's good friend who is a postman. This friend said he could get Sy a position if Sy would

¹ Another bit of evidence concerns procedures for doing research. In Vietnam researchers need proper documentation, which for foreigners doing research is quite complicated. A foreign researcher needs a special visa, affiliation with research institution, permits from national down to local, commune level in order to do surveys, interviews, or other methods of collecting information. And these things are taken seriously. For instance, I went with a colleague from Hanoi National University to a district office outside the city where I wanted to visit some communes. It turned out that the one of the officials there was a classmate of my colleague. Despite this personal connection, which in a comparable situation in the Philippines even at the height of martial law during the 1970s would have been enough to proceed, my colleague still had to produce the proper permits and letters of introduction arranged in Hanoi before we could continue with our research.

pay him US\$1,500.² That's huge, I exclaimed. But it is standard for the post office, Sy said matter of factly, because postal jobs are in great demand and salaries are much higher than in most other government agencies. He then complained, of an 'unfair society' (*xa hoi khong cong bang*). Later in the conversation he talked about his wife, who has a fruit stall in a popular market. She got the stall through her relative who works in city market's administrative office. Also because of this connection, she does not have to pay the usual rent for the stall. Asked if this is another example of society not being fair, only this time he and his wife benefit, he agreed with a broad grin.

I heard several stories about securing jobs and other advantages through connections. One middle aged woman we know who works in a government department secured jobs in the same department first for one daughter and later for a second daughter. Both daughters have university diplomas and other basic qualifications but their mother's influence was crucial for them to be hired. People needing services at a government office or even a university often seek out someone they know there, like a relative or old class mate or at least someone from their home province or home district, in order to get the assistance they need. There is nothing inherently wrong with this, and in a way it is an admirable 'personal touch' in how things can get done. It becomes a source of friction and even disgust among many Vietnamese, however, when people without such connections are gravely disadvantaged or they resort to bribery in order to make up for their lack of personal connections.

Officials accepting or demanding bribes is a common form of corruption. Another involves embezzlement or other ways in which officials personally benefit from illegally using state

² At 11,000 dong per US dollar, that is 16.5 million dong, or about three and a half years basic salary for a university lecturer (which is roughly 400,000 dong per month).

property and other resources entrusted to them or to which they have access because of their position.³

One news account involving both bribery and embezzlement told about Nguyen Minh Man, vice director of a joint venture company based in Cuu Long province. In October 1990 he had been sent to prison for embezzling two billion dong. But for the next six years, he actually spent little time behind bars. He wheedled his way out of prison by bribing police, investigators, and other provincial and district officials. To the assistant chief of the investigation office of the provincial police, for instance, he gave a Honda Accord automobile as partial payment for keeping the 'prisoner' out of jail. In April 1996, that assistant chief and three other officials were convicted of bribery and other violations. Meanwhile, however, Vice director Man remained at large, perhaps protected by still other police officers.⁴

Most stories about bribery told to me involved modest amounts of money paid to officials in order to get a motorcycle license, for example, or process a building permit, get an urgently needed legal document, or reduce one's tax liability. One of the most surprising stories I heard concerned universities. Some candidates for graduate degrees now give gifts and other gratuities to their supervisors as enticements for the supervisor to select examiners who will not criticise the candidate's thesis. For good measure, the candidate may arrange for each examiner to receive an envelope with money or some other gift. While such behaviour is not common, it reportedly happens frequently enough to give the system in some universities a bad name.

Police (including *cong an* and *canh sat*) are probably the group of officials most often linked to bribery.⁵ In a congested

³ The distinction, frequently subtle, between bribery and embezzlement, is found in the literature on corruption, including that written by Vietnamese academics. See the series of articles by Professor Ly Chanh Trung in *Dai Doan Ket* 10, 13, 17, 20, 24, and 27 June 1996.

⁴ See *Dai Doan Ket* 7 (May 1996):6.

⁵ Many accounts in the media, including weekly television programs by the *cong an* itself, portray the police favourably. Yet other media accounts

neighbourhood of Hanoi, police closed a cafe (*giai khat*) because the young waitresses doubled as prostitutes. A few weeks later, however, the place was not only back in business but was expanding. The owners had reportedly paid off the local police and now would enlarge the premises and employ more women. One version of this story said that the owners had to expand in order to increase their income so as to meet the high payments the police required as a quid pro quo.

Taking bribes to fix traffic violations is a popular way for police to make extra money. A reader's letter to a daily newspaper refers to 'pliable law' (*luat mem*) enforcement in which a policeman and traffic law violator negotiate a fee that is paid directly to the policeman.⁶ That amount is cheaper and the inconvenience considerably less than were the cop to insist on 'stiff law' (*luat cung*) enforcement entailing the violator going to the police station to complete various procedures and then pay the fine specified by law.⁷ With 1995-96 being a period when new traffic laws received a lot of attention, there was considerable 'pliable' law enforcement going on.

Police are rumoured to be partners in organised crime. In May 1996, a gang of extortionists ransacked a hotel on Kim Ma street in the west side of Hanoi less than 100 meters from a police station. No cops interrupted the hoodlums as they emptied the

report not only police corruption but police physically abusing people in their custody, sometimes to the point of reportedly beating to death suspects they have arrested. See, for instance, *Dai Doan Ket* 2 April 1996:1ff; 9 April 1996:1ff; 3 May 1996:6; 17 June 1996:1ff; 1 August 1996:1ff. The last tells of policemen badly beating a suspect, who is probably innocent of wrong doing, and then roughing up journalists who were covering the story. The indignant writer of the article, quoting a law protecting journalists (dieu 15, *Luat Bao Chi*), admonishes police for also abusing the rights of journalists.

⁶ *Ha Noi Moi* 11 December 1995:2.

⁷ The letter writer, I hasten to add, blames this bribery on not only the police but also on the traffic offender and certain provisions in the traffic laws.

hotel of its air conditioners, refrigerators, and other values and loaded the goods into four waiting trucks. Replying to journalists' queries as to why the police had done nothing, officials said that one policeman was in cahoots with the gang. Many citizens, according to the journalists writing the account, doubted that police involvement was limited to one individual.⁸ Police investigators later arrested several gang members, including its leader, and recovered the loot. They also arrested another police officer in connection with the case.⁹

Many Vietnamese believe some police are linked to Mafia-like organisations and sell contraband goods (ranging from foreign-brand cigarettes to automobiles and heroin). Some of the illegal drug trade that has been spreading during the last couple of years in Hanoi and other cities has been linked to the police, such as the policeman arrested in July 1996 for heroin trafficking. Authorities later found in his house five kilos of heroin and US\$ 82,250.¹⁰ One entertaining account involving a lesser offence tells of a police lieutenant who, after chauffeuring the Can Tho provincial police (*cong an*) director home, took the director's car and made a dash to a town near the Cambodian border where he bought over 5,000 cartons of contraband cigarettes, no doubt planning to sell them to his contacts in the black market. While returning to Can Tho he encountered a police road block, which he rammed through, precipitating a wild 60 kilometer chase. Ultimately he was apprehended and later was sentenced to prison. He was also fined 25 million dong for repairs to the vehicles he had damaged when running the road block.¹¹

⁸ Perhaps for protection against possible adverse repercussions for having written this story, the author(s) are referred to only as *Nhom PV [Phong Vien] Dan Chu va Phap Luat* (Group for Democratic and Legal Studies). *Dai Doan Ket* 6 June 1996:1ff.

⁹ Reuters News Service, 12 August 1996.

¹⁰ Vietnam News Agency, Hanoi, 21 October 1996, from BBC Monitoring Summary of World Broadcasts, Asia-Pacific 22 October 1996.

¹¹ *Dai Doan Ket* 1 August 1996:6.

Accounts of illegally using state property or a governmental position for personal gain usually involve officials in public enterprises, government ministries, districts, and communes. Such officials composed 243 out of 386 individuals caught for corruption (including bribe taking) in Hanoi in 1995, and most of those, judging from available examples, were embezzlers.¹² For instance, the director of the state-run Ba Dinh Import/Export Company stole 50 million dong by forging documents and receipts. Similar cases are reported for other parts of the country. In the south, the director, vice director, and accountant of a state owned freezing plant stole over 239 billion dong over the course of seven years by doctoring financial books and falsifying reports. In 1996 they were arrested and convicted.¹³ Perhaps the highest ranking national official to face corruption charges in 1996 was Le Thanh Dao, the country's chief prosecutor whom the National Assembly dismissed in November on account of allegations of gross graft.¹⁴ In villages and rural towns, corrupt officials enrich themselves by illegally using land under their jurisdiction. For instance, six district officials in Nghe An province, including the secretary of the Communist party and the district's president, were convicted of pocketing hundreds of millions of dong by illegally buying and selling land, appropriating land for themselves and family members, and demanding bribes.¹⁵

The sad news is that up to now corruption has outpaced the campaign against it, a point that some state officials acknowledge. For instance, Ta Huu Thanh, the state's Inspector General and a member of the Communist Party's Central Committee, recently said, 'Despite all our efforts [against corruption], the results are still low and corruption is still

¹² *Nhan Dan* 26 January 1996:2. The account does not explain who were the remaining 143.

¹³ *Dai Doan Ket* 17 May 1996:6.

¹⁴ Reuters News Service, 7 November 1996.

¹⁵ *Nhan Dan* 15 October 1995:4; also 27 June 1994:1ff.

common and serious in some areas'.¹⁶ Communist Party General Secretary Do Muoi has acknowledged that corrupt officials are putting their ill-gotten money in foreign banks, beyond the government's scrutiny.¹⁷ When the National Assembly met in November 1996, members had to hear 'yet again' reports about corruption, said an article in the National Peasant Organization's newspaper. One report, continued the article, contained 'the startling figure' of 5,000 known cases of corruption thus far in 1996 involving money and property worth US\$109 million.¹⁸ That is 2,000 more cases than was reported for all of 1992. The average value per case in 1996 is US\$ 21,800, nearly ten times more than the 1992 average of US\$ 2,920.¹⁹ A 1996 survey found that business people ranked Vietnam as one of the three most corrupt places to do business in Asia.²⁰

The encouraging news is that the government is accelerating its efforts to counter the problem in order to overtake the spread of corruption. Lt. General Le Kha Phieu, a member of the Communist Party's political bureau, recently made a 'hard hitting speech' to the Economic Police, one of the country's key corruption-fighting units, that insisted on strict enforcement of the laws against corrupt officials no matter '...who they are and what position they are in'.²¹ Prime Minister Vo Van Kiet,

¹⁶ *Lao Dong*, 18 September 1996:1.

¹⁷ *Financial Times* 22 October 1996.

¹⁸ *Nong Thon Ngay Nay*, 6 November 1996:4. The value is reported as follows in the article: '5000 vu tham nhung voi so tien, tai san bi thiet hai len den 1,2 ty dong, 34 trieu USD (sic).'

¹⁹ For 1992 figures, see Ben Kerkvliet, 'Politics of society in the mid 1990s', in Benedict J. Tria Kerkvliet, ed., *Dilemmas of Development: Vietnam Update 1994* (Canberra: Department of Political and Social Change, Research School of Pacific and Asian Studies, Australian National University, 1995), p. 2.

²⁰ The other two countries were China and Indonesia. The Philippines was cited as being the fourth most corrupt Asian country (Agence France Presse, 7 April 1996).

²¹ Reuters News Service 21 October 1996.

addressing the National Assembly in November, proposed new penalties against corruption and smuggling. And at least one other high ranking official, Le Duc Binh, assistant to the Communist Party's Secretary General, has publicly criticised the Prime Minister for not proposing sufficiently specific action. Meanwhile, the Secretary General himself, Do Muoi, has proposed several new measures including requiring government officials, regardless of rank, to declare all their assets.²²

Also encouraging is that many people from many different walks of life oppose it. Indeed, corruption is one political issue that appears to upset a large proportion of people. They may not quite know what to do nor are as effective opposing it as they would want, but nevertheless they do what they can. A friend of mine who is clerk in a government office was furious about superiors who milked citizens of money for services that they should have provided without charge. Feeling powerless to confront her bosses yet unable to stomach the situation, she eventually quit her job and found another, where she hoped she would not encounter a similar dilemma. Other indignant citizens petition authorities and write to national newspapers naming names. In the Nghe An example above, residents' persistent complaints against district officials, even to the point of disputing the results of earlier investigations that found no wrong doing, ultimately helped to expose the corrupt officials. Sometimes when whistle blowers are victimised by the very officials they complain about, other citizens rally to support them by petitioning higher officials and writing to national magazines.²³ About forty people in Hanoi were so upset about blatant corruption that they boldly demonstrated in front of the office of the city's Communist party chief. They were protesting against officials who had pocketed money intended for them as

²² Reuters News Service, 14 November 1996.

²³ For instance, see *Dai Doan Ket* 4 April 1996:1ff, and 20 June 1996:6.

compensation for land, which the city had taken from them in order to build new roads.²⁴

Voters' petitions and letters to the National Assembly frequently urge protection for those who expose corruption. Those petitions and letters also praise journalists who write about corrupt officials. Discontent about corruption generally was one of the dozen or so major themes citizens emphasised in their communications to the National Assembly in 1995 and 1996. Many complained about ineffectual implementation of anti-corruption laws and regulations and called for the establishment of new, special organisations at local levels across the nation whose job would be to fight corruption.²⁵ Several newspaper readers commenting on the draft report of the Communist party's Central Committee, which circulated nationwide prior to the mid 1996 VIII Party Congress, criticised the lack of determination on the part of leaders, including those in the Communist party, to punish corrupt officials.²⁶ Writing in the same context—the lead up to that Party Congress—a concerned lawyer warned that embezzlement and the squandering of state resources constitute a 'national plague' (*quoc nan*) and one of the matters that 'stung people the most and that most undermined popular support'.²⁷ 'Our state and our system,' he continued, 'cannot co-exist with the embezzlement and squander enemy'.²⁸ Taking this point a bit further, another writer warned that corruption had destroyed other countries; hence, it must be vigorously fought in order to save Vietnam.²⁹ Corruption will continue to be a serious problem in the country for some time to come. The chances are good,

²⁴ *The Straits Times* 5 May 1996.

²⁵ *Dai Doan Ket* 18 October 1995:3, and 14 March 1996:4.

²⁶ See, for instance, *Ha Noi Moi* 24 May 1996:1ff and *Nhan Dan* 27 May 1996:1ff.

²⁷ 'Nan tham o lang phi la mot trong nhung dieu nhuc nhoi bac nhac cua nhan dan, mot trong nhung dieu chu chot lam mat long dan.'

²⁸ *Dai Doan Ket* 28 May 1996:6. 'Nha nuoc ta, che do ta khong the chung song voi giac tham o lang phi.'

²⁹ *Dai Doan Ket* 3 June 1996:1ff.

however, it will be significantly reduced if Vietnamese citizens continue to object and to pressure authorities to take effective measures against it.

Socioeconomic differentiation

A second broad impression left on me after nearly a year in Vietnam is poverty and socioeconomic inequality. Having lived off and on in the Philippines, I have become somewhat 'numbed' to sights of poverty and socioeconomic inequality, just as by living in the United States and Australia I tend to forget, because the standard of living for most people is reasonably comfortable, that only a tiny fraction of the population has about half the wealth in each of those two countries. Nevertheless, visible evidence of poverty and inequality in Vietnam continues to startle me.

In each of the four times that I have returned to Vietnam between 1990 and 1995-96, the contrasts between rich and poor living conditions or even between poor and middle class ones have grown more distinct, both in the cities and in the countryside. Leaping out before my eyes in Hanoi in September 1995 were several automobile show rooms which I had not seen before. Particularly striking was a Chrysler dealership, which had a gleaming red model basking in the plate-glass filtered sunshine. The first time I saw it, there happened to be squatting in the shade a few meters away an elderly lady wearing tattered, dusty clothes. She soon stood up and raised to her shoulder, with a grimace crossing her wrinkled face, a long bamboo pole with a heavy basket of bananas hanging from each end. The contrast between her appearance and gait, on the one hand, and hundreds of Honda motorcycles whizzing around her, on the other, was stark enough; the sight of her shuffling down the street directly in front of that red Chrysler was mind boggling. Many months later I saw for the first time a new Chrysler actually being driven through the streets of Hanoi. (It had a Vietnam government license plate.) As it jostled with pedicabs, bicycles, and motorcycles (including mine) on crowded Hang Bong street in

late afternoon traffic, I recalled that poor banana vendor and wondered how she was doing.

Most efforts to define and measure poverty in Vietnam emphasise income, which, as one analysis reminds us, does not capture the multifaceted, complex elements of being poor.³⁰ Even when just looking at income, analysts do not agree on the extent of poverty in the country, although all agree that it is a serious matter. One Vietnamese social scientist, summarising various survey results and apparently using relatively low criteria for what constitutes poverty, concluded that between 25 and 30 per cent of the country's population is poor, 10-15 per cent are rich, and 55-65 per cent are in between.³¹ Using different criteria, a World Bank study concludes that about 51 per cent of Vietnam's population is at or below the poverty line.³² It does not comment on the proportion of people who are rich or in the middle. Applying the bank's criteria converted into monetary terms (1.09 million dong per person per year) to income distribution data from a national survey collected by Vietnamese government agencies with assistance from international agencies including

³⁰ Cong Ty Aduki, *Van De Ngheo o Viet* (Hanoi: NXB Chinh Tri Quoc Gia, 1996), pp. 3-32.

³¹ Nguyen Huu Dung, 'Thuc Hien Mot Chinh Sach Xa Hoi Cong Bang va Nhan Dao Gop Phan Dieu Chinh Su Bien Doi Co Cau Xa Hoi o Nuoc Ta trong Qua Trinh Doi Moi' [Implementing a Just Social Policy and Adjusting in a Humane Manner to Social Structural Changes in Our Country during the Process of Renovation], in Do Nguyen Phuong, ed., *Ve Su Phan Tang Xa Hoi o Nuoc Ta trong Giai Doan Hien Nay* (Hanoi: Chuong Trinh Khoa hoc Cong Nghe Cap Nha Nuoc KX 07, De Tai KX 07, 05, 1994), p. 66. For a similar estimate, see in the same book Do Nguyen Phuong, 'Phan Tang Xa Hoi: Mot Xu The Tat Yeu cua Xa Hoi Viet Nam Hien Nay' [Social Differentiation: An Inevitable Trend in Vietnamese Society at the Present Time], pp. 7-9.

³² World Bank, Country Operations Division, *Vietnam: Poverty Assessment and Strategy* (January 1995), p. 7.

the World Bank, I calculate that around 64 per cent of Vietnamese are poor.³³

I hasten to add that having a large percentage of people who are poor is not new in Vietnam. Poverty is not the result of renovation (*Doi Moi*). Most of the country's population has been poor all of this century and probably the centuries before that. And compared to how the poor lived forty years ago, the poor today in most, perhaps all parts of the country are better off. Considerable strides have been made under the Communist Party's social policies since the mid 1950s. Indicative is that life expectancy has risen from 55 years in 1970 to 67 in 1990 and infant mortality during those two decades has fallen from 104 per 1,000 to 42.³⁴ A 1992-93 sample survey found that living conditions had improved during the previous five years in 95 per cent of 120 rural communities across the country. The main explanation people cited was the changes in agricultural policies during the last decade (decollectivisation, etc.).³⁵

All sources recognise that the proportion of people who are poor is higher in the rural areas than in the urban ones and is highest in the north central and northern uplands regions and lowest in the south east region. The World Bank's study says rural poverty averages 57 per cent across all regions, which is '...about twice as high as the 27 per cent poverty rate found in the urban areas'.³⁶ Compared to other Asian countries, the degree of income inequality is modest in Vietnam, but several studies argue that the gap has been rapidly widening since the early 1980s.³⁷

³³ The income distribution is in State Planning Committee and General Statistics Office, *Khoa Sat Muc Song Dan Cu Viet Nam: Vietnam Living Standards Survey 1992/1993* (Hanoi: 1994), p. 28.

³⁴ Frida Johansen, 'Poverty Reduction in East Asia: The Silent Revolution', World Bank Discussion Paper 203 (Washington: The World Bank, 1993), pp. 51-2.

³⁵ World Bank, *Vietnam: Poverty Assessment*, p. 9.

³⁶ World Bank, *Vietnam: Poverty Assessment*, pp. 12-65.

³⁷ One analyst says that income of the rich in the 1970-1980 period was three to four times that of the poor, but in the 1982-1992 period it became

Sociologist Pham Bich San summarised the situation well when he reportedly said that ten years ago Vietnam had mainly two groups, the poor and the less poor; now it still has the poor and less poor but in addition has well-to-do and very wealthy sectors of society.³⁸ The GINI coefficient, a standard indicator of inequality, averages 0.38 across the country, according to 1993 income data, but ranges from 0.245 in rural northern uplands to 0.48 in the urban areas of the Mekong delta. Such data show that income inequality is largest in areas with fastest economic growth (the urban areas) and least in slow growth parts. My visual impressions support this.

A simple example is ice cream, which many Vietnamese enjoy. Those residents in Hanoi and Ho Chi Minh city with very little discretionary income but wanting a treat on a hot, muggy day will savour a small cone of rather watery ice cream that costs around one thousand dong, purchased at a small stand or from a passing vendor and eaten while loitering around or walking down the street. Those with somewhat more income may chose to sit in a neighbourhood refreshment bar and order ice cream served in a cup and eaten with a tiny aluminium spoon. That costs between two and three thousand dong in Hanoi and a bit more in Ho Chi Minh City. Better off people in the cities have additional options. They can go to recently re-decorated refreshment bars with wooden or plastic chairs and tables and order Italian or French styled ice creams served in dainty glass cups with little cookies and a bit of fruit on top. That will cost five or six thousand dong. The places of even higher status are well appointed, air conditioned ice cream parlours featuring banana splits, malts, and other elaborate ice cream concoctions costing 40,000 dong and up. The cheapest item is a single scoop cone

fifteen to twenty times greater. Nguyen Huu Dung, 'Thuc Hien Mot Chinh Sach', p. 66.

³⁸ Associated Press, 28 October 1996.

costing 12,000 dong (more than one US dollar), about twelve times what the poorest ice cream eater could afford to pay.³⁹

The scale of differences in ice cream is readily replicated in modes of transportation, housing, appliances, drinks, brands of cigarettes, clothing, shoes, hair styles, and where one's kids go to school. These and many other things differentiate urban people more clearly now than they did a few years ago. Even private telephones, which up until just three or four years ago, were rare as hen's teeth are no longer an oddity. And for people with money, not just any phone will do. They must have the latest model of *mobile* phone, costing upwards of US\$ 600 per unit, not to mention monthly service charges. The number of mobile phone subscribers has accelerating rapidly, from 3,200 in 1994 to 57,000 in October 1996, and is expected to reach 200,000 by the year 2000.⁴⁰

Contrasts in the rural areas are less striking although are nevertheless apparent. From roadways on top of the tall dikes winding through the Red River delta one sees in village after village recently built three, four, even five story homes towering over the single story houses of residents of more modest means. In southern villages, sturdy brick and concrete houses with tiled roofs and elaborate court yards stand in contrast to the far more numerous homes made of bamboo and thatching. Appliances and other furnishings within houses further signify material differences among villagers.

Mrs. Huyen, 67 years old, lives with her husband, daughter, son, daughter-in-law, and grandchildren in a small house in a village of Da Ton commune south of Hanoi. The main room has two wooden beds, a plain chest of drawers on which deceased relatives' pictures and the family's ancestral altar sit, an old black and white television, a small wooden table sitting between

³⁹ One top-of-the-line place is Baskin-Robbins, the American-based ice cream chain that has opened within the last couple of years several establishments in Hanoi and Ho Chi Minh City to which flock well-heeled local people (particularly fashionably dressed teenagers) and foreigners.

⁴⁰ *Financial Times* 28 October 1996:6; Reuters News Service, 4 October 1996.

two wooden benches. Apart from some clothing and blankets piled on the beds about the only other item in the room is an electric motor for a water pump lying on the floor between the two beds, where Mrs. Huyen's husband stores it when not being used in their rice fields. The family cooks with coal in a small kitchen to one side of the main room and draws its household water from an outside well. The toilet is a makeshift outhouse near the pig sty. Though in one of Da Ton's poorest households, Mrs. Huyen is generally upbeat about her family's situation in 1996 because it was much worse ten years ago. At that time, for instance, her family had no bicycle whereas now the household has two. And they had no blankets, she said, pointing with some pride to the several heavy blankets the family now owns. During winters they used to pile rice straw on one bed where everyone slept together in order to keep warm.

About two kilometers away lives Mrs. Ly, aged 48, in a house similar in shape to Mrs. Huyen's but about twice as large. That and the contents suggest that Mrs. Ly's household is one of the better off ones in Da Ton commune. At one end of the large central room is a floor to ceiling modern wooden cabinet designed to hold the family's large coloured television set, a video cassette recorder, and a stereo system as well as several decorations. There is even a telephone, installed a year ago, making Mrs. Ly's household one of the first in the commune to own a phone. Along another wall is an elaborately decorated and carved chest of drawers on which the family's ancestral altar sits. The room also has two beds, which appear to be bigger and fancier than those in Mrs. Huyen's house, and several comfortable wooden chairs arranged around a polished rectangular tea table on which stands an electric jug to keep water constantly hot for the next pot of tea. Added to the house a couple of years ago is an indoor kitchen with refrigerator, electric stove, and several cupboards and counters, and an indoor bathroom, complete with a shower and bathtub.

Both of these households farm land that has been distributed remarkably equitably, not only in Da Ton but in most villages during decollectivisation. Huyen's household actually has a bit

more land per person than does Ly's (576 square meters compared to 466) although Ly's has more land (about 10.5 sao or 3,732 square meters compared to Huyen's 8 sao or 2,880 square meters) because Ly's household is larger. What helps to explain the difference in material living standards is that Huyen's household has only recently begun to have some income from sources beyond their farming whereas Ly's has had other income since 1975 when her husband (a wounded war veteran) began working in the district administrative office.

These two households illustrate two patterns found in national survey data: First, farming households in northern and central Vietnam that rely entirely or largely on farm income are generally poor while those with significant off-farm income are generally better off. Second, few households with members working in government jobs are poor.⁴¹ Indeed, having a government position (including positions in state owned enterprises) increases the chances that a household can become relatively wealthy, particularly in urban areas.⁴²

How to augment farm income with other work is a problem millions of rural families seem to be trying to solve these days. With opportunities being scarce in the countryside itself, people by the tens of thousands migrate on a temporary or long term basis to urban areas where they do a wide range of jobs. This is a method earlier generations of rural Vietnamese also tried.⁴³ Even in the 1960s, at the height of the command economy when restrictions on unauthorised population movements were

⁴¹ World Bank, *Vietnam: Poverty Assessment*, pp. 14, 66.

⁴² Do Nguyen Phuong, 'Phan Tang Xa Hoi', pp. 12-3.

⁴³ Greg Lockhart writes that 'The displacement of individuals from families or villages and their movement into the city's lower working classes is, in various ways, a central theme ...' in the three stories about Hanoi workers in the 1930s, which he and Monique Lockhart have translated. 'Introduction: First Person Narratives from the 1930s,' in *The Light of the Capital: Three Modern Vietnamese Classics*, translated by Greg Lockhart and Monique Lockhart (Kuala Lumpur: Oxford University Press, 1996), p. 10.

supposedly most strictly enforced, rural people slipped into the urban 'sneaky economy' (*kinh te chui*) as one Vietnamese described it to me. A woman now 40 years old started working as a street vendor in Hanoi at the age of twelve—in about 1968—by accompanying her parents who went back and forth between Hai Hung province and Hanoi selling assorted wares.⁴⁴ In recent years, the rural-urban circular migration process has accelerated.

Legally speaking, people are still supposed to be registered residents in order to stay and work, even temporarily, in the cities. But in practice, many are not. A survey by the Ministry of Labor found in 1993 that 73 per cent of the 'spontaneous migrants' in Hanoi had not registered and 67 per cent had left their home places without asking the local authorities there for permission to leave, another violation of residency laws.⁴⁵ Recent reports from Dong Da ward in Hanoi claim that only 84 per cent of the households have proper registration papers (*co ho khau thuong tru an o dung noi quy dinh*), meaning 16 per cent are not legally registered. Three per cent of those without appropriate residency documents are from other provinces and cities.⁴⁶ An estimated 500,000 people residing and working in Ho Chi Minh City, or about 5 per cent of that city's official population, are not registered to live there.⁴⁷

The lady from whom my wife and I regularly bought bread (*banh mi*) had a husband and children still in her home village, to which she periodically returned carrying money she had managed to save. The middle aged woman who often sold us bean curd (*tao pho*) which she and her sister made and vended from door-to-door, was from a village in Hai Hung province 60

⁴⁴ *Dai Doan Ket* 8 July 1996:7.

⁴⁵ Li Tana, *Peasants on the Move: Rural-Urban Migration in a Hanoi Region*. (Singapore: Institute of Southeast Asian Studies, 1996), p. 31.

⁴⁶ *Ha Noi Moi* 2 August 1996:2.

⁴⁷ The article in *Dai Doan Ket* (18 July 1996:1) provides the figure 500,000, which would be about 5 per cent of 4.5 million, Ho Chi Minh City's estimated population.

kilometers southeast of Hanoi. She saw her family there once every other month. A man named Thang with whom we frequently chatted was from Nam Ha province near the coast about 120 kilometers southeast of Hanoi. Leaving his wife and kids in his home village, he had come to Hanoi over ten years ago, working a variety of jobs until saving enough to buy a motorcycle on which he now taxis passengers. He periodically returns to Nam Ha, stays with his family for a few weeks, then comes back to Hanoi to resume working.

At times the sacrifices of being far from home are onerous for itinerant urban residents, but they persevere. Recalling her feelings after hearing that her parents, who lived in her distant home village, had suddenly become seriously ill, one vendor in Hanoi said she was so sad about being unable to abandon immediately her bread selling and return home to care for them that she could scarcely call out her wares. 'My insides,' she said, 'were as hot as flames....Life is full of sorrow. And the sorrow from having to be far from home is extremely hard to bear'.⁴⁸

Many of the pedicab drivers, street vendors, and scavengers readily visible in Hanoi are people with one foot in the city and the other in their home villages.⁴⁹ The same is true in other cities, like Thanh Hoa, Da Nang, and Ho Chi Minh.⁵⁰ The last, in the far south of the country, draws rural people from as far north as Nam Ha and Hai Hung provinces.⁵¹ From sun up to late in the evening, men and women, young and old, are walking and cycling through city streets and alley ways or sitting on the curbsides selling bread, rice, sticky rice, various other foods,

⁴⁸ *Dai Doan Ket* 8 July 1996:7.

