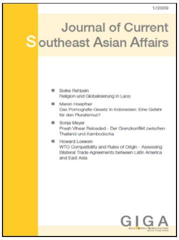

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Luck, Policy or Something Else Entirely? Vietnam's Economic Performance in 2009 and Prospects for 2010

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Abstract: Vietnam's economic performance in 2009 is seen by the Vietnamese government and representatives of the Western donor communities as good, with the effects of the global financial crisis relatively mild. The paper notes a lack of contestation of these mainstream views and locates them within an assessment of major trends in 2009, and medium-term issues. Particular focus is placed upon the policy implications of rural development and the need for a strong rationalisation of the state sector. Remarks upon the political economy of change then permit comments upon interactions between economic performance and gathering social and political concern with the political challenges of transition to so-called 'middle income' status, which in many countries has posed novel and tricky problems of adjustment, often requiring major social and political adjustments that have not always been successful. The paper concludes by suggesting that, as in the past, Vietnam's style of change finds some things easy and others hard, and that this has its reflection in economic policy and performance.

Keywords: Vietnam, economic policy, global financial crisis, communism

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Introduction

As may easily be expected in the run-up to a Party Congress, in Vietnam through 2009 there is discussion, often linked to assessments of the performance of the current government, about not only the state of the economy, but also the reasons for the outcomes presented. Economics is not a predictive science, and much can be learnt from this discussion about underlying political economy issues.

There are two different aspects to these discussions: first, what has 'actually' been happening to the economy, and, secondly, what is said to have caused this. Particular and revealing choices are made in the selection and interpretation of economic data – a glass – or a jug – may be said to be 'half full' or 'half empty'. And there is the selection of cause: for example, if the capacity of the state apparatus to implement policy is asserted to be very limited, then the economic realm is logically given considerable autonomy – it does what it does and policy does not matter very much. Alternatively, if the argument is made that policy was correct, and that outcomes were what should be expected *given* certain beliefs about how the economy works and the alleged impact of those 'correct' policies, then it can be argued that this means that the capacity of the state apparatus to implement policy is indeed present and significant – the troops march towards the enemy, as they should, and this means (it is said) that they are obeying the orders of High Command. Different economic accounts, thus, do not escape from the same issues arising from accounts of other important terms, such as the 'state':

> Each of these two conceptions (the state as sociological fact and the state as normative political proposal) must relate in some way to most of the entities which we now call states, but neither makes quite clear how to apply it in practice (Dunn 2000: 69).

It seems useful to assert that the 'economy' is as much a 'normative proposition' as it is a 'sociological fact', not least as we may then think about questions to do with *whose* proposition and *which* facts, and these choices may in turn be revealing.

In this paper[1] I will contrast different positions taken in characterising economic trends in Vietnam through 2009. This involves discussions of problems dating from 2007 and the resurgence of inflation, meanings of the

1 This paper was originally presented at the ANU Vietnam Update – 'Migration Nation', held in Canberra Nov 2009. I owe many thanks to the conference organisers, especially Ashley Carruthers and Philip Taylor, and participants, for fruitful discussions.

global financial crisis in 2008 and 2009, and outlooks for 2010. The next Party Congress is, I understand, scheduled for early 2011.

Performance

What Is Meant by 'Performance'?

Standard gauges of economic performance refer to trends in GDP, whether they are 'high' or 'low', indicators of macroeconomic stability (inflation, fiscal and balance of payments positions – again, are these 'high' or 'low'), more social indicators such as unemployment and poverty, and indicators of changing economic structure, conventionally understood in terms of development processes such as 'industrialisation', shifts to 'higher technology', and so on.

