THE AUSTRALIAN NATIONAL UNIVERSITY
E PRESS

Viet Nam: a transition tiger
Viet Nam's development experience

Abstract for chapter 1

The two themes of this book are introduced: the first, a comprehensive review of developments in the Vietnamese economy and the evolution of economic policy since the mid 1980s; the second – more ambitiously – an effort to interpret and explain some key factors driving economic growth.

Essentially, this chapter describes what Viet Nam has achieved in terms of socio-economic development – especially the level and distribution of economic growth during the period of transition. Viet Nam's performance is compared and contrasted with two main benchmarks – East Asian economies during their period of accelerated growth, and other reforming centrally planned economies. The timing of the revival of Viet Nam's economic fortunes coincided with the introduction of *Doi Moi*, Viet Nam's own version of 'economic renewal'. The reversal of the relative decline of Viet Nam is the main subject of this book.

The authors argue that some important building blocks of later success were laid in the pre-*Doi Moi* period. However, the policy regime of Viet Nam has been criticised in the following areas: reform of state enterprises, regulatory environment for foreign investment, issues of public administration, governance and corruption. Even so, the predicted dire consequences of failure to reform more vigorously have not yet materialised.

Keywords:

Cambodia, China, Council for Mutual Economic Assistance (CMEA), Doi Moi, East Asia, economic renewal, International Monetary Fund (IMF), Marxist-Leninist state, per capita income, Washington consensus, World Bank

Published by ANU E Press, 2003

1

VIET NAM'S DEVELOPMENT EXPERIENCE

Since the late 1980s Viet Nam has been remarkably successful in achieving rapid economic growth and reducing poverty. While per capita income levels are still far behind most other East Asian economies, economic growth rates and rates of poverty reduction during the 1990s were amongst the highest in the world.

In addressing that experience this book is intended to make two contributions. First, a comprehensive review of developments in the economy and the evolution of economic policy since the mid 1980s is presented. Second, and more ambitiously, an effort has been made to interpret and explain some key factors driving Vietnamese economic growth.

The latter task is not easy. Viet Nam is a large, diverse and populous country, with a turbulent modern history. During the period covered, Viet Nam has implemented its own version of economic reform (*Doi Moi*, or 'economic renewal') which has been profound enough in its effects to justify identifying Viet Nam as an economy 'in transition'. It has, however, retained a stated commitment to developing a Marxist-Leninist state and has been criticised by many international commentators for the slow pace of reform of an apparently cumbersome administrative and regulatory apparatus.

The high growth rates and reductions in poverty achieved by Viet Nam during the 1990s took the international community by surprise.[1] Throughout the 1990s, many international advisors warned that Vietnamese development targets were overambitious. During the last 15 years, Viet Nam was repeatedly warned that it was at a critical turning point in the reform process, and that concerted efforts were urgently needed to accelerate and 'deepen' its reforms to avert economic stagnation. And yet the Vietnamese economy has performed well, frequently exceeding 'overambitious' targets.[2] In the face of many dire warnings about the consequences of failure to implement all aspects of proposed reform packages, Viet Nam continued with a selective ('step-by-step') approach to reform, in some areas acting decisively, in others moving with a high degree of caution.

During the period covered, the dominant paradigm informing international policy advice was what has been called the 'Washington consensus', associated with the Bretton Woods institutions—the World Bank and International Monetary Fund (IMF). The central themes of the 'consensus' are an emphasis on the virtues of greatly extending the play of free markets, reducing the economic intervention of the state, and maintaining macroeconomic stability. Many of the components of this consensus would be accepted by most economists. Opinions vary, however, about the role of the state, the institutional requirements to make markets work for the common good, and the interventions required to ensure that the benefits of growth are equitably distributed.

While advocates of the Washington consensus are quite ready to claim that the Vietnamese experience validates their paradigm, this volume argues that Viet Nam's quite remarkable development progress is not so readily subsumed within the more orthodox versions of that framework. Basically, according to the tenets of orthodoxy that call for minimum state intervention, the Vietnamese economy should not have performed as well as it has, given continuing extensive state intervention in economic activity.