⁴⁹ For two fascinating studies of such people, see Li Tana, *Peasants on the Move* and Michael R. DiGregorio, *Urban Harvest: Recycling as a Peasant Industry in Northern Vietnam* (Honolulu: East-West Center, Occasional papers, Environment Series, no. 17, 1994).

⁵⁰ See, for instance, the story about laborers from the countryside looking for work in Thanh Hoa city: *Dai Doan Ket* 27 June 1996:7.

⁵¹ *Dai Doan Ket* 18 July 1996:6; conversations in Hai Hung province, 25 November 1995.

blankets, shoes, jewellery, cosmetics, floor mats, cigarettes, beer, lottery tickets, to name a few of their wares. Some itinerants are looking to buy stuff—like old bicycles, old newspapers, scrap iron, rubber, and anything else re-sellable in the recycling market. Others are selling services and skills, like lock smithing, watch repairing, tire pumping, bicycle and motorcycle repairing, and shoe shinning. On the days that I went to the national archives in Hanoi I passed dozens, sometimes hundreds of men standing or sitting along Giang Vo street, one of the city's several public 'labour markets' (*cho lao dong*) waiting to be hired to do any kind of job. During the cold months of January and February, they huddled together, often barefoot and wearing little clothing for protection against the freezing wind. Not all of these vendors and service providers are from the countryside, though many are. And for most—whether bonafide city residents or migrants—making a living is often precarious and can lead to acts of desperation, such as selling illegal drugs, working as bar girls, or becoming prostitutes.⁵² Police report food hawkers are among those selling heroin in Vietnam's cities.⁵³ Forty per cent of the hostesses (*tiệp vien*) in the beer parlours of Ho Chi Minh City are reportedly girls from the provinces.⁵⁴

The method of earning money that most staggered me involved people, some of them elderly, forced by destitution to sell their blood. According to a newspaper account, between 800 and 1,000 people regularly do this now to one Hanoi hospital.⁵⁵ How many people were doing the same to other medical facilities is unknown. For 250cc of blood, a person receives 150,000 dong—about one third to one half the monthly wage of many labourers.

⁵² International heroin traffickers have reportedly set out to create a market in Vietnam. Nation wide efforts against drug trafficking and prostitution are among the 'anti-social evils campaigns' that the state has been pressing in 1996.

⁵³ Reuters News Service, 17 October 1996.

⁵⁴ *Dai Doan Ket* 18 July 1996:6.

⁵⁵ *Dai Doan Ket* 13 June 1996:6

Hospital regulations prohibit a person from selling blood more than once in two months. No doubt imposed to protect the seller's health, the regulation became a money making opportunity for the staff member in charge of recording when a person last sold. She would loan money to sellers desperate for cash but for whom two months had not yet lapsed. When the time arrived that they could sell again, she collected the loan plus 15 to 25 per cent interest. In this manner she was netting 750,000 to 800,000 dong a month, probably more than twice times her hospital salary. Eventually, the police brought charges against her, and the hospital administration removed her from her position. The situation, however, possibly continues elsewhere in the city.

Some people manage to climb from poverty or near poverty to wealth. One of my favourite examples is a family in Bat Trang commune south of Hanoi, some of whose members a few years ago peddled pottery in Hanoi. Now the family annually exports container loads of pottery to Japan, Singapore, France, Australia, and other countries. In addition to significantly improving their own lot, the family's business has also helped to raise the material living standards of its 400 workers who make and pack the pottery, many of whom are sons and daughters of peasant families wanting ways to supplement their small incomes from farming. This exemplifies the trickle down approach to reducing poverty that the Vietnamese government and international lending and donor agencies applaud. But recent survey data suggest that for every 27 per cent of the poor who raise their living standard, another 40 per cent suffer setbacks.⁵⁶ Poverty reduction is likely going to be a long term project.

Public and private decorum

Most Vietnamese citizens take tremendous pride in their nation—its history, heroes and heroines, mountains and waterways, music, literature, architecture, cuisine, among other attributes. People's pride in their country and in being

⁵⁶ *Tuoi Tre Chu Nhat* 4 August 1996: 8.

Vietnamese seems more pronounced than what Filipinos express toward their own country and their own identity. I cannot demonstrate or support this assessment other than to note that I have heard Filipinos who have been to Vietnam or interacted with Vietnamese make the same kind of comparison.

This strong love of country and shared bond of being Vietnamese sits awkwardly alongside people's public behaviour toward each other, which often strikes me as having an air of distance, even disdain. Obviously, these are my impressions, those of a foreigner. I elaborate not to defend them but to invite others who know the country better, especially Vietnamese, to enlighten me, help me to understand, and tell me I am just plain wrong.

Broadly speaking, in public, Vietnamese are usually expressionless, stern, even cold and uncaring toward strangers. For me, walking down streets in Vietnam is distinctly different from walking in the towns and cities of the Philippines. In the latter, people are often laughing, giggling, horsing around, and expressing other emotions like discontent and anger. As likely as not, people in doorways and market stalls will smile or say hello to those passing by even if they do not know each other. Such greetings do occur in Vietnam but more commonly people keep their distance, physically and through facial expressions that seem to communicate indifference. Personally, I am not complaining; in this respect I prefer walking in Vietnam because I do not appreciate being gawked at, which often occurs in the Philippines. But noticing this mood of indifference among Vietnamese themselves, I wonder what it means, particularly given people's shared pride in being Vietnamese.

Other public behaviour also suggests indifference, even callousness and unconcern toward fellow citizens. In eating stalls and cheap restaurants, customers typically dump chicken bones, throw peelings, spit out seeds or other inedible things to the floor, leaving garbage through which succeeding customers have to walk and then add their own debris as they eat. Proprietors periodically sweep but on a busy day they cannot keep the floor free of clutter. In banks, post offices, and shops, customers often

insist that clerks attend immediately to their requests, seemingly unaware that others who were there first are being served. In a photocopy shop on Hai Ba Trung street in downtown Hanoi, for instance, I watched customer after customer come in and rush directly to the copy machine attendant, who was copying someone else's papers, and thrust their pages or books in front of him, apparently expecting the attendant to stop the ongoing job to attend to them. Sometimes he did, other times he did not. Such aggressive, self-centred behaviour occurs even in establishments with signs requesting customers to line up, unless the clerk requests the customer to wait his or her turn. Even then customers often plead that the clerk deal with their need immediately. Coming to narrow passage ways in a street or lane, motorcyclists will likely crowd each other in their scurry to be the first one through, creating in effect further congestion and making it even more difficult for anyone to move. Similarly, on many occasions I've observed motorcyclists, in their insistence to overtake a slower vehicle or pedestrian ahead of them as they together approach a narrowing in the road, practically run over the slower ones rather than let them pass through first.

A friend of ours, a foreigner who works in Vietnam, once saw a motorcyclist hit a pedestrian who was crossing the street. The motorcyclist saw the man go down but did not stop. Our friend, Lee, who was several meters away when this happened, at first did nothing himself. He expected Vietnamese passers-by to help the man, who by now was dragging himself toward the side of the road. But no pedestrians nor cyclists stopped. After a few minutes Lee went over, saw the man was bleeding badly, and tried to get the attention of others. Still no one stopped. Lee ended up hiring a pedicab and took the injured man to a hospital, which refused to treat him until Lee paid a deposit toward the fellow's medical expenses.

Completely different is the behaviour among people who are acquainted with each other and in homes, offices, and other private settings. Vietnamese then are extremely polite and gracious to each other. Dinner guests do not throw waste from their bowls to their host's floor. And hosts go out of their way to

offer tea, cigarettes, fruits, and other food to casual visitors and put on elaborate meals for people invited to lunch or dinner. Guests typically remove their shoes before entering someone's home. Walking through a door or narrow passage with a group of acquaintances is usually preceded by gracious gestures inviting this or that person in the group to pass through first. People in such a group never try to jostle their way through simultaneously.

Conversations among acquaintances, friends, and relatives who have different, conflicting, or competing needs are typically laced with words like *tinh cam* and *thong cam* conveying sentiments of concern, respect, and solidarity with each other and sympathy, understanding, consideration and forbearance toward each other. People who convey their respect and concern for others are themselves respected and praised. On the other hand, people who ignore others or who are thoughtless or overbearing in their dealings with acquaintances earn enmity and disdain.⁵⁷

While trying to understand contrasting forms of behaviour among Vietnamese, I have been toying with the distinction between 'noi' and 'ngoai', inside and outside, that Vietnamese often make. 'Inside' relations are generally where consideration, respect, sympathy, and understanding apply; 'outside' relations are generally where such decorum applies less. Vietnamese society seems to be composed of wheels within wheels of 'inside-outside' relations, with the innermost being one's family, particularly on the paternal side, and the outermost being complete and total strangers, whether they be Vietnamese or non-Vietnamese.

Relationships are, in a sense, positioned along an 'inside'- 'outside' continuum. For example, individuals from the same province or district who are otherwise unconnected have more basis for an inside relationship than would strangers from

⁵⁷ For a discussion of such sentiments, see Shaun Malarney, 'Ritual and Revolution in Vietnam,' PhD dissertation, University of Michigan, 1993, pp. 195-96.

different provinces or districts. Having attended the same school or university or been in the same army unit is another way individuals who otherwise have no bonds can have an inside relationship. People within the same village but from different family lineages would be more distant from each other than would villagers who are of the same lineage. But the two lineages would be inside to each other in relation to people in a different village. Even a family can have inside and outside gradations. The paternal side of one's family is more inside than is the maternal side. Offspring from a man's second marriage are less inside compared to those of the man's first marriage, and a man's second wife and her relatives are more outside than are his first wife and her kin. Family conflicts rarely dispute claims of the paternal side but do contest those from the maternal side. A woman in a rural part of Hanoi claimed, for instance, to be suffering the double whammy of being victimised both by her own children (particularly her sons) and by children of her deceased husband's first marriage, all of whom, she said, were trying to take away possessions that belonged to her.⁵⁸

Relationships can change, becoming more inside or more outside according to shifting circumstances. And there are many means by which people can build closer bonds between themselves. People who were once distinctly outside can become more inside through marriage, for instance, or by joining the same organisation, making acquaintances, or moving into the same village or neighbourhood.

The process of bonding people together who only recently have been in proximity with each other can take considerable time. To become inside through residence, for example, may take years. Relative newcomers to a village in many parts of rural Vietnam, at least in the past, were not permitted to participate in official activities or have claims on local resources until they had obtained full standing in the village, which could take three or

⁵⁸ *Dai Doan Ket* 17 June 1996:3.

four generations.⁵⁹ One of the problems agricultural cooperatives encountered in the north during the 1960s-80s was the animosity, distrust, even outright hostility among the several villages (*lang, thon*) in a commune (*xa*) that were supposed to pool their land and other resources and work together. Trying to bond together these different villages, which had a long history of being outside to each other, often went little further than creating a veneer of formalistic linkages. When the fields of these commune-sized cooperatives were re-allocated during decollectivisation in the late 1980s and early 1990s, bitter conflicts erupted in many places as villagers skirmished, sometimes violently, to reclaim land, buildings, and other property that they said belonged to their own village.⁶⁰

Presumably, inside relationships among urban neighbourhoods are particularly hard to make unless the area is populated by people who came from the same village or family lineage. Without those or other ties, urban residents, even though living close together, may see little reason to be particularly considerate of each other. This was part of the explanation that neighbours provided for why the family next door had nonchalantly installed its noisy factory. That family had never reciprocated any sign of friendship, consideration, or respect for others living nearby, thus communicating that they were not interested in becoming part of the neighbourhood. The wire factory, according to this view, was but the most blatant statement of disregard for neighbours' needs and feelings.

⁵⁹ Nguyen Van Chinh, *In Search of Work: Social Change, Peasant Household Economy and Seasonal Migration in Northern Vietnam*, *Political and Social Change Working Paper No. 13*. (Canberra: Department of Political and Social Change, Research School of Pacific and Asian Studies, Australian National University, 1997), p. 1.

⁶⁰ Benedict J. Tria Kerkvliet, 'Rural society and state relations', in Kerkvliet and Doug J. Porter, eds., *Vietnam's Rural Transformation* (Boulder: Westview Press, and Singapore: Institute of Southeast Asian Studies, 1995), pp. 75-6.

Something like this seems to be what happens in traffic and in other public places that, by their nature, are void of ties except in the broad sense of being fellow members of the nation with which each person derives part of her/his identity. When contrasted with foreigners, this common bond of being Vietnamese is significant.⁶¹ If the Vietnamese nation is assaulted or threatened by foreigners, powerful nationalistic sentiments can rise to the fore, overshadowing and repressing differences. But in normal circumstances, as people go about their own business—tending to the needs and demands of immediate family, kin, close friends, village mates, office mates, etc.—strangers can be safely kept at a distance.

There is virtue in special relationships among people who are kin, work mates, or from the same village or district. But there are also costs. Such relationships can work against rule-by-law, fairness, and equality—other values also celebrated in various quarters of Vietnamese society. They may foster rule-by-connections and personal influence, creating a culture of different rules for different folks, depending on who knows whom. They may also nudge people to appropriate for their own, narrow, inside use what is public or, oppositely, disregard what is public, including the public good, because it is alien and outside one's own personal concerns.

⁶¹ A mundane manifestation of Vietnamese distinguishing themselves from non-Vietnamese may be that foreigners are charged more for train tickets, plane tickets, entrance fees to certain museums and temples, phone service, electricity, housing, and other facilities. One justification is that foreigners generally have more money and can afford to pay more. But if ability to pay were the primary consideration, one would expect prices to vary according to criteria other than just nationality. Vietnamese students or pensioners, for instance, might be charged less. Yet they pay the same for an economy train ticket as any other Vietnamese, including salaried and rich ones, while a foreigner pays much more.

Ending note

Communist party leaders often say that people should emphasise the good of the nation and of 'the people'. The party also implores Vietnamese to guard against tendencies toward excessive parochialism, self-interest, and familialism, which undermine the national and society-wide interests. Party pronouncements also applaud equality, urge better off people to help the poor, and encourage other civic virtues. The person most often held aloft for how leaders and common people alike should behave is Ho Chi Minh. He, it is said, regarded all Vietnamese as his family, served them selflessly, and treated everyone with respect and consideration. In short, the Communist party claims to be trying to protect and advance the public good and the values that can counter negative aspects of inside-outside distinctions.

At the same time, the party itself is caught up in 'outside' and 'inside' relationships that create tensions and quandaries. The Communist party is exclusive, not inclusive. Party members are insiders, who in turn are divided by varying degrees of proximity to the pinnacles of the party's organisation. Non-party members are on the outside. And activities taking place outside the party are often regarded by party leaders with considerable suspicion. Meanwhile, those on the outside—the vast majority of the population—are often mystified, even wary or cynical, of what happens inside the party or, perhaps worse, pay no attention to what the party does because it is so alien and remote from their own concerns.

One can appreciate why party leaders are suspicious of anything out of the ordinary that happens beyond the party's reach or even in the outer circles within the party organisation. Not long ago the Communist party was at the forefront of a bitter, divisive struggle against rival contenders for control over Vietnam. Though now the country is united, considerable distrust and resentment smoulder beneath the surface. It will take a lot of networking over many more years for the divisions of the recent past to fade away. Understood this way, one can appreciate why party leaders abhor any hint of a multi-party

political system and only cautiously open doors to permit non-party people—outsiders—to hold leadership positions.

At the same time, the party and Vietnamese people generally have the problem of how to hold Communist party and government officials accountable in order to rein in abuses of power and corruption, which if not checked could destroy the credibility of the party and the state it runs and provoke widespread discontent, even uprisings. This is not a situation peculiar to the present time or to the Communist party. Before reunification, the north's government had difficulties with corruption and self-aggrandisement. Corruption and favouritism were rampant in the governments of the south and contributed to their demise.

For many Vietnamese a degree of favouritism, even corruption is tolerable, understandable, maybe even desirable. Without it, the political system may well be paralysed by unmanageable rules. People invest considerable time and energy cultivating such relations, hence obviously they are valued. Officials who live only by the literal application of the laws and rules are seen by many Vietnamese as callous and unmindful of people's personal feelings and relationships. Vietnamese citizens also sympathise to a certain degree with officials who use their positions to increase their own income; people realise that most officials cannot possibly live on their small salaries. The problem is the degree to which it is done. Though the zone between tolerable and intolerable favouritism and corruption is not standard, Vietnamese appear to have guidelines for making the distinction. One guideline is implied in this statement from one Vietnamese: 'Poor people want to know why members of People's Committees get big houses before their communities get schools and hospitals'.⁶² Authorities

⁶² The speaker is Duong Quynh Hoa, a pediatrician in Ho Chi Minh City who once was a Communist party member and fought against the pre-1975 southern Vietnamese government. She is quoted in *The Far Eastern Economic Review* 11 July 1996: 18.

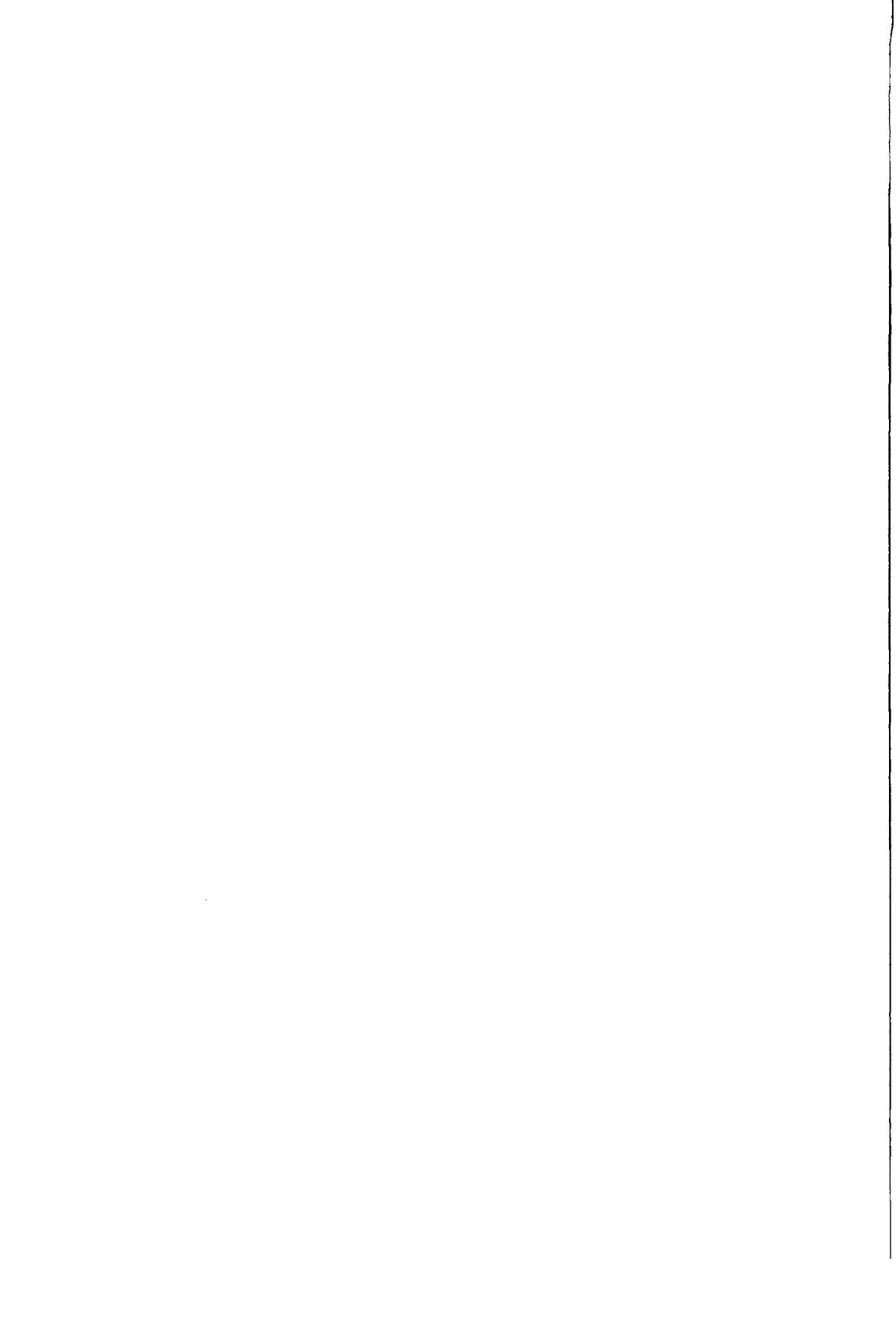
living in comfort while the people whom they are supposed to help are ignored is not a tolerable tradeoff.

Another gauge is the scale of abuse, which is closely related to a third having to do with the manner in which the abuse is done. Traffic cops taking bribes to augment a measly salary is one thing, said a friend of mine, while police chiefs collecting millions of dong from drug dealers or prostitution rings is significantly different. The latter is offensive because the chiefs rake in masses of money and because they get it by being in cahoots with socially abhorrent activities—not to mention highly illegal ones. In Think Liet commune on the outskirts of Hanoi, a man who had been removed from the chairmanship of the commune's agricultural cooperative and even from the Communist party because of corruption was elected again to chair the cooperative a year later. Cooperative members had apparently decided to tolerate his modest indiscretions because in many other ways he had served them well, was mindful of fellow villagers' needs, and went out of his way to build rapport with people. But later his corruption went too far when he used his position to award himself, his relatives, and his cronies choice parcels of land, some of which were sold to urban developers for huge profits. This blatant favouritism and violation of the law for enormous personal monetary gain so angered many residents that this official was defeated when he ran for a seat on the People's Council in 1994.⁶³

This man seems to have remained cooperative chairman, however, and he and his relatives have retained the land and money they gained illegally. This is the rub, and a sign of deep problems for Vietnamese society. Too often favouritism and corruption pays. People not only get away with it but make unconscionable amounts of money or other rewards from it. This widens the socioeconomic gap between, on the one hand, those holding positions of authority or having good connections to those who do and, on the other, those who are not well placed, have no or

⁶³ Shaun Malarney, 'The Dynamics of Local Political Leadership in Contemporary Northern Vietnam', manuscript, (October 1996).

only weak linkages to authorities, or refuse on principle to be corrupt or play favourites. Corruption and favouritism are not the only causes of poverty and widening inequality. Yet many Vietnamese see a connection between socioeconomic deprivation in which the majority of people live and the unfair or illegal use of official positions that benefit only a small circle of insiders. Allowed to persist and spread, this perceived relationship sows distrust, disinterest, discontent, and dissent. It also aggravates the negative aspects of inside-outside distinctions and further undermines other celebrated values such as fairness, equality, and serving the people.



**Sectoral Politics and Strategies for State and Party
Building from the VII to the VIII Congress of the
Vietnamese Communist Party (1991-1996)***

Thaveporn Vasavakul

The label 'one-party rule' notwithstanding, by the mid-1990s the Vietnamese Communist Party (VCP) had become ideologically divided. Party leaders disagreed over strategies for state building in the post-central planning era. Their differences were manifest in the debates prior to the VIII National Congress that met in June 1996 and in the documents endorsed by the Congress itself.

Policy divergences among the Vietnamese leaders were not new. Before 1945, party leaders were split over questions such as nationalism vs. internationalism; class struggle vs. united front; and the urban-based vs. the rural-based revolutionary model. Between 1945 and 1954 during the Franco-Viet Minh War, issues under contention included appropriate revolutionary strategies for the Viet Minh; military strategies during the War of Resistance; and diplomatic strategies during the Geneva conference. Between 1954 and 1975 when Vietnam was divided, party leaders disagreed over the questions of building socialism in the North and supporting political struggle in the South; strategies for the construction of a socialist economy, culture, and education; strategies for the revolution in the South; and policies regarding the Sino-Soviet split.

Outside Vietnam, there are three competing approaches to the study of the policy making process at the leadership level: the factional power approach; the collegial/collective leadership

approach; and the sectoral approach. The factional power approach, advocated by P. J. Honey, views policy differences among party leaders in the 1960s as being driven by individual/factional interests and the attempt of individual leaders to maintain their political positions. Thai Quang Trung uses this model to discuss leadership politics after Ho Chi Minh's death in 1969, arguing that the Le Duan-Le Duc Tho faction took control of the Party apparatus, demoted other factional leaders, and advocated a pro-Soviet policy.¹ David Elliott and Gareth Porter, among major advocates of the collegial/collective leadership approach, however, contend that during the American war in Vietnam the party leaders were similarly driven by their perceptions of common national interests although they disagreed over the means to achieve them.² While the factional

* I thank Adam Fforde, David Marr, Carlyle Thayer, and William Turley for their comments on earlier drafts of the paper. I am responsible for any remaining errors and shortcomings.

¹ See P. J. Honey's following writings: 'North Viet Nam's Party Congress', *China Quarterly*, no. 4 (October-December 1960):66-75; 'The position of the DRV leadership and the succession to Ho Chi Minh', in P. J. Honey, ed., *North Viet Nam Today* (New York: Frederick A. Praeger, 1962), pp. 47-59; *Communism in North Viet Nam* (Cambridge: The MIT Press, 1963); 'Divided counsels in the Party', *China News Analysis*, no. 508 (13 March 1964):1-7; 'The death of Ho Chi Minh and after', *China News Analysis*, no. 785 (12 December 1969):1-7; and 'The reformation of the Vietnamese Party and government', *China News Analysis*, no. 76 (10 April 1981); and Thai Quang Trung, *Collective Leadership and Factionalism: An Essay on Ho Chi Minh's Legacy* (Singapore: ISEAS, 1985), pp. 63-96.

² See David W.P. Elliott, 'North Viet Nam since Ho', *Problems of Communism* (July-August 1975):35-52; David W. P. Elliott, 'Revolutionary Re-Integration: A Comparison of the Foundation of Post-Liberation Political Systems in North Vietnam and China', Ph.D dissertation, Cornell University, 1976; and Gareth Porter, *Vietnam: The Politics of Bureaucratic Socialism* (Ithaca: Cornell University Press, 1993), chapter four. Amongst other scholars, Christine White and Melanie Beresford also subscribe to this view. See Melanie Beresford, *Vietnam: Politics, Economics, and Society* (London and New York: Pinter, 1988), chapter six and Christine White, 'Recent debates in Vietnamese development policy', in Gordon White,

power approach emphasises the existence of factions within the party as the sources of policy divergences, the collegial/collective leadership approach assumes a monolithic character of the leadership fostered through similar class background and shared revolutionary experiences and goals, while recognising party leaders' differences over means to achieve common goals.

Differing from these two approaches, the sectoral approach, advocated by Carlyle Thayer, examines leadership politics and policy orientations from a structural perspective. First, Thayer focuses on stratification and differentiation within the party leadership.

It is argued here that those elected to leadership positions are elected because they have a sectoral or territorial base (e.g. a ministry or a province) rather than owing their position to the patronage of, and their support for, a particular Party 'heavy' or 'boss'. Implicitly, the factional model assumes that there are only two or three important rival politicians (e.g. Le Duan v. Truong Chinh) connected to polarised political positions (e.g. pro-Soviet v. pro-Chinese; orthodox Marxist-Leninists v. economic reformers). The 'sectoral representation' hypothesis proposed here implies that 'interest group' politics is at work in Vietnam and that Central Committee members represent sectorally or regionally based constituencies rather than being straw men filling out a top leader's 'faction'.³

Robin Murray, and Christine White, eds, *Revolutionary Socialist Development in the Third World* (Sussex: Wheatsheaf, 1983), pp. 234-70.

³ See Carlyle A. Thayer, 'The regularization of politics: continuity and change in the Party's Central Committee, 1951-1986', in David Marr and Christine White, eds, *Postwar Vietnam: Dilemmas in Socialist Development* (Ithaca: Cornell Southeast Asia Program, 1988), p. 179. See his criticism of the factional power model in 'Vietnamese perspectives on international security: three revolutionary currents', in Donald H. McMillen, ed., *Asian Perspectives on International Security* (London: Macmillan Press, 1984), pp. 57-65.

In studying the sectoral composition of the Central Committees (CC), Thayer relies on the categories introduced at the V National Party Congress (1982) to classify CC members. Previously, members of the CC had only been divided into two groups, full and alternate, and listed in alphabetical order. At the V Party Congress, however, full members were divided into seven categories: senior party leaders (mainly Politburo members); central-level party and state officials; newly-appointed central-level party and state officials; secondary-level party and state officials; newly-appointed secondary-level party and state officials; military officials; and new military officials. Alternate members were grouped into five subdivisions: senior state officials (vice ministers or equivalent); technocrats and directors of key state-owned enterprises; provincial party officials; junior provincial party officials; and the military.⁴ Thayer uses these categories to group CC members from the II Congress (1951) to the VIII Congress (1996) in order to analyse continuity and change in the leadership over the forty-five year period.⁵ He hypothesises that 'the nature, magnitude, and frequency of changes in the composition of Party leadership posts are the result of political development and emerging organisational complexity, as the Vietnamese political system responds to input demands from its domestic environment'.⁶

Second, Thayer links the changing sectoral composition of the CC over time with changes in policy orientations. For example, he points out that from the III Congress (1960) to the VI Congress (1986), the representation of secondary party and state officials (provincial Party secretaries, economic specialists, and technocrats) on the CC grew from 11 to 49 per cent. He goes on to

⁴ Thayer, 'The regularization of politics', p. 186.

⁵ *Ibid.*, pp. 177-93; and 'The Regularization of Politics Revisited: Continuity and Change in the Party's Central Committee, 1976-1996', a paper to a panel on 'Vietnamese Politics in Transition: New Conceptions and Inter-Disciplinary Approaches, Part 2', the 49th Annual Meeting of the Association for Asian Studies, Chicago, 13-16 March, 1997.

⁶ See Thayer, 'The regularization of politics', pp. 178-9.

argue that in 1986, 'the policies of the central-level economic reformers have found broad support in an emerging coalition of province-level officials, in both north and south Vietnam.'⁷ This observation is consistent with Adam Fforde's arguments on the rise of decentralised 'commercial interests' within the state sector and in the provinces following economic liberalisation after 1979.⁸ In a 1997 study, Thayer observes a gradual increase in the representation of central-level positions at the VII (1991) and the VIII (1996) Party Congresses, a reversal of decentralism evident at the VI Congress.⁹ The change in the sectoral composition of the CC in favour of the central party members is also consistent with Fforde's observation of Vietnam's moving towards political and economic recentralisation in the 1990s.¹⁰

The sectoral approach opens a new path to the study of apex politics and policy making process in Vietnam. Contrary to conventional wisdoms that have conceptualised the communist party as monolithic, it views the party as consisting of clusters of interests that developed as a result of both changes in domestic structure and the increasing organisational complexity of the party apparatus itself. The sectoral representation approach also suggests that policy making was not only concentrated in the hands of a small number of top leaders. Within each sector, vertical relationships between different tiers of party members and connections between party members and their constituencies

⁷ *Ibid.*, pp. 187 and 190.

⁸ See Adam Fforde, 'The political economy of "reform" in Vietnam: some reflections', in Borje Ljunggren, ed., *The Challenge of Reform in Indochina* (Cambridge: Harvard Institute for International Development, 1993), pp. 293-326; and Adam Fforde and Stefan de Vylder, *From Plan to Market: The Economic Transition in Vietnam* (Boulder: Westview, 1996), chapters four and seven.

⁹ See Thayer, 'The Regularization of Politics Revisited', p.11.

¹⁰ See Fforde's article in this volume.

outside the party apparatus also contributed to the policy making process.¹¹

In this paper, I apply the sectoral approach to analyse party members' debates over state building strategies in the 1990s. However, I modify and elaborate on Thayer's approach in three major ways. First, in addition to considering the social composition of the CC as Thayer does, I take into consideration the sectoral composition of the delegates elected by grassroots level congresses to attend national congresses. It was these delegates who elected CC and Politburo members and debated over as well as endorsed congress documents.

Second, I move beyond the sectoral categories employed by Thayer, also incorporating new categories introduced in the 1990s into my analysis. The categories introduced at the V National Congress to classify CC members focused mainly on 'new' and 'old' party members on the one hand and 'central' and 'secondary/provincial' members on the other. As a result, they only provide information on leadership renewal, generational change and central-secondary/provincial party relations. They give no inkling of party members' institutional affiliations; the only two affiliations listed are the 'party/state' (or 'cadres and civil servants') and the 'military'.

In fact, sectoral interests and their representation changed between 1986 and 1996. As shown in Appendix I, delegates to the VI Congress were classified according to class composition as

¹¹ In the 1980s and 1990s, a number of Vietnam scholars turned to the state-society approach as a tool to analyse Vietnamese politics making. However, whether and how the state-society dichotomy is adequate and appropriate for analysing Vietnam have to be debated. Scholars following the state-society approach have tended to collapse the entities 'state' and 'party' and treat the party/state as monolithic. In addition, they have also failed to take into account the nature of the political economy of state socialism in conceptualising the 'state'. Under a system where production units formed part of the state apparatus, should political conflict that was fought out within these units be conceptualised as a manifestation of conflict between the state and society or merely one within the state apparatus itself?

well as their central or provincial affiliations. The class labels were industrial workers, peasants, cadres and civil servants, and petty bourgeoisie, while the central-local labels were members from provinces, municipalities, and special zones vs. members from central party organisations. For the VII and the VIII Congresses, however, new categories were introduced (Appendix II). Delegates were divided into groups based on sectoral affiliations: delegates from the army, those from the security forces, those doing party work, those from the government sector, and those responsible for mass organisations. Central-provincial affiliations and class composition were dropped. I will take into consideration these additional dimensions of sectoral interests in discussing state-building strategies in the 1990s.

Finally, in focusing on the development of sectoral interests and competition within the party, Thayer implicitly raises the question of how the VCP could survive internal conflicts within its rank-and-file. In this paper, I attempt to address this question, examining the leadership's move to reform the party apparatus in order to create an institutional framework within which intra-party differences could be ameliorated.

Briefly, I argue that the sectoral politics which emerged in the 1990s signified a new form of Vietnamese politics. Its development was derived from (and marked by) the increasing differentiation within the leadership structure following economic liberalisation and political reform in the 1980s and 1990s. Policy differences that resulted were not precipitated by personal or factional differences of Politburo members, but by competition among different sectoral interests within the party. Although these differences were expressed by individual party leaders in the Politburo, as in any sectorally structured polity, they were not reducible to their personal power ambitions. In addition, the sectoral politics in the 1990s indicated a lack of consensus among party leaders over *both* what national interests were and how to achieve them. The meaning of 'national interests' themselves had to be constantly negotiated, and in the 1990s, the term '*khoi*' or 'bloc' has become a common term used to

refer to formal or informal 'alliances' of institutionally-based sectors with shared interests. One mechanism on which the VCP relied to curb competition and conflict among different interests within the party was the rebuilding and strengthening of the framework within which differences could be minimised.

I divide this paper into four major parts. I first examine the different dimensions of sectoral politics within the VCP in the 1990s. Owing to the limited material available at present, the discussion in this section should be treated as preliminary. In the second part, I map out policy campaigns and counter-campaigns that unfolded in 1995 and 1996 and examine the debates over strategies for state building in the lead-up to the VIII National Party Congress in June 1996. I focus in detail on Prime Minister Vo Van Kiet's viewpoints as expressed in his letter to the Politburo in comparison with the opinions of other party leaders. In the third part, I examine state-building strategies adopted by the VIII Congress, highlighting signs of policy compromise. In the final section, I outline certain party building measures adopted and implemented between the III Plenum of the CC in 1992 and the VIII Congress in the context of party leaders' attempts to create a framework within which differences between party members could be contained and moderated.

Sectoral politics in the 1990s

The period between 1986 and 1996 saw the rise of two-dimensional sectoral interests within the VCP. The first, as reflected in the sectoral composition of the delegates to the VI National Congress suggested signs of tension between central and secondary/provincial party cadres. By the 1990s, at the VII and VIII National Congresses, however, another dimension of sectoral competition surfaced, centring upon party members in the party work, the state, and the army sections. I argue that while the central-secondary/provincial tension was largely a product of economic reform in the 1980s, the rise to importance of tensions between the party work, the state, and the army sectors was precipitated by political reform in the 1990s.

Tension between central and secondary/provincial cadres mirrored at the VI Congress had its roots in the economic liberalisation that unfolded after 1979. An economic crisis following the implementation of large-scale socialist development in the South and popular resistance to the VCP's economic policy forced the Party to rethink its socialist economic development policy. In August 1979, the VI Plenum of the CC (IV Congress) moved to endorse production units' economic activities outside the plan and in 1981, the output contract system and the three-plan system became the main economic models for agriculture and industry respectively.

The new economic order that emerged in the 1980s was the one in which production units gradually replaced the plan and became the main agents for mobilising and allocating economic resources. Under central planning, government agencies at all levels ranging from ministerial, municipal, and precinct agencies to provincial, district, and commune units had been entitled to own various sizes of industrial and agricultural production enterprises. This system had given birth to the notions of 'ministry-cum-owner and manager' (*bo chu quan*), 'municipal office-cum-owner and manager' (*so chu quan*), and 'district office-cum-owner and manager' (*phong chu quan*). Generally called by the Vietnamese *bo chu quan* and often translated into English as 'line ministry,' these government agencies oversaw and directed the operations of their enterprises administratively and economically.¹² During the reform period of the 1980s, state-owned enterprises (SOEs) at all levels and their 'owner managers' at the central municipal, provincial, district, and commune levels became the main beneficiaries of the new economic order. Increasing economic autonomy and control over resources on the part of these production units and their line ministries strengthened the power of SOE managers, provincial authorities, and many technocrats involved in planning

¹² Nguyen Dinh Bich, 'Doi moi quan ly nha nuoc doi voi cac doanh nghiep nha nuoc' [Reform state management in the area of SOEs], *Tap Chi Cong San*, no. 482 (1995): 34-7.

economic development strategies. Since certain SOEs were placed under the supervision of party committees at both local and central levels, certain sectors of the VCP had a direct stake in the new economic arrangements.¹³ In 1986 when the VI Congress met, secondary cadres from wide-ranging sectors joined forces to push economic reform forward.

Business interests within the state and the party apparatus persisted into the 1990s. Between 1989 and 1991, the state economic sector suffered financial difficulties following a cut in Soviet aid and stricter budget constraints. However, by the early 1990s, it had recovered, growing at an average rate of 13 per cent annually from 1990 to 1994. Between 1990 and 1995, its contribution to total government revenue increased from 13 per cent in 1986 to 52 per cent in 1992 and 67 per cent in 1994.¹⁴ Advocates of SOEs have remained vocal. In the 1990s, they have pointed to the sector's better performance and its increasing contribution to state revenue to justify their call for continuing support and to counter the push for privatisation.

Yet, the polity was being restructured, and the VII and the VIII Congresses mirrored another dimension of sectoral interests within the VCP. At these congresses, delegates were divided into five groups: delegates from the army, those from the security forces, those doing party work, those from government sector, and those responsible for mass organisations. It is not a coincidence that in the 1990s, the ideological, the state, and the army sectors of party members became highly active in debating the orientations of post-central planning development.

¹³ On party organisations in SOEs, see Le Quang Thuong, 'Ve to chuc va hoat dong cua cac to chuc Dang trong cac doanh nghiep nha nuoc' [On the organisations and activities of party organisations in SOEs], in *Mot so van de xay dung Dang ve to chuc trong giai doan hien nay* [Several problems regarding the building of party organisation in the current situation] (Hanoi: Chinh Tri Quoc Gia, 1996), pp. 85-100.

¹⁴ Gabriel Kolko, *Vietnam: Anatomy of A Peace* (London and New York: Routledge, 1997), pp. 54-63.

The rise of these groups was largely a product of political change (or lack of it) during the reform period of the 1980s. The ideological sector of the Party represented the 'traditional' legacy of the state socialist system. Prior to the reforms, one of its major tasks had been to mobilise production units to fulfil plans and supervise state officials in implementing party directives. During the reform period, however, this mobilisational role became increasingly irrelevant since the economic activities of production units were driven by cost-benefit calculations rather than ideological campaigns. Under the market system dating from 1989, its decline could be seen in Politburo member Le Phuoc Tho's complaint in 1992 that many party cadres refused to become involved in party or mass organisation work, preferring instead to be assigned to administrative or economic management posts because they yielded higher material benefits.¹⁵ Yet, increasingly through the 1990s, after the collapse of communism in the Soviet bloc, the sector became more active in policy debates. It began to develop a close relationship with the Chinese Communist Party after Vietnam normalised relations with China in 1991. Members from the ideological apparatus resorted to the vocabulary of socialist ideology and national culture as their weapons. They have tended to speak on behalf of peasants and workers and advocated the modification of the traditional concepts of socialist economic organisations including state-owned enterprises and agricultural cooperatives.

The state sector, traditionally merged with the party as seen in the label 'party-state', developed into a more separate entity and rose to prominence in the 1990s parallel with the newly-emerging calls for a law-governed state to facilitate the operation of a market economy. The 1992 Constitution advocated power sharing between the VCP and other political institutions, granting more autonomy to the Prime Minister and his

¹⁵ Le Phuoc Tho, 'Mot so nhiem vu doi moi va chinh don dang' [Several tasks on reforming the Party], in DCSVN, *Mot so van kien ve doi moi va chinh don dang* [Resolutions on the renovation and the rectification of the Party] (Hanoi: Chinh Tri Quoc Gia, 1996), pp. 71 and 75.

cabinet.¹⁶ In January 1995, the VIII Plenum of the CC officially endorsed the reform of the administrative system, focusing on the reform of the structural organisation of the public administration, the simplification of administrative procedures, and the rebuilding of the civil service.¹⁷ By the mid-1990s, reform of the administrative state sector became referred to as a *condition* for further economic reform as well as for further financial assistance from international agencies.¹⁸ Technocrats in the state sector resorted to the vocabulary of high growth, efficiency, and modernisation in justifying their policy positions.

The third sector, the Vietnamese People's Army (VPA), also rose to prominence in the 1990s. Although a significant sector prior to 1975, its representation in the Central Committees declined after the IV Congress in 1976. Between 1989 and 1991, however, during the crisis in the communist bloc, the VPA rendered support to the Party, endorsing the resolution of the VI Plenum of the CC in March 1989 that rejected political pluralism and the resolution of the VII Plenum in August 1989 that condemned imperialist forces' intervention in the internal affairs of socialist countries. Around this period, the concept 'peaceful evolution', referring to political instability triggered by an external enemy, became entrenched in speeches given by military officers.

¹⁶ On the 1980 and 1992 constitutions, see articles published in David Marr and Carlyle Thayer, eds, *Vietnam and the Rule of Law: Proceedings of Vietnam Update Conference November 1992* (Canberra: Department of Political and Social Change, Research School of Pacific and Asian Studies, Australian National University, 1993).

¹⁷ For detailed discussion, see Thaveeporn Vasavakul, 'Politics of the reform of state institutions in the post-socialist era', in Suiwah Leung, ed., *Vietnam Assessment: Creating a Sound Investment Climate* (Singapore: ISEAS, 1996), pp. 42-68.

¹⁸ Kolko emphasises a close connection between the state administrative sector under the leadership of Vo Van Kiet and the World Bank and IMF. See Kolko, pp. 31-64 and 130-48.

In addition to its role in maintaining internal stability and national defence, the VPA also claimed to contribute to national economic construction policies. The VPA's involvement in economic activities, similar to the experience of other state agencies, was largely a product of the state socialist system developed in Vietnam prior to the reform period. The IV National Party Congress (1976) emphasised the role of the VPA in economic reconstruction, while the V Congress (1982) assigned the VPA responsibilities for both building socialism and defending the Fatherland. Under the task of building socialism, the VPA was expected to take part in productive activities in both the agricultural and industrial sectors. In the 1980s, all defence industries were engaged in some form of economic work, amounting to 29.4 per cent of the army's total annual output, and in 1984, the internal source of revenue raised by the army units was estimated at 19.5 per cent of the national defence budget. By 1993, 70,000 soldiers, or 12 per cent of the entire standing army, were employed full time in various commercial enterprises. Local militia units reportedly had set up at least 160 enterprises while the VPA main force had approximately 60 organisations engaged in economic activities.¹⁹

Thayer observes that at the VII National Party Congress in 1991, military representation in the CC increased, reversing the declining trend since 1960. David Elliott perceptively points to a shift in military representation away from the Ministry of National Defence towards the military services and the military's own corporate interests.²⁰ Generals Le Duc Anh and Doan Khue were elected to the Politburo, and Le Duc Anh assumed the position of President in 1992. The 1992 Constitution placed the army in the same legal position as other state bodies

¹⁹ Carlyle Thayer, *The Vietnam People's Army under Doi Moi* (Singapore: Institute of Southeast Asian Studies, 1994), pp. 6-8, 38, and 53; and Carlyle Thayer, 'People's Army Gets in Step with Era of Friendly Reform', *The Australian Special Survey*, *The Australian* (6 September 1996), p. 18.

²⁰ David Elliott, 'Vietnam's 1991 Party elections', *Asian Affairs* 19, no. 3 (Fall 1992): 159-69.

and considered it as the 'backbone' of Vietnam's all people's national defence and public security system.

By the mid-1990s, the VPA had adopted the vocabulary of both national economic construction and national defence in peacetime to justify their policy preferences. It highlighted its economic self-sufficiency and its contribution to state revenue. It also emphasised the need to be vigilant against the development of 'peaceful evolution' and the need to take account of national security concerns in formulating reform policies.

The VPA was by no means a monolithic entity. There were differences among officials over how to modernise the army. The 'nationalist' camp rejected dependency upon foreign technology as the main source for modernisation, favouring the modernisation of Vietnam's defence industry, while advocating a military doctrine that combined people's war and modern military technology. The 'modernist' group advocated the opposite, calling for a complete modernisation of the armed forces and the drawing-up of contracts with foreign military establishments for aid and technology. Yet, this group remained in the political shadows.²¹

The two-dimensional sectoral interests within the VCP discussed in this section, although constituted along both central-secondary/provincial and institutional lines, were not mutually exclusive. That is, these two structures co-existed, and single individuals could be situated in both simultaneously.

The VIII Congress, sectoral representation and recentralisation

The VIII National Party Congress, held at the end of June 1996, was attended by 1,200 delegates representing 2,128,740 party members. They elected the VIII Party CC and the Secretary General and passed the political report, the report on socio-economic development directions and tasks for the period from 1996 to 2000, and the amended Party Statute.

²¹ See Thayer, *The Vietnam People's Army under Doi Moi*, pp. 55-6.

The structural composition of the delegates to the VIII National Party Congress, of the new CC, and the new Politburo confirmed two major trends in the VCP leadership structure as well as the importance of both the institutional and the central-secondary/provincial structures (Appendix II-IV). One was the rising representation of delegates from the party organisation, the state sector, and the army. Delegates from the party work sector increased from 34 to 41 per cent; the state sector from 22 to 26 per cent; and the army from 8 to 13 per cent. The per centage of delegates responsible for mass organisation work only increased from 10 to 11 per cent and that from the security forces from 4 to 4.6 per cent. While the Party emphasised its working class character, the per centage of representatives from the working class fell from 9 to 8 per cent. At the Politburo level, three main sectors of the party work, the state, and the army were also well-represented.²²

The other trend in the leadership structure was a marked recentralisation and relative decline of provincial influence. The Secretariat of the CC was replaced by the Standing Board of the Politburo consisting of five members (Do Muoi, Le Duc Anh, Vo Van Kiet, Le Kha Phieu, and Nguyen Tan Dung), the majority of whom were from the party work and the military-security sectors. According to the party statute, members of the Board are appointed by the Politburo. The Board 'acts on behalf of the Political Bureau to review the implementation of party resolutions; to prepare issues for submission to the Politburo for consideration; to direct the handling of affairs relating to socioeconomic development, national defence and security,

²² Those affiliated with the party work sector were Do Muoi, Nguyen Duc Binh, Nguyen Van An, and Nguyen Thi Xuan My. Those carrying the banner of state technocrats were Vo Van Kiet, Phan Van Khai, Tran Duc Luong, Truong Tan Sang, Nong Duc Manh, Nguyen Manh Cam, and possibly Le Xuan Tung. Those representing defence were Le Duc Anh, Le Kha Phieu, Doan Khue, and Pham Van Tra, and those representing the security forces were Nguyen Tan Dung and Le Minh Huong. The mass organisation sector was represented by Pham The Duyet, former Secretary of the Hanoi Party Committee.

foreign relations, party building, cadre-related work, and mass mobilisations; and to handle the party's daily work'.²³ These stipulations, however, did not dispel questions about the power and authority of the newly-created Standing Board *vis a vis* the rest of the Politburo members and the CC. During the Congress, a party delegate had challenged the legitimacy of the Board, accusing it of being undemocratic. It remains to be seen whether the Board will develop into an autonomous entity and stand above the supervision of the CC. At the CC level, the proportion of central vs secondary party members changed in favour of centralism. The central party-state members in the CC rose from 43 in 1986 to 49 in 1991 and to 56 in 1996, while the per centage of secondary party-state members dropped from 49 in 1986 to 43 in 1991 and 36 in 1996.²⁴

Orchestrating the differences, 1995-96

Differences among party leaders over post-central planning development strategies had to be discussed in the context of the rise and consolidation of the different sectoral interests discussed above. Each sector had its own institutional and infrastructure base with separate sources of finance, research institutes, publishing houses, journals, and newspapers, and it relied on these resources to put forth its policy views. Between Congresses, different sectors asserted their policy preferences at different times, but the period leading up to each Congress was the time when all voiced their opinions and campaigned for their policy preferences simultaneously. A series of political events and developments in 1995 and 1996 shed light onto this very process. Sectoral competition, negotiation, and mobilisation for policy support took the form of policy advances, policy rectifications, continuous ideological campaigns and counter campaigns, personnel reshuffling, and character assassination.

²³ *Dieu le Dang Cong San Viet Nam* [The VCP Statute] (Hanoi: Chinh Tri Quoc Gia, 1996), pp. 28-9.

²⁴ Thayer, 'The Regularization of Politics Revisited'.

Policy campaigns and counter-campaigns

Nineteen ninety-five began with the VCP leadership's attempt to unify party ideology. In February 1995, the Politburo issued Resolution No. 9 on major orientations in current ideological work to ensure ideological uniformity. It confirmed Marxism-Leninism and Ho Chi Minh thought as the direction for party activities; the goal of linking national independence with socialism; the development of the state as the state of the people under the leadership of the party; industrialisation and modernisation as the objectives during the transitional period; the development of a multi-sectoral economy based on market mechanisms under state management and socialist direction; and the maintenance of Vietnamese cultural essence in the process of cultural openness.²⁵

In March 1995, however, intra-party conflict erupted, centring on the anti-revisionist case of the 1960s which had first surfaced in the lead-up to the VII Congress in 1991. The revival of this case should be placed in the context of party members' disagreement over the meaning of intra-party democracy. In March 1995, Nguyen Trung Thanh, a retired cadre from the Party Organisation Commission, sent an open letter to high-ranking party members, urging them to reconsider the anti-revisionist case in the 1960s and 1970s in which a number of middle-ranking party cadres of the then Vietnam Lao Dong Party were charged with anti-party/anti-state activities and pro-Soviet orientations. Thanh's move implicitly challenged the infallibility of the Politburo leadership of the 1960s and 1970s. Thanh was dismissed from the Party on the grounds of violating Party discipline. In June 1995, two former party veterans, Do Trung Hieu and Hoang Minh Chinh, were arrested on a charge of circulating documents 'threatening the security of the state and social organisations'. Several reports stated that some of these documents dealt with the

²⁵ Ban Tu Tuong Van Hoa Trung Uong, *Mot so dinh huong lon trong cong tac tu tuong hien nay (tai lieu hoc tap Nghi quyet 9 cua Bo Chinh Tri)* [Major orientations in the current ideological work -- study materials on Politburo Resolution no. 9] (Hanoi: Chinh Tri Quoc Gia, 1995).

political activities of the Club of the Resistance Fighters between 1988 and 1990. The two were sentenced to 15 and 12 months imprisonment respectively, a move possibly aimed at isolating them during the lead-up to the Congress.²⁶

In November 1995, the IX Plenum of the CC approved the draft reports to Congress which, between December 1995 and April 1996, were sent to party organisations at the central level, party congresses at the grassroots level and directly above (district, precinct, and municipality), and to workshops organised by the Party Secretariat for medium and high ranking cadres. They were also presented to the CC of the Fatherland Front and the provincial and city Fatherland Fronts. Between April and June, the public was asked to comment on the draft.²⁷

Campaigns and counter-campaigns to publicise policy differences and rallies for policy support continued in late 1995 and early 1996. Prime Minister Vo Van Kiet's memo to the Politburo in August and a document entitled 'The US Strategies towards Vietnam after the Normalisation of Relations' were leaked to the public in December 1995. The former contained Prime Minister Kiet's views on reform programs, while the latter, allegedly prepared by the ideological and security blocs, discussed the US long-term strategies to undermine Vietnam's

²⁶ Hoang Minh Chinh himself was one of the party members purged in the 1960s and 1970s. In mid-June 1996, two weeks before the Congress, Chinh was released. See the Paris-based overseas Vietnamese journal, *Dien Dan*, nos. 41, 43, 44, and 47. For the VCP's version of the incident, see 'Ve vu an 'to chu chong Dang, chong nho nuoc ta, di theo chu nghia xet lai hien dai va lam tinh bao cho nuoc ngoai' [On the case entitled 'the organisation of anti-Party, anti-state activities, the adherence to modern revisionism, and espionage activities for foreign countries'], *Thong Tin Cong Tac Tu Tuong* (August 1995): 10-4.

²⁷ VOV, 9 April 1996 in FBIS-EAS, 11 April 1996, p. 101; *Thoi Bao Kinh Te Saigon*, 27 June-2 July 1996, p. 4 in FBIS-EAS, 29 July 1996, p. 103; VOV, 10 June 1996 in FBIS-EAS, 19 June 1996, p. 84.

political and economic system.²⁸ In December 1995, a Politburo directive called for the implementation of campaigns against 'social evils', attacking prostitution, gambling, drug addiction, 'foreign negative products', and the use of foreign languages in advertisements.

In January 1996, Dao Dinh Luyen, the Army Chief of Staff, who advocated the 'open door' policy and modernisation of the army was replaced.²⁹ In late April, the X Plenum of the CC expelled Politburo member Nguyen Ha Phan from the party. According to an internal circulation memo issued by the Ho Chi Minh City party committee in April and later leaked overseas, Phan had been found guilty of revealing the names of communist guerrilla strongholds when interrogated by South Vietnamese police in the 1960s and having then failed to report his wrongdoing to the Party after his release. The memo instructed that the dismissal not be broadcast by the media. Phan, labelled a conservative by Western observers, became a Politburo member at the mid-term party congress in 1994 and had been viewed as a possible successor to Prime Minister Vo Van Kiet.³⁰ This was the second time since Vietnam began economic reform in 1979 that a Politburo member was dismissed. The first had been Tran Xuan Bach in 1990. However, Phan's case was the first where the revolutionary ethics of a Politburo member were at issue. Phan's dismissal led to a stalemate in leadership transition. The three top leaders, Do Muoi, Le Duc Anh, and Vo Van Kiet, remained in

²⁸ Le Hong Ha, Nguyen Xuan Tu (also known as Ha, Ha Si Phu), and Pham Que Duong were arrested on a charge of circulating these documents. *Dien Dan*, no. 48 (January 1996):14-5.

²⁹ Carlyle Thayer, 'Vietnam's reform under threat,' *IISS Strategic Comments* 2, no. 4 (16 May 1996).

³⁰ During the DRV period (1945-1975), the only case involved Truong Chinh after land reform errors in 1956. However, he was later rehabilitated. Nguyen Van Linh was dropped from the Politburo at the V Congress in 1982.

power, indicating a lack of agreement over leadership transition.³¹

In May 1996, a Politburo directive called for a crackdown on corruption in the areas of land and real estate where party members had been allegedly extensively involved.³² In early June, the Standing Committee of the Hanoi Party Committee launched a campaign to mobilise young Vietnamese to resist 'social evils'. In mid-June 1996, a government decision allowed foreign words to appear on advertisements where there was no Vietnamese equivalent, where the word was commonly used, and where it was a brand name, but it also required that Vietnamese letters be placed below the foreign words and be at least half their size.³³

Amidst these campaigns and counter campaigns, divergences among different sectors in the party on the strategies for state and party building could be detected in Prime Minister's Vo Van Kiet letter to the Politburo and writings and speeches by major party members prior to the Congress.

³¹ According to an overseas Vietnamese source, it was the retired party cadres and war veterans in southern provinces who put pressure on the leadership in Hanoi to investigate the case. Their move was likely precipitated by both their ethical consideration and pro-market position. See *Dien Dan*, no. 53 (June 1996): 11. According to another overseas Vietnamese source, between April when Phan was dismissed and June when the VIII Congress met, a new list of political successors was circulated, proposing that Nong Duc Manh, Nguyen Manh Cam, and Phan Van Khai replace Do Muoi, Le Duc Anh, and Vo Van Kiet respectively. However, the army bloc reportedly was dissatisfied with the list, and subsequent intense competition between Le Kha Phieu and Nong Duc Manh for the general secretary position forced a postponement of leadership change. See *Dien Dan*, no. 54 (July 1996): 10.

³² Radio Australia, 27 May 1996 from BBC Monitoring Service: Asia-Pacific, 30 May 1996.

³³ Radio Australia, 24 June 1996 from BBC Monitoring Service: Asia-Pacific, 26 June 1996.

Negotiating socialist orientations

In a move not seen in preceding Congresses, a major criticism of the draft documents came from Politburo member and Prime Minister Vo Van Kiet himself. In his internal memo to the Politburo, Kiet expressed his views on four issues: the nature of the international system; the meaning of socialist orientations and socialist deviations; the reform of the state administrative system; and party reform.³⁴

Kiet's first point concerned the characteristics of the international system. He argued that international relations were no longer characterised by confrontation between socialism and imperialism. Instead, they reflected a situation of multipolarity in which national, regional, and global interests, rather than conflict, served as the driving forces in the system. These changes were the very basis for Vietnam having expanded its international relations, joined ASEAN, and improved relations with the European Union. Kiet highlighted the need to understand both favourable conditions and challenges generated by this new multipolar international structure. He downplayed the power of imperialism, arguing that the United States could no longer use anti-communist rhetoric to mobilise public opinion against Vietnam. Although it had switched to the rhetoric of democracy and human rights, its success had been limited by Vietnam's changing foreign policy. Kiet also downplayed the importance of socialist comradeship. Although socialist countries retained mutual ties, their cooperation did not act as a united economic and political force on the international scene. Vietnam's relationships with China and North Korea had been dictated by national interests, not socialism. Kiet rejected the prospect that communist and international working class movements in the former Soviet Union and Eastern Europe would resurface. He maintained that regardless of the situation in the former

³⁴ *Viet Luan*, no. 1053 (5 January 1996): 30-1 and 58-60. Kiet's memo is also printed in *Dien Dan*, no. 48 (January 1996): 16-23. I assume the authenticity of the text I use since I have compared the one printed in *Viet Luan* with that in *Dien Dan* and found no difference in wording.

socialist camp, the VCP had been able to strengthen its position in the international arena, and he urged the Party to capitalise on this international environment, which he considered the most favourable since 1945 for Vietnam to achieve its development goals.³⁵

Kiet's second point dealt with the meaning of socialist orientations and socialist deviations (*chech huong*). He identified socialist orientations as featuring a prosperous people, a strong nation and an equitable and civilised society. He argued that the degree of development of the state economic sector was not indicative of a socialist orientation; that the state economic sector was only one of the many instruments that could help influence socialist orientations. He criticised party members who considered the decline of the state trading and transportation sectors as deviations from socialism, asserting that it was the inefficiency of the state in these arenas that had originally precipitated reform. Kiet maintained that problems such as dumping, opportunism and transportation accidents could not be eliminated by state intervention and that many state enterprises were themselves involved in illegal trading activities and smuggling. Finally, Kiet criticised party members who saw the decline of the old model of the cooperative as socialist deviation. He argued that the old model was no longer appropriate for the current situation and that there was a need to invent new forms of cooperatives that would fit the needs of different times.

Kiet identified illegal economic practices, corruption, mafiaism, bossism, anarchism, waste, and misappropriation of state property as socialist deviations which undermined the state's legal authority and capacity for macro-economic management, leading to budget deficits, social differentiation, social evils, and social inequality. Their continuation would further undercut state authority, erode popular confidence, and serve as a fertile ground for 'peaceful evolution'.

³⁵ Viet Luan, p. 30.

In order to achieve the development goals set by the Party, Kiet suggested that the government treat all economic sectors equally and refrain from imposing restrictions on them as long as they operated legally. He also suggested that the state economic sector be thoroughly reformed.³⁶

Kiet's third point dealt with the reform of the state administration. He expressed his concern that the Vietnamese legal system had not caught up with changes in the economy and society and that illegal practices had not decreased. Although legislation had progressed, all aspects of the state's capacity to enforce the law remained poor. He proposed the adoption of a comprehensive policy to develop the state machinery, the state macro-economic system, and the market.

Suggesting specific reforms in the administrative system, Kiet called for a complete separation of economic production activities and state management tasks, the abolition of the wartime style of on-the-spot decision making, and the redefinition of the relationship between the party and state agencies and elected representative bodies. He emphasised the retraining of officials in government agencies and elected representative bodies, the role of the National Assembly as the sole law making institution, and the reorganisation of party committees in state agencies. Regarding improvements in the macro-economic role of the state, Kiet emphasised the promulgation of the Civil Code and the Commercial Code and the development of a fiscal system including taxation, a stock market, and banking. He criticised party members who considered these developments as capitalist and called for the leadership to commit itself to these projects. Finally, he called for an end to existing separate economies: the civil economy (*kinh te dan su*); the mass organisation-run economy (*kinh te doan the*); the party-run economy (*kinh te dang*); and the military-run economy (*kinh te luc luong vu trang*) to further develop the market.³⁷

³⁶ *Ibid.*, pp. 33-1, 58.

³⁷ *Ibid.*, pp. 58-9.

Kiet's final point dealt with party rebuilding. He complained that the structural organisation of the Party remained unchanged: old organisations that were no longer relevant had been maintained while new organisations had not been created. Kiet also criticised the leadership style of the Party, arguing for the need to grant autonomy to executive and juridical agencies, elected representative bodies, and mass organisations. Finally, he suggested that the principle of 'democratic centralism' be replaced with democracy within the party, with the condition that each party cadre would follow the party statute and the adopted party resolutions.³⁸

Kiet's views were not the only ones expressed. Prior to the VIII Congress, other party leaders also voiced their opinions, focusing on issues related to the sectors they represented. Their viewpoints were not individual opinions but representative of those of their constituencies both within and outside the party.

While Kiet highlighted the cooperative aspect of the multi-polar international structure, Senior Lieutenant General Le Kha Phieu, a member of the Politburo and Secretary of the Party Central Committee, maintained that there remained conflict and competition between socialism and imperialism. At the Eleventh Party Organisation Congress of the Politico-Military Institute in March 1996, he discussed the confrontation between the two camps, asserting that 'capitalism will certainly be replaced as it has already become obsolete and unable to meet the people's welfare needs at a time when mankind's economic, scientific, and technological progress has reached a level that can better meet the needs of every individual and every household'.³⁹

Unlike the representative from the Army, Do Muoi seemed to agree with Kiet's analysis of the international system, or at least, he did not openly reject it. However, he differed on the meaning of 'socialist orientations'. Interviewed by the *Vietnam Economic Times* in May, he identified the following features as socialist orientations: a society owned by the working people; a highly

³⁸ *Ibid.*, pp. 33-1, 58.

³⁹ *Nhan Dan*, 25 March 1996, pp. 1-2.

developed economy based on a modern productive force and public ownership of the major means of production; an advanced culture with high national identity; an absence of repression, exploitation and inequality; ethnic solidarity; and cooperative relations with people in other countries in the world. These orientations would lead to a society with a prosperous people, a powerful nation, and an equitable and civilised society.⁴⁰

Kiet and Do Muoi also differed over economic development strategies. While Kiet focused more on industrial development, Do Muoi spoke on behalf of the agricultural sector. In late 1995, when working with basic party organisations in several communes in Thai Binh, Hai Hung, and Hai Phong, he urged that local cadres stress the objectives of agricultural and rural industrialisation at their grassroots level congresses.⁴¹ This placed him on the same side as Dao Dung Tung who in the summer of 1995 had evoked the resolution of the V Plenum of the CC (June 1993) that endorsed the modernisation of agriculture, forestry, and fishery.⁴² Kiet and Do Muoi also advocated different approaches towards industrialisation. In his interview in May, Kiet mentioned the need to combine a strategy of increasing exports. In this process, the law would recognise equality among all economic components.⁴³ Do Muoi, on the other hand, gave weight to the development of light industry to provide for domestic consumption in both rural and urban areas.

Finally, unlike Kiet, Do Moi gave weight to the consolidation of the state and collective economic sectors in industrial, agricultural, and service activities. He argued that a socialism-oriented market mechanism under state management would

⁴⁰ *Vietnam Economic Times* (May 1996): 15 in FBIS-EAS, 6 June 1996, pp. 92-9.

⁴¹ VNA (2 January 1996) in FBIS-EAS, 4 January 1996, p. 55.

⁴² See Dao Duy Tung, 'Nhưng thanh tuu trong cong cuoc doi moi' [Reform achievements], *Thong Tin Cong Tac Tu Tuong* (September 1995), especially pp. 6-7.

⁴³ *Thoi Bao Kinh Te Viet Nam*, 22 May 1996, p. 1 in FBIS-EAS, 19 July 1996, pp. 57-8.

serve to reduce the negative social impact of a market mechanism on Vietnamese society.⁴⁴ In one of his speeches delivered early in 1996, he specifically asserted that it was impossible to carry out agricultural and rural industrialisation without relying on agricultural cooperatives as the main basis.⁴⁵

Many party members supported the leading role of the state in the economy. Ha Dang, head of the Department of Ideology and Culture, in discussing the draft reports, stated that there were different types of ownership, which although legally equal, did not have the same role and position in the establishment of a new socio-economic regime. State ownership together with cooperative ownership represented a more advanced production mode.⁴⁶ Nguyen Ha Phan, a Politburo member and head of the Economic Commission of the Party Central Committee, supported the policy to develop the cooperative economy and cooperatives in a multi-sectoral socialist-oriented economy.⁴⁷ Dao Dung Tung, his ally in the Politburo, had, since mid-1995, called for the revival of both state-owned enterprises and cooperatives in the agricultural, forestry, and fishery sectors.⁴⁸ Phan Van Tiem, Head of the Central Steering Committee for Renewal of State-Owned Businesses pointed to the increasing contribution from state-owned enterprises to state revenue.⁴⁹ A similar view was

⁴⁴ VOV, 15 March 1996 in FBIS-EAS, 18 March 1996, pp. 89-90.

⁴⁵ VNA, 2 January 1996 1995 in FBIS-EAS, 4 January 1996, p. 55.

⁴⁶ *Vietnam Economic Times*, December 1995, pp. 10-1 in FBIS-EAS, 5 January 1996, p. 71.

⁴⁷ VNA, 1 February 1996 in FBIS-EAS, 2 February 1996, pp. 64-5.

⁴⁸ See Tung, 'Nhưng thanh tuu trong cong cuoc doi moi', pp. 6-7.

⁴⁹ VNA, 23 June 1996 in FBIS-EAS, 25 June 1996, pp. 102-3. Tiem points out that between 1991-1995, the GDP growth rate of the state sector was almost 1.5 times that of the non-state sector and was more stable compared with the pre-1991 years. The ratio of industrial output to gross domestic product was brought to 30 per cent in 1995 from 23 per cent in 1990, with the proportion of state-owned output rising to 69 per cent from 53 per cent. The services value to GDP rose to 43 per cent in 1995 from 39 per cent in 1990 with the state-owned sector rising to 46 per cent from 42 per cent.

expressed by a deputy commander in charge of political affairs of the third Military Region, his speech delivered in June criticising the failure of the state-run trading sector to pay attention to renovating and building the cooperatives economy.⁵⁰ In early April, a move to buttress the role of the state in the economy was confirmed by draft reports to the Congress that stipulated that the state and the cooperative sectors' share of GDP would increase to 60 per cent by the year 2020. This statement prompted reaction from advocates of privatisation including World Bank officials and was dropped in the final draft.⁵¹

Finally, regarding party building, party cadres from the ideological sector and the army were also more concerned with the decline of revolutionary ethics, the growing number of corrupt party members, and economic stratification among party members. Their concerns were not merely ideologically motivated. Experiences in the Soviet Union had indicated that the appropriation of party and state property in the long run could precipitate party members' defection from the Party in times of crisis.

Furthermore, many party members insisted that the term 'democratic centralism' be retained. Politburo member Le Phuoc Tho recognised the rights of party members to express their diverging opinions but demanded that they respect party resolutions adopted by the majority.⁵² One article published in an army journal in June stated that the negation of the principle of democratic centralism would amount to the negation of the principle of overall party leadership over the Army and the Armed Forces, thus paving the way for the depoliticisation and neutralisation of the Army and the Armed Forces and creating

Their total budget contribution increased by 135 per cent in 1992, 145 per cent in 1993, 130 per cent in 1994, and 132 per cent in 1995.

⁵⁰ VOV, 9 June 1996 in FBIS-EAS, 10 June 1996, p. 85.

⁵¹ *Vietnam Economic Times* (December 1995), pp. 10-1 in FBIS-EAS, 5 January 1996, p. 71.

⁵² *Nhan Dan*, 29 January 1996, p. 3.

conditions for hostile forces to carry out their 'peaceful evolution' strategy.⁵³

Divergent opinions notwithstanding, it is striking that it is impossible to put party leaders and their supporters neatly in either 'reformist' or 'conservative' camps, since their policy positions seemed to vary from one policy area to another.⁵⁴ Kiet and Do Muoi seemed to share similar views on the nature of the international system, a position which separated them from the Army. However, the two differed on the meanings of socialism, socialist orientations, socialist deviations, and the general direction for industrialisation. Do Muoi's positions resembled those of, and were supported by, party members from the ideological sector and the army. He voiced neither disagreement nor strong support for Kiet's agenda on administrative reform, the development of the state's macro-economic role, and the development of the market. Yet, writings published in army journals and newspapers considered the emphasis on a law-governed state and the limited economic role of the state as signs of distancing the state from the class viewpoint.

The Congress and the rebuilding of the state apparatus

Like previous political reports, the report to the VIII Congress contained an ideological hodge podge. Compared with the two previous political reports (in 1986 and 1991), the report to the VIII Congress had a strong socialist overtone mirroring the concerns expressed by party ideologues, central and local state businesses, and party cadres from the Army.

⁵³ Nguyen Nam Khanh, 'Struggle against opportunism and rightism—an important party of party-building work at present', *Tap Chi Quoc Phong Toan Dan* (January 1996):7-9 in FBIS-EAS, 2 February 1996, pp. 65-7.

⁵⁴ Even a thoughtful observer like Brantly Womack also subscribes to the conservative-reformist vocabulary. See Brantly Womack, 'Vietnam in 1996: reform immobilism', *Asian Survey* 37, no. 1 (January 1997): 79-87.

The political report endorsed the two strategies of building socialism and defending the fatherland, a similar emphasis echoed by the V Congress in 1982. Building socialism would include the acceleration of industrialisation and modernisation with priorities going to the development of the rural economy, the agro-forestry-fishery sector, maritime product processing, consumer goods, and infrastructure construction. The first three areas had been officially advocated by Do Muoi and Dao Duy Tung. In developing a multi-sectoral economy, priority was given to the state and collective sectors including state capitalist enterprises and various types of production cooperatives. While promising assistance to private and small businesses, the report also advocated their participation in cooperatives and joint ventures with state economic units. It vowed to protect private capitalists' economic rights and legal interests on the condition that they comply with the aims of national development. Although recognising certain positive aspects of the changing international and domestic order, it, echoing Le Kha Phieu's concerns, highlighted the conflicting nature of the international system, maintained that the world was still in a transition period from capitalism to socialism, and interpreted regional cooperation as strongly influenced by powerful countries and containing elements of instability. The report also confirmed the existence of the four dangers listed by the Mid-Terms Party National Conference in January 1994: the risk of falling behind other countries; the plot of peaceful evolution; deviation from socialism, and corruption.

Although the political report reflected the rhetoric of party cadres from the Army, Party ideologues, and state businesses, it also contained elements proposed by the Kiet camp, including state administrators, technocrats, and market reformists. In reforming state-owned enterprises, the socio-economic report endorsed the renovation and consolidation of selected state industrial enterprises and the corporatisation of state enterprises as a means of mobilising capital (with an emphasis on encouraging enterprise workers to buy shares and to invest in enterprises). In addition, the political and socio-economic reports endorsed the development of education, training, science and

technology. Finally, it advocated the development of the macro-economic management role of the state and the reform of the state administrative system. The state was to play an important role in economic management by setting up a uniform legal structure and suitable policies to limit any negative effects of market mechanisms, but it would refrain from direct involvement in managing production.⁵⁵ The socio-economic report included details of the development of state macro-management: the implementation of the labour law promulgated in 1993; the concretisation of ownership rights and the transfer of land use rights; the introduction of a share holding system at a number of state-run enterprises, the development of new industrial areas and housing projects, the rebuilding of the financial and monetary system; and the formulation of legal documents fundamental to the market-oriented mechanism. The report endorsed several aspects of administrative reform, including a review of documents issued at all authority levels and the abolition of those contrary to legal documents issued by the National Assembly and the government; the division of state management power between government agencies and local administrations of provinces and centrally-managed cities, and the clarification of the authority and responsibility at each administration level.⁵⁶

In policy terms, these endorsements confirmed the policy trends towards the reform of the state and collective economic sector and the public administration that had unfolded in the 1990s.⁵⁷ To strengthen the state industrial sector, in March 1994, the Prime Minister's Decision 90 and 91 had established state

⁵⁵ See DCSVN, *Van Kien Dai Hoi Dai Bieu Toan Quoc Lan Thu VIII* [Documents from the VIII National Party Congress] (Hanoi: Chinh Tri Quoc Gia, 1996), pp. 55-152.

⁵⁶ *Ibid.*, pp. 232-43.

⁵⁷ For a more detailed discussion of the political, economic, and cultural sectors, see Thaveeporn Vasavakul, 'Vietnam: the third wave of state building', *Southeast Asian Affairs 1997* (Singapore: ISEAS, 1997), pp. 337-62.

business enterprises in key economic sectors using the general corporation model which was aimed at relieving administrative agencies from actually running the businesses and concentrating state capital to enable the state economic sector to play a leadership role in the market.⁵⁸ In January 1996, Prime Minister Kiet met with chairpersons of the management boards and general managers of corporations in Ho Chi Minh City and Hanoi to discuss the features of the general corporation.⁵⁹ The final agreement, in the long run, could change the division of power among different central ministries and between them and general corporations. In the area of agriculture, the V Plenum of the CC (VII Congress) in June 1993 had already endorsed the development of commodity production in agriculture. This involved the institutionalisation of land transfer; the reform of SOEs in forestry, fishery, and agriculture; the reform of cooperatives; the reorganisation of state trading enterprises in rural areas; an increase in agricultural investment; and poverty reduction. The revival of the cooperative sector materialised in a legal form in March 1996 when the National Assembly adopted the Law for Cooperatives.⁶⁰

Nineteen ninety-six also saw continued reform of public administration, with the focus on central and local government relations and the streamlining of administrative procedures. For example, in June 1996, the National Assembly's Standing Committee passed an ordinance supplementing the revised 1994

⁵⁸ Under state socialism, the ministry served simultaneously as director, manager, and administrator, with no separation between the functions of management and production. The new model provides business managers with opportunities to use initiative. See Vasavakul, 'Politics of the reform of state institutions', pp. 55-7; and *Thoi Bao Kinh Te Viet Nam*, 25 September 1995, p. 3 in FBIS-EAS, 29 January 1996, pp. 62-4.

⁵⁹ For the discussion, see 'Ve mo hinh to chuc tong cong ty nha nuoc' [On the organisational model for the state general corporation], *Lao Dong va Cong Doan* (4-1996): 2-3.

⁶⁰ 'Can thuc hien tot hon nua Nghi Quyét TW 5' [Let us better implement the V Plenum Resolution], *Thong Tin Cong Tac Tu Tuong* (September 1995): 11-3.

law for local government authorising the People's Council to rescind orders and decisions issued by the People's Committee at the same level, and authorising the People's Councils at higher levels to rescind or demand revision of orders and decisions issued by the lower-level People's Committee where these are illegal.⁶¹ After the Congress, in November 1996, the Assembly passed the draft law to rectify the pervasive situation of administrative agencies at various echelons issuing conflicting circulars, directives, and notices of a legal nature, and to establish the principles of hierarchical jurisdiction and chronological order of legal documents.⁶² It also endorsed the further division of eight existing provinces into 15 provinces and one municipality.⁶³ In the area of personnel, Prime Minister Vo Van Kiet reshuffled his cabinet, dropping 12 ministers and senior officials (see Appendix VI).⁶⁴ Kiet's move could be seen as an attempt to rejuvenate and upgrade government ministers: the average age of the newcomer has dropped to 54, five of the eight speak English, most have some economic expertise and all but one is a member of the VCP's Central Committee.⁶⁵ Finally, to institutionalise the reform of administrative procedures, a number of precincts in Ha Noi, Hai Phong, and Ho Chi Minh city

⁶¹ *Nhan Dan*, 10 July 1996, p. 2.

⁶² VOV, 11 November 1996 from BBC Monitoring Service: Asia-Pacific, 15 November 96.

⁶³ After 1975, Vietnam's 71 provinces were merged into 40 administrative units. During the reform period, a number of provinces were redefined, with 53 provinces and municipalities since 1991.

⁶⁴ See Reuters, 11 November 1996. Those dropped were: Bui Danh Luu (Minister of Communications and Transport); Do Quoc Sam (Minister of Planning and Investment); Dang Huu (Minister of Science, Technology, and Environment); Bui Thien Ngo (Minister of the Interior); Ho Te (Minister of Finance); Phan Ngoc Tuong (Minister and Chief of the Government Personnel and Organisation Committee); Nguyen Tan Trinh (Minister of Marine Products); Tran Hoan (Minister of Culture and Information); Le Xuan Trinh (Government Office); and Phan Van Tiem (Minister in Charge of Government Tasks).

⁶⁵ Reuters News Service, 7 November 1996.

were officially designated to serve as experimental sites for the 'one stop' procedural method.⁶⁶ In December, Ho Chi Minh city officially launched an experimental 'one-stop' system at five administrative offices in the city including the People's Committee Office, the Construction Office, the Planning and Investment Office, the Cadastral Office, and the City Architect Chief's Office.⁶⁷

In summary, the political and the socio-economic reports endorsed policy preferences put forward by different sectors, most of which had been conceived between the VII and VIII Congress and endorsed by different CC plenums (Appendix V). The guidelines given in the reports, however, lacked necessary details and it is likely that sectoral conflict and compromise will continue during the post-Congress period.

Strategies for party building

The political report reflected the VCP leadership's concern over the impact of economic liberalisation and the process of political reform on the party. The VIII Congress re-endorsed party reform measures proposed at the III Plenum of the CC in June 1992 where *both* the renovation (*doi moi*) and the rectification (*chinh don*) of the party apparatus had been endorsed, addressing issues related to party ideology, revolutionary discipline, party organisation, leadership style, and party members.

The III Plenum resolution had attempted to address systematically the ethical and disciplinary framework that governed the conduct of party cadres and their political character (*ban linh chinh tri*). It had also put forward measures to renovate party organisations both at central and grassroots levels, and had argued for the need to define the qualifications of party cadres, the recruitment process, and job assignment regulations

⁶⁶ Interviews with researchers at the Institute for the Research on the State and Law and the National Administration Academy, Hanoi, November 1996.

⁶⁷ *Lao Dong*, 19 December 1996, p. 1 in FBIS-EAS, 19 December 1996.

under the new economic order. Finally, it had confirmed party leadership over other political institutions, while endorsing a change of method from leading through party cadres to leading through party organisation.⁶⁸

The VIII Congress confirmed these reform measures and, for the first time, imposed restrictions on party members' involvement in business activities and advocated measures to deal with corruption practices. It also urged the expansion of party organisations in the non-state sector and the rebuilding of party organisations in state and representative bodies.

Why party reform?

In a speech delivered to the III Plenum and in several others between then and the VIII Congress, Politburo member Le Phuoc Tho identified a number of reasons that precipitated the need for party reform.⁶⁹

The first dealt with the impact of economic reform on the division of tasks among party members. Economic benefits and prospects for material gains affiliated with particular job assignments caused friction among party members and party organisations. During the period of economic transition, control of the party organisations allowed local cadres to enrich themselves and protect the interests of their followers. As a result, intra-party disputes for control over party bureaucracies and territory grew substantially and intra-party struggles increasingly focused on administrative jurisdiction. In a speech delivered in early 1996, Le Phuoc Tho, reported on disunity among key party members at middle levels: between secretaries and chairmen of people's committees or people's councils; between party committees and chiefs of state agencies; and between local cadres and those assigned from other localities. This developed during the redefining of the administrative boundaries of provinces or in the mergers of departments, ministries, and sectors. It also took place when personnel

⁶⁸ Tho, 'Mot so nhiem vu doi moi va chinh don dang', pp. 77-9.

⁶⁹ *Ibid.*, pp. 70-7.

evaluations, deployment, and proposals for promotions were launched. These 'have weakened the internal structure of local party organisations and have caused the masses to lose confidence in party organisations'.⁷⁰

The second reason for party reform concerned the ideological crisis within the party following the disintegration of communism in the Soviet bloc between 1989 and 1991. Prior to the VII Party Congress in 1991, high-ranking party cadres, intellectuals, and technocrats had questioned the appropriateness of the Party's line in the past and voiced their doubts over the future of socialism in Vietnam. Tran Xuan Bach and Bui Tin were among the major figures to speak out.⁷¹ At the grassroots level, party organisations in many localities reportedly became paralysed and cadres demoralised.⁷²

The third reason for party reform given by Le Phuoc Tho was the need for the VCP members to stay united in the face of the threat of 'peaceful evolution' whereby imperialist forces relied on economic forces and capitalist ideology to undermine the Vietnamese socialist regime. Tho identified this process as involving attempts to damage the credibility of the VCP, promote political and multi-party pluralism, divide the rank-and-file in the party, and split the people from the party.

The fourth reason given to justify party reform was the decline of party organisations and their cadres at all levels as seen through a series of 'negative developments' within the party

⁷⁰ *Nhan Dan*, 29 January 1996, p. 3.

⁷¹ For a summary of their views, see Thaveeporn Vasavakul, 'Vietnam: the changing models of legitimation', in Muthiah Alagappa, ed., *Political Legitimacy in Southeast Asia* (Stanford: Stanford University Press, 1995), pp. 278-81.

⁷² See Chu Huu Quy, 'Vai tro chinh quyen co so xa, thon trong cong cuoc xay dung nong thon moi' [The role of local government in building the new countryside], in *Phat trien toan dien kinh te-xa hoi nong thon, nong nghiep Viet Nam* [Comprehensive socio-economic development of the Vietnamese countryside and Vietnamese agriculture] (Hanoi: Chinh Tri Quoc Gia, 1996), pp. 188-94.

apparatus. Tho reported signs of disunity, competition for power, individualism, and provincialism within the party. Cadres formed factions or cliques, in Tho's words, 'finding ways to "topple one another"' (*tim cach 'lat do nhau'*).⁷³ Party cadres became engaged in corruption, bribery, smuggling, and misappropriation of the people's property, taking advantage of legal or policy loopholes.⁷⁴ Tho also reported cases in which high-ranking cadres delivered didactic speeches but did not follow what they had preached, and in which many cadres criticised other cadres, departments, branches, and provinces for being corrupt, but avoided criticising their own units, or became angry when their units were criticised. In addition, there were cases in which party cadres did not voice their opinions during formal meetings but aired their disagreement in public.

Le Phuoc Tho identified a number of factors that had led to the current decline: a loose structural organisation; the absence of democratic centralism; shortcomings in cadre work; a lack of review of party building experiences in leading the state, mobilising the masses, managing the economy, and linking theory and practice.⁷⁵

Between 1992 and 1996, a series of measures were put forward aimed at creating a framework to govern intra-party relations,

⁷³ Tho, 'Mot so nhiem vu doi moi va chinh don dang', pp. 71 and 75.

⁷⁴ In 1993, Nguyen Van Linh, former Secretary General, complained that even leading cadres in charge of high-level leadership and management apparatus had taken advantage of loopholes in policies to misappropriate public funds, accept bribes, and seek personal gains. In the mid-1990s, one widely-publicised case was Tamexco, an export-import goods production, business, and supply services corporation set up in 1989 and subordinate to the Tan Binh District Party Committee. The company reportedly lost nearly US \$40 million because of corruption. AFP (Hong Kong), 29 April 1996 in FBIS-EAS, 30 April 1996, pp. 82-3; *Lao Dong*, 28 April 96, p. 3 in FBIS-EAS, 18 June 1996, pp. 90-1.

⁷⁵ 'Nghì quyêt ve mot so nhiem vu doi moi va chinh don dang' [Resolution on tasks regarding the reform of the Party], in DCSVN, *Mot so van kien*, p. 11.

and neutralising the political groupings, competition, and conflict that arose within the party apparatus.

Revolutionary ideology, unity, and ethics

In response to the ideological and organisational crisis in the VCP following the collapse of communism in the Soviet bloc, the III Plenum confirmed Marxism-Leninism and Ho Chi Minh thought as party ideology.⁷⁶ Earlier, the VII Party Congress had officially endorsed Ho Chi Minh thought as one basis of regime ideology. The Resolution called for party members to adhere to a socialist path, cultivate revolutionary ethics, maintain party unity, keep close ties with the people, and fight against 'peaceful evolution'. To liberalise political discussion in the Party and appease party members who held different views, the resolution endorsed the rights of party members to 'register different opinions' (*quyen bao luu y kien*), that is, to voice their disagreement over policy issues. Their views would be considered by the upper echelons. However, all members were obliged to follow party resolutions once they were adopted by the majority. The resolution prohibited party cadres from using criticism and self-criticism sessions to launch personal attacks and taking revenge for being criticised.⁷⁷

The amended 1996 Party Statute states that 'party members holding minority views have the right to their opinion and to report it to higher party echelons up to the National Congress of Delegates'. Yet, it also warns that 'they (party members) must, however, implement resolutions scrupulously and must not propagate their opinions at variance with the party resolutions'.⁷⁸

⁷⁶ For a brief discussion of the politics surrounding the release of different versions of Ho Chi Minh's Last Will and Testament, see Vasavakul, 'The changing models of legitimation', pp. 277-8.

⁷⁷ *Bao luu y kien* appeared in the Democratic Republic of Vietnam in the 1960s, although at times, it lapsed into disuse.

⁷⁸ See *Dieu le*, p. 17; and Le Quang Thuong, 'Tiep tuc hoan thien he thong to chu cua Dang nham dap ung yeu cau cua thoi ky moi' [Continue to perfect the party organisation system in order to meet demands in the

The III Plenum resolution in 1992 did not immediately propose measures to address the question of party cadres' involvement in entrepreneurial activities; it only called for the need to clarify the meaning of the statement 'party members cannot exploit'.⁷⁹ In 1996, the political report instructed that party officials should refrain from taking advantage of legal discrepancies and loopholes to conduct illegal business and embezzle public funds. Regulations would be set up to clarify business activities and services for foreigners and to govern the acceptance of gifts. Party organisations would investigate cadres who suddenly became unusually rich and issued clear policies on the responsibilities of party officials whose spouses or children conducted illegal business activities. The political report prohibited party members from being involved in the private capitalist economy (*kinh te tu ban tu nhan*). However, it allowed them to do business in the state sector, the collective sector, and sectors that advocated share holding or joint ownership with workers, while condoning their engagement in household businesses. For party members who were owners of private capitalist enterprises, party organisations would help transform them into share holding companies or collective companies with worker participation.⁸⁰

Party organisation

A second aspect of party reform addressed by the VCP centred around party organisation. One concern was the relatively small number of party members, accounting for only 2.9 per cent of the overall population. The distribution of party members was

new era] in *Mot so van de xay dung Dang*, pp. 47-9. The author is the vice-chairman of the Party Central Organisation Commission.

⁷⁹ Tho, 'Mot so nhiem vu doi moi va chinh don dang', p. 78.

⁸⁰ Article 1 of the Party Statute states that party members 'must refrain from exploitation.' See *Dieu le*, p. 7; and Le Quang Thuong, 'Mot so van de ve cong tac dang vien trong tinh hình hien nay' [Several problems concerning cadre work under the current situation], *Tap Chi Cong San*, no. 14 (July 1996): 18-9.

uneven across the country: 3.5-4.5 per cent in the North; 1.5-1.7 per cent in the central and highlands areas; and 1.1 per cent in the South.⁸¹

Another concern was how to reform the structure of the party organisation inherited from the socialist period. After 1975, in order to catch up with the expansion of the state apparatus, the leadership had advocated the expansion of party organisations, allowing party committees at all levels to set up as many commissions as they needed to assist them in overseeing state agencies implementing party directives. In 1986, prior to the VI Party Congress, the Politburo (V Session) issued Decision 34 on the streamlining of party organisations, leading to the merger or the abolition of central commissions. At present, there are reportedly 17 central commissions and specialised organs, half of the number existing between 1980 and 1985. At the local level, the problem of excessive intermediaries has remained.⁸²

In addition, a range of party organisations had poorly defined vertical and horizontal communications. Basic party organisations had been set up at administrative, occupational, economic, or work units and had been placed under the leadership of party committees of districts, wards, towns, and cities subordinate to provinces. Party committees had developed different systems to lead these basic party organisations: the party committee for a bloc of central state agencies (*dang uy khoi cac co quan trung uong*); the inter-state agency party committee (*dang uy lien co quan*); the people-government-party committee at the provincial level (*dang uy dan-chinh-dang cap tinh*); party committees for a bloc of enterprises (*dang uy khoi doanh nghiep*); and party affair sections in universities under the jurisdiction of the province (*ban can su dang*). In addition, party organisations in major SOEs were placed under various leading party organs of the Secretariat, central party economic agencies, and party committees in ministries, provinces or municipalities. Smaller SOEs were placed under party committees at the district and

81 Thuong, 'Mot so van de ve cong tac dang vien', p. 15.

82 Thuong, 'Tiep tuc hoan thien he thong to chuc cua Dang', pp. 61-3.

quarter levels. There seemed to be no clear regulation regarding horizontal and vertical chains of command and authority structure.⁸³

Another related concern dealt with the absence of party organisations in new economic and administrative units. The split of administrative units, the demarcation of new administrative boundaries or provinces, and the mergers of departments, ministries, and sectors during the period of reform all meant that the party structure from the pre-reform period became irrelevant. For example, party organisation cadres complained that the non-state sector including private enterprises, joint ventures, and foreign-owned enterprises did not have party organisations. They also debated how party organisations in SOEs that were separated from their line ministries should be placed and how party organisations in the newly-established general state corporations (*tong cong ty*) should be organised.⁸⁴

To strengthen party organisation, the III Plenum Resolution called for the expansion of party organisations into minority areas and religious establishments as well as private enterprises and joint ventures if possible. It endorsed the separation of party organisations in SOEs from party organisations in ministries and branches, with the reassignment of party organisations in the SOEs to party committees at the provincial, district/ precinct, or quarter/commune depending on the size of the SOEs. It also called for the setting up of party committees in general corporations and unions of enterprises. To reform central party organisations, it endorsed the redefinition of tasks and the authority of central commissions. At the grass-roots level, it called for the reorganisation of party chapters according to residential areas (such as hamlets and streets) and occupations.

⁸³ *Ibid.*, pp. 60-1.

⁸⁴ Thuong, 'Ve to chuc va hoat dong cua cac to chuc Dang trong cac doanh nghiep nha nuoc' [On the organisation and activity of party organisations in state-owned enterprises], in *Mot so van de*, pp. 85-100.

Under state socialism, Party chapters and party organisations had been attached to production units.⁸⁵

After 1992, new party chapters were set up in several areas and party chapters in rural and urban areas were organised according to residential areas and occupational groups.⁸⁶ Between 1992 and 1994, statistics from 17 provinces showed that 282 additional hamlets had party members and 398 additional hamlets had set up party chapters. By the end of 1995, there were 40,330 party organisations at grassroots level. Hanoi had 142,409 party members with 1,517 party organisations at grassroots levels; Ho Chi Minh City had 83,720 party members with 2,259 party organisations.⁸⁷

The expansion of party organisations into the non-state sector, however, only began in 1996. In January, the Party Central Committee's Organisation Department met with representatives of the non-state business sector at the 11th Precinct in Ho Chi Minh City to discuss the establishment of party organisations at grassroots level. In May, the party committee of Hai Phong reportedly began to set up party cells in joint ventures.⁸⁸

Between 1991 and 1993, the leadership also moved to reform party organisations at the central level, exemplified by the reorganisation of the Institution of Marxism-Leninism into the Institute for Research on Marxism-Leninism and Ho Chi Minh Thought in 1992; the reorganisation of the Nguyen Ai Quoc Academy into the Ho Chi Minh National Political Academy in 1993, and the setting up of the National Politics Publishing House based on the merger of a number of party publishing houses.⁸⁹

⁸⁵ 'Nghị quyết về một số nhiệm vụ đối mới và chỉnh đốn Đảng', pp. 17-8.

⁸⁶ Le Quang Thuong, 'Một số vấn đề về công tác đảng viên', p. 16.

⁸⁷ *Ibid.*; and *Thoi Bao Kinh Te Saigon*, 27 June, July 3, 1996, p. 4 In FBIS-EAS, 29 July 1996, p. 103.

⁸⁸ *Sai Gon Giai Phong*, 7 January 1996, p. 1 in FBIS-EAS, 2 February 1996, pp. 63-4; VNA, 6 May 1996 in FBIS-EAS, 7 May 1996, p. 80.

⁸⁹ Su That Publishing House, Thong Tin Ly Luan Publishing House (from the Institute of Marxism-Leninism and Ho Chi Minh Thought);

This reorganisation drive also involved the setting up of a Commission for the Protection of Internal Politics (Ban Bao Ve Chinh Tri Noi Bo cua Trung Uong) in 1993.⁹⁰ Between 1991 and 1993, the authority and responsibilities of all Party's Central Commissions were also redefined.⁹¹

The VIII Congress confirmed the measures adopted by the III Plenum, emphasising the expansion of party organisations in state-owned enterprises, private enterprises, foreign-Vietnam joint ventures, administrative units, and the military and police units.⁹² This policy guideline was further elaborated in December 1996 with the Politburo's instruction to establish and strengthen a nationwide network of party cells and organisations in foreign and private enterprises.⁹³

The Party and other political institutions

A third aspect of party reform dealt with the relationship between the party and elected representative bodies, the state, and mass organisations. There have so far been three major types of party organisations that served to link the party with other political institutions: 'party grouping' (*dang doan*) in the National Assembly and mass organisations; 'party affairs section' (*ban can su*) in state agencies; and party committees in the military and security forces.

Thong Tin-Van Hoa Publishing House (from the Ideology and Culture Central Commission); and Phap Ly Publishing House (from the Ministry of Justice). See *Mot so van kien*, pp. 155-7, 199-201, and 202-3.

⁹⁰ *Mot so van kien*, pp. 158-60.

⁹¹ *Ibid.*, pp. 161-209.

⁹² Thuong, 'Mot so van de ve cong tac dang vien', p. 19; See also Le Quang Thuong, 'Nang cao nang luc lanh dao cua cac to chuc co so dang dap ung yeu cau cua su nghiep cong nghiep hoa, hien dai hoa dat nuoc' [Raise the leadership capacity of basic party organisations in order to meet the demands of industrialisation and modernisation of the country], in *Mot so van de*, pp. 65-74.

⁹³ VOV, 6 December 1996 from BBC Monitoring Service: Asia-Pacific, 10 December 1996; and *South China Morning Post*, 10 December 1996.

The 1935 Party Statute of the first Congress endorsed *dang doan* as a means to 'expand party influence and implement party policies in workers' associations, peasant associations, and popular organisations'. The 1951 Statute assigned party committees at different levels to set up and lead *dang doan* in government agencies and mass organisations. The 1960 Statute reserved a separate chapter for *dang doan*, signifying its institutionalisation.⁹⁴

After reunification, the 1976 Party Statute introduced a second type of party organisation, the party affairs section (*ban can su*), to serve as a link between the party and executive and juridical administrative units, while retaining *dang doan* for elected representative bodies (the National Assembly and the People's Councils) and mass organisations. The 1982 Statute, however, abolished *ban can su* in government and legal administrative units, leaving direct leadership of these units to party cadres or through party committees.⁹⁵

The III plenum resolution in June 1992 highlighted the importance of both *dang doan* and *ban can su*. The Party would lead the National Assembly by providing guidance to deputies on constitutional building through *dang doan* in the National Assembly. *Dang Doan* would oversee the activities of Assembly deputies who were party members and would mobilise non-party members to follow the party line. The Party would also lead mass organisations through *dang doan* and would help to upgrade the quality of workers in mass organisations. The resolution declared that the Party was committed to the building of the state apparatus and would work with state agencies through *ban can su* which would report to the Politburo and Secretariat on government decisions and implementation. At the local government level, party committees' heads or deputies could be elected chairpersons of the People's Councils. Party cadres would assume the headship of specialised branches in local government

⁹⁴ Thuong, 'Tiep tuc hoan thien', pp. 37 and 39.

⁹⁵ *Ibid.*, pp. 41-3.

where they were qualified.⁹⁶ In 1992 and 1993, the Politburo issues directives defining the role of *dang doan* in elected agencies and mass organisations, *ban can su* in executive and juridical administrative units, and party organisations and political commissars in the People's Army.⁹⁷

Problems remained in the process of institutionalising *dang doan* and *ban can su*. At the local level, one crucial problem was the unclear relationship between *dang doan* and *ban can su* on the one hand and a range of party organisations in executive and juridical units, elected representative agencies, and mass organisations, including 'bloc' party committees (*dang uy khoi*) and 'organisation' party committees (*dang uy co quan*). At the central level, there were problems between *ban can su* in the government and ministries and between *ban can su* in ministries and general corporations. Finally, many writers called for a unification of party organisations in executive and juridical agencies, elected representative agencies and mass organisations under a single name.⁹⁸

The VCP set up a separate system of party organisations in the military and the public security forces. In 1983, the Politburo issued a resolution introducing the 'one command system' that abolished party committees organised vertically at each level of command from the Central Military Party Committee, through the Political General Department, to basic level. The executive functions of the party committee at each level were assigned to the unit commander, and a new body, the Military Council was created in place. This move granted the unit military commander more decision-making authority. The III Plenum resolution, however, restored the system of party committees in the military to strengthen party leadership over all aspects of the army. This move, according to the military journal *Quan Doi*

⁹⁶ 'Nghị quyết về một số nhiệm vụ đối mới và chỉnh đốn đảng', pp. 33-7.

⁹⁷ *Mot so van kien*, pp. 210-31.

⁹⁸ Thuong, 'Tiep tuc hoan thien he thong to chuc cua Dang', pp. 58-60.

Nhan Dan, was aimed at strengthening the direct leadership of the party over all aspects of the army.⁹⁹

The 1996 Statute discussed in detail responsibilities of both *dang doan* and *ban can su*. The party committee at the central, provincial, and municipal levels subordinate to the central government would establish *dang doan* and *ban can su* to work in the elected representative agencies, mass organisations, and state and juridical agencies. Wherever such party groupings were not set up, basic party organisations at these agencies would assume the leadership function. The Statute also emphasised the party control over the army and the security forces.¹⁰⁰ These confirmations signalled an official policy to tighten the VCP control over other political institutions, while changing the style of leadership from leading through party cadres to leading through organisation.

Party members

The final aspect of party reform dealt with party cadre and involved the age, recruitment, and qualifications of party members. The VCP had not attracted great numbers from younger generations of Vietnamese in decades. At the end of 1976, the average age of cadres was 38.6 years; with 27 per cent under 30 years of age. By the end of 1995, however, the average age had risen to 43.6 years and only 12 per cent of party members were under 30. Meanwhile, the number of retired cadres increased from 5 per cent in 1976 to 27 per cent at the end of 1995.¹⁰¹ Between 1987 and 1991, the number of new party members recruited fell from 100,000 in 1987 to 80,000 in 1988, 66,000 in 1989, 49,000 in 1990, and 36,000 in 1991.¹⁰²

⁹⁹ See Thayer, *The Vietnam People's Army under Doi Moi*, pp. 5 and 61.

¹⁰⁰ Thuong, 'Mot so van de ve cong tac dang vien', p. 14; and *Dieu le*, pp. 39-46 and 59-61.

¹⁰¹ *Ibid.*, p. 15.

¹⁰² Tho, 'Mot so nhiem vu doi moi va chinh don dang', p. 90.

Also, the party had not been able to raise the intellectual quality of its members. A large number of cadres had been recruited during the war and thus lacked appropriate skills for the period of reform: 28 per cent of party members had graduated from secondary schools; 12 per cent from technical middle schools; and 14 per cent from colleges and universities.¹⁰³

The III Plenum resolution advocated the rejuvenation (*tre hoa*) of party members, the recruitment of qualified young Vietnamese, and the strengthening of the Ho Chi Minh Youth League.¹⁰⁴ Since June 1992, the VCP had admitted 189,692 members, 9 per cent of the party membership. In 1995 alone, around 85,900 new party members were admitted, reportedly 47 per cent more than in 1994.¹⁰⁵ After 1992, the proportion of party members with a university education or above in provincial and city party committees reportedly increased. The number of party cadres with economic management training also rose from 9 per cent during the 1977-79 office term to 36 per cent in 1991-95 office term.

¹⁰³ Thuong, 'Mot so van de ve cong tac dang vien', p. 14.

¹⁰⁴ 'Nghi quyet ve mot so nhiem vu doi moi va chinh don dang', pp. 19-20. For more details on the situation in the provinces, see Nguyen Thanh Tuc, 'Dang bo Ninh Binh thuc hien Nghi Quyet Trung Uong Ba ve doi moi chinh don Dang' [Ninh Binh party committee implemented the III Plenum resolution on the renovation and rectification of the Party], *Tap Chi Lich Su Dang*, no. 2 (1996): 10-3; Tong Quoc Huyen, 'Dang Bo Huyen Hoa Lu thuc hien doi moi va chinh don Dang' [Party committee of Hoa Lu district renovated and rectified the Party], *Tap Chi Lich Su Dang*, no. 4 (1996): 44-5; Dang Van Cao and Phan Huu Tich, 'Dang Bo Hai Hung thuc hien doi moi chinh don Dang—ket qua va kinh nghiem' [Hai Hung party committee renovated and rectified the Party—results and experiences], *Tap Chi Lich Su Dang*, no. 6 (9-1996): 12-4.

¹⁰⁵ Since the VII Congress, the Party had admitted 267,914 members. Of the members admitted since 1992, 20 per cent were women, 12 per cent were from ethnic minorities, 56 per cent were members of the Ho Chi Minh Communist Youth Union, and 17 per cent were college, university, or post-university graduates. VNA, 12 January 1996 in FBIS-EAS, 26 January 1996, p. 84; and VOV, 28 June 1996 in FBIS-EAS, 3 July 1996, p. 59.

The VIII Congress showed signs of rejuvenation of the Party apparatus in a number of respects (Appendix II-III). First, the revolutionary and political backgrounds of delegates to the Congress and the CC differed from those at the previous Congress, with a rise in the number of the delegates who became party members between 1955 and 1975 and after 1976 at the expense of the 1945-1954 generation. Some 74 per cent of the delegates had entered the party between 1955 and 1975 compared with 66 per cent for the VII Congress, while 17 per cent became party members after 1976 compared with 9 per cent for the VII Party Congress. Only 8 per cent had entered the party between 1945 and 1954 compared with 22 per cent for the VII Congress; and only 0.8 per cent (or 10 delegates) had entered the Party prior to 1945. At the CC level, 89 per cent entered the party between 1946 and 1975; 9 per cent entered the party after 1976, an increase from 0.5 per cent at the VII Party Congress.

Another departure was the age structure of the delegates to the Congress and of the CC members whose average age had declined. (See details in Appendix II-III). Finally, delegates to the Congress and the CC members possessed high educational qualifications: some 88 per cent of the CC members held university degrees compared with 56 per cent for the VII Party Congress.

While the top leaders at the Politburo level were senior party leaders from the first two revolutionary generations, most of the CC members were from the 1955 to 1975 and the post-1975 generations with less 'revolutionary' experience but a higher level of formal education.¹⁰⁶

Concluding remarks

Despite the label 'one-party rule', Vietnamese apex politics in the 1990s shared many features of 'interest group politics'. The rise of sectoral interests was largely a product of structural change in

¹⁰⁶ For detailed analysis, see Thayer, 'The Regularization of Politics Revisited', pp. 7-8.

the VCP following the period of economic and political reform in the 1980s and 1990s. It is likely that the sectoral composition within the VCP will continue to change. For example, the continuing division of provinces through 1996 could contribute to the increase in the number of secondary/provincial-party state cadres in the future. The expansion of party cells into the non-state economic sector and the strengthening *dang doan* and *ban can su* in the elected bodies and government agencies could in the long run justify the non-state sector having representation in the Party and strengthen the position of the party work sector.

The VIII Party Congress opted for policy inclusion. While it employed socialist vocabulary in formulating reform policies, emphasised the semi-malevolent international context and promoted the leading role of the state and the collective economic sectors advocated by party ideologues, army and security representatives, and state businesses, it also adopted elements proposed by party cadres *cum* technocrats.

Since both the political and the socio-economic reports endorsed by the Congress merely served to provide general directions for Vietnam's future reform plans, it likely that sectoral conflict and compromise will continue during the post-Congress period. In the economic area, it will be seen in the debates over which state industrial sectors receive priorities, how far the privatisation of SOEs goes, and how state economic and administrative functions will be separated. It will also be seen in the extent to which the agricultural, forestry, and fishery sectors, so far unattended, receive investment benefits and in how resources are allocated to minorities and mountainous areas. Culturally and socially, it will be seen in the debates over national culture, globalisation, education and modernisation, social policy, and poverty reduction programs. Politically, it will be seen in the transformation of policy guidelines into laws, government decisions, local administrative directives, and their implementation. It will also be seen in the process of redefining party revolutionary ethics, the reform of party organisations, the recruitment of cadres, and power sharing between the VCP and other political institutions.

In the context of intensified competition for economic resources among different sectoral interests and their formal and informal alliances (*khoi*) and in a changing ideological environment, the VCP leadership has attempted to establish a framework within which competition and conflict could be lessened. It remains to be seen whether the measures put forward between the VII and the VIII Congress will revive the spirit of collective/collegial leadership among the rank-and-file within the party.

Appendix I: A Profile of the Delegates to the VI National Party Congress (1986)

	No. of delegates	per cent
Total	1,129	
<u>Sectoral Representation</u>		
Members from Provinces, Municipalities and Special Zones	925	
Members from Central Party Organisations	197	
Female Delegates	153	13.53
Labor or Military Heroes	50	4.42
Direct Production Workers	72	6.37
<u>Class Composition</u>		
Industrial Workers	175	15.50
Peasants	325	28.75
Cadres and Civil Servants	337	29.84
Petty Bourgeoisie and Students	150	13.28
Others	142	12.57
<u>General Educational Level</u>		
General Secondary School Level or Higher	804	71.21
<u>Specialised Educational Level</u>		
Specialised Secondary Schools or Higher	558	49.38
College or Higher	481	42.60
With Knowledge of Economic Management	334	29.58
With Knowledge of State Management	42	3.72
<u>Political Educational Level</u>		
Advanced Level	691	81.11
Middle Level	246	21.78
<u>Age</u>		
Between 31 and 40	132	11.69
Between 41 and 50	339	30.02
Between 51 and 60	460	40.74
Between 61 and 70	162	14.34
Over 70 Years Old	14	1.24
<u>Party Seniority</u>		
Entering the Party before 1930	7	0.62
Entering between 1931 and 1941	35	3.10
Entering between 1941 and August 1945	45	3.90
Entering between September 1945 and July 1954	407	36.05
Entering between August 1954 and April 1975	547	48.45
Entering after May 1975	88	7.80

Source: *Nhan Dan*, 15 December 1986, pp. 3-4.

Appendix II: A Profile of the Delegates to the VIII Party Congress Compared with that of the VII Congress

	VIII Congress		VII Congress	
	no.	per cent	no.	per cent
<u>1. Number of the Delegates</u>				
Total	1200		1176	
In Presence	1198		1176	
<u>Sectoral Representation</u>				
Female Delegates	153	12.80	113	11.31
Minorities	153	12.80	124	10.54
Workers	100	8.30	116	9.80
Labor or Military Heroes	29	2.40	27	2.30
Delegates from the Army	158	13.16	97	8.25
Delegates from Security Forces	56	4.60	47	4.00
Delegates Doing Party Work	490	40.80	404	43.35
Delegates from the Government Sector	321	26.00	226	22.28
Delegates Resp. for Mass Organizations	132	11.00	123	10.46
<u>2. Age</u>				
Below 30	1	0.08	1	0.09
31-40	62	5.10	51	4.34
41-50	428	35.72	391	33.35
51-60	575	47.99	503	42.77
Over 60	134	11.18	230	19.56
Average Age (in years)	52		53	
Maximum Age (in years)	79		86	
Minimum Age (in years)	28		29	
<u>3. Party Seniority</u>				
Entering the Party before 1945	10	0.80	34	2.89
Entering between 1945-1954	90	7.50	259	22.02
Entering between 1955-1975	891	74.37	780	66.33
Entering after 1976	209	17.44	102	8.67
<u>4. Educational Level</u>				
General School Level				
- First Cycle	9	0.75	16	1.63
- Second Cycle	98	8.10	188	15.99
- Third Cycle	1093	91.23	969	82.40
Specialised Educational Level				
- Middle Level	73	6.09	78	6.63
- College and University	750	62.60	743	63.18
- With MA, PhD or Professorship	192	16.00	158	13.43
Political Educational Level				
- Middle Level	179	14.19	256	21.77
- Advanced Level	998	81.80	841	71.50

Source: *Xay Dung Dang*, no. 7 (1996): 24-5.

Appendix III: A Profile of the Central Committee of the VIII National Congress Compared with that of the VII Congress

	VIII Congress		VII Congress	
	no.	per cent	no.	per cent
<u>1. Number of the CC Members</u>				
Total	170		146	
Female	18	10.50	12	7.05
Minorities	16	9.41	13	7.64
Workers	17	10.00	20	11.76
<u>2. Age</u>				
31-40	0		0	
41-50	39	22.94	21	12.35
51-60	102	60.00	60	35.29
Over 60	29	17.05	65	38.23
Average Age (in years)	54		57	
<u>3. Party Seniority</u>				
Entering the Party before 1945	4	2.35	7	4.11
Between 1946-1975	151	88.82	138	81.17
After 1976	15	8.82	1	0.50
<u>4. Educational Level</u>				
By Degree				
- University & Post-University	150	88.23	95	55.88
By Political Educational Level				
- Advanced	140	82.35	115	67.64

Source: *Xay Dung Dang*, no. 7 (1996): 25.

**Appendix IV: List of Politburo Members
(As Endorsed by the VIII National Party Congress, July 1996)**

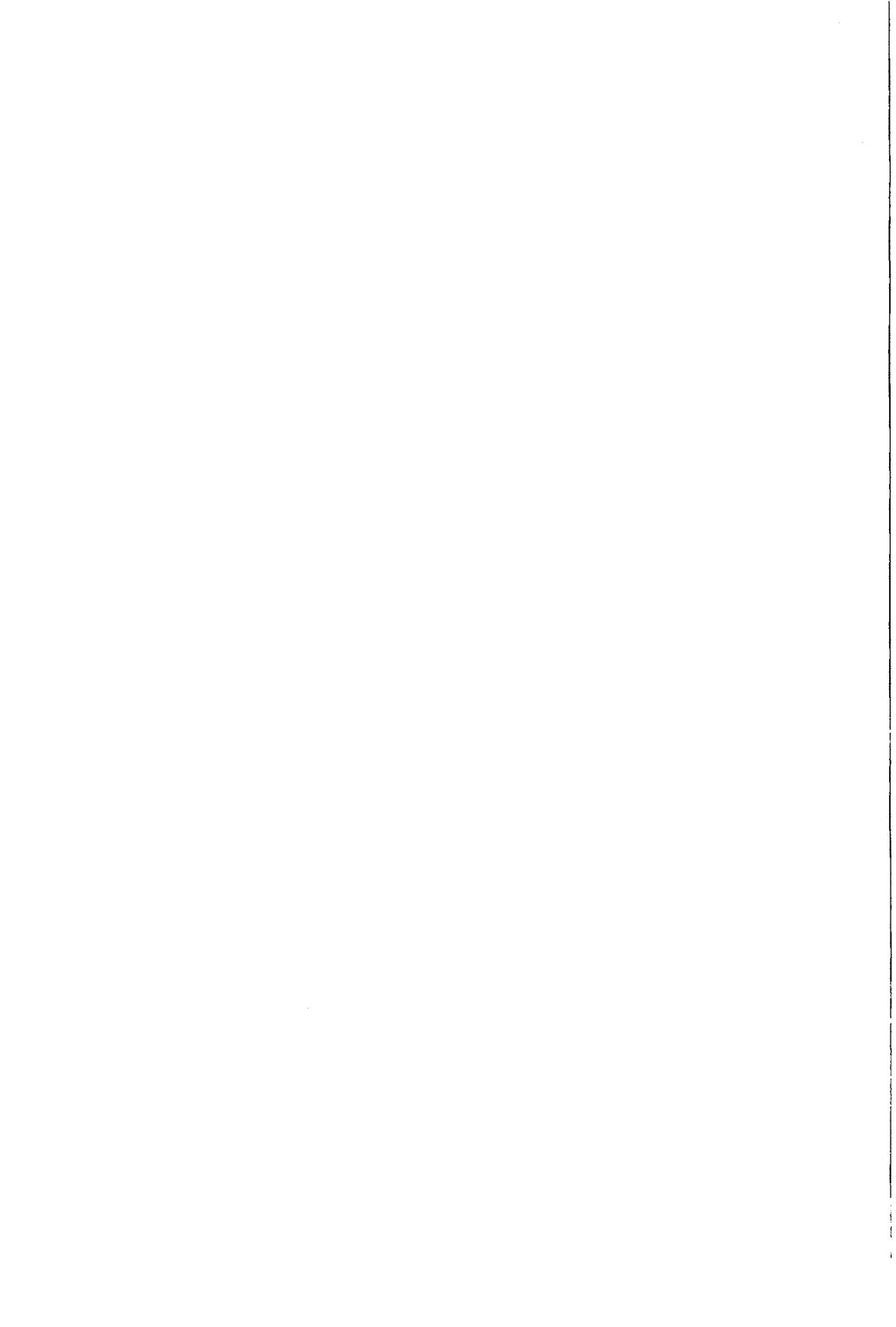
- | | |
|-------------------------------------|---|
| 1. Do Muoi | Secretary General, the VCP |
| 2. General Le Duc Anh | President |
| 3. Vo Van Kiet | Prime Minister |
| 4. Nong Duc Manh | Chairman, National Assembly |
| 5. Lt-General Le Kha Phieu | Military Political Commissar |
| 6. General Doan Khue | Defence Minister |
| 7. Phan Van Khai | Deputy Prime Minister |
| 8. Nguyen Manh Cam | Foreign Minister |
| 9. Nguyen Duc Binh | Director, Ho Chi Minh National
Political Institute |
| 10. Nguyen Van An | Head, Party Central
Organisational Commission |
| 11. Lieutenant-General Pham Van Tra | Vice-Minister of Defence and
Army Chief of Staff |
| 12. Tran Duc Luong | Deputy Prime Minister |
| 13. Nguyen Thi Xuan My | Head, Party Central Control
Commission |
| 14. Truong Tan Sang | Ho Chi Minh City Party Chief |
| 15. Le Xuan Tung | Hanoi Party Chief |
| 16. Lt-Gen. Le Minh Huong | Minister of Interior |
| 17. Nguyen Dinh Tu | Died 28 June 1996 |
| 18. Pham The Duyet | Party Mass Mobilisation
Commission |
| 19. Nguyen Tan Dung | Vice-Minister of Interior |

Appendix V: Central Committee Plenums from the VII to the VIII Congress

24-27 June 1991	The VII National Party Congress met.
21 November- 4 December 1991	The II Plenum discussed guidelines for the implementation of the VII Congress Resolution and the revision of the 1980 Constitution.
18-29 June 1992	The III Plenum discussed Vietnam's foreign policy, national defence and security, and party reform.
10-14 January 1993	The IV Plenum discussed cultural tasks, education and training, family planning, and youth work.
3-10 June 1993	The V Plenum discussed the socioeconomic development in rural areas.
24 November- 1 December 1993	The VI Plenum discussed the preparation of the mid-term party congress.
20-25 January 1994	The Mid-Term Party Congress met to review the implementation of the VII Congress Resolution. It endorsed the acceleration of modernisation and industrialisation and identified four dangers confronting the country: falling behind, socialist deviations, corruption, and peaceful evolution.
25-30 July 1994	The VII Plenum discussed industrial and technological development and the strengthening of the position of the working class.
16-23 January 1995	The VIII Plenum officially promulgated reform of the administrative system.
6-14 November 1995	The IX Plenum discussed and endorsed the draft reports to the VIII Party Congress.
12-20 April 1996	The X Plenum discussed the views contributed towards the draft documents of the party congress before releasing them for public comments. It expelled Politburo member Nguyen Ha Phan from the Party
Early June 1996	The XI Plenum studied the opinions collected on the draft reports and officially scheduled the dates for the Congress.
28 June-1 July 1996	The VIII National Party Congress met.

**Appendix VI: List of the New Cabinet Government
(Reshuffled 6 November 1996)**

Prime Minister	Vo Van Kiet
Deputy Prime Ministers	Phan Van Khai Tran Duc Luong Nguyen Khanh
<i>Ministers</i>	
Agriculture & Rural Development	Nguyen Cong Tan
Construction	Ngo Xuan Loc
Culture and Information	Nguyen Khoa Diem
Defence	Doan Khue
Education and Training	Tran Hong Quan
Finance	Nguyen Sinh Hung
Foreign Affairs	Nguyen Manh Cam
Industry	Dang Vu Chu
Interior	Le Minh Huong
Justice	Nguyen Dinh Loc
Labour, War invalids and Social Welfare	Tran Dinh Hoan
Marine Products	Ta Quang Ngoc
Organisation and Personnel Committee of the Government	Do Quang Trung
Planning and Investment	Tran Xuan Gia
Public Health	Do Nguyen Phuong
Science, Technology & Environment	Pham Gia Khiem
Trade	Le Van Triet
Transport and Telecommunications	Vacant
Without Portfolio	Ha Quang Du
<i>Chairs and Ministers of State Commissions and Other Bodies</i>	
Committee for Anti-Corruption and Smuggling	Vacant
Committee for Child Care and Protection	Tran Thi Thanh Thanh
Committee on Ethnic Minorities and Mountain Regions	Hoang Duc Nghi
Committee on Population and Family Planning	Mai Ky
Evaluation Commission for State Projects	Vacant
Flood Protection and Mekong River Commission	Nguyen Canh Dinh
Government Office	Lai Van Cu
State Bank	Cao Si Kiem
State Inspectorate	Ta Huu Thanh



Vietnam Since the VIII Party Congress: What Does It Mean for Australian Business?

Susan Boyd

According to the international and Australian press reports about business in Vietnam, you'd think that Vietnam is a difficult business environment, but this is far from the truth. It is difficult, but notwithstanding this, more than 100 Australian companies have a presence on the ground in Vietnam, and there are currently 51 investment projects, with a total value of \$A 865 million (US\$ 683.7).

Australia used to top the foreign investment table. In 1986, the Communist Party of Vietnam changed its economic policy from that of a centrally controlled soviet style system to what they call *Doi Moi*, or renovation, and turned to a more open market style economy. Telstra, (then OTC) was the first western investor to come to Vietnam, providing international telecommunication services which were an essential underpinning for an open economy and also provided hard currency for Vietnam's development needs.

Many other Australian companies followed, and the current line up of the Australian business presence includes 31 of the *Business Review Weekly's* (BRW) recent Top 1000 Australian Companies list. It is also perhaps worth noting that of the BRW's top 20 performers, those in Vietnam include seven of the companies showing biggest net profits, eight of those with most improved profits, six of those with most improved revenue, and only three of the biggest loss makers. Now I am not suggesting that the companies' activities in Vietnam are the main

determinants of those rankings, but it gives you some idea of the sort of companies who have come to Vietnam and are painstakingly and carefully working their way through the minefields and difficulties of an economy in transition. There are, of course, also a few very successful smaller companies.

The main sectors where Australia is active in Vietnam are telecommunications (Telstra and a number of others, including small companies who have coat-tailed on their success); petroleum and gas (BHP, Anzoil and a number of smaller petroleum industry service companies); construction (Transfield, Thiess-Leightons, John Holland, Baulderstone Hornibrook); building materials (BHP Steel, Austnam, James Hardie, Pioneer, two readimix concrete companies); business services (ANZ and Commonwealth Banks; lawyers Deacons, Graham and James, Phillips Fox, Freehills Hollingdale and Page; accountants Bourne Griffiths, Pannel Kerr Forster and Australian members of the bigfour accounting companies); Media (Packer, AAP, Reuters, News Limited); transport (Qantas, DHL, a Ho Chi Minh City bus and taxi company); energy (Pacific Power, Prospect Electricity) and mining and mining services (Normany Poseidon, CRA, North, Auridiam, ICI Explosives, Minproc); consulting engineers (SMEC, Coffeys, Maunsells) and hotels (Accor Asia Pacific). In the education and training sector, more than 50 Australian establishments—Universities, TAFEs, schools and colleges—are active. We now have our first Alumnus Minister, Minister Khiem of the Ministry of Science, Technology and Environment—a graduate of the University of Canberra, and three members of the Party Central Committee are alumni.

We are now also seeing Australian companies establishing manufacturing operations here and the beginnings of profitable food exports into a market of 75 million with growing consumer capacity and changing tastes. Notwithstanding this, it is currently the case (until investments come on stream) that most Australian companies are providing services for other expatriate businesses, a pattern which can be expected to change as the economy develops.

Though we were once top of the investment table, we have now slipped to tenth place, as the capital exporting economies of the region continue to move their manufacturing operations offshore. At or near the top of the table are Taiwan, Singapore, Korea, Japan, Hong Kong, the British Virgin Islands, Malaysia, USA and Thailand.

Of course, many Australian investments in Vietnam also come in via Hong Kong, Singapore or the British Virgin Islands and to an extent lose part of their Australian identity in the process. The latest Australian investment, the Dairy Corporation's new joint venture in Danang, has a Hong Kong tag.

The environment for the foreign investor

The USA normalised relations with Vietnam in 1995 and American companies have now started to move into Vietnam, despite the absence of MFN status and export credit insurance. (The early American companies into Vietnam beat the embargo by coming in through their Australian subsidiaries—like IBM and Kodak). The Europeans have also woken up to Vietnam lately, and the French, building on their previous colonial presence, are now ranked number eleven. The Canadians will challenge us in the emerging mining sector.

I mentioned earlier that the business environment is difficult—and it is. There is no proper underpinning of transparent, predictable law and a rudimentary law enforcement mechanism, though a system of laws is being drafted and passing slowly through the National Assembly. Australia helped draft the Construction and Mining laws (the former yet to pass through the National Assembly). A contract in Vietnam is a reflection of the shared perception of mutual advantage at the time of signing, not a predictor of future activity. If the balance of advantage changes, then the Vietnam consider it logical for arrangements to be adjusted.

Of necessity, Vietnam works by consensus, and every stakeholder in a new venture needs to be consulted and brought

on board. Power is widely dispersed, between central government agencies, provincial agencies and local authorities, so negotiation of any new arrangements is a slow and painstaking process. The Fred Hollows foundation needed authorisation from 23 different authorities before it could build its intra-ocular lens factory—and has still not started construction.

Manufacturing companies which have established themselves in industrial zones in the provinces near Ho Chi Minh City—in Dong Nai and Song Be, have had a much easier time, and the industrial zone management acts as a one-stop-shop for all necessary clearances. The Ministry of Planning and Investment is well aware of this serious impediment to business and is working towards a one-stop-shop for all investment, but this is still some way off.

Corruption is a growing problem. It is very difficult to manage in the context of growing disparities in income between those in the business sector and those in government service, whose authority is necessary for business to proceed. For despite the outward appearances of rapid growth in affluence, especially in Hanoi and Ho Chi Minh City, Vietnam is still a poor country, with an official per capita income of \$270. A public servant earns about \$40.00 a month. The top leadership has set its face firmly against corruption and the National Assembly spent much of its latest session debating how to combat it. The Assembly refused to rubber stamp the new government nominees for ministerial positions, endorsed by the party, and grilled them on how they planned to beat corruption in their ministries. One failed to pass muster. Corruption is increasing and confronts business with practical difficulties.

Business and the VIII Congress

Political changes occurred in 1996 also, which did not make life easier for business. In the run-up to the VIII Party Congress, in June, all decisions were on hold, including those relating to business and investment. The Ministry of the Interior, whose

over-riding concern was internal security and the absence of any disruption to the congress by external agents, placed a clamp-down on visa issues, which affected business and tourism alike and hotels, restaurants and tour operators saw a sharp downturn.

An anti 'social evils' campaign in the run-up to the congress focused on drugs, prostitution, pornography and destructive cultural manifestations, such as books, videos, karaoke and unauthorised and exciting musical performances. It also took a swipe at unauthorised advertising, and overnight, many foreign language signs were obliterated, including proprietary names like Kodak and Sony.

The Congress did not in fact make changes to the top leadership, confirming the current incumbents, though with warnings about the Prime Minister's performance, in particular, and deferring change for the time being. There was considerable renovation in the Central Committee, reducing the average age, retiring the oldest, and now including the heads of many of the State-Owned Corporations—Coal, Dairy, Steel and so on.

In mid-November 1996 a number of Ministerial changes were made, principally replacing older Ministers who had lost their Central Committee membership. Of interest were the new Ministers for Planning and Investment, the Interior, Science Technology and Environment, Finance, Culture and Information, The Office of Government and the Office responsible for the public service. Some more key Ministerial changes are expected next year, after the mid year National Assembly elections. Among those expected to change are the potentially important Minister of Trade. If, as is expected, the top three leaders change at the same time, there will be other consequent Ministerial changes.

All these changes and uncertainty are acting as a brake on decision making.

There is another important tendency which has come out of the party congress and which is affecting business. The

Congress confirmed that the process of *Doi Moi* should continue, but that Vietnam will continue to work towards 'a *socialist oriented* market economy'. And they do not have the Australian model in mind. The party is concerned that the economy should develop with social equity—that the benefits of growth should extend equally to the farmers and those in the remote areas, and not just the rapidly emerging middle class in the main cities. Similarly, it is determined that Vietnam will not import the socially destructive aspects of a capitalist society, that traditional Vietnamese culture and customs will not be undermined, that modernisation of state-owned enterprises will not be at the expense of the existing labour force, that state-owned enterprise will continue to be the major form of economic activity, while being modernised and partially 'equitised'. The private sector is recognised, though the playing field is tilted heavily in favour of the state-owned enterprises. Vietnam is impervious to the World Bank's warning that, no other country to date has seen economic growth and employment gains come from the state sector.

What the party congress has done is give the forces of control a renewed mandate, and foreign businesses and others are suffering increased harassment by agencies of the Ministry of the Interior, including the economic police and the Taxation Department. This is also providing increased opportunities for extortion and corruption. Those now trying to negotiate new joint-venture arrangements are finding that their Vietnamese partners are more openly demanding a degree of control incommensurate with the ratio of their contribution to the joint venture.

There was a slow-down earlier in 1996 in the number of new business licences issued, but Vietnam argues that quality is more important than quantity, and those new businesses now approved have been carefully assessed and are more likely to be actually realised. Many of the earlier licences granted have failed to turn into real businesses — many were unrealistic in their scope and failed to meet their financing obligations. Many early licences, including those from Australian companies, have been withdrawn or lapsed.

The successful players in this increasingly complicated market are those where position derives from culturally sensitive, relationship-oriented representatives on the ground. It is only by forming good relationships with key Vietnamese associates, and bringing flexibility and creativity to the game, that foreign companies can survive and make profits which match the long-term risk. Vietnam is not a short-term market, and the major players are in there for the long haul, they need deep pockets and patient money.

Having worked closely with a number of Australian companies in Vietnam, I see that flexibility and relationship orientation are key elements, and this is an area of challenge for Australian companies. Companies have a tendency to put a relationship person in to get the business and negotiate the licence, and then pass the baton to the operating technicians. The result is that when problems arise, as they always do, the technicians see them only as technical problems, and try to apply technical solutions, when, in most cases, the issue is a relationship issue. The company representative on the ground lacks the skills to identify it as such and adopt the appropriate strategy.

I see another danger: on the whole, the smaller companies have the management structures to provide the person on the ground with the necessary flexibility to find the way around problems. But they lack the capital backing to stay in for the long haul, when things get tough. The larger companies have the financial staying power, but their rigid management, financial control and accounting structures do not provide the necessary on-the-ground flexibility required for success. As Australian companies review their management structures, this is an element which needs to be addressed.

Outlook

We expect Vietnam to continue to grow and develop at about 9 per cent per annum, despite intermittent checks, like the current record US\$3.3 billion balance of payments deficit—a jump of one

billion in one year—which is causing some concern. There will continue to be some unpredictability and inconsistency in decision making as the government responds to the various pressures—both domestic political pressures and those coming from the foreign investment and aid community. We do not expect any major or sudden change in the political system itself.

The annual World Bank Consultative Group meeting of all the donor countries and agencies was held in Hanoi in late 1996. The World Bank, ADB and bilateral donors, including Australia, were expected to pledge some additional \$US2 billion. (Our current aid program is worth \$A200 million over four years). Vietnam has provided estimates of required domestic revenue generation, domestic savings, FDI and ODA to meet its development plans as set out in the new five year plan. Most observers believe that these targets will be met only with careful government macro and micro guidance and discipline, but that they are for the most part realistic and attainable. Government knows that it needs to continue to control inflation, manage the level of borrowings, rationalise and stem the drain from inefficient enterprises, use ODA wisely and encourage continued foreign investment. It also need to move deliberately on international trade reform.

There are few new Australian players coming in now — the early movers are now established, and there have been a few failures and withdrawals. We expect the next wave of companies to be the miners and food and beverage industry as consumption capacity grows, and vocational training and education services.

A good number of foreign companies have made their own assessment of Vietnam and decided the risk is manageable and they should be in Vietnam now, and grow with the market. If they wait for better conditions, it may be too late. We in the Embassy in Hanoi and in our Consulate General in Ho Chi Minh City and Austrade are ready to help Australian companies, if making their own assessment.

**The Vietnamese Economy in 1996—
Events and Trends—The Limits of *Doi Moi*?**

Adam Fforde

Introduction

This paper presents an overview and summary analysis of the Vietnamese economy in 1996. It has three main sections. The first—‘Historical trends and the 1996 conjuncture’, presents the argument that Vietnam's shift to a market economy, and current situation, do not reflect what would normally be understood as process of reform, viewed as the proactive implementation in a relatively coherent manner of considered policies. This section also identifies processes of ‘state rent-seeking’ that are important to understanding the current situation. The second—‘Overview of the economy in 1996—main trends’, looks in detail at the events of 1996. The final section—‘Implications for various Australian-Vietnam relations’ draws some conclusions.

Historical trends and the 1996 conjuncture

Recentralisation and modes of state rent-seeking

The origins of Vietnamese reforms and their meaning are subject to considerable debate in the academic literature.¹ A

¹ See Stefan de Vylder and Adam Fforde, *From Plan to Market: the Economic Transition in Vietnam* (Boulder: Westview, 1996), pp. 246-53 for a literature survey.

common and rather orthodox position dates the shift to a market economy to the epochal VI congress of 1986. The Congress advocated *Doi Moi* as a basic slogan that would take the country away from central-planning and towards a multi-sectoral market economy of some form or other, but within a 'Socialist Direction'. Others date reform earlier, often to the VI Plenum of August 1979. The Plenum led, after a short period of experimentation, to the partial reform measures of early 1981. These included partial decollectivisation of cooperativised agriculture with the '100 Contracts' system, and the 'Three Plan' system in SOEs that legalised their involvement in markets.² Some Vietnamese scholarly work has traced reform debates back to the early 1960s. Then the US military presence in the South was still minimal, the Sino-Soviet split an emerging reality, and the north Vietnamese economy suffering great tensions as a result of the attempt at orthodox industrialisation under the slogan of the 'priority development of heavy industry'.³

An alternative view is also common in some parts of Vietnam, and also amongst some foreign academic researchers. This is that the process of change in Vietnam should be viewed as such—as a *process*. In that process an essential element is the cognition (*nhân thức ra*) of reality (*cuộc sống*) by those in a position to assist in the adoption and implementation of measures. The hope is for measures and policies appropriate (*thích hợp*) to that ever-changing reality. Thus, within that community of inquiry, policy can and should be assessed in terms of whether it does or does not meet that goal.⁴ Further, the

² See for example, Le Duc Thuy's work, published in English.

³ Phan Van Tiem, *Chang duong 10 nam cai cach gia 1981-1991 quoc doanh* [10 years of state price reforms] (Hanoi: NXB Thong Tin, 1990). The overseas analysis of this period has tended to place great stress upon the war that was to come, rather than the domestic political and economic implications of the decisions of the late 1950s. For an early analysis, much criticised for 'ignoring the war', see Adam Fforde and Suzanne H. Paine, *The Limits of National Liberation* (London: Croom-Helm, 1987).

⁴ Whilst I owe my clearest understanding of this to the patient explanations of Tran The Duong of the Institute of Labour Science, Hanoi,

process should not be seen as, and almost never is, the implementation of policy-derived blue-prints 'from above' upon a passive reality. There is debate about the extent to which policy shifts in response to political issues, to changes in cognition, or interests; and also in attempting to analyse the reasons for the frequent ineffectiveness of official policy, and the practical difficulties in implementing it. Yet this overall paradigm seems to be one to which many researchers seem to gravitate, whatever the background they come from—Vietnam seems to 'be like that'.⁵

Table 1: Vietnam—Modes of state rent-seeking

- Mode 1: 'Traditional Central-planning'—ca 1957 to 1962-63 (when state rice procurement prices fall below free market levels)
- Mode 2: The 'DRV model'—de facto acceptance of parallel markets led to 'endogenisation' of the imported institutions of neo-Stalinism. These modifications reduced the power of central planners, making output more sensitive to local interests.

I have gained much from discussions with countless other Vietnamese scholars, including most outstandingly Professor Dao Xuan Sam. In the Australian Vietnam Research Project (AVRP). I also owe much to cooperation with Melanie Beresford and David Marr, as well as Professor Tran Phuong, Dang Phong and others. Note that *cuoc song* is not at all the same as a 'society' impacting upon 'the state'. In other words the absolute subject-object dichotomy that lies within state-civil society views is lacking. This is hardly surprising in a country whose language draws upon different (and crucially not neo-Platonic) epistemological resources.

⁵ This of itself argues that the underlying 'world view' inherent in a country's experience, language and culture may dominate over the 'transcendent' notions of some modern social science, for example economics. More practically, note the resource creation and utilization processes needed to establish institutions suitable to a market economy. Since these are the outcome of highly political processes, the country's political culture at least will impact upon the process.

- Mode 3 : The 'Transitional Model'—plan and markets co-exist legally—dated from partial reforms of early 1981, ends with 1989 and termination of 'two-price system' 1989—? 1992-93—period of confusion, no clear mode of state rent-seeking
- Mode 4 : 'Vietnamese market economy'—commences with recovery of state finances ca 1992-93

The break-out from the residual elements of central-planning in the hybrid economy of the 1980s occurred in 1989, when the state ceased supplying inputs through administrative orders and at low costs. This isolated many capital accumulation sites from important material support and changed profoundly the sources of under-priced economic resources available in the economy. Indeed, it can be said that yet another mode of 'state rent-seeking' then made its appearance in post 1954 modern Vietnam.⁶ Under the traditional socialist system, mechanisms of administrative resource allocation had relied upon the 'socialist transformation' of free markets and commercial activities. Under neo-Stalinism, the state sought to create substantial economic resources subject to its own control and used to focus development efforts upon the state industrial enterprises. These were the 'spear point' of 'heavy industrialisation'.⁷ This followed the basic Stalinist model,

⁶ The notion of 'state rent-seeking' used here draws upon the work of Mushtaq Khan. His ideas focus upon the ways in which the state becomes a tool, through its capacity to influence and change the property-rights regime, for the creation of appropriable economic resources. The links to neo-Institutionalist and Marxian ideas are obvious. The crucial difference from older neo-classical thinking (eg the work of Anne Krueger) is to see rent-seeking as being the outcome of state activities, thus endogenising institutions. The older view sees rent-seeking as the search for rents created by institutions whose nature is not the main object of analysis. Therefore, to study a region such as that ruled from Hanoi, where state activities have had major effects upon institutions, the newer ideas are far more valuable.

⁷ See Fforde and Paine, *The Limits of National Liberation*.

appropriate in many ways to wartime conditions, but not (as the successful struggle against the French may have shown) perhaps necessary for war.

Arguably, this model was never successfully implemented in north Vietnam. Whilst arguably it remained intact for a few years during the very late 1950s and early 1960s, a second mode of state rent-seeking replaced it (see Table 1).⁸ In this second mode, the centralised power of the traditional system was lacking. Macroeconomic effects, most importantly the rise of parallel systems of distribution competing with the plan, led to important modifications of the basic Stalinist framework. Politically, this reflected the compromises of the early 1960s, during the First Five Year Plan. This period remains greatly under-researched. However, it is noteworthy that the 1960 Constitution was developed at a time when central political stability had been subject to the effects of Truong Chinh's loss of the position of Party general secretary as a result of Land Reform. He was replaced by Le Duan, supported by Le Duc Tho, in a major peak political re-alignment. The 1960 Constitution granted provincial and city level state authorities a status equivalent to central government Ministries. This implied, under conditions of one-Party rule, a need for continual adjustments (*ket hop*) to secure any chance of coherent implementation of government policy. This way of structuring the state was very different from that in the Communist countries of Eastern and Central Europe and the Soviet Union, but perhaps similar to that in China.⁹

⁸ This is the main argument of Fforde and Paine, *The Limits of National Liberation*. It remains unorthodox.

⁹ On China, see Gabriella Montinola, et al, 'Federalism, Chinese style: the political basis for economic success in China', *World Politics* 48, no. 1 (October 1995); and, for Vietnam, Melanie Beresford and Bruce McFarlane, 'Regional inequality and regionalism in Vietnam and China', *Journal of Contemporary Asia* 25, no. 1 (1995). By failing to see that the essence of the issue is the inability to resolve *jurisdictional* conflicts that are institutionalised, Montinola et al fail to distinguish between the federalism of systems where such conflicts have been addressed with those where

This second mode has been referred to elsewhere as the DRV model.¹⁰ It saw state rent-seeking of a new type. Here, de facto acceptance of parallel markets led to processes of endogenisation of the realities of the imported institutions of neo-Stalinism. These modifications reduced the power of central planners and made output more sensitive to local rather than planners' interests.

The partial reforms of early 1981 permitted SOEs to be directly and legally involved in markets, and so the formal property-rights regime was fundamentally altered. This introduced a third mode of state rent-seeking, which has been elsewhere called the 'transitional model'.¹¹ State 'property'—SOEs' fixed assets, inputs, labour with its welfare and other subsidies—created resources both for accumulation according to the plan *and* for commercial activities within SOEs and elsewhere. Current inputs needed to operate state property (apart from labour, mainly derived from aid and agricultural procurement) were syphoned off to 'local' use; in the Vietnamese phrase of the time, the outside foot is longer than the inside foot—resources 'flow outside'. This was despite considerable attempts by some within the party-state apparatus to use state power to stop such behaviour. Policy debates reflected conflicts between such 'local' and 'central' interests. In any case, *access to 'low-priced' resources derived through the state was a crucial element of much economic behaviour.*

they have not, such as China and Vietnam. I would like to thank John Gillespie for helping me work this out in conversation with him.

¹⁰ The notion of the 'DRV model' was introduced in Paine and Fforde (1987), and further developed, along with that of the 'transitional model' in Stefan de Vylder and Adam Fforde, *Vietnam—An Economy in Transition* (Stockholm: SIDA, 1988) and the later work already cited.

¹¹ De Vylder and Fforde, *From Plan to Market* (1996); see also Adam Fforde, 'Macro-economic adjustment and structural change in a low-income socialist developing country—an analytical model, Discussion Paper 163, Dept. of Economics (London: Birkbeck College, 1984).

The mid 1990s—emergence of a fourth mode of state rent-seeking

The prime cause of the shift to a one-price system in 1989 was precisely the loss of Soviet aid, securing which had been perhaps the greatest success of Vietnamese state rent-seeking. After 1989, however, the Vietnamese economy was extremely odd—by Vietnamese standards. The state had very little with which to support politically-prioritised sectors: *state rent-seeking was, for the first time since the late 1950s, failing*. This can be seen from Table 2, which shows how, in 1990 when we have some data, for a nominal GDP of perhaps US\$ 7.5 billion the state influenced very little. The Soviet aid program had peaked in the late 1980s at around US\$ 1 billion a year, but by 1990 support had collapsed to near zero. As yet there was very little to replace it. This was to change. By 1995 tax revenues had recovered to around 25 per cent of GDP compared with 14 per cent in 1990.¹²

The political economy of the period 1990-92 is of great interest to these issues, in particular the relationship between state and economy. Many SOEs were under great pressure. This partly resulted from lost subsidies but was also due to the effects of the 1989 opening of the borders that had had such a major impact on popular psychology by increasing market supply. It is reasonably clear that the government was willing to threaten the macroeconomic stability acquired in 1989 by using bank credit

¹² The data to support these assertions requires further work. However, the changing attitudes of planners are quite clear. One can compare, for example, the tone and overall stance taken by foreign analyses. The World Bank's *Agricultural Marketing Study* (June 1994) was based upon fieldwork in 1993. It argued that Vietnamese markets for farm produce were relatively free at the farmgate level. It was assumed that private capital would, relatively quickly, enter into a normal set of processing and marketing institutions linking farming families to final markets in a coherent manner. It based this view upon a general sense that the key issue for the Vietnamese government as far as SOEs were concerned was the need to reduce their demands upon state resources. There were considerable fears of inflation. Major privatizations were expected. Yet by 1997 none had occurred. Planners continued to follow the line that SOEs were to reflect the 'guiding role' of the state sector.

and tax breaks to support SOEs in trouble. This usually required approval in Hanoi, which was typically granted if necessary. This in itself is strong evidence that political processes at national level were involved, implying that the polity was restructuring rather than fragmenting.

Table 2: Opportunities for state influence and intervention

	1990 US\$ billion	1995 US\$ billion
Real tax revenues	1.1	5.0
Foreign trade taxes	0.1	1.7
Bank credit outstanding	1.0	4.1
FDI disbursements	0.1	1.8
State investment	0.2	1.2

Source: *Vietnam: Economic Commentary and Analysis*, No. 8, ADUKI Pty Ltd November 1996.

By 1992 the climate was changing. SOEs had shown an ability to survive and remained key elements of the party-state's range of concerns. There had been no formal privatisations. The events in Eastern Europe and the Soviet Union perhaps supported a desire to move back from some of the basic elements of *Doi Moi* as understood in the late 1980s.¹³ These had involved a more-or-less 'level playing-field' to permit fast expansion of the private sector, and a rapid and coherent shift in the role of the state towards a regulatory approach and away from direct involvement in the economy. This would protect new entrants from harassment and reduce transactions costs. Such an

¹³ This interpretation of the late 1980s is also contentious. Other analysts argue that the party's commitment to the state sector remained fundamentally unchanged from the early 1980s, see forthcoming work within the AVRPP by Melanie Beresford.

'inclusive' approach to those whose economic activities had been anathema to traditional Socialism implied the state apparatus itself becoming increasingly subject to formal regulation and a 'Rule by Law'. However, granted the multi-level nature of the state structure as laid down in the 1960 Constitution as well as the 1980 and 1992 versions, this implied major shifts in power relations within the state and a real recentralisation of power. Under the existing system, however, this flew in the face of important entrenched ideas and interests. In a balancing of powers between local province and cities on the one hand and central government Ministries on the other, their leaders were given equivalent rank.¹⁴ No clear method existed to sort out jurisdictional conflicts between them. Appeals to the need to harmonise state management by 'territory' (*lanh tho*) and 'branch' (*nganh*) were never unambiguously answered. This is perhaps not surprising as few other states have ever tried such a division of powers without clearly establishing areas of authority for each organ.

As ever in Vietnam, the situation was never as black and white as its essential character implied. For example, the decisions taken by many provinces in the early 1990s to remove district-level state budgeting pointed towards attempts to resolve this issue locally. At a national level, this would have been equivalent to abolishing provincial and city level budgets, which was politically unthinkable given the power of the provincial and city interests in such fora as the Party Central Committee. And the trend was in fact reversed by the 1996 State Budget Law.¹⁵ The Law not only left things basically unchanged, but reinforced the district and the sub-district commune levels as budgetary units.

Underpinning all this refund confidence and energy was the recovery of state resources (see Table 2). SOEs supported this,

¹⁴ This was marked by broadly equivalent status as members of the Party Central Committee.

¹⁵ See Lenh so 47 L/CTN cong bo Luat Ngan sach Nha nuoc - Luat Ngan sach Nha nuoc [Order of the Head of Government #47 announcing budget laws], 3/4/96, in *Cong Bao* for 30/6/96.

by becoming less of a burden on the budget, and indeed in some instances starting again to be major sources of resources. This permitted important macroeconomic changes. After 1989 SOEs had enjoyed for a while a situation where interest charged on loans to them were set *below* rates paid to depositors. The latter were consistently positive in real terms. Then in 1992 the authorities pushed through interest rate reforms that introduced a positive margin between deposit rates and those charged to SOE borrowers. This led to widespread complaints but was by then politically possible.¹⁶

Around 1992-93, however, a fourth mode of state rent-seeking emerged, the apparent success of which can be seen from Table 2. The main beneficiaries of this process were intended to be SOEs, since 1994-95 grouped into the new *Groups* (Tap Doan) and *State Corporations* (Tong Cong Ty).¹⁷ The sources from which the state drew these resources were now quite different from before. New mechanisms, both political but also administrative, were needed to monitor and guide them. These resources are quite typical for a poor nation possessing rather well-developed social institutions—the tax base (including the import tariffs gained from again controlling borders), bank deposits, foreign direct investment ... To these have been added ODA as ‘Western’ donors developed assistance and lending programs. By 1995-96, the Vietnamese economy was once again, and in terms of its recent past quite normally, interacting with powerful processes of *state rent-seeking*. What are these processes and what is their likely impact?

¹⁶ See ADUKI Pty Ltd, *Vietnam: Economic Commentary and Analysis*, No. 4.

¹⁷ See Quyét dinh so 91-TTg ve viec thi diem thanh lap tap doan kinh doanh [Resolution of the Head of Government # 91 on the experimental establishment of business groups], 07/03/94, *Cong Bao* for 15/04/94; and Chi thi so 272 TTg ve khan truong hoan thanh viec to chuc, sap xep lai cac Lien hiep Xi nghiep, Tong cong ty [Order of the Head of Government #272 on the rapid completion of reorganization and restructuring of Enterprise Unions and General Corporations] 3/5/95, *Cong Bao* for 15/8/95.

To answer this question we need to look at current developments in the Vietnamese economy. The state sector's 'guiding role' was a slogan of the 1991 VII as well as the June 1996 VIII Party Congresses. In combination with the entrenched ineffectiveness of the state in many areas (which is not at all the same as denying the strength of the regime in terms of its ability to maintain social stability, and its own position), this is now tending to reduce economic growth as unreformed institutions increasingly drag upon the economy. 'Transactions costs' are rising and resource losses mounting.

Transactions costs—sludge in the arteries

Transactions costs, viewed in terms of the resources required to establish and then implement the relationships needed to do business, are clearly high in Vietnam. Far from falling, they have been tending to rise. This represents a real resource loss. To it can be added the considerable costs of the inefficiencies in important state activities—infrastructural planning, urban planning, allocation of state resources (ie state bank credits) to inefficient commercial activities. Also to be mentioned is the drag from protecting industries that should be subject to international competition (now matter how much they may not like it). Clear examples are cement and paper, where domestic prices are already well above world market levels.

The fact of increasing transactions costs in the mid 1990s is clear. Yet for many Vietnamese these high costs are somewhat invisible. The absence of the cheap governance activities available in other countries is not something immediately obvious to those who merely experience the frustrations involved—for example, when trying to legalise their house ownership situation.

Many impediments to commercial activities continue to reduce the attractiveness of investment in business rather than safer areas such as education, real estate or simple bank deposits. This is especially true for the medium and small-scale businesses that have proven so effective at absorbing labour in

Vietnam's highly 'labour-surplus' economy. The main issues here are:

- The high costs in terms of time and bribes involved in both setting up and then running a small business. Kafka-esque stories abound about the large number of decisions and 'opinions' (for example officials' views of the personal character of company directors) needed before companies are established. Downright harassment is the fate of companies and private businesses (and SOEs) who run foul of the interests of those who can, for example, initiate audits of labour conditions.
- The relatively high amounts of funds needed to meet a business' 'legal capital' requirements.
- The current universal need for business permits. This could conceivably (but at present this is unlikely) be replaced by simple business registration. At present the business permit itself has to be augmented, after registration, by a technical permit issued by the local provincial or city authority and the line Ministry. Regulations also require other permits, for example for land use. This imposes high transactions costs, which reduces competitiveness.

The fundamental reasons for the ineffectiveness of the state are much debated. For example, in the program of Public Administrative Reform, it is often argued that the basic issue is the need to redesign an administrative system that was originally set up to meet the requirements of the traditional socialist central-planning system. It therefore finds it novel to have to cope, for example, with the question of how to regulate private businesses. Other arguments, however, point to the ways in which the rush of legislation and government directives since around 1992-93 have themselves created problems. Often, it appears that the desire is simply to control and 'manage in order to manage' (*quan ly de quan ly*) rather than to rely upon indirect methods and a philosophy of creating a 'supportive

environment'. This again, however, is in some ways hard to explain—does it stem from a misunderstanding of the role of the state in a market economy? Or perhaps from simple weaknesses in the development of effective and efficient law? Or from the desire of particular interests in Ministries and elsewhere to maintain their influence and scope of activities? In any case, whilst the origins are still debated (especially to what extent they are or are not the result of the one-party system)¹⁸ it is clear that they remain an issue in 1997, over one decade after the 1986 VI Congress. So it is rather hard to blame them entirely upon the old traditional socialist system. Their origins are more complex, and so they are more difficult to address.

Other structural and policy-related issues coming to the fore in the mid 1990s are also tending to reduce growth. The two most important are:

first, the effects of the concentration of state resources upon SOEs, under conditions where they are unlikely to be able to use them profitably;

second, the drag upon rural incomes growth of the lack of good markets and the continual downward pressure upon farmgate prices from various structures above farmers. These include private traders, linked to state export companies and supported by local political structures in imposing entry barriers; and an emerging pattern of attempted state control through a combination of state-

¹⁸ Other countries have been able to address these issues without abandoning a one-party political system. Examples could be - Taiwan and South Korea. It would be interesting to know about how the KMT—reportedly a Leninist party—dealt with the relationship between party and state functions in the choice of administrative personnel. This would suggest that there is something particular to the experiences of China and Vietnam that distinguishes them from these others. One might hypothesise that this perhaps might be found in the political situation, and the evidence for high level political conflicts, in the early 1960s. when the centre-periphery (*trung uong- dia phuong*) relationship was institutionalised in forms that remain in Vietnam and China to this day.

sponsored investments in commercial processing activities with state extension, credit and other 'rural development' activities.

The view taken here of the overall stance of development policy is one that diverges strongly from those agreed in the mid 1990s between the Government of Vietnam and the Bretton Woods institutions—the World Bank and IMF. SOE reform is perhaps the area where the Vietnamese government's commitments depart most strikingly from the political position expressed at the 1996 VIII Congress. To quote one agreement—'the Government's plan for state enterprises is to retain ownership of a group of firms which provide important public services— largely public utilities—and to divest other enterprises'. Yet there is no sound evidence that this is in fact the policy of the Vietnamese Communist Party, and indeed by early 1997 there was no evidence that any program of divestment was in place. The program of corporatisation (*co phan hoa*) did involve bringing in outside capital, but its pace and content were a long way from what a true program of privatisation would have done to change the political rules of the game.