Such gauges are often linked to lumps of issues such as qualitative transitions – here the main ones in economic discussions about Vietnam's contemporary situation are transitions to 'middle income' status (see below), and away from 'extensive' to 'intensive' economic growth. These issues obviously have social and political aspects to them, since in these discussions they are taken to imply a need both for policy change and for the political pre-conditions for the valid creation and implementation of policy, whatever they may be. Broadly, both these issues seem to come down to the need for greater economic efficiency, often understood to have broader social implications. An example that commands attention in these discussions is the common call for urban environments that are clean, orderly and do not – as so often in Third World countries – impose high transactions costs upon business. The link is made between these ideas and ideas of a shift towards high-productivity activities that rely less upon cheap labour in labour-intensive manufactures and more upon higher-educated workers in service and hi-tech sectors. But, more importantly, the link is also made to the alleged political requirements of such shifts. Noting the environmental problems in many of Vietnam's urban areas, the traffic congestion etc., arguments are made that these are to do with *public goods* – things that markets typically do not supply well and at reasonable costs – and, in the standard way of thinking, it is to governments both central and local that the population should look for solutions. What, though, one can ask, happens if such solutions are not forthcoming?

This means that, as we approach the next Party Congress, there are considerable political stakes and issues involved in economic discussions. When I asked them, the opinion of a well-informed Vietnamese analyst was that there are 'major problems'.

There is much information around. The recent international conference on the Vietnamese economy was given considerable TV coverage. In general they were optimistic. But I am not at all optimistic, for the following reasons:

- There is still rapid inflation. Gold is up, staples and food prices are up, the real living standards of most people have clearly fallen.
- The economy is extremely inefficient and rates of profit are too low.
- The economy is unsustainable, and is mainly reliant upon primary resource extraction and infrastructure investment.
- Unemployment is very high, and in reality must be over 20%.
- Corruption is rising and the problem of "running for positions, for power, for money and for oneself" (*chay chuc, chay quyen, chay tien, chay toi*) is escalating and more and more refined (*tinh vi*) (Informed Vietnamese commentator, Nov 2009).

I turn now to look at two sets of important official positions.

Official positions

Government of Vietnam

A clear statement of the official position can be found in the Government's report to the National Assembly in October 2009 (GoV 2009). This report is, in the economic areas, well-written and shows the results of extensive technical assistance to Vietnamese economic analysts since the emergence of the market economy in 1989-91. Contrast can be made between the alignment of these sections with such norms and ideas in other sections, which refer to various security issues and the presence of international threats to the regime (related to concerns over 'peaceful evolution').

The basic story that this report tells is of a major shift in the economic policy "stance", away from "anti-inflation" and towards "economic stimulation", and an associated improvement in economic performance. The policy stance is articulated in macroeconomic management terms – that is, using an analytical framework that stresses the importance of the use of certain policies and their associated institutions (and analytical logics) to influence economic change in the short-term (say 2-3 years). In standard economic thinking, this is conceptually different from medium and longer-term change.

In this account, the main difficulty facing the economy in 2009 was the Global Financial Crisis (GFC), made worse for the Vietnamese economy as it is so reliant upon external economic relations, and so the GFC impacted through three main channels – exports, foreign investment and tourism. These were exacerbated by the anti-inflationary stance of policy through 2008 as well as natural disasters. The Government, "following the situation closely", shifted policy stance in October 2008 towards policies that would "prevent economic slowdown". As the GFC gathered intensity in the closing months of 2008, there was thus 'intense debate' over policy, leading in early December to governmental Resolution #30 aiming at stopping economic slowdown, continuing economic growth and ensuring social security. Adding to this various opinions gained from the Politburo, the Government sought approval from the National Assembly to shift economic targets, shifting from control over inflation to prioritising the prevention of short-term falls in GDO, on declines in the growth rate year-on-year (that is, 'macroeconomic' policies and issues).[2]

The basis for the new policies – in terms of the formal legitimation – is thus said to have been Resolution #30 (of the Government). Policies took a number of forms:

- Reduction of interest rates from the high levels of 2008.
- Subsidies of 4% a year to short-term loans to all business sector until the end of 2009. By the end of September these had reached 405 trillion VND (around USD20 billion) of which most were not SOEs – around 85%. Orders to the state Bank for Development to guarantee loans to small and medium-sized businesses, which had reached 1,110 loans by October, amounting to a negligible 8 trillion VND ("but creating a useful basis for the future"). These credit arrangements, combined with other policies helped support good increases in the volumes of agricultural and raw materials exports – for the first 9 months, these were: cashew +6%, coffee +14%; tea +22%; pepper +52%; rice +34%; crude oil 53% (GoV 2009: 3).
- Various measures to stimulate domestic spending, especially in the rural areas, including tax reductions or delays of about 20 trillion VND (about USD1 billion), subsidised loans to farmers to buy equipment, inputs and build houses. Total retail sales for the first 9 months rose 18.6% year-on-year and are expected to have risen 20% for the year – a 10% real increase.

Thus, as exports weakened, domestic consumer demand grew faster, as did investment – by about 16% in current price terms. Surveys suggested that the rate of disbursement of investment increased sharply as well (GoV 2009: 4). Around 1.5 million new jobs were created. Success came in a recovery of

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2 GoV 2009: 1-2. Note that the usual attribution of policy to the Party is here muted.

industrial output growth from the second quarter of 2009 and the outcome for the first three quarters was around a 6.5% growth rate, and around 7.2% was expected for the year. The investment recovery was crucial here – after negative growth in the construction sector of around 0.5% in 2008, the outcome for 2009 is put at 11.5%. Agriculture growth was slow, at 2.8% expected for the year, and services probably grew at around 6.5%. This adds up to GDP growth for the year of around 5% (GoV 2009: 4). This was likely to be the fastest in SEA, just ahead of Indonesia (GoV 2009: 4 quotes ADB and IMF forecasts for Vietnamese GDP growth in 2009 at 4.7% and 4.6% respectively).

Thus, short-term macroeconomic measures are primarily interpreted as operating to preserve economic output and prevent short-term falls in GDP (or slower growth rates in the short-term), and are viewed as successful. The analysis is made in terms of government measures, on the one hand to direct credit and reduce its price, and on the other selective tax cuts and some particular increases in spending. These measures are based upon economic analysis and its input to policy. There is also mention of the use of directions to companies to re-direct activities to support rural areas.

But policy reportedly did not abandon entirely its earlier focus upon controlling inflation. The fiscal position remained within 'prudent limits'. Further, administrative controls were used to reduce imports of 'inessential' items, so that total imports fell and the trade deficit declined from 29% of GDP in 2008 to only 17%. Inflation in any case eased, to about 7%, ⅓ of the level in 2008.

Budgetary spending on social security was increased sharply – by about 62%, to around 22 trillion VND (USD1.5 billion). Loans to the poor (under various programs) rose by about 45% (to an outstanding 76 trillion VND (USD5 billion)). The reported numbers in poverty fell, to around 11% by end-year.

The picture, then, is one of effective and timely macroeconomic policy, securing, largely, its goals. In its list of 'problems and weaknesses' the government pointed to five main issues (GoV 2009: 9):

- GDP growth in 2009 was the lowest for 10 years (that is, since the last international crisis in the late 1990s). Further, growth remains extensive, the economic structure is inefficient and "businesses and indeed the whole economy have not yet strongly shifted to turn challenges into the opportunity to restructure production" (GoV 2009: 9).
- The basic macroeconomic balances are not robust – foreign exchange management is not flexible enough, so there is dollar hoarding with adverse effects on the balance of payments (which was probably for the year made up of a current account deficit of USD6.5 billion, and a

capital account surplus of USD7.3 billion). The state remains in fiscal deficit, which increased, and with the monetary easing poses risks of inflation.

- The main blocks to economic growth remain infrastructure, human resources and the institutions needed for a market economy. Problems in education remain severe and hamper improvement of labour quality.
- Economic slowdown has hit social security. Recorded unemployment has not risen but job creation and labour export have both slowed. Poverty remains a problem. Various policy measures have been implemented slowly, and have been hit by corruption.
- The results of public administration reform are still slow to be forthcoming. Many laws, despite having been passed, are inoperative as they still do not have the required guidance regulations (GoV 2009: 10). The state apparatus is still weak "discipline and regulation are both still not strict" (GoV 2009: 10).

Central to this account is the foundation it offers to its ideas about how to move forward. These are a combination of improved institutions with policies – at their core, given the experience of 2009 – the use of credit, to push for restructuring and rationalisation. Thus:

> Urgently construct and implement at a step a project to restructure the economy so as to improve quality, efficiency, competitiveness and the domestic value-added of each product and the entire economy […] State enterprises, above all the Groups (*tap doan*) and General Companies (*Tong Cong ty*) must take the lead in technological renovation and changing the growth model, increasing their business and production activities so as to make a large contribution to the State's governing of the economy and macroeconomic stabilisation (GoV 2009: 15).

The Government, though, offered no new insights regarding reform of the state administration, dealing with corruption, and so on. I discuss below what other parts of the system had to say about the prospects for the state sector. This is a very interesting account and I draw from it two main conclusions.

First – for whatever reasons, the economy continued to grow through 2009, at a slower pace than before but still at a rate above population growth. Standard macroeconomic 'facts', such as inflation rates, balance of payments deficits and so on tended to show better performance than in 2008.

Second – that the underlying situation is shown to be one where macroeconomic matters are subject to far more coherent governance than issues to do with longer-term matters. The latter are discussed in terms of concerns and 'what needs to be done'; the former are discussed confidently in terms of analysis, then policy, then measures and then results. Mistakes were made in 2007, they were corrected, and the expected consequences then came to pass. This suggests that the political economy of governance issues is far clearer and orderly in areas to do with macroeconomic management than elsewhere. Put simply, the State Bank and its operations are under control, when that control is actually exercised, and operations are mediated through policy rationalities that are meaningful. This is not apparent to anything like the same degree, if at all, in other areas.

Let me turn now to look at the accounts offered by official donors.

Official Donors

A clear mid-year statement of donor positioning can be found in the report presented to the June Consultative Group meeting (WB 2009). This will be updated in early December.

This interpretation also 'starts' from the inflationary problems of 2007-2008, and it links these to massive capital inflows. Policy, in this account, then responded to this situation with deflationary measures that were in place, reducing the trade deficit and pricking asset price bubbles, from around March 2008. Then, from mid year, the GFC started to hit, with falling prices for Vietnam's exports, export orders for garments and other industrial products collapsing and an evident slowdown in industrial output. This then led to a reversal of policy in November (a slightly different dating from the Government of Vietnam (GoV) account above) and stimulus measures were put in place. The donor report was, then, concerned that policy not remain too stimulative, worrying about the effects of credit easing upon future inflation. And it was also concerned to keep up progress on "the structural reforms that are required to sustain long-term growth and the social measures to mitigate the adverse effects of economic fluctuations" (WB 2009: i).

This study contains some interesting arguments as to just how and why the Vietnamese economy started to grow again rather soon.

First – recovery from the very abrupt slowdown in 2008 (associated in part with an end to stock rundowns), with rapid construction sector growth returning in 2009 after around zero growth in 2008. By mid year white goods output was showing fast growth again – part of the story about the recovery of domestic retail demand (WB 2009: 4).

Second – the negative impact of the GFC upon Vietnam's exports was rather low, compared with other countries in the region. They were actually showing a year-on-year growth in the first quarter of 2009, compared with a near 20% fall in China and 60% in Japan. Part of this, however, was a large outflow of gold after very large inflows in 2008. If gold is excluded, the year-on-year fall, at 11.6%, was still the best regional outcome.

Third – Vietnamese businesses appear to have tended to hold on to their workers and reduce time worked rather than lay off. Thus whilst unemployment had not increased, under-employment had. Indicators of labour market transactions (such as job ads) suggested that there was a 'dip' in hours and intensity of work for skilled and semi-skilled workers over the winter of 2008-2009, but that from the second quarter of 2009 labour demand had recovered. For the relatively unskilled, the picture is worse. But, though, "a majority of enterprises is doing relatively well, but a significant minority has been adversely hit" (WB 2009: 9). There were major local differences.

Other information is provided from rapid research on spot labour markets, which suggested that major adverse effects (such as falling into poverty, becoming homeless) were uncommon, but that there were numerous examples of job losses, cuts in hours and wages, reduced remittances and more reliance on the informal sector. The job losses in the winter of 2008-2009 mainly took the form of non-renewals of contracts or paying people off (outright sackings were rare) (WB 2009: 10). Few workers had returned to their villages "as the migration process was irreversible by now. Those who did return faced more difficulties than is generally acknowledged" (ibid.).

The donor view of Vietnamese policy is thus supportive. It follows the same basic policy logic – macroeconomic – and treats the problematic in a very similar way. In addition, the World Bank (WB) argues that the resilience of the economy through 2009 was in part due to room for manoeuvre that the stabilisation policies of 2008 had given policy-makers. There is confidence in the GoV.

Tensions, however, can be found, and these are exactly where one would expect to find them – in the use of credit for pro-active development strategy. Note the following:

> In April 2009 the interest rate subsidy scheme was extended, from working capital to investments and from nine months to two years. The justification of this second phase of the subsidy scheme is more questionable. Banking credit was flowing again by then. More importantly, subsidizing investments has much in common with "policy lending", which had been taken out of commercial banks into specialized financial institutions several year ago […] Policy lending is vulnerable to favouritism, [and] may result in an inefficient allocation of resources (WB 2009: 17).

Compared to these concerns the donor position is not concerned about the fiscal stimulus, mainly because it is viewed as a macroeconomic policy measure taken in a situation where the fiscal position is judged to be "robust" (WB 2009: 23).

I will come back below to donor concerns about long-term development problems.

Civil Society?

Public statements by INGOs are relatively lacking. Here I am open to correction, but it seems to me that INGOs are in general well aligned with official donors.

Within Vietnam there are considerable concerns about the quality of change, and, within that, the quality of economic growth (WB 2009: 3). As is well known, senior inner-Party intellectuals who had established an Institute of Development Studies decided mid year to close it because of what they felt were the unacceptable conditions upon public utterances imposed upon them by the government. It does not seem useful here to go into this affair beyond asserting that it does seem odd not to encourage open debate about complex and important issues from people whose loyalty seems impossible to challenge. It suggests that there are problems with the government's public position on the state of the economy and the reasons the government presents.

To quote one academic:

> […] the rethinking of reform […] the socio-economic reform process calls for creative thought in building economic institutions, the creation of a favourable business and investment environment, and the "re-thinking" of government […] Inertial thoughts based upon the successes and failures of preceding period(s), in order to design development strategies for subsequent period(s), seem unsuitable to the new requirements of the contemporary world […] (Nguyen Mai 2006: 3-5).

Conclusion

In these mainstream senses, therefore, the conclusion is that Vietnam's economic performance in 2009 was relatively good, and that this was largely due to correct analyses of a changing situation, which were then in turn projected into an effective and coherent use of state power to implement certain measures that in turn led to desired and anticipated results. I label these analyses macroeconomic, and note that the coherence and confidence of these accounts contrast with discussions of longer term issues, and also contain significant pointers to the relative coherence of governance in this area compared to others. There is an apparent lack of public critique of these mainstream positions.

I turn now to attempt to place these accounts into a wider context.

Concerns and Issues – Some Political Economy Arguments

Introduction – A Historical Perspective

In this section I offer what could be called an 'alternative' analysis of the situation. This relies upon certain core assumptions: first, that donor and Government of Vietnam (GoV) interests largely align; second, that change in Vietnam has been and still remains a largely spontaneous process 'driven by the people', in part because of the chronic weakness of hierarchy within the Vietnamese state ('deference is not obedience'); third, that the Party's 1991 Manifesto (*cuong linh*), which preserved the formal governance architecture dating from before the emergence of a market economy in 1989-91, has been managed in a way that has led to very limited experience with forms of democratisation that may now be required to generate a popular authority for government so that the increased challenges for 'policy' can be met.

These tensions are eerily reