

## Vietnam

<b>Status Index</b> (Democracy: 1.4 / Market economy: 2.4)		<b>3.8</b>	<b>Management Index</b>		<b>4.6</b>
<b>System of government</b>	Autocracy		<b>Population</b>	79.2 mill.	
<b>Voter turnout</b>	99.7 % (Parliamentary elections 2002)		<b>GDP p. c. (\$, PPP)</b>	2.070	
<b>Women in Parliament</b>	21.8 %		<b>Unemployment rate</b>	25 % (2000) <sup>b</sup>	
<b>Population growth<sup>a</sup></b>	1.9 %		<b>HDI</b>	0.688	
<b>Largest ethnic minority</b>	10-15 %		<b>UN Education Index</b>	0.83	
			<b>Gini Index</b>	41.0	
Data for 2001 – if not indicated otherwise. <sup>a)</sup> Annual growth between 1975 and 2001. <sup>b)</sup> Estimation. Source: UN Human Development Report 2003.					

### 1. Introduction

In the last 10 years the Vietnamese national economy has doubled in size, while the percentage of the population living in absolute poverty has decreased from 70 % to about 35 %. During that same time period, the volume of Vietnamese exports has grown by an average of 25 % per year, Foreign Direct Investment (FDI) increased from \$169 million (1990) to \$800 million (2000), and inflation has been kept in the single digits. The GDP growth rate (between 1998 and 2003 the average was 6.24 %) was higher than average for the region—even in light of and in the aftermath of the Asian crisis.

This prosperity achieved through the *doi moi* (renewal) economic reform program, begun in 1986, comes along with the country's successful opening to the international market, after being fixated almost exclusively on the Soviet Union until the late 1980s. It does not appear that the country will be making a transition to democracy any time soon. Although the government adopted a Grassroots Democracy Decree in 1998, with the aim of establishing democratic decision-making structures on the local level, the underlying concept of democracy does not correspond to Western and liberal notions. According to the Communist Party of Vietnam (CPV), "democratization" means greater openness and the possibility for more critical debate within the structure of the Marxist-Leninist system, but not the questioning of single-party rule and thus the CPV's monopoly on authority.

With this in mind, this report on the status of Vietnam's democratic and market economy transformation during the last five years comes to the conclusion that the generally successful market-economy transformation up to this point has not

been accompanied by any significant political changes. Nonetheless, the CPV's monopoly on authority faced greater challenges during the observation period, from both inside and outside the state-party apparatus, than it did during the early 1990s. The number and intensity of public protests has increased in the last five years.

All in all, Vietnam's biggest transformation problems during the evaluation period were socioeconomic inequalities and particularly the marginalization of ethnic minorities, accelerated divergence of income levels between individual population groups and regions, a very high level of corruption compared with the rest of the region, lack of the rule of law, unsustainable development and sluggish implementation of plans to privatize state-owned enterprises. These are the challenges that will be shaping the transformation in the medium term.

## **2. History and characteristics of transformation**

Following on the heels of the failed attempts at reform that took place between 1979 and 1985, the CPV's 6th Party Congress initiated the *doi moi* economic reform program; in doing so, the party conceded the failure of the centrally planned economy and smoothed the way for a market economy. However, the economic reforms have been accompanied by only moderate structural changes to the political system and continue to lack even rudimentary democratization efforts. Thus, the following description is limited to the economic sector. Initial reform measures, such as the significant reduction of internal trade barriers and steps toward liberalizing foreign trade, remained largely ineffective due to galloping inflation rates in the triple digits.

It was only with the reduction of the role of agricultural cooperatives, the complete abolition of planned-economy structures in conjunction with the floating of prices for most goods and services and additional trade liberalization measures in 1988 and 1989 that the desired results began to be seen. These results included a reduction of the annual inflation rate to 2.7 % per year (1998-2003), and Vietnam's rise to its position as the third-largest rice exporter in the world, and also the world's second-largest exporter of coffee beans.

Thus, in only a few years, Vietnam did away with the neo-Stalinist centrally planned economy that had been introduced in North Vietnam in 1954 and was imposed on the former South Vietnam after the country's reunification in 1975. Although central economic sectors continue to be dominated by state-owned enterprises, they also operate based on capitalist principles and are competing with a growing number of private enterprises. *Doi moi* has not been without setbacks, which were intensified by external factors. The major economic crisis of 1985, characterized by hyperinflation, famine and the boat people phenomenon, was followed by the collapse of the Soviet Union in 1990, which meant the loss of

Vietnam's most important trading partner and donor of development and military assistance.

Thanks to a successful foreign policy focused on diversifying international relationships, the Vietnamese government was better able to absorb the economic and political aftermath of international structural changes than were other communist regimes. In the 1990s, Vietnam quintupled its international relationships and joined the most important regional and global international organizations. Particularly important to the success of economic development were the normalization of relations with the United States, the lifting of the trade embargo in 1994 and the concluding of a bilateral trade agreement in 2001.

In 1995 Vietnam was also able to normalize its relation with ASEAN and as a result became a member of AFTA. In the same year the country signed a framework agreement with the European Union. Since 1990, Vietnam has experienced continual improvement of its economic fundamentals, joining the ranks of countries with mid-range incomes; in addition, economic development slowed only temporarily as a result of the Asian crisis. Despite the CPV's serious commitment to reform and continual implementation of new reform measures—during the observation period, these included improvements of investment conditions for foreign actors and of the legal framework for founding companies—not all transformation goals were reached. Furthermore, the operation of market-economy institutions is limited significantly by the vast numbers of informal processes that continue to exist.

### **3. Examination of criteria for democracy and a market economy**

#### **3.1 Democracy**

Vietnam has not yet shown any signs of becoming a rule-of-law democracy. The right of the CPV to guide the state and society has been codified in the constitution since 1980. Decisions made by the CPV politburo have the power of law. While tolerance for criticism from within the party has grown during the observation period, the same cannot be said for opposition from outside the state-party apparatus. Individual calls for a multi-party system are regularly categorically rejected by the political elite.

##### **3.1.1 Political organization**

(1) *Stateness*: In the first few years after reunification, both the ideological conflict that continued to exist between the northern and southern parts of the country and the minority problem, in particular the existence of ethnic enclaves in southern Vietnam compromised the nationwide enforcement of a state monopoly

on the use of force. Since the dissolution of *Front unifié pour la libération des races opprimées* (FULRO) in the late 1980s, there have been hardly any problems with state identity.

There are a few territorial restrictions because some South Vietnamese do not want to accept that the seat of the state monopoly on the use of force is in Hanoi, even 27 years after reunification. All citizens have the same rights, but discrimination against individual ethnic minorities is evident. There are no fundamental problems with recognizing the constitution of 1990.

The political process is completely secularized, although Confucian teachings continue to be important as a framing principle of governmental organization. These teachings, however, are not a religious dogma that challenges the state; rather, they are a basis for exercising power that enhances the communist ideology philosophically and traditionally and lends legitimacy to its exercise of authority. The party-state apparatus is present all over the country with a three-pronged government and administrative infrastructure. Because of the crucial centralization of the political decision process in Hanoi, despite decentralization efforts, and the high level of corruption, policies are only partially implemented, particularly in the southern part of the country and only inadequately in Ho Chi Minh City, in particular.

(2) *Political participation*: Democratic elections do not exist, neither at the national nor the local level. The most recent “elections” to the National Assembly (in May 2002), however, did bring forth a broader spectrum of delegates (e.g., independent candidates, representatives of ethnic minorities and religious groups, entrepreneurs, etc.) than in earlier elections. The National Assembly, which meets every two years, has *de jure* control over legislation, planning and appointments, but in fact it mostly just confirms the decisions made by party organs.

The National Assembly has, however, gradually been emancipating itself from party leaders since 1996. Opposition parties are forbidden, as is the founding of independent unions and associations. Civic groups can operate under certain conditions, as long as they do not explicitly question the CPV’s monopoly on authority.

The government reacted harshly at first to protests by ethnic minorities in 1997 and 2001, but then it announced greater openness and improved opportunities for political participation for ethnic and religious actors. The first expressions of this policy include the representation of some of these actors from the moderate civic spectrum in the new National Assembly, and the fact that the CPV’s general secretary is himself a member of an ethnic minority. The persecution and prosecution of political dissidents continues unabated. The public and opinion formation exist in a basic form and have been finding an outlet in the last few

years in increasingly critical press coverage, which as a whole is still subject to serious manipulation and interference by state and party leaders.

(3) *Rule of law*: Separation of powers does not exist. The judiciary branch is clearly subject to the CPV. During the evaluation period, however, some corrupt members of the National Assembly were prosecuted and convicted in public trials on the basis of the existing legal system. “Private use” of offices and mandates, fostered by existing political, legal and procedural loopholes, is still possible—according to Transparency International, Vietnam is the second-most corrupt country in Southeast Asia—but is it becoming increasingly difficult due to intensified control within the party. In 2002 at least 120 public office holders were arrested for corruption offenses.

Guaranteeing civil rights has improved during the evaluation period, on the whole, but still exists only partially. Infringement on basic human and civil rights is evident, particularly in regard to ethnic minorities. International human rights observers are not allowed into the country. Official tolerance for religious communities grew during the evaluation period, but only selectively. While the *Cao Dai* sect was granted freedom of activity and assembly in 1999, the Protestant churches in the Central Highlands continue to be suppressed, and the United Buddhist Church of Vietnam is banned. The Catholic Church also is discriminated against by the state.

The right to freedom of religion, set down in the constitution of 1992, is therefore strongly limited. It is practically impossible to sue a state actor for infringement on human and civil rights unless the CPV wants to teach a political lesson by making an example of or reprimanding the responsible parties. According to human-rights organizations, trials in Vietnamese courts are not conducted fairly. The accused cannot call or question any witnesses, and the defense attorney’s only option is to petition for mercy for his client.

### **3.1.2 Political patterns of behavior and attitudes**

(1) *Institutional stability of democracy*: Not relevant for the authoritarian political system in Vietnam.

(2) *Political and social integration*: In accordance with the constitution, the CPV continues to have a monopoly on the leadership of the state and society. All national associations and interest groups (unions, farmers’ unions, youth leagues, women’s unions and other organizations) are under the umbrella of the “Fatherland Front.” Since the early 1990s, as a result of the economic transformation and the societal and socio-economical changes associated with it, intermediary actors have been emerging, most of whom work exclusively on a

local level and are tolerated by the state as long as their activities are in harmony with the framework set out by the CPV.

NGOs, which are defined very broadly by the Vietnamese, are filling in gaps opened up by the economic reforms. Problems relating to the environment, education, healthcare, employment and basic social care can no longer be dealt with and solved by the CPV and its mass organizations alone, due to limited state resources. Societal commitment helps to close these gaps. In this respect, state and private actors are in a symbiotic relationship that is functionally marked. This developing network of self-organized groups and organizations does not yet fulfill the criteria of civic autonomy, but could be a preliminary stage in the emergence of a civic society.

### **3.2 Market economy**

Since the *doi moi* program was introduced in 1986, Vietnam has been slowly transforming into a market-economy system. Of all former or still communist states in the Asian-Pacific area, Vietnam has expressed the clearest commitment to a market economy. Although the reform policies have taken hold in many areas and have resulted in, among other things, one of the highest GDP growth rates in the region (7.6 % on average over the last 10 years) and a desirable FDI rate, some questions regarding the reorganization of state-owned enterprises, the granting of loans and the role of the state in development remain unanswered.

#### **3.2.1 Level of socioeconomic development**

Vietnam's HDI has been improving steadily as a result of the economic reform since the mid-1980s—from 0.583 in 1985 to 0.671 in 1998 and 0.688 in 2000—and the country has in that time reached a stable middle position in the HDI ranking (109 of 173). Income disparity and social exclusion, however, increased during the evaluation period and appeared to take root to a certain degree. While the Gini coefficient changed only slightly between 1995 and 1998 (from 33.0 to 35.7) an obvious increase to 41.0 could be seen in the next three years (2001). Regional differences must be taken into account here, however. The value increased the most in the Red River Delta region, from 33.0 in 1995 to 41.3 in 1999 (the most recent year for which data from the regions are available), and with 44.6 in 1999, it was highest in the wealthiest region of the country, the southeast.

All together, approximately 37 million people (47.4 %) live below the poverty line, as measured by the typical international definition. The 52 ethnic minority groups, which all together make up between 13 % and 16.5 % (depending on the source) of the population, are disproportionately affected by poverty: 66 % of

these people live in poverty, as compared with 38.5 % of the dominant ethnic population group (Kinh). The GDP per capita in the southeast is 4.5 times as high as that in the northeast, the poorest region, which has a high percentage of ethnic minorities in the population. The reason behind these diverging income levels is the geographic, social, linguistic and intellectual isolation of broad portions of the population, especially those groups in rural regions.

15 % of communities in Vietnam lack even such basic infrastructure as roads that connect them to the outside world, a supply of drinking water, electricity, schools, hospitals and markets. Gender-related social exclusion decreased during the observation period, and the GDI increased from 0.668 in 1998 to 0.687 in 2000. The representation of women in leadership positions increased, particularly at low and middle levels, and in politics as well. Political participation by women is greater in Vietnam than in any other country in Asia.

### **3.2.2 Market structures and competition**

Despite significant growth in the positive attitude of political decision-makers toward private property, the privatization of large state-run enterprises is proceeding very slowly. Since 1995, the number of state-owned enterprises has reduced from 7,090 to 5,231. The number of non-state enterprises has during the same time increased from 17,143 to 49,492, with 24,903 purely private enterprises. The government is clinging to a policy that awards state-owned enterprises the leading role in the economic process. State enterprises have a very advantageous position over private enterprises because of easier access to subsidies and real-estate purchases, as well as the granting of tax breaks or exemptions and low-interest loans.

State-owned enterprises, only 20 % of which are considered to be internationally competitive and profitable, are kept alive by these skewed competitive conditions. The implementation of a new Enterprise Law in 2000 simplified the process of founding a new business by easing application procedures. The new legal conditions have triggered a boom in the founding of new businesses. In the first three months of 2002 alone, 4,200 new private companies were founded. The creation of the Ho Chi Minh City stock exchange, the first Vietnamese stock market, in July 2000 can be seen as an important symbolic commitment to a market economy. The stock market is small, with only 15 companies listed, but it is continually growing.

The national currency, the dong, is not convertible. The rapidly proceeding international opening of the country that began in the late 1980s has gone hand in hand with growing trade liberalization. Some key events in this process were joining ASEAN in 1995, joining APEC in 1998, the lifting of the US trade

embargo in 1994 and the concluding of a bilateral trade agreement with the United States in 2000 that gave Vietnam most-favored-nation status.

Vietnam is currently negotiating to join the World Trade Organization. Membership in ASEAN implies participation in AFTA, ASEAN's free-trade zone. However, Vietnam has been granted a transitional period until 2006. By that time, it will have had to reduce all its import taxes to a rate of 0 % to 5 %. It currently appears unrealistic for the country to keep this deadline, however, because conservative actors continue to show protectionist tendencies due to most state-owned enterprises' lack of international competitiveness. The relatively low average tariff rate of 16 % covers high tariff and non-tariff customs barriers for key categories of goods. Thus, tariff rates for standard consumer goods can amount to anywhere from 60 % to 200 % for motor vehicles. Non-tariff barriers mostly result from foreign-exchange restrictions; whereas import licenses have been abolished, with only a few exceptions such as motorcycles and cars.

Despite impressive growth in exports—in 2000, for example, Vietnam became the second-largest exporter of coffee beans in the world (behind Brazil)—and the high foreign trade ratio of 92 %, Vietnam's trade regime is still considered to be largely inefficient. Restructuring of the banking sector is proceeding slowly—mostly under pressure from the IMF—but it has not been able to keep pace with the market-economy reforms. The banking system does not function; one-third of all loans are non-performing. The IMF estimates that the cost of restructuring the banking sector, which is 80 % owned by the state, would run between 8 % and 10 % of the GDP.

### **3.2.3 Stability of currency and prices**

Inflation control has been recognized as an economic-policy goal. After the hyperinflation of the mid-1980s, the government made fighting inflation its highest priority in the 1990s and has been able to keep the inflation rate under 10 % since 1995. Following deflation in 2000 (-1.7 %) and 2001 (-0.4 %), prices for consumer goods increased in 2002 by about 4 %, according to estimates. The exchange-rate policy primarily serves political purposes. Although the central bank expanded the dong's exchange-rate band by a fluctuation value of 0.25 % in July 2002, the room for floating is still very narrow. This method is supposed to prevent the dong from weakening against the dollar, which would increase the dollar debts of state-owned enterprises. Foreign debt is equal to 39.6 % of the GDP, and the current debt service ratio of 7.5 % is manageable and is expected to fall to 5 % by 2005.

### **3.2.4 Private property**

Property rights and regulation of the acquisition of property are formally defined by law, but are not yet sufficiently protected from intervention by the state. The private sector includes about 24,000 registered private enterprises, which all together produce only 7.1 % of the GDP. The state-owned enterprises, which have an advantage over private enterprises due to government policies, account for 38 % of the GDP, while the remaining portion is produced by about 2 million small tradesmen. But strong regional differences have to be taken into account.

Ho Chi Minh City, traditionally the country's economic center, has also established itself as an important center for private enterprise. In 1998, the most recent year with reliable data, 36.4 % of that city's GDP was produced by national private enterprises. In general, private enterprises can operate freely, but as described earlier, they are discriminated against in favor of state-owned enterprises, which dominate the strategic economic sectors.

### **3.2.5 Welfare regime**

Largely because of improved coordination of state activities, NGOs and international actors in development, moderate but steady progress in fighting poverty was made during the observation period, which can be seen in an increase in GDP per capita and improved HDI and Human Poverty Index ratings. With its Comprehensive Poverty Reduction and Growth Strategy (CPRGS), the government committed itself to reducing the number of families living in poverty by 60 % by 2005. Like other communist countries, Vietnam has established above-average social networks and health-care structures in comparison with other countries of a similar level of development. In addition, Vietnam has a pronounced tradition of education, which does not necessarily show in outstanding educational institutions, but in its comparatively high literacy rates.

Access to social, educational and health-care institutions is, however, not available to all groups of the population equally. Ethnic minorities and those living in isolated mountain regions are particularly disadvantaged. The economic reforms have led among other things to commercialization of the health-care system, resulting in a "two-class medical system." In keeping with the communist ideal, Vietnamese society still has many very egalitarian characteristics, in comparison to other Southeast Asian countries, although the differentiation process proceeded with increasing speed during the evaluation period. Access to public services, higher education, advancement mechanisms and public office is frequently dependent on ethnic, and increasingly, socio-economic background. Mechanisms meant to prevent this (e.g., entrance exams for universities), have only a limited effect on balancing out social differences.

### **3.2.6 Strength of the economy**

Vietnam suffered less from the effects of the Asian crisis of 1997–1998 than did most other states in Southeast Asia. GDP growth per capita was relatively high in the regional cross-section during the observation period of 1998–2003, with an average of 5.7 %. At the same time, the macroeconomic balance sheet provides an ambiguous picture: Price stability is a given, debt stays within appropriate limits (thanks to an agreement with Moscow, signed in 2000, regarding the repayment of debts to Russia, the largest single problem in the state debt was removed) and the budget deficit of 2.8 % was relatively low; however, unemployment of up to 25 % (Asia Society estimate) is very high, and the trade balance is negative (-\$1.186 billion). The official trade-balance deficit did decrease during the observation period, but it would be a great deal higher if it were not for the heavily weighted factor of smuggling. According to several independent estimates, the total value of goods smuggled into the country and thus not included in the trade statistics is on the order of 8.5 % of the GDP.

### **3.2.7 Sustainability**

Ecological considerations were put on the back burner during the pursuit of growth in the past. Not until the last two or three years, in cooperation with international donors, have any steps been made toward working out a strategy of sustainable development. Reduction of old-growth forests from 43 % to 29 % of the land area over the last 50 years, continued loss of habitat, uncontrolled dumping of trash and a massive reduction in farmland are all results of unsustainable economic growth. Approximately 70,000 hectares of land area per year are lost through ground erosion and the expansion of urban megalopolises, which is a problem because only 22 % of the total land area is available for agricultural purposes, and the arable portion of that land per capita is one of the lowest in the world, at 0.13 hectares.

Although the percentage of government expenditures spent on education climbed from about 5 % to 17 % (equal to 2.43 % of the GDP) between 1985 and 1999, Vietnam still has one of the worst-equipped education sectors in the Asian-Pacific region. It is ranked behind China, Indonesia, Thailand and the Philippines, to name a few. Only 57 % of children complete grade school. There were some advances in the tertiary education sector, which found expression in a slight improvement to the UN Education Index. In 1993–1994, only 3 % of the relevant age group (18–24 years old) attended a university, while the proportion grew to 10 % in 1997–1998, and since then there has been a slight increase.

#### 4. Trend

(1) *Democracy*: The political regime is still far from meeting even the most minimal requirements for a rule-of-law democracy. Although opportunities for political participation have increased among previously disadvantaged groups of actors (ethnic minorities, religious actors), and opinion formation and decision-making have opened up within the existing party-state apparatus, as a whole, not even the slightest tendency toward democratizing the political system could be detected during the observation period. So far, economic transformation has not come with political transformation.

(2) *Market economy*: The status of socioeconomic development improved slightly during the evaluation period. In addition, the institutional framework for the economic regime underwent some positive changes, particularly due to the adoption of the Enterprise Law in 2000 and the CPV's irrevocable legal commitment to private-property institutions. In *Vietnam Business Forum's* Business Sentiment Survey 2002, carried out in October 2002 (and rated as significant by the German embassy in Hanoi), 50 % of the 124 surveyed said, when asked about the changes to conditions in recent times, that it was now easier to start a company in Vietnam. Furthermore, progress was recognized in the following areas: easier access to financial resources (37 % of those surveyed), improvement to administrative processes (36 %), easier utilization of land (28 %), lower operating costs (25 %) and improved customs procedures (24 %).

With an average GDP growth of 5.7 % (1998–2003), economic development in general has improved quantitatively to a great degree. This is a continuation of the dynamic development experienced during the pre-evaluation period, which was slowed only slightly by the Asian crisis. Qualitatively, development is expressed primarily through the reduction of absolute poverty. According to a representative World Bank study, the income of the poorest 5 % of Vietnamese households climbed in 98 % of cases between 1992 and 1998—although the starting level was admittedly very low.

**Table: Development of socioeconomic indicators of modernization**

	HDI	GDI	GDP Index	Gini Index	UN Education Index	Political representation of women	GDP per capita (\$, PPP)
1998	0.671	0.668	0.82	35.7	0.83	26 %	1,689
2001	0.688	0.687	0.51	41.0	0.83	27.2 %	2,070

Source: UNDP, Human Development Report, 2000, 2003.

**Table: Development of macroeconomic fundamentals (1998-2002)**

	1998	1999	2000	2001	2002 (est.)
Growth of GDP in %	6.0	4.7	5.8	6.2	5.7
Export growth in %	2.4	23.2	25.2	6.5	8.5
Import growth in %	-1.1	1.1	34.5	6.0	10.0
Inflation in % (CPI)	9.2	0.7	-1.7	-0.4	2.9
Unemployment in %	n. a.				
Budget deficit in % of GDP	- 2.0	-2.6	- 2.8	-3.3	-3.9
Current account balance in billion \$ <sup>a</sup>	-1.1	0.0	0.3	-0.2	n. a.

<sup>a</sup> Estimated values for 2000 and 2001.

Sources: ADB: Asian Development Outlook 2002 update, [http://www.adb.org/documents/books/ado/2002/Update/southeast\\_asia.pdf](http://www.adb.org/documents/books/ado/2002/Update/southeast_asia.pdf); ADB: Asian Development Outlook 2002, <http://www.adb.org/Documents/Books/ADO/2002/vie.asp>; ADB: Asian Development Outlook 2001, <http://www.adb.org/Documents/Books/ADO/2001/vie.asp>; Dresnder Bank Research Vietnam, [http://www.phil-fak.uni-duesseldorf.de/oasien/china/download/db\\_vietnam\\_000208.pdf](http://www.phil-fak.uni-duesseldorf.de/oasien/china/download/db_vietnam_000208.pdf)

## 5. Transformation management

### 5.1 Level of difficulty

Vietnam falls under the category of middle-income countries, but is in the bottom half of that group. In 2000, the country just managed to make the leap into the middle category for the education status of its population, with a UN Education Index value of 0.84. With a proportion of ethnic minorities that falls between 13 % and 16.5 %, depending on the source, Vietnam is one of the most ethnically heterogeneous societies. Ethnic, religious, and social differences and conflicts were mostly masked by the communist ideology until only a few years ago, but they took off during the observation period, in particular because of significant increases in income disparity.

During the observation period, social and ethnic conflicts found their greatest expression in at least two large rebellions and several local protests. Civil traditions hardly exist at all. In all, the level of difficulty of Vietnamese transformation is rated as high, because it is doubtful that any attempts to develop the economy into a functional, institutionally secured market economy while holding onto the existing political regime will be successful. At the same time, no

group of actors has yet emerged that would be able to pose a serious challenge to the current regime and initiate political transformation.

## **5.2 Reliable pursuit of goals**

The government is following a clear goal of long-term restructuring of the economic sector. The *doi moi* program, which has been implemented consistently in many areas since 1986, in particular in the advances made to institutional security of private property and the international opening of the economy, speaks for the long-term character of the reform process. The objectives of economic transformation generally meet the country's development needs. The absorption of accompanying problems, especially the increasing socio-economic disparities, however, has not yet been sufficiently addressed, but it has been addressed to a certain degree. In addition to poverty-fighting measures, a new law was signed introducing government-regulated unemployment insurance in 2002.

Despite all of its success, this reform policy has not been universally consistent and coherent. The protection of unprofitable state-owned enterprises is especially obvious, but is explained by the fact that the government wants to avoid a significant short-term increase in social costs, particularly a rise in the already high levels of unemployment. The government grants its citizens basic reliability regarding expectations for their lives, which has resulted in increasingly stable economic conditions, but not the comprehensive guarantee of individual civil and human rights. Ethnic and religious minorities, especially, must continue to anticipate arbitrary acts from the state. A far-reaching political shift and a change of direction could not be detected during the observation period, apart from some surprising Party decisions in personnel matters that were meaningful for reform, and they are not expected in the near future.

## **5.3 Effective use of resources**

Contrary to popular opinion, the administrative sector is neither large nor bloated, according to a UNDP study. With a proportion of 3.5 %, federal employees are a small part of the total number of public employees when compared with other countries in the region, and the numbers are fewer than in Japan and Indonesia, for example. Early on in the reform process, the government recognized the necessity of administrative reform as well. Between 1986 and 1995, the number of ministries and government agencies was reduced from 76 to 49. However, there are still problems with the structure and organization of the bureaucracy. Wasted resources are the result of superfluous intermediary administrative levels; a lack of transparency in the decision-making process; frequently changing administrative rules, regulations and procedures (without notice or reason);

insufficient coordination between offices; close formal and informal ties with the CPV; and patronage.

The administrative reform of 1989, whose goal was to set up self-administration in the remaining municipalities of Hanoi, Ho Chi Minh City and Haiphong, and which was to result in the setting up of 50 new provinces, largely failed in its attempt to use resources effectively. Minimal progress was achieved, in that regional and local administrative units were given more rights as part of the reform to implement their development plans themselves. The military continues to take the lion's share of available resources despite massive cuts in defense spending following the Vietnamese withdrawal from Cambodia in 1989. The half-million strong People's Army (including marines, air force and border defense troops), which is supplemented by reserves of 4 million local self-defense troops, is, after the CPV, Vietnam's second-most important actor and has a strong presence in all political, economic and societal sectors in the country.

Efficient use of resources can be detected in only a few areas. The government reacted successfully to the need for inflation-fighting measures and a reduction in the budget deficit, the necessity of which became clear during the Asian crisis, by implementing a strict fiscal policy and an anti-cyclical investment policy. Planning and execution of the state budget is not transparent, however, because the government does not release any official budget data. The greatest challenge is fighting corruption. Despite an announcement from the CPV that it wants to fight corruption and proceedings against some supposedly corrupt—and in some cases prominent—party functionaries for the sake of good publicity, resources continue to be distributed to a great degree based on patronage. With the exception of Indonesia, in no other Southeast Asian country is corruption a basic characteristic of the state and administrative structure.

The administration's lack of efficiency and high degree of corruption hamper further transformation. The role of Confucianism as an important cultural and identifying resource (along with the communist ideology) works in two ways. On the one hand, the principle of meritocracy that is inherent to Confucianism supports the building of a market economy. On the other hand, the authority principle helps legitimize the existing regime and the hegemony of the CPV. It does not appear that Confucianism is being used as a factor to support reforms.

#### **5.4 Governance capability**

In the course of the gradual implementation of the *doi moi* program, leading political actors have shown an ability to learn and react appropriately at various phases of the reform process and when faced with failures and setbacks. The modification of legal frameworks within relatively short periods of time proves this. A flexible and adaptable political organization is simply not possible,

however, and has reached its limits over and over again in the face of established stakeholders' (CPV cadres, the military) interests. The sluggish privatization of state-owned enterprises is one example.

Since it has a monopoly on authority, the CPV has enough political authority to carry out reforms. Misallocation of resources is not uncommon, partly as an unavoidable consequence of the high level of corruption, existing patronage networks and the inefficient administrative sector especially. During the observation period there was a serious effort on the government's part to improve allocation efficiency in the markets. In contrast to earlier periods of reform, since 1998 major political errors in the selection of instruments and strategies have been largely avoided.

### **5.5 Consensus-building**

All relevant actors are in agreement about the general direction that the economic reforms should take, although their notions of scope and speed of the individual reforms vary somewhat. The very slow privatization of state-owned enterprises is a clear indicator of the continuing conflicts within the state-party apparatus in regards to specific interpretations of *doi moi*. Even the open, fundamental consensus within the party regarding the reform program is a relatively recent achievement. It was not until the Ninth Party Congress that the reformers finally triumphed over the communist hardliners within the CPV. The dismissal of the rather conservative General Secretary La Kha Phieu and his replacement with Nong Duc Manh, who is considered a reformer, was the clearest indication of this. Despite a National Assembly that is increasingly becoming emancipated from the politburo, the consensus continues to be found according to the rules of the communist regime.

The consensus of the society as a whole on *doi moi* exists only in terms of the rough objectives. While the entrepreneurs of the South, which is strongly dominated by the economy, generally desire a considerable acceleration of the reforms, the political actors of the North are keen to prevent the economic reforms from spilling over into the political sector. Civil protest movements are generally limited to the local level, are spontaneously organized, and are against ethnic and general socio-economic discrimination, but they have not been able to challenge the political regime yet. Demands for democracy are no longer unknown, but they are (still) largely limited to uncoordinated activities of individual dissidents who—for the time being—lack a broader base.

## **5.6 International cooperation**

The diversification of international relationships since the end of the Cold War and the end of Vietnam's general international isolation has been very successful. In 1989, Vietnam had diplomatic relations with only 23 non-communist states, a number that grew to 163 by 1996. The political actors have very successfully and actively worked to build and strengthen as many international cooperation relationships as possible. Vietnam's membership in ASEAN, APEC, the Greater Mekong Subregion (GMS), Asia Europe Summit Meeting (ASEM) and other organizations, along with observer status in the WTO, prove this. Major improvements were made to the previously problematic, often hostile relationships with the United States, China and Thailand.

A great majority of the actors recognize the advantages of international cooperation in the economic reforms. However, certain sectors of the political elite are concerned that a too-rapid political integration process due to potentially growing influence from external actors could have a destabilizing effect on Vietnam's political organization, posing a danger to the CPV's rule. Thus, Vietnam has, for example, successfully blocked integration measures within ASEAN, such as a more comprehensive mandate for the organization to work on regional conflicts, brought to the table by other members of the group. Other states increasingly perceive Vietnam's government to be a known entity.

This is not true of international NGOs, however, who often are not allowed to come to Vietnam—especially human-rights NGOs. According to the Working Commission on Foreign Non-government Organizations in 2000 there were 500 foreign NGOs working in Vietnam, and between 1991 and 2000 they had 624 million US\$ assistance at their disposal. All large international ratings agencies (Moody, Fitch, Standard & Poor) improved their rating for Vietnam in 2002 with reference to the plausibility of the government implementing structural reform.

Vietnam's reputation among international investors has grown since the reform of the Foreign Investment Law in 2000. Cooperation with international donor organizations is generally trouble-free and has resulted in considerable cooperative contributions to the reforms, such as programs to fight poverty and environmental protection programs. Willingness to collaborate on development with Vietnam has grown, especially since the last party congress in 2001, which pronounced a definite commitment to continuing with the reforms. The World Bank announced that it was now ready to provide complete support for the government's reform plans.

## 6. Overall evaluation

In view of the originating conditions, current status and evolution achieved, as well as the actors' political achievements (management), this report arrives at the following concluding evaluations:

(1) *Originating conditions*: Vietnam's economic transformation was confronted with difficult originating conditions. At the outset of doi moi in 1986, the country was still quite isolated internationally and was almost completely dependent on the Soviet Union as a trading partner and on donors of development assistance. After several decades of failed experiments in a planned economy and the high economic burden of two wars (against France and the United States), the country was facing a new start in the 1980s.

The lack of historical reference points made starting the reforms even more difficult. Vietnam did not have any experience with the workings of a market economy and could not count on the assistance of Western industrialized nations at first. The state's strong position was generally a benefit, helping to ensure the successful implementation of economic reforms. The CPV consolidated its monopoly on authority nationally in the late 1980s so that it has the necessary legitimacy as the sponsor of doi moi.

(2) *Current status and evolution*: The implementation experienced some difficulties initially, but many of the goals of the reform program were reached in the 1990s, such as the comprehensive abolishment of the centrally planned economy, building a private-enterprise sector and general macro-economic stabilization. The central benchmark figures, in particular GDP growth, the inflation rate, the export rate and debt, continued to improve during the evaluation period.

Despite a general consensus within the CPV on continuing the reform program, some actors with veto power still exist, although the reform powers have clearly won the upper hand as of the Ninth Party Congress in 2001. The CPV still agrees that liberalization measures should be limited to the economic sector and political changes could best be accepted in the internal relationship between the state and party organs. The CPV believes that development in the direction of a liberal democracy, however, should be prevented at all costs. Despite the population's growing willingness to protest, particularly among ethnic minorities and socioeconomically disadvantaged groups, there has still been no serious challenge to the CPV's monopoly on authority.

Societal criticism is generally related to obvious shortcomings and failures of the economic reforms. The biggest problems that have yet to be seriously tackled are the purposeful hindrance of the privatization of state-owned enterprises by key actors in the CPV, the deadbeat banking sector, lack of rule of law, discrimination

against ethnic minorities and the growing disparity of income levels. Some initial, although moderate, success can be seen in the area of fighting poverty. The position of women in society and the state is exemplary, with one of the world's highest GDP rates. On a local level, the reforms have generated nascent civic structures.

(3) *Management*: The conclusion on the actors' relative structuring achievements is not decisive. Economic transformation was more goal-oriented, faster and more likely to succeed during the observation period (particularly since 2000), than in the previous period. A framework for a market economy has gained strength continually thanks to the management skills of state actors and the support of hard-working entrepreneurs, particularly in the southern part of the country. The speed at which Vietnam has integrated into the international scene, thus fostering reform, is also worthy of note.

The management's weak points are related more to the concrete form of a market economy than to its creation. The continued preferential treatment of state-owned enterprises over private enterprises for political reasons and the misallocation of resources as a result of an inefficient and very corrupt administrative sector stand out. The government's willingness to work on societal conflicts grew during the evaluation period, so that it does not always react to protests with violent crackdowns—at least with some groups of actors. Instead it holds a dialog and is interested in cooperating. This could be the first sign of a gradual process within the CPV of rethinking the definition of the relationship between the state and society.

## **7. Outlook**

There is no doubt that the CPV is prepared to continue with the transformation to a market economy. The main focus in the coming years will be on fighting corruption. The focus will also fall on fighting poverty, and less urgently and with the participation of international donors, environmental sustainability. In addition, the government will have to look at the problem of unequal development, and focus on both socio-economic disparities within society as a whole and between regions. The latter still endanger the fragile nation-building process and could result in a sharpening of the tensions between the North and the South. Approximately two-thirds of the GDP and 80 % of tax revenues are produced in the industrial parks on the outskirts of Ho Chi Minh City and the rice fields of the Mekong Delta.

The fact that Vietnam is rich in natural resources, and has managed to establish itself as a major exporter of oil, rice, seafood and coffee, but has yet to tap quite a number of resources, presents another challenge. The large farming sector is in desperate need of modernization. Opportunities for expanding the manufacturing

industries and for building up an IT sector have not been seized. Vietnam's integration into the international community will continue; the mid-term goal for this is joining the WTO. However, it is not expected to be accepted to the organization before 2005. It is not as easy to make predictions regarding political development. It is highly unlikely that the country's system will become open to democracy in the short term. In the coming years, the still small civic sector is likely to grow, and intra-party discourse is likely to intensify. It is improbable that the CPV will give up its hold on power in the foreseeable future. The relatively low party membership in comparison with other communist parties (2 million, in a population of 80 million) and a recruiting problem that has been going on for several years, however, are factors that speak against the long-term security of the CPV's monopoly on power and authority.