In seeking to understand the factors that have contributed to Viet Nam's success, the intention is to contribute to a broader literature on the economic performance of East Asia in recent decades which has explored the wide range of institutional and policy experience of the region.[3]

There have always been voices in the mainstream economic literature which have resisted the more simplistic versions of the 'Washington consensus'. Interestingly, in recent years some vocal criticisms have come from economists associated with the World Bank.[4]

The diversity of views reflects the international reality that the development profession and development institutions have still much to learn about economic development processes. Douglass North asks

> How do we account for the persistence of poverty in the midst of plenty? If we know the sources of plenty, why don't poor countries simply adopt policies that make for plenty? The answer is straightforward. We just don't know how to get there. We must create incentives for people to invest in more efficient technology, increase their skills, and organize efficient markets. Such incentives are embodied in institutions. Thus we must understand the nature of institutions and how they evolve (2000:n.p.)

Attempts to understand the Vietnamese reality should reduce the dangers of offering irrelevant or counterproductive advice. Lessons also may be derived from this experience that could be useful for other developing and transitional economies. There should, however, be no expectation that a blueprint for reform will be provided, to be applied mechanically elsewhere, as a recurring theme of this study is that successful policy is built on pragmatic responses to specific national circumstances.

While the focus is on more recent developments, the book includes a description of the Vietnamese economic reform (*Doi Moi)* processes from its antecedents in the early 1980s, through to 2001. The authors discuss both the impact of policies on economic performance, and the impact of economic experience on policy formulation.

This introductory chapter introduces some of the questions that motivate this study.

DOI MOI IN AN INTERNATIONAL CONTEXT

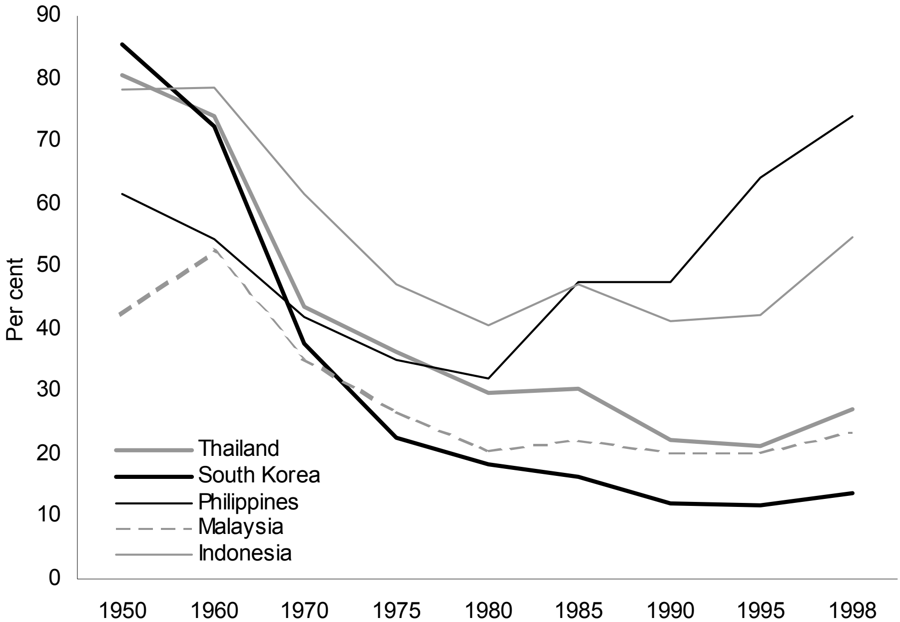
The book aims to describe what Viet Nam has achieved in terms of socioeconomic development, especially in terms of the level and distribution of economic growth, during the period of transition. The main narrative depicts events in Viet Nam, but some attempts are also made to compare and contrast Viet Nam's performance with two main benchmarks: East Asian economies during their periods of accelerated growth; and other reforming centrally planned economies.

Viet Nam as a developing East Asian economy: falling behind and catching up

An obvious point of comparison is with the remarkable success the East Asian economies have had during recent decades in greatly increasing per capita incomes and reducing poverty. In the final four decades of the twentieth century, Hong Kong, South Korea, Singapore and Taiwan were transformed from poor underdeveloped economies to modern and relatively affluent economies through growth rates that were among the highest recorded in the history of world development. More recently, dramatic transformations have also been taking place in Malaysia, Thailand and China. Figure 1.1 provides a historical perspective of Viet Nam's economic performance relative to selected Asian economies.

Data from Maddison (2001) show that, at the end of the Second World War, per capita income in Viet Nam was well above that of China, around 85 per cent that of South Korea, and 80 per cent that of Thailand and Indonesia, but only 62 per cent that of the Philippines (see Figure 1.1). Military struggle during most of the 1950s, 1960s and early 1970s, meant that the economy stagnated and Viet Nam's relative position deteriorated. Of the countries listed in Table 1.1, since 1950 Viet Nam's per capita income has only increased relative to that of the Philippines.

Figure 1.1 **Viet Nam's per capita income as a proportion of selected Asian economies' per capita income, 1950–98 (per cent)**



Source: Maddison, A., 2001. *The World Economy: a millennial perspective*, Organisation for Economic Cooperation and Development, Paris.

The relative level of Viet Nam's per capita income declined sharply compared to the successful East Asian economies during the four decades 1950–90, but there was a reversal in this decline in relative position in the final decade of the century (Table 1.2).

The protracted military struggle was the primary cause of decline until the mid 1970s. Military conflicts in Cambodia and with China, and a dysfunctional economic policy regime compounded the decline during the later 1970s and early 1980s. The subsequent reversal of the relative decline is the main theme of this volume.

The timing of the revival in Viet Nam's economic fortunes coincided with the introduction of *Doi Moi.* The central importance of *Doi Moi* is accepted by all commentators on the Vietnamese economy.[5] However, although the shift

Table 1.1 **Per capita incomes in selected Asian countries, 1950–98[a]**

	1950	1960	1970	1975	1980	1985	1990	1995	1998
Viet Nam	658	799	735	710	758	929	1,040	1,403	1,677
Thailand	817	1,078	1,694	1,959	2,554	3,054	4,645	6,620	6,205
South Korea	770	1,105	1,954	3,162	4,114	5,670	8,704	11,873	12,152
Philippines	1,070	1,475	1,761	2,028	2,369	1,964	2,199	2,185	2,268
Malaysia	1,559	1,530	2,079	2,648	3,657	4,157	5,131	6,943	7,100
Indonesia	840	1,019	1,194	1,505	1,870	1,972	2,516	3,329	3,070
China	439	673	783	874	1,067	1,522	1,858	2,653	3,177

Note: [a] 1990 international Geary–Khamis dollars
Source: Maddison, A., 2001. *The World Economy: a millennial perspective*, Organisation for Economic Cooperation and Development, Paris.

Table 1.2 **Per capita income in Viet Nam, 1950–98[a] (per cent of incomes in selected Asian countries)**

	1950	1960	1970	1975	1980	1985	1990	1995	1998
Thailand	80.5	74.1	43.4	36.2	29.7	30.4	22.4	21.2	27.0
South Korea	85.5	72.3	37.6	22.5	18.4	16.4	11.9	11.8	13.8
Philippines	61.5	54.2	41.7	35.0	32.0	47.3	47.3	64.2	73.9
Malaysia	42.2	52.2	35.4	26.8	20.7	22.3	20.3	20.2	23.6
Indonesia	78.3	78.4	61.6	47.2	40.5	47.1	41.3	42.1	54.6
China	149.9	118.7	93.9	81.2	71.0	61.0	56.0	52.9	52.8

Note: [a] 1990 international Geary–Khamis dollars.
Source: Derived from Maddison, A., 2001. *The World Economy: a millennial perspective*, Organisation for Economic Cooperation and Development, Paris.

in the policy regime explains the timing of the economic revival, it does not explain the sustained strength of the subsequent growth performance.

How was it possible for Viet Nam to shift swiftly from being an inward-looking stagnant economy to such a successful process of assimilation? The answer to this question is partly a matter of policy reform, but also reflects underlying institutional and human resource capabilities.

Viet Nam as a reforming centrally planned economy: a transition success

Comparisons with other transition economies are much more flattering for Viet Nam. Viet Nam has outperformed other transition economies, except for China (Figure 1.2). Moreover, it has done this while maintaining macroeconomic and social stability, and while continuing to improve key human development indicators such as life expectancy and educational and health data. While Viet Nam halved its incidence of poverty, the incidence of poverty in the Commonwealth of Independent States (CIS) increased from 1 in 25 persons to 1 in 5 persons in the decade to 1998 (World Bank 2002:xiii). For most CIS countries, the economic decline in the early stages of reform was far worse than the impact of the Great Depression on developed countries in the 1930s (see World Bank 2002:5).

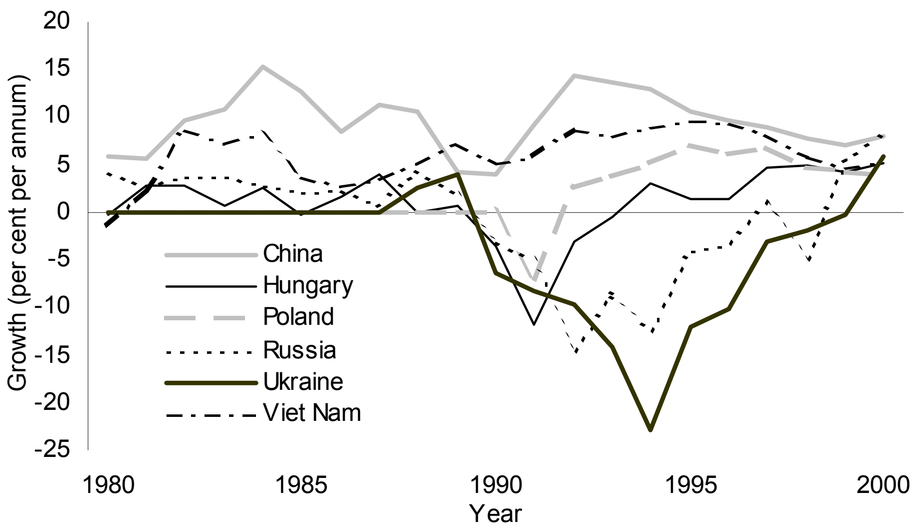
Substantial changes in the economic system were implemented in Viet Nam at the end of the 1980s without a decline in economic activity. The economy grew despite the sudden collapse of Soviet aid and trade, a continuing US-led boycott that blocked the provision of financial assistance from the multilateral financial institutions. In contrast, deep economic contractions and social dislocation generally accompanied reform in the European centrally planned economies.

Why did Viet Nam perform so much better than other Council for Mutual Economic Assistance (CMEA) economies?[6] A theme developed in this study is that the nature of the system subject to reform was in certain critical respects different from other centrally planned CMEA economies.

Understanding the characteristics of the system subject to reform is critically important to any interpretation of an economic reform process. In the Vietnamese case this is not easy, as the working of the pre-reform system was somewhat obscure.

A key argument of the study is that, despite the adoption of the vocabulary of central planning, the Vietnamese economy was never effectively subjected

Figure 1.2 **GDP growth in selected transition economies, 1980–2000 (per cent per annum)**



Source: Data from World Bank, 2002. *World Development Indicators*, World Bank, Washington, DC.

to the same level of centralised control as in the former USSR and Eastern European centrally planned economies. Indeed, it could be argued that success during the prolonged military conflicts was largely built around effective decentralisation of day-to-day management decisions and encouraging local initiatives.

Other important features were the relative importance of the rural sector, the dominant role of household units in agriculture production, and the limited development of heavy industry at the beginning of the reform process. The economy was technically less advanced than Eastern Europe and the CIS economies, but demonstrated greater resilience in the face of change and dislocation in the macroeconomy. Soviet-style industrialisation had been limited, so there was not the same inheritance of large scale, inflexible industrial dinosaurs, which has posed such difficult challenges to reform in the former Soviet Union.

The degree of institutional stability maintained during the transition process was also crucially important. Instead of the 'root and branch' destruction of old institutions as a prelude to the installation of new mechanisms, many reforms were directed at making existing institutions work better, while gradually introducing new market institutions. The step-by-step approach to reform was based on continuity in the political system, which operates through building and maintaining consensus on economic and institutional reforms.

Of course, Viet Nam also had one fortuitous advantage: its geographical location. Adjacent to the region which was in the midst of a sustained boom (until the crisis of 1997), there was a spill-over of capital and entrepreneurial energy from dynamic neighbours. This was aided by growing political stability in Cambodia, and improving relations between China and Viet Nam. Demographic transition also contributed positively to growth in this period.

LEARNING FROM THE VIETNAMESE EXPERIENCE

In surveying the Vietnamese experience of successful economic growth, it is not easy to separate the influence of exogenous factors from the impact of policy. Powerful exogenous factors that supported the expansion of the Vietnamese economy have included Viet Nam's regional location and the trajectory of the regional economy, the timing of natural resource (oil) exploitation, the entrepreneurial vitality of the Vietnamese, access to a sizeable and dynamic emigrant community, and the onset of peace. Yet the acceleration of growth also began with strongly negative exogenous factors, such as the economic consequences of the demise of the Soviet Union and the CMEA and the effects of the US embargo.

Part of the problem is sorting out the impact of the systemic reforms introduced under the aegis of *Doi Moi* from such exogenous effects. The balance of the argument will be that the *Doi Moi* reforms were a necessary, but not sufficient, ingredient in the Vietnamese success story (that is, that the degree of success may not be readily replicable in different environments). Nevertheless, it can be reasonably argued that certain lessons can be drawn about effective policymaking.

Another set of difficulties relates to the interpretation of the timing and sequencing of policy impacts. The introduction of the *Doi Moi* reforms began in the second half of the 1980s, and the acceleration in growth began in the early 1990s, suggesting a strong causal relationship. However, that leaves open the issue of how far the foundations of Viet Nam's performance in the 1990s were laid in the pre-reform period. Should aspects of policy in the pre-*Doi Moi* be interpreted as important inputs into the later successes, or should that period be seen simply as an era of mistaken policy, which failed to realise inherent potential and held back the achievement of growth? This account argues that, despite many mistakes, some important building blocks of later success were laid in the pre-*Doi Moi* period.

A further area for speculation relates to policies that have not been implemented. In donor tutorials, euphemistically entitled 'policy dialogue', there have been areas of persistent nagging, where donors have felt that the Vietnamese policy regime has had failings. The most persistent areas of criticism have related to the reform of state enterprises and the regulatory environment for foreign investment. More recently, issues of public administration, governance and corruption have received increased emphasis.

By and large, the record suggests that the often predicted dire consequences of failure to reform more vigorously in such directions have not yet materialised. Does this imply that donor advice has been misplaced, or that even greater achievements would have resulted from more receptivity to donor tutorials, or even that the negative consequences have been merely postponed? These questions are considered in this book, although it is difficult to provide definitive answers.

NOTES

1 A joint United Nations–Government of Viet Nam study of the economy, produced in 1989 by a team under the leadership of one author of this volume was quite optimistic about the prospects for growth. The same was true for an Asian Development Bank (ADB) report which the other author helped draft the same year. A 1990 World Bank economic report concluded that '[i]f Viet Nam follows through on its reform program, its medium-term prospects are excellent'. However, none of these reports included quantitative projections and, if the attempt had been made, projected growth would undoubtedly have been more modest than the actual achievement.

2 Dollar (2001:1) notes that 'Viet Nam has been one of the fastest growing economies in the world in the 1990s, and yet by many conventional measures it has poor economic policies'.

3 The literature on this is extensive. Examples include Amsden (1989), Ha-Joon Chang (1999), Jomo K.S. (1997), Krugman (1994), Wade (1990) and World Bank (1993a).

4 The most distinguished of these critical voices has been that of Joseph Stiglitz, Nobel Laureate and former Vice President of the World Bank. Another ex-World Bank economist, William Easterly, has also mounted a strong challenge to World Bank orthodoxies. And, in fairness

to the World Bank, its own research programs frequently offer a nuanced view of the range of appropriate policies, as in Nelson and Pack (1999).

[5] But some have argued that it has not been positive. Kolko (1997) argues that market reforms have resulted in peasants losing their land, the emergence of a class society through increasing inequality, and the fact that Vietnamese 'industrial workers are amongst the most exploited in the world'. He argues that Communist efforts to merge a socialist world with a market strategy have resulted in the worst of both worlds.

[6] CMEA was the Council for Mutual Economic Assistance, which included the former USSR, the Eastern European centrally planned countries and Viet Nam, but not China.