The establishment since around 1995 of State Groups (*Tap Doan*) and Corporations (*Tong Cong ty*) as mechanisms for capturing economies of scale and market power confirms a state-focussed development strategy with powerful supporters.¹⁹ Efforts to bring new capital into SOEs by their equitisation will not be allowed to remove them from the party and state 'sphere of influence and control'.²⁰ The agreement also states that

¹⁹ It is worth noting that the garments sector—light industry well suited to privatization— was included. See Nghi dinh so 55 CP phe chuan Dieu le To chuc va hoat dong cua Tong cong ty Det May Viet Nam - Dieu le ve To chuc va hoat dong cua Tong cong ty Det May Viet Nam [Resolution of the Government #55 approving regulations for the establishment and operations of the Vietnam Clothing Corporation], 6/9/95.

²⁰ See, in the latest policy measure, Nghi dinh so 28 CP ve chuyen mot so doanh nghiep nha nuoc thanh cong ty co phan [Resolution of the Government #28 transferring a number of government businesses to private share companies], 7/5/96, *Cong Bao* for 15/8/96. Here it is worth

'companies fully or partially owned by the Government will raise their own investment funds without government support or guarantees'.²¹ This implies in turn that state control over bank credit will remain important, and that the IMF will continue to face great difficulties in its attempts to acquire adequate and accurate information about the relationships between the state banks and their SOE clients.

There are other areas where official agreements run counter to official Vietnamese policy as laid down in the VIII Party Congress, but the above provides sufficient evidence to expect major tensions in the relationship between the Vietnamese authorities and the IMF and World Bank to continue. Major areas of dispute are likely to be:

- Access to information about crucial issues related to the allocation of state resources—budgetary spending, state bank credit and access to foreign markets. It is clear that the political economy of the current situation relies upon the continued use of discretionary powers in these areas.
- Failure on the part of the Vietnamese to move towards the divestiture of SOEs.

pointing out that the common translation of the Vietnamese term *co phan hoa* as privatization is simply incorrect. It is better to understand this as a process of the diversification of the ownership status of the businesses involved; the word privatization (*tu nhan hoa*) is almost never used.

²¹ Contrast this with the ways in which the expansion of the Sugar Processing sector was to be financed as part of the '1 million tonnes by 2000' plan announced in 1995. Here almost all investment funds were to come from bank credit or FDI. The 'Sugar Plan' was reported in TBKTVN 21/5/95, through an interview with Minister Nguyen Cong Tan. See *Thoi bao Kinh te Viet nam* (8/2/96) for an early analysis arguing that overcapacity was coming and sugar quality would indeed hamper competition with imports, or indeed to export. In essence, the Ministry's not unreasonable plan appears to have run foul of the combination of significant FDI with provincial autonomy in investment decisions, perhaps in the run-up to the VIII Congress.

- Continued harassment of the private sector and the related increases in transactions costs.
- Pressures upon foreign investors in order to re-establish Vietnamese control over JVs.

Were we too 'long-sighted'?—investor assumptions of the early 1990s proven questionable

State rent-seeking has not benefited all equally. Also, its re-emergence and direction has run counter to some predictions. 1996 and 1997 saw FDI slow. In many areas there appears to have been a reconsideration of basic assumptions made when companies developed their strategies in the early 1990s. At root, the observation that decisions were perhaps '*too long-sighted*', can be understood as the realisation that the government of Vietnam, whilst well capable of maintaining social order and stability, lacks the power to implement many of the measures required to reduce transactions costs.

From an analytical and academic point of departure, the origins of this can be found in a problem common facing much of the overseas literature on Vietnam. This follows the typical 'policy-focus' of much social science, with its tendency to assume that policy is the main source of social and economic change. In Vietnam, this is not only not the case, but there is (as outlined above) a strong philosophical current arguing that it is a mistake to believe that it ever could be so. The influence of these academic issues upon business decisions remains to be researched. Yet many seem to have believed that the situation in the very early 1990s reflected the outcome of a coherent implementation of reformist policies, rather than interactions between various factors as outlined above. Perhaps reform everywhere is like this. Yet it is often phrased by commentators in terms of the authority of government and its political will, whether or not this is ever the determining factor in such affairs. Arguably, though, for many investors whether party and state priorities would move in favour of the state sector or not was not so important as the assumption that transactions costs would decline. This assumed

that the Vietnamese would learn rapidly the 'rules of the game' in relation to commerce. After all, almost all inward FDI has involved joint ventures with SOEs ... It is these assumptions that are now being re-examined.

Overview of the economy in 1996—main trends

Introduction

The political circumstances of 1996 lead to the following broad implications for economic performance of the political events before and after the VIII Congress.

- Policy and policy-formation has become more 'exclusive'. They focus upon political groups and constituencies that provide immediate political support. In practice, this means party-linked businesses and SOEs rather than the emerging private sector.
- The processes of political recentralisation are designed to strengthen party influence over the economy and society. They have not, however, led to a concentration of power and authority. 'State power' is being eroded and prospects for a 'State ruled by Law' are receding. The main reasons for this are the internal divisions within the party.
- As key economic actors feel excluded and face rising risks and costs, investment is being cut back. Transactions costs are rising. As the considerable scope for easy efficiency gains left over as a hangover from the old economic system has been largely used up, economic growth is suffering. The alliance between state businesses and FDI, and the political attention paid to creating a favourable environment for foreign investors, accompanies transactions costs for foreign interests that are lower than those experienced by Vietnamese business. Helped by the Foreign Investment Code, they operate within a more predictable and 'legal' environment and enjoy important tax and other benefits.

Yet as all businesses must operate within Vietnam's markets, SOEs are also facing problems, and exposed to greater levels of economic competition than they had expected or been promised. However, the economic power unleashed by the structures of inward investment linking Vietnamese factors of production to global markets can be seen reflected in the explosive growth of light industrial manufactures.

The historical meaning of the late 1990s— the limits of *Doi Moi* ?

Fundamental to any assessment of the issues confronting Vietnam's policy-makers in the late 1990s is the gathering sense that the economic model that emerged around 1992-93, with its focus upon use of state power and resources to support the state sector's 'leading role', is proving to be highly problematic.²² Vietnamese economic growth is now slowing as the economy starts to run up against rising transactions costs resulting from the increasing drag of unreformed institutions.²³

²² There is an important and valuable debate to be held about the extent to which the policy stance of the late 1980s marked any fundamental deviation from the dominant pro-state position advocated from the very earliest days of Vietnamese socialism. Some work within the AVRIP suggests that no such deviation occurred. This remains somewhat contentious.

²³ Of the multinational donors, the UNDP appears to have been the first to go public with its concerns. Its presentation to the late 1996 Donor Consultative Group meeting, prepared by David Dapice, was noticeably strong in its warning messages; the paper by Kokko and Zizhang in April 1996 should also be mentioned. ADUKI's *Vietnam: Economic Commentary and Analysis* revised its position in late 1995. By early 1997 the ADB was flagging concerns about 'the sustainability of high growth—(being)—dependent on the continuation of a positive international investment climate and strong donor support', reported in the *Financial Times* 18 April 1997. An important foreign investor, Peregrine, produced a highly critical report in early 1996; Matthew Chapman, *Viet Nam: transition under threat* (March 1996). However, over the winter of 1996-97 both the World Bank and the IMF turned in rather optimistic reports,

Paradoxically, this is offset to some degree by the high levels of savings and investment, and the growth of manufactures exports. Yet the signs of gathering distributional tensions are there, including inflationary pressures, a rising balance of payments deficit, a move out of direct state financing of education and health and a softening of the budget constraint facing SOEs. An important outcome is also the widening regional and sectoral differences, and growing resentment from the private sector that is creating nearly all of the new employment.²⁴ Whilst Ho Chi Minh City is expected to show total GDP growth of near 15 per cent in 1996, this far outstrips the rest of the country. After subtracting population increase, per capita GDP growth in the rest of the country is unlikely to be much over 5 per cent.²⁵

What role has *Doi Moi* played in these trends? *Doi Moi*, as a shorthand for the political and economic changes embraced by the Vietnamese Communist Party in the mid 1980s, has been mainly understood in economic terms. Yet such a major event as the move away from neo-Stalinist central-planing must be more than merely economic in its nature. The arguments advanced here imply that wider issues determining the direction of *institutional change* in Vietnam are more important. Understanding these is the most effective way to grasping a wide range of social and economic issues. As outlined above, this approach leads to a less optimistic short-term view. In the long-term, as in the past, Vietnam will find its own way to exploit its considerable human and natural resources. What is becoming far clearer, however, are the constraints, mainly political but

including, importantly, the Bank's 'Implementation Completion Report' on Vietnam's performance in managing a Structural Adjustment Loan.

²⁴ See Hy Van Luong, Adam Fforde and Raymond Gautier, 'Regional Development In Vietnam: Local Dynamics, Market Forces and State Policies', Eastern Asia Policy Papers No. 13 (University of Toronto, York University: Joint Centre for Asia Pacific Studies, 1996).

²⁵ There are also reasons for doubting whether official growth data is entirely reliable, see below.

also social, to putting in place the changes required. These constraints arise out of the tensions between a viable national 'vision' of what future development should entail, and the social, political and economic institutions that would enable the country to realise that vision.

Across a wide range of issues, the processes initiated a decade ago by the VI Party Congress of 1986—*Doi Moi*—appear fast reaching their limits. *Doi Moi*, as a political and social project, possessed considerable vision and, in terms of its ideas, dynamism. The notion that the traditional socialist development model could be dismantled and replaced by an economy based upon markets and open to the world economy and 'global capitalism' was one that required profound, if not heroic, changes in beliefs. The reform of the state, and its relations with the population which was part of the *Doi Moi* project, ran into problems in the early 1990s, as political trends saw links between commerce and the state reinforced. Crucial to this was the decision around 1991-92 to continue state funding of the mass organisations. These, the Trade Unions, Farmers' Union et al, are the mechanisms that express Leninist ideas of the integration of all formal and acceptable political activity into party-controlled organisations. At local level, in the late 1990s they remained a crucial backbone of party political activity, the key channels through which aspirants could rise. Yet, under conditions of market economy, the situation is one where, as argued by leading Vietnamese in the run-up to the VIII Congress, there is a profound and penetrating erosion of state power in certain areas, although not to any weakening of the regime per se.²⁶

The Vietnamese economy is growing at least 7-9 per cent annually in terms of total GDP and with luck and reasonable economic policies can be expected to continue to do so. Yet the problem of 'falling behind' (*tut hau*) has been identified as one of

²⁶ See the discussion in the chapter by Thaveeporn Vasavakul in this volume of the position taken prior to the Congress by Prime Minister Vo Van Kiet.

the 'four dangers' facing the country. How can Vietnam 'catch up' with its neighbours? The pattern in the region is that this happens when growth amongst the leaders slows. In the early stages, and so long as they do not slip along the way, latecomers like Vietnam typically grow at around 7-9 per cent. There is thus not so much that Vietnam can do to catch up, except for increasing its trend rate of growth to levels near the Chinese rate, in other words well into double figures. This would, under Vietnamese conditions of rather low domestic savings (see Mallon's paper in this volume) require more coherent and effective state action to improve the institutional environment and reduce the drag from transactions costs and macroeconomic issues such as trade and other protection for the wrong sectors.

More effective state action naturally has political prerequisites as well as implications. A basic dilemma here is the political logic of the 'exclusive' policy stance, and its focus upon the state sector. However, a crucial element of the exercise of state power must be a concentration of political authority. This would permit effective implementation of the programme of reform that *Doi Moi* has begun. Yet would it be accepted by such important political forces as the provinces and cities, not to mention those fearing that it would simply lead to yet further support for the economically inefficient? Such a project would entail reform of banks, SOEs, public investment, rural development and so forth. This would be different from the original *Doi Moi* project, which was defined with reference to the old traditional socialist system, with its central-planning, material balances and agricultural producer cooperatives. One way of putting it is that the 'limits of *Doi Moi*' have been reached—the easy part is over. Another is that the logic of political development has led to the current situation, and without some new element to the equation, why should things change?

The year 1996 saw in heightened clarity the effects of these issues. This was in combination with various conjunctural factors:

First, the continuing effect of the political re-centralisation. This was leading to increased transaction costs and rising levels of corruption and waste;

Second, the gathering pace of the first cyclical slowdown in the Vietnamese market economy since its emergence in 1989-90; across the economy goods were increasingly hard to sell as many markets become 'blocked' (*be tac*);

Third, the increasingly rapid emergence of Foreign Direct Investment (FDI) as a source of employment, demand for imports and, most strikingly, the beginnings of extremely rapid light manufactured export growth. The presence of FDI-supported factories and the increasing support given to import substitution by new producers was putting great pressure upon domestic business;

Fourth, the issue of support for the state sector. With the state now controlling significant levels of economic resources (a major change from the early 1990s), policy stress upon SOEs and their 'guiding role' in the national economy had major implications for state policy. This raised the issue of how the recipients of state support were to be chosen, and how the authorities could reduce the risk that they will prove to be unprofitable.

One interpretation of the slowdown is that it reveals the gathering dualism of the Vietnamese economy. Exports based upon FDI are booming, and FDI based businesses rapidly gaining market share at the expense of domestic businesses. Meanwhile, the valuable Vietnamese resources poured into SOEs as state rent-seeking recovered are increasingly seen to have been unwisely spent. Decisions were mainly based upon political criteria and the bureaucrats of the line Ministries and planning departments rather than more commercially oriented cadres in the state banks. The rising levels of bankruptcies in 1996-97 reflects the lack of good commercially-based investment processes—in other words, capital markets to bear risk in place of the government who must deal with the consequences of its participation in the decisions.

The Vietnamese economy in 1996

The single most important fact about the Vietnamese economy in 1996 was its low income levels and consequent small size. This reflects the widespread poverty (see Table 2).²⁷ Vietnam, with a population of around 75 million, remains a country made up primarily of poor farmers. These people nevertheless enjoy cultural and educational levels that are far above those in many other countries at similar per capita income levels. It may well be said that Vietnam is more poor than underdeveloped Although there are considerable doubts about the reliability of the official data, GDP in 1995—the latest year for which we have complete data—was near US\$ 20 billion (around \$270 per capita). Exports of goods and services were near US\$ 7 bn, amounting to a high proportion—35 per cent—of total demand in the economy.²⁸ Since around 60 per cent of the country's exports originate in Ho Chi Minh City (population around 5 mn), this immediately shows

²⁷ For recent studies on poverty in Vietnam, see *Poverty alleviation in Viet Nam: strategies for accelerating progress*, United Nations Development Programme (Hanoi: UN Children's Fund & UN Population Fund, July 1995); ADUKI, *Poverty in Vietnam* (Hanoi: SIDA, 1995); and *Vietnam: Poverty Assessment and Strategy* (The World Bank, Country Operations Division, 1995).

²⁸ Of itself, this hints at major problems in measuring Vietnamese GDP in conventional terms. Purchasing Power Parity data is another matter. It is likely that absolute levels are being underestimated, in part due to problems in reaching elements of investment and private consumption. We also believe, however, that GDP *growth* in 1995-97 has been over-reported. Reasons for this include: suspicions based upon the desire to produce a good image, especially in the run-up to the Congress; a belief that farmgate price data has been increasingly overestimated, thus leading to over-estimates of farm real incomes growth; deep concerns about the ways in which the large revisions to aggregate investment were carried out — not least as total GDP was not changed; and finally a tendency to place rather more reliance upon the data from the retail sales and private disposable incomes growth sectors, which showed from late 1995 strong signs of reduced real private consumption. See ADUKI Pty Ltd, *Vietnam: Economic Commentary and Analysis*, No.s 7 to 9.

the way in which the very rapid growth in exports has led to a highly concentrated impact. Ho Chi Minh City grows far more rapidly than the rest of the country.

In 1995, of the US\$ 20 billion GDP, some 30 per cent (US\$ 6 billion) was invested. Of this, around one third went into increasing stocks (US\$ 2 billion) and the rest into fixed capital (US\$ 4 billion).²⁹ It should be born in mind that US\$ 4 billion is a rather small number in terms of international capital flows. Inward foreign direct investment actually spent is thought to have been around US\$ 1.8 billion in 1995—estimates vary—but was therefore close to one third of total investment in the country. It is not surprising, therefore, that its impact is starting to gather great strength.

Much stress is placed upon state businesses. They have been the site of the majority of joint ventures with FDI. Yet both SOEs and the state sector as a whole possess rather little market power by comparison with the competition, backed as it is by regional and global businesses. It is only in terms of its position within the Vietnamese economy, where it produces around 40 per cent of GDP, that things look rather different. Yet 1996 has been showing how hard it is to insulate the domestic economy from outside forces.

The parameters of the Vietnamese state sector were shown up by a detailed survey in 1995. This was very revealing. Many SOEs belonging to Party and Mass Organisations were covered, with only a very small minority not reporting. Total gross assets were put at VN dong 70,000 billion (around US\$ 7 billion). Of these, some US\$ 5 billion belonged to central SOEs, with the rest belonging to locally managed units. Reported debts amounted to around 12 per cent of gross assets. These figures *excluded* real

²⁹ The very high level of reported investment in stocks points to the possibility of large multiplier effects when and if a hardening of budget constraints forces, as in 1989, sharp changes in desired asset holdings by SOEs. A shift from \$2 billion of stocks building to a \$2 billion stock rundown amounts to a fall in aggregate demand of US\$ 4 billion, or around 15 per cent of GDP.

estate, which formally belonged to the state. Large debtors included—the southern Staples Corporation (US\$ 14 million), the Silk Corporation (US\$ 25 million) and (the biggest reported) the Nam Dinh Textile Union (at the time US\$ 50 million) with dozens of others owing (at the time of the census) tens of millions of US\$. In aggregate terms, however, the SOE sector in 1995 was generating a gross return on assets of some 19 per cent in 1995, compared with 21 per cent on Treasury Bills.

Most Joint Ventures see the Vietnamese side contribute mainly land and 'connections'. At a more aggregate level, however, domestic savings are needed to complement the large inflows of FDI. These would finance complementary inputs ranging from infrastructure and education through to vertical linkages. As in other market economies, they derive from a combination of the retained earnings of various Vietnamese businesses with the savings of private households. But the banking system has been used as a conduit for credits to implement the state credit plan. This has meant that deposit rates have been kept down, discouraging intermediation. Also, the policy of low lending rates has inhibited banks developing new clients as they have been prevented from charging enough to offset the risks involved.

The overall result has been to hit the banks' natural role—in the absence of a stock market—as the main formal intermediary between savings and investment. Instead, savers have tended to use informal channels. Little is known about the magnitudes of those flows that do not—the majority—go through the formal financial system. However, the information from the banking system suggests that increases in bank deposits have been running at around 15-20 per cent of total domestic savings, at around US 0.7 billion (see Graph). *These are rather small numbers compared with, for example, the reported figure of US\$ 2 billion for stock-building in 1995.*

Now, the US\$ 7 billion of reported SOE gross assets excludes land, but almost certainly underestimates the real value of SOE liabilities. The reported numbers tend to rise as businesses get closer to bankruptcy. For example, by late November 1996 the

debts of the Nam Dinh Textile Combine, whose Manager had been arrested, had been put at over 1,000 billion dong—or over US\$ 100 mn. Whilst the proportion of these that may be recoverable is not clear, it is unlikely, going on news reports, that it will be high.³⁰ *This suggests that the ability of the state banking system to deal with the resource losses implied by the bankruptcy of SOEs is extremely limited. The small size of the Vietnamese economy permits very little scope for cushioning prioritised sectors in the face of foreign competition.* Under the economic conditions of the very late twentieth century, once the economy is opened up, and especially if the state has weakened itself by attempting to support a structurally weak sector—SOEs—successful state rent-seeking confers very little economic power. Is this a good or bad thing?

Macroeconomy

In 1996 the Vietnamese market economy was experiencing the *first macroeconomic slowdown* since its emergence in 1989. Is this cyclical in nature, or does it reflect the various processes associated with the integration of the Vietnamese and global economies—the onset of rapid FDI-associated light manufactures exports and competition from imports? An additional factor is the slowdown in real private consumption growth that started in late 1995.³¹ However, whatever the origins, we may see a 'hard landing' in 1997-98. The massive stock buildups point in this direction, as does a macroeconomic policy

³⁰ The saga has been extensively covered in the Vietnamese press, most notably *Thoi Bao Kinh Te Viet Nam* [The Vietnam Economic Times]. The business employed around 20,000 people; the General Manager has been charged with corrupt activities. A business with less than 2 per cent of national SOE employment could therefore lose a sum equivalent to around 15 per cent (1/7th) of the total increase in bank deposits annually. And there are many other examples like it.

³¹ See ADUKI Pty Ltd, *Vietnam: Economic Commentary and Analysis*, No.s 7 and 8.

caught on the wrong foot and sought to prevent overheating through tight credit.³²

Answering the question as to whether the economic problems of 1995-97 are cyclical or not (or both) relates to the manner in which the Vietnamese macroeconomy is understood. Clearly, some official analysts failed to heed the warning signs coming from shifting demand patterns and the labour market in mid 1995. Towards the end of 1995, the monetary authorities and the IMF were concerned, not about cyclical slowdown, but overheating. This was related to the acceleration in price rises through 1995, as well as reports of continued GDP growth near 10 per cent and the ongoing weakness of indirect mechanisms of monetary control. However, by the middle of 1995 it was already clear, based upon an analysis of the changing pattern of demand and the labour market, that the economy was starting to slow.³³ Twelve months later sharp increases in stocks were pointing to a likely 'hard landing', worsened by the maintenance of close limits on bank lending as part of the Adjustment Program. However, such mistakes are not surprising given the weaknesses in understanding of the Vietnamese macroeconomy, and especially its micro foundations.³⁴ Rates of output

³² Tight credit was in part imposed by requiring state banks to keep high levels of deposits at the central bank. Suspicious commentators may ask whether these funds were not then used for direct support to SOEs in various ways.

³³ See ADUKI Pty Ltd, *Vietnam: Economic Commentary and Analysis*, No. 7.

³⁴ Here a key issue is the nature of the formal capital market. Should the banking system be seen as part of a capital market where supply and demand for credit are matched through changes in interest rates, or as part of a quasi-administrative system where ceilings on interest rates keep them well below free market levels and create an economic rent whose beneficiaries are chosen through political and bureaucratic processes? A PhD thesis from Stockholm discusses these issues from a neo-Institutionalist perspective (Lisa Roman, 'Institutions In Transition—A Study of Vietnamese Banking'. PhD Thesis, Stockholm School of Economics, 1995).

increase in 1995 (especially in the state sector) were probably over-reported: official statements of 9-10 per cent GDP growth can be compared with unofficial estimates near 6-7 per cent.

The slowdown is almost certainly moving towards a 'hard landing'. As businesses become increasingly aware that price cuts alone will be insufficient, they will cut back output to clear unsold stocks. The political consequences of this will be made more significant by various factors:

- foreign products are increasingly out-competing Vietnamese products in terms of price, quality and marketing;
- there is a lack of coherent and implementable policies to support those domestic businesses that are viable in the long-term rather than simply throwing money at those SOEs (and various private companies who 'sit in the shade') who should have been buried long ago;
- the downturn coincides with the strong medium term trends of the explosion of FDI-financed business activity and the increasing levels of resources available for government to intervene in the economy.

There is, of course, a finite possibility of macroeconomic collapse: a loss of confidence in the Vietnamese government's ability to maintain itself and its core institutions intact, for example manifest in runs on the banks. With fears of inflation still strong, it is not impossible to envisage a scenario where the state would be forced to sell-off SOEs in order to raise funds. One option would be that of securing IMF loans conditional on extensive and real privatisations. Another would be a range of local solutions, possibly involving links to regional investors.

FDI

Foreign Direct Investment is about to become a major player in the domestic economy. Vietnamese businesses are increasingly feeling the pressure of competition from them as the output and

exports of foreign-invested firms race ahead. Ho Chi Minh City's foreign-invested firms are now officially showing a year-on-year growth of around 50 per cent. At these rates of growth economic structure changes very fast indeed. For example, simple extrapolation implies that perhaps 50 per cent of exports could come from this sector by the beginning of 1999. Some are asking whether the economic forces unleashed by the market economy are increasingly out of control.

Chinese experience suggests that the impact of FDI in terms of commercial activity—export growth, employment creation and cash flow—is not felt until some five years after the gates are opened. This is what appears to have happened in Vietnam, where non-petroleum FDI dates from around 1990/91. Through 1996-97 we can thus expect the Vietnamese to start feeling the impact of the very high levels of investment that are being made, almost entirely (in terms of officially sanctioned flows) with SOEs. Some 1/3 of total investment is now overseas financed. Almost all involved major foreign intervention in management, marketing and other investment decisions. This means that a very high proportion of Vietnamese state businesses are increasingly dependent upon foreign investors, not only for investments but also for access to markets, technology and management.

A further complication is the way in which through 1996 certain Vietnamese businesses and joint ventures were been getting around Dong bank credit limits by borrowing from overseas sources, such as through the delayed payment of Letters of Credit. Whether these loans are premised upon the lenders' idea that the state will wish and be able to protect the sectors within which their borrowers are operating is another matter. Vietnam is still far from being a normal East Asian Tiger in terms of state-business relations, and some assumptions may be about to be proved false. In early 1997 international press reports started to refer to non-payment of trade credits by Vietnamese banks, and were interpreted as signs of an impending banking crisis.

State intervention

The Vietnamese government now controls measures that give it significant options to intervene in the economy and realise the 'state sector priority' policy. This was strongly restated at the 1996 Congress. Implementation poses a multitude of problems. Resources have certainly increased substantially, but their value is proving to be rather low. For example, budgetary revenues from foreign trade taxes, around US\$ 100 million in the early 1990s, were in 1996 near US\$ 2 billion. This shows that the economy has shifted 180 degrees in the past few years. In the very early 1990s it was one of the most open in South East Asia, yet by the middle of the decade it is one where domestic business can now be protected from foreign imports.³⁵ Yet state investment remains scattered; there is no sign yet of a ruthless approach to revenue-yielding privatisation and closure of loss-making and non-competitive state businesses. The macroeconomic difficulties of 1997 may, however, be forcing events in these directions.

The policy of export-oriented import substitution was noted rather early on by perceptive Scandinavian economists.³⁶ What can be seen are strong trends to protect domestic markets and stimulate exports. The government has greatly increased the protection it offers and grants to businesses in Vietnam, but there is little attempt to make the population understand the economic costs of protectionism. The Vietnamese economy risks becoming one of the more closed in the region. Any analysis of the extent of protection has to look at reality—falls in tariff rates has to be placed beside the tax revenue from trade taxes, which has moved

³⁵ The relationship between this trend and Vietnam's membership of ASEAN and relationship with such regional organizations as AFTA remains to be seen. Certainly the view that this will *reduce* the scope for protection is premised upon a misreading of the shift from the early to mid 1990s from an open to a more closed economy.

³⁶ Kokko and Zijuan, *Vietnam at the Next Stage of Reforms* (Stockholm School of Economics, April 1996).

in the opposite direction. The very high tariff rates of the very early 1990s were simply not applied in practice.

Vietnam in comparison with other East Asian economies

The issue of the further improvement of Vietnam's social and economic institutions is therefore surfacing and being driven by evidence that the situation is deteriorating. Here the role of the government comes under scrutiny. A recent article by Prof Joseph Stiglitz, Chairman of President Clinton's Council of Economic Advisers, argued that the success of East Asia's tigers could be seen in establishing the following roles for government (this is necessarily somewhat idealistic, as no one country—even in East Asia—was capable of implementing all these policies without mistakes and difficulties):

- Policies that actively sought to ensure macroeconomic stability.
- Making markets work more effectively by, for instance, regulating financial markets.
- Creating markets where they did not exist.
- Helping to direct investment to ensure that resources were deployed in ways that would enhance economic growth and stability.
- Creating an atmosphere conducive to private investment and ensur(ing) political stability.³⁷

The Vietnamese situation differs from past East Asian experience and the areas of risk associated with this. Crucially, the Vietnamese government:

- Does not help to make markets work more effectively. Intervention by local state authorities—especially in

³⁷ See Joseph E. Stiglitz, *Some Lessons from the East Asian Miracle* (The World Bank Research Observer, August 1996).

agricultural product markets—is often more intended to increase monopoly and concentration. It is important to distinguish between two quite different factors. The earlier positive impact of policies that ‘made prices matter’ by increasing the scope of markets has been replaced by policies that seek to make markets work in desired directions by interfering with their operation and failing to put in place the institutions required to protect them from monopolistic concentrations of economic power.

- Does not help to direct investment to enhance economic growth. There are continued weaknesses in the public sector expenditure reform program (with the World Bank and IMF facing extraordinary problems in gaining access to data), and high levels of corruption in infrastructure projects.
- Has not undergone the political changes required to create an atmosphere that is both conducive to private investment *and* political stability.

In Stiglitz's analysis what remains is macroeconomic stability and the creation of good markets. The former could be said to be on the right track (with provisos about such issues as the growing balance of payments deficit and regular price fevers in strategic commodities) whilst the latter is seriously at risk. Land and labour markets have been allowed to emerge and now operate reasonable effectively³⁸ but the use of the banks as instruments of support to politically important businesses is gravely hampering the emergence of a normal capital market

³⁸ Although the amount of red tape involved is so great that, according to personal reports, some 65 per cent of dwellings in Ho Chi Minh City and 95 per cent in Hanoi remain strictly speaking ‘illegally occupied’ in that paperwork has not allowed occupation to be formalised (*hop thuc hoa*).

Conclusions

The prospects of the 1996-97 cyclical slowdown, and the other factors mentioned above, suggest that the Vietnamese leadership is currently being presented, not entirely unexpectedly, with their biggest set of policy problems since 1989. In 1989, somewhat contrary to many predictions, the economy recovered robustly from the loss of Soviet aid to show very rapid growth. Possibilities emerged for fast development as higher domestic savings, added to big increases in FDI, booming exports to hard currency regions and rapid private sector employment creation saw the economy shift onto a quite new growth path compared with the 1980s. This success drew upon the way in which the economy had 'grown out of the plan' in the 1980s, and therefore the great efforts and social costs implied by this. In the early 1990s, as Party Congresses have correctly recognised, economic growth was outstanding. Yet many difficult decisions were not tackled—for example, the reform of SOEs, the relationship between party and state, and the market environment facing farmers. Rapid growth, especially in the rural areas, to some extent occurred *despite* the absence of answers to these big questions. This showed the fundamental strengths of the Vietnamese economy and the talents and capacity of its population, including many SOE managers and workers.

Now, things are different, but has Vietnam really emerged from its economic and social crisis as the Congress stated? We argue that conditions are now fundamentally different to those of the early 1990s. Severe problems are evident and may get far worse. What political changes have taken place to enhance the decision-making capacity of party and government? It appears that decisions now lack the rather high level of political consensus of the late 1980s. Indeed, the reasons why particular policies are adopted are often unclear; there is evidence of a decline in self-confidence. This shows up most clearly in the lack of clarity in the ongoing establishment critique of the current situation in contrast to the situation that was so apparent

in the late 1980.³⁹ Then, most public servants were clear what was wrong and what they were trying to do, especially in the topmost policy-making Institutes.

Table 3: Economic growth targets of the 1996 VIIIth Party Congress and forecasts from ADUKI Pty Ltd, late 1996.

	VIIIth Congress forecasts	ADUKI
1990-1996 growth	8.2%	7.9%
1996-2000 growth	12.0%	7.3%
1990-2000 growth	9-10%	7.6%
Ratio per cap gdp in year 2000 compared with 1990	2:1	1.7:1.0

Source: Vietnam: Economic Commentary and Analysis, No. 8, November 1986

2000 GDP structure

Investment	30%	n/a
Agriculture	27%	19-20%
Industry	34-35%	31%
Services	45-46%	42%

³⁹ Judging by the nature of the problems and the debate, the most appropriate year of comparison may be 1983, when pro-market solutions were still extremely rare in open publications, but it was becoming increasingly obvious from grass-roots experiments that that was the way things were moving. It is not yet clear just how the program of Public Administrative Reform fits into this framework, however, but discussions within it are certainly starting to address the issues of power and institutionalised jurisdictional conflicts that may be the targets for local experimentation and later for wider discussion and dissemination. Time will tell.

This is no longer the case. For example, there is no open, detailed, and *operationalised* analysis of the effects of party and bureaucratic business involvement. Granted the political disunity, officials cannot take open positions without fear of penalty. Thus, in another example, the State Bank is unable to openly discuss and research the effects of politically guided credit upon monetary policy, and the consequences for the monetary economy of the odd and diverse capital structure of many SOEs. It does not appear that any political force, or politician, is yet well placed to cut into the 'Gordian knot'.

Our main expectation is therefore for 'no change'; implying economic slowdown. Table 3 gives some basic data and forecasts drawn from ADUKI work.

Implications for various elements of the Australian-Vietnam relationship

Private business—large and small-scale FDI

The tendency towards a recentralisation of political power, combined with the continued problems in actually exercising effectively the power thus attained, implies that large-scale FDI is likely to need greater access to policy-making than before. Conversely, smaller investors, and those in ventures with SOEs whose market positions are under great pressure, will experience increasing risk and rising transactions costs. This will require additional outlays of time, management attention and money, most likely at a time when it had been expected that such issues would have been resolved, or on the way to it.

NGOs

NGOs are mainly and rightly concerned with rural development issues. Here the focus upon the state sector and the officially-judged importance of inward capital in supporting farming strategies suggests that the main elements of the learning curve through the second half of the 1990s will be in avoiding the

consequences for farmer investments of falls in prices offered by processors and others when market conditions change.⁴⁰ This will also create difficulties for those involved in local credit, extension and other support activities, and likely also create difficulties for formal farmer organisations such as the Farmers' Union and other mass organisations.

Bilateral cooperation

Bilateral cooperation will likely face two main problems in 1997-98:

First, securing the promised counterpart resources to finance the Vietnamese inputs to projects, when those represent a real resource costs to the Vietnamese government, such as those involved in infrastructural projects;

Second, addressing the complexities that arise as the state-focus of official development policy as laid down in the VIII Congress confronts Western orthodox ideas about the importance of the Rule of Law and the development of the private sector.

⁴⁰ There is anecdotal and other evidence in abundance for the problems this causes, the latest being the failure of VinaMilk to meet its promised obligations to farmers around Hanoi who had invested in dairy capacity when it was found that world milk powder prices were (perhaps cyclically) well below the domestic liquid price.

**The Issues of Social Change after Ten Years
of *Doi Moi* in Vietnam**

Tuong Lai

Since 1986, Vietnam has experienced ten years of social transformation that would have been difficult for anyone to imagine some years before. Mr Edouard de Penguilly—a French architect remarked in a workshop in Hanoi that: ‘Ancient and contemporary histories of this nation have shown its strange capacity to find original solutions to its problems’. It could be asked whether determinative policies which have been set forth in the course of ‘*Doi Moi*’ (Renovation) in Vietnam over the last ten years are original solutions?

Nowadays many foreigners who have been in Vietnam can see clearly social change as compared to before 1986: the tempo of life is more active, the exchanging and receiving of information is more open-hearted and broad-minded in the context of urban life which reflects the rise of private economic sectors: private shops, the signboards of the limited companies and joint-venture companies which are bold and dazzling. One can even see the names of private schools from elementary to higher education in the daily and weekly newspapers. And new buildings have mushroomed, some constructed by the state, but most by the private sector, also the boom in land values in Hanoi urban areas. Someone said that in some attractive areas the price of land is more expensive than in Tokyo!

The basis for that vibrant tempo of life is the GDP growth rate which is about 9 per cent. Even in 1996 when three regions of the country have suffered from natural calamities, the Prime

Minister's report in the National Assembly session from 15 October to 15 November recently estimated a GDP increase at 9.5 per cent, with agricultural growth of about 4.8 to 5 per cent with 28 million tons of rice, industrial growth rate of about 14 per cent, an increase in foreign trade turnover about 27 to 28 per cent, the inflation rate maintained at the level of 6 to 7 per cent, overspending of about 4 per cent, and the domestic cumulation about 19 per cent of GDP.

Nevertheless, at the end of this year, 1996, the optimism seems to stop short, with some speculation.

The waves of '*Doi Moi*' which were uninterrupted and fast at the beginning of the transformation period now seem to be slowing down and more muted. The course of '*Doi Moi*' has shifted into a more difficult stage, and weaknesses have been revealed more clearly, for example in the legal environment and macro economic strategy, as well as in finance and money activities. Together with these, more information has been revealed about corruption, which is considered as a 'national catastrophe'; employment is more difficult to find for the labor force, and drug abuse, prostitution, child sexual abuse and AIDS are reported with alarm by the newspapers. In this situation, there are attitudes oriented towards circumspection. The people wait for something new to act as the basis for their decisions about the future and their belief in their society's capacity to progress.

Employment for young people has been scarce and the inadequacies of the secondary schools, colleges and universities are becoming serious problems. The questions of levels of training which are unsuited to the demands of employment, or the lack of jobs that are suited to the level of training, have not been answered clearly.

Earning good wages has become more difficult. The relatively easier earnings in the initial years of *Doi Moi* and the 'open door' policies have been replaced by the strict requirements of serious and productive labor. There are some who have been able to find suitable jobs with a high income thanks to their effective working capability which meets the requirements of employment. But at the same time, large numbers of people have

been queuing up for jobs in front of the job centers, these gathering places for rural laborers, simply named 'labor markets', are always crowded. Workers' tools are simply a shoulder pole and hangers, and usually just their shoulders, hands for carrying and tough feet acquainted with farming. Besides these, they have no skills. These 'labor markets' cover only 40 per cent of surplus laborers in rural areas (where 70 per cent of the country's labor force resides). The face of urban life has been marked by these features, as rural people flooding into the urban areas to search for jobs. Labor and employment are becoming urgent problems which have emerged only recently, and in my opinion, that is the main reason for the social maladies mentioned above.

Together with those problems, environmental pollution is more and more apparent in the processes of urbanisation and industrialisation. In addition, the heavy consequences of floods, both in urban and rural areas, show nature taking revenge for human actions that have ruined their natural environment and their own resources.

From this sketch about the face of Vietnamese society after ten years of '*Doi Moi*' what can be raised as the most crucial issues?

Surging social dynamism

The tempo of social life has changed, especially urban life. With the transformation from the central planning and subsidies mechanisms, profound changes have followed. The basis of society has been characterised by the way of life of small peasant communities and the communal spirit and village democracy, but, with the market economy, people seem released from constraints and hurry to compete for suitable positions. These processes involve 'each person', by which I refer to the easing of the traditional communal ties which constrained individual dynamism.

A strong communal spirit was an inherent and salient attitude in the mind of Vietnamese who lived in an old agricultural society. This dominant attribute has always been a

strong force in the nation, but development of individual consciousness was constrained as the individual was diluted into the community. In the period of central planning and subsidies, this salient attitude continued to be brought into play and it maintained the egalitarianism which was basic to the village democracy. Individuals had few chances to affirm themselves.

Consequently, with the coming of the market mechanism, in the competition for livelihood and development, individual liberation began to take advantage of new opportunities. The bustling economic activities are both push and pull forces for the potential development of each person. Thus, social mobility is markedly greater than before.

The social dynamism has created a groundswell of energy. This energy is a combination of the strength of each person and each social group in both urban and rural areas. They are not simply passively enjoying the achievements of '*Doi Moi*'; they are 'co-authors' of '*Doi Moi*'. Therefore, it was easier to acknowledge that the achievements of '*Doi Moi*' were welcomed broadly by the masses because it was they themselves who had created the motivation for the process of '*Doi Moi*', developing it so deeply and broadly that sometimes leaders themselves could not predict it when it was heading. And, because of this, the masses demanded more and more from the leaders to whom they have entrusted their lives.

In relation to this social dynamism, the capacity of youth deserves special attention. Young people quickly adapted to the new tempo of life. Although some of them may show extremist thinking and short-sightedness, in general their dynamism has contributed much to the quickening tempo of social life.

The vitality of that social dynamic is noteworthy. It was not by chance that there arose 'people-founded' private schools and private health centers; there was even a spontaneous migration from the mountain areas in the North into the Central Highlands. It must be that civil economy, civil society, and self-governance were coming into existence. Although these

phenomena were fragile, they have prospects because this is democratisation from the bottom.

Of course, the waves of *Doi Moi* didn't spread everywhere - not, for instance, to the mountain areas where travel and communication were difficult and the people still suffering from disadvantages. Changing such areas quickly is very difficult.

Such social dynamism is one outstanding feature of Vietnamese society after ten years of *Doi Moi*, and it has been a great driving force speeding up the *Doi Moi* process.

Social stratification

Competition under the pressure of the market has resulted in accelerated social stratification. Egalitarianism, which lasted a long time whilst agricultural production remained too backward to be transformed into a market economy was strengthened by the central planning and subsidy mechanism. With *Doi Moi*, social stratification is bringing about opposite reactions.

Obviously, a fact which must be accepted is that social stratification created the motivation for production and economic growth. The market mechanism picks and chooses very quickly the talents suited to it. Under this process of screening, each person can or must be placed in the jobs and social positions that correspond to their capability. In order not to be eliminated, each individual has to struggle and persevere. Competition has resulted, while the quantity and quality of products have improved more and more. Because of these conditions spending power has increased. The noteworthy thing is that, if thoroughly observed, one will see that, in general, the standard of living was increased for all citizen groups because of the achievements of 'Doi Moi'. In other words, there may be some who suffer a loss compared to the increase of the common level, but there are no classes or social groups which have been pushed down.

For example, of the one million laborers who were dismissed from factories and companies belonging to the state sector when

the new system came into effect, the majority found new places in the informal sector with a higher income.

Table 1: Gini coefficients and average income per person per month (in VND)

Place	Gini coefficient	Average income dong
Hanoi City	0.44	224.520
Ho Chi Minh City	0.35	491.390
Can Tho City	0.32	265.580
Da nang City	0.29	148.300
Hai duong Town	0.25	181.900
Rural areas in Can Tho province	0.40	188.430
Rural areas in Quang nam Da nang	0.37	135.370
Rural area in Hai Hung province	0.27	100.590
Average	0.34	165.000

Of course, one cannot fail to note those who continue to free hardship. They include vulnerable persons with little capacity to protect themselves when facing sudden accidents and or confronted with natural catastrophes, who were disabled and lacked necessary skills or means for earning a living. Previously they were supported by the agricultural cooperatives or state factories and enterprises.

Quite different from these people is an important new feature: the appearance of young entrepreneurs. They have little experience and basically no training; however, by means of their youthful energy, they have made noteworthy advances. They are the ones who will be an important force for the new stage of development.

In order to figure out the shape of income stratification, I would like to present the data from a survey which was conducted by the Institute of Sociology in eight provinces spread among three regions—the North, Center, and South of Vietnam—in 1994.

The data shows that the average income level in Hanoi is only half the income level in Ho Chi Minh City, and even lower than in Can Tho City. However, the Gini coefficient was highest in Hanoi.

Similarly, one can see that the Gini coefficient was high in the rural areas where the market economy was undeveloped, for example, the Gini coefficient was 0.37 in rural areas of Quang Nam Da Nang province.

In order to make clearer the stratification in terms of income, as mentioned above, we used a relative poverty index in order to understand more about social stratification.

In our study, those considered relatively poor were the 40 per cent of the population having the lowest income, and those considered relatively rich were in the 20 per cent of the population having the highest income. Our survey revealed that the structure of income among the 40 per cent of the poorest and the 20 per cent of the richest in the regions was as in Table 2 below:

The difference of average income level between the poorest 40 per cent and the richest 20 per cent or the gap between two these categories was lowest in Hai Hung province (nearly two times). The highest gap was in Hanoi, where the ratio was nearly 7:1. Also in Hanoi, we can see that the average income level among the 20 per cent of the population having the highest income in Hanoi was three times higher than the average income of the total population in Hanoi. This index was much higher than the index

in other provinces, even in Ho Chi Minh City, where the difference was only two times.

Table 2: Average income per person per month among the 40 per cent with the lowest income and the 20 per cent with the highest income

Place	The 40 per cent with the lowest income	The 20 per cent with the highest income	Average
Hanoi City	89.000	601.750	224.520
Ho Chi Minh City	234.000	1053.690	491.390
Can Tho City	130.000	527.520	265.580
Da Nang City	88.000	288.410	148.300
Hai Duong Town	111.000	313.190	181.900
Rural areas in Can Tho province	86.000	439.840	188.430
Rural areas in Quang Nam Da Nang	64.000	305.810	135.370
Rural area in Hai Hung province	63.000	189.850	100.590

In general, except in some provinces, the bottom 40 per cent of the population had an average income under 100,000 VN dong per month. The lowest income was in the rural areas in Hai Hung

province. The average income level among the poorest 40 per cent was 63,000 VN dong per month.

From all this, at the time of the survey, we established that: the poverty line was the group having an average income below 75,000 VN dong per person per month. We created five income categories, each higher one being double the previous (lower) bracket. The results showed that: 23 per cent of the population were living below the poverty line (with an average income under 75,000 VN dong per person per month), of which 6.4 per cent were in urban areas and 27 per cent in rural areas. The details are presented in Table 3:

Table 3: The average level of income per month per person

Place	<75000 %	75-150 %	150- 300 %	300- 600 %	>600.00 0 %	Total %
Hanoi City	12.9	42.2	29.3	8.8	6.8	100
Hai Duong town	3.3	38.0	50.0	8.7	0.0	100
Da Nang City	13.0	56.2	26.0	3.4	1.4	100
Can Tho City	1.4	27.7	39.5	27.0	4.1	100
Ho Chi Minh City	0.4	2.5	35.5	38.0	23.6	100
Hai Hung rural areas	37.5	54.5	6.5	0.5	1.0	100
QNDN rural areas	29.7	47.4	16.6	5.1	1.1	100
Can Tho rural areas	12.0	48.5	29.0	8.0	2.5	100

The stratification is obviously not only the result of ten years of *Doi Moi*. But in the market system, stratification has become more marked. However, a thorough analysis of poverty and the lowest income category shows that deprivation is the consequence

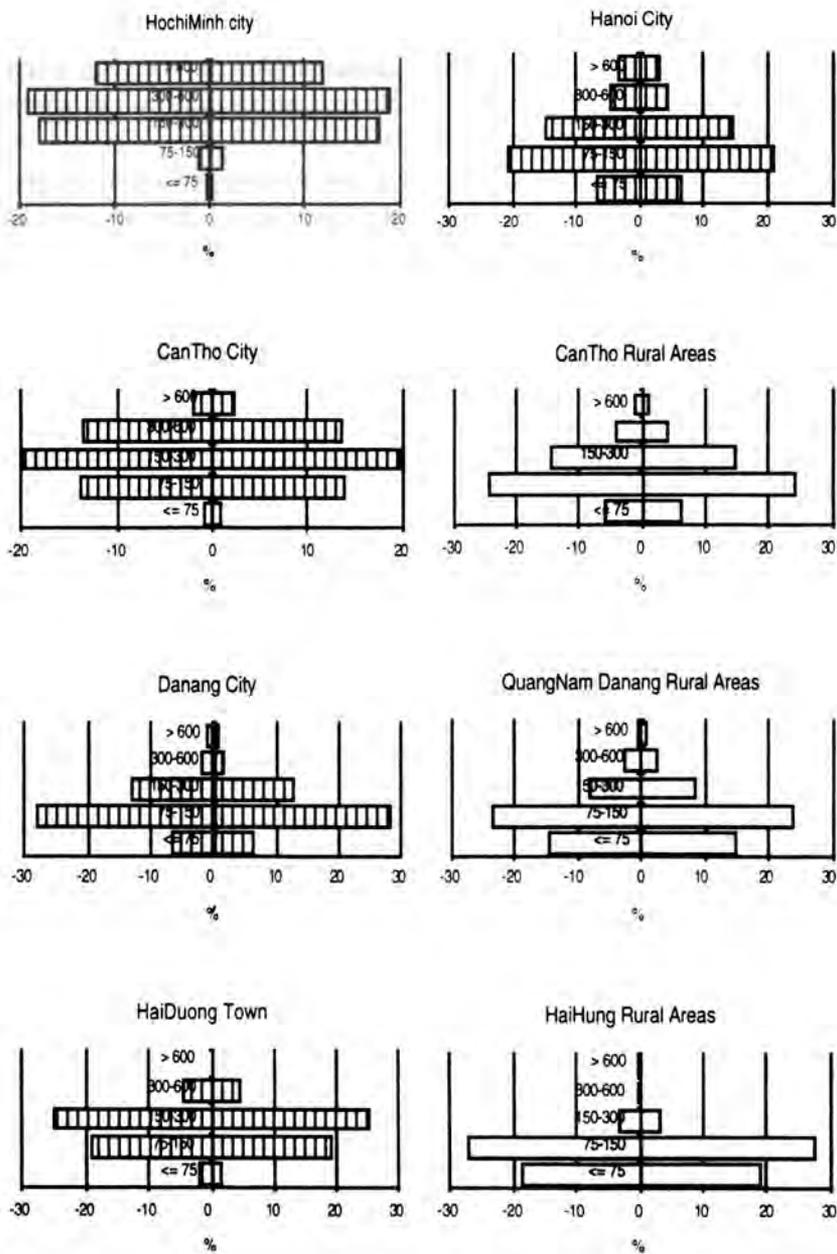
of the long backward economic period in Vietnam, including the direct consequences of central planning and subsidies, even though at that time it was thought, incorrectly, that inequality had been eradicated. In our study about Vietnamese social structure, we drew the conclusion that the slower the development, the higher the inequality in society. It is only by comparing the Gini coefficients between rural and urban areas from 'the sociological survey about social stratification' (conducted in 1994) which was published in the Sociological Review, Number 3, 1995 that one can see this situation clearly (refer to Table 4):

Table 4 : Gini coefficient between rural and urban areas

Place	Urban Gini coefficient	Rural Gini coefficient
Hai Hung	0.249	0.266
Quang Nam - Da nang	0.291	0.372
Can Tho	0.321	0.368

Income differentiation is only one of the factors which leads to social stratification. Another limitation of these data is this collecting them was not simple and they are not necessarily entirely accurate. These data should be combined with many other factors which were defined differently in the sociological study in order to properly reflect social stratification in Vietnam at present. These factors are not new. They include three issues which were raised by Max Weber in the last century: wealth, power and prestige.

Diagram 1: Income Pyramids



In the concrete context of Vietnam nowadays, we consider that the determinant factors in the process of stratification are: possession, power and knowledge. The thing we want to emphasize is what Max Weber also noted when he analyzed the market: 'In the market economy, the opportunity was a determinant factor and a common condition for the destiny of the individual. It means that 'the class condition', in the final analysis, was 'the market situation'.

Besides the survey conducted by the Institute of Sociology, other survey results also revealed that: 'Where the process of social stratification occurred more strongly, there were more products for society and the standard of living of the majority of population had been increased'.¹As for the wealthy in Hanoi, they often belong to two social groups: state employees, especially the high-ranking officials, and the entrepreneurs. Among the wealthy households belonging to the state economic sector, 80 per cent of them were high-ranking officials working for organisations involved in foreign trade, such as foreign affairs, foreign trade, maritime transport; and 20 per cent were working for organisations involved in Air Communications, customs, and economic policing. These households often have connections with private businesses. So the researchers generalised that in Hanoi, the wealthy households were ones having family members including both high ranking officials and private joint-venture business people.

The education level of the heads of the wealthy households outside the state sector was lower than in the state sector (25 per cent versus 90 per cent respectively, graduated from Universities). Among these households, only 40 per cent were earlier classified as members of the old 'bourgeoisie class'; 86 per cent of laborers worked in the non-state sector, and 12 per cent of laborers worked both in the state and non-state sectors. The majority of these households were involved in trade (75 per cent); 7.5 per cent of them were involved in both production and trade.

¹ Do Nguyen Phuong, *About The Social Stratification in Our Country at Present Period* (Hanoi: KX07.05, 1994), pp. 8,12,18,32.

Their mode of activities included taking advantage of loopholes in policies through relationships with acquaintances and through bribery. Among those with business establishments 40 per cent of their commodities were imported, 26 per cent of their commodities were exported; 14 per cent of them carried out business in silver, gold, precious stones and antiques. So, when talking about the crowded and bustling activities in Hanoi, we are in the main talking about economic activities in the non-state sector.² The researchers also noted: 'The surveys in Hanoi and Ho Chi Minh City revealed the appearance of private entrepreneurs who had their own capital of about 10 to 20 billion VN dong and who hired large numbers of labourers (from 1000 to 9000). Their businesses have made much profit, and their business efficiency has been higher than in the state and collective sectors'.³ Based on this data, it was concluded that: 'Social stratification has occurred strongly and has diversified. This was a direct result of the transformation of economic mechanisms and economic structures, which increased social mobility and the redivision of social labor'.⁴

Unfortunately, besides these positive factors, a negative problem emerged from social stratification that has caused many social reactions.

If the social stratification has resulted from the market economy, especially after a long period which was dominated by egalitarianism and by the subsidy system that constrained and often wiped out the motivation for production, the stratification was also necessary for creating the motivation for development. However, this stratification has bad side effects. What has emerged is that it is very difficult to define, among the *nouveau riches*, whether their wealth is the result of their real capability or of their social position(s). Might it be that power is the source of possessions and property, which was the point we investigated in the 'Sociological survey about social stratification' carried out

² Do Nguyen Phuong, *About the Social Stratification*.

³ *Ibid.*

⁴ *Ibid.*

recently? The unclear blend of business talent, administration skills, and opportunism indicates that taking positions in the state body makes it easier to earn money. This has occurred in the present context where the legal controls are low, and the legal system contains many shortcomings. This is closely connected with excessive red-tape and the weak capacity and experience of the public administration. All this must be a source of the corruption which is considered a national catastrophe; that was 'the theme which was most talked about and criticized among other themes' when Prime Minister Vo Van Kiet spoke on 11 November 1996 at the Tenth session of the Ninth National Assembly. The Prime Minister also remarked that: 'Compared to other themes, the theme of corruption was the one most criticized; however, there was little discussion about finding solutions to prevent and to push back this national catastrophe' while 'the corruption occurs licentiously within every branch, everywhere, every level and is only different in terms of measure and form'. The Prime Minister recommended that the National Assembly empower him 'with full responsibility in accordance with the law of government organisation, rights to punish (reproachment, warning, dismissing from office, forcing resignations, and bring to the court) according to the law for all the officials whom the Prime Minister has found to be corrupt'.⁵

The issues of social mood

From the central planning and subsidy mechanism which only accepted two forms of properties, the economy has been transforming into a market mechanism with a diversification of forms of possession. This important transformation has changed rapidly the social positions of many people who have taken advantage of the opportunities which were created by the market situation. There were some who became nouveau riche,

⁵ *Nhan Dan* on 8 October, 1996: 1, 3.

as well as many others who ceased to advance or regressed to a lower position seeing now that they are outdated!

Everybody has been concerned about the question of how to affirm one's social position. In a sense, they have been obsessed by the idea that they would have something greater than what they actually have. In the special context of Vietnamese society with all its turbulent changes during recent decades, especially the latter half of the 20th century when the changes were greater, that idea is obsessing a rather large number of people.

The traditional society, in which relationships were based on ascribed statuses, has been transformed into the new society based on functions. In the past there were many deficiencies in social administration and this resulted in some chaos within social activities; high ranking officials in the social administrative system were chosen according to the criteria of 'morality and talent', which were abstract concepts, rather than by systematic training to implement defined tasks. So there was the illusion that one could take on any position regardless of its functions. The consequence was that bureaucracy expanded more and more, and reducing the number of staff proved impossible. Thus the effectiveness of administration was very low and in general did not meet the ever-increasing demands of society. A deeper and more complex problem was competition for positions that would be a way to earning profits, make fortunes, and get promoted rapidly, without any basis in knowledge, talent, serious work, or experience. The market economy has been built on these experiences, while also rewarding individual potential and a high social dynamic and creating conditions for the promotion of those with the necessary skills. At the same time there are those people who are unsure about their social positions, especially people who have little capability and little opportunity for competing in the market. The market has grown too fast for everyone to understand their capability and strong points to fit into corresponding positions. In addition, at present there is not a complete market system organised according to the law. The shortcomings of the law and the ineffectiveness in administration have created conditions for illegal business,

which has resulted in social insecurity. Public opinion has condemned illegal business strongly for its corruption, waste, and red-tape.

So we see that for stable social development, on the one hand social mobility must be high, and the desire for social promotion should strengthen motivation; on the other hand citizens should define clearly for themselves the social position which corresponds to their knowledge, talent and circumstances. Without the formation of these attitudes, the stable society that is necessary for development will not emerge. For a country which has undergone such turbulent changes during two thirds of this century, as Vietnam has, the stability of society is even more necessary than before in order to allow rapid and stable development to emerge. This stability of society will not necessarily conflict with development as it will help everyone pursue their own goals. This raises an issue which was brought up by Aristotle a very long time ago: 'The Potential of each person is a combination of different functions about the behavior and state of mind which he or she has the capability to choose'. This issue is emerging as a challenge for development in Vietnam.

This issue has emerged because of other considerations. With the large loss of capital by over 2000 state enterprises, newspapers now often print news of hundreds and thousands of billion VN dong being lost. The culprits are government staff and even state offices; for example, the State Bank lost 3000 billion VN dong; Tamexco company (a district company) lost 500 billion VN dong; the Nam dinh textile company lost 600 billion. The Mulberry and Silkworm enterprises had similar losses. Many billions of dong were lost by the health insurance system. And so on. Even the General Post and Telecommunications Department casually placed outside of the state budget about 800 billion VN dong, accumulated from different levels of prices customers applying for phones must pay, and nearly 200 billion VN dong for changing networks and so on.⁶ In a poor province such as Son La, the deputy head of the budget planning section at

⁶ *Nhan Dan* 24 October 1996:4.

the provincial Department of Finance is said to have appropriated 292 million VN dong.⁷

Once 'common possession' is appropriated brazenly like this, the social mood of the masses asks as to how rights of use of 'common property' should be considered. This gives rise to the question of the grounds for regulating the relationships between man and man in the society when the ownership framework has not been clearly defined? This lack of clarity will be the fundamental obstacle to the formation of necessary regulating policies leading to the definition of a modern society, as the target put forward by the Eighth Communist Party Conference. That modern society, according to the common understanding, is supported by the middle classes who are increasing more and more in number and significance, and whose property comes from working hard with their talents, which was consolidated by legitimate ways of working and an appropriate legal system.

Social regulation is a necessity for social stability, and is a basic premise for steady development. From the egalitarianism of the central planning and subsidy period, profound social regulation has been implemented by accepting the market mechanism with diversified ownership.

Having been transformed from a society which only accepted two forms of possession (common and collective possession), the current system of diversified ownership has helped to create the motivation for 'Doi Moi'. Nowadays, with its policies for speeding up industrialisation and modernisation, Vietnam is entering the orbit of regional and global development processes. Now the challenge has become how to regulate society in order to create the conditions for speeding up this development.

Social regulation is sometimes not only the demand from inside but also the pressures from outside, for Vietnam to integrate rapidly into the World. I mentioned the problem of corruption and the mood of the masses wanting to consider what

⁷ *Nhan Dan* 21 September 1996: 4; *Investment Review*, November 1996: 2.

is the right of use of common property. That is one problem which arises not only for Vietnam. According to Flora Lewis, an American journalist specialising in World news, corruption is a global phenomenon, that is 'a phenomenon which has existed for as long as society'.⁸ And Donarella della Porta, professor in political science from Florence University, Italy, said that 'corruption probably grew in the transitional period (which is usually sudden) from a traditional society into a modern society where there was a demarcation between the government and private sectors'.⁹ According to her, 'corruption probably is an informal measure for changing structures aimed at patching up formally a society which is breaking down under the pressure of an economy and political system that is undergoing the threat of disappearance after market forces and democracy become standardised'.¹⁰

It must be that the problems of Vietnam are not for Vietnam alone as she reaches out to be friends with other nations in the world.

Vietnam has been changing rapidly towards a modern society with a market economy aimed at creating a prosperous people, a strong country, and an equitable and civilised society. The achievements after ten years of *Doi Moi* are engraved into the material and spiritual life of Vietnamese society. The new thinking resulted in new attitude towards speeding up the cause of *Doi Moi*. That attitude gave support to the leadership of the Vietnamese Party and Government. At the same time, with that attitude, the masses also demand that the quality of leadership must correspond to the process of *Doi Moi*. Vietnam enters this new period, a more difficult one, perhaps, but one with more prospects. All this is a direction which cannot be reversed. The issue is really only a matter of speed. The obstacles, of course, will not be few. Nevertheless, the resolve of the leaders as well as of the majority of people who support and expect rapid

⁸ UNESCO informant, N6 - 1996:15.

⁹ UNESCO informant, N6 - 1996:18.

¹⁰ *Ibid.*

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development in order to narrow the gap between Vietnam and the region and the world will be the guarantee for a rounded and broad development process within *Doi Moi* in the coming years.

The issue of social change in Vietnam is an interesting research theme not only for Vietnamese social scientists but also for international scientists interested in Vietnam and the Southeast Asia region.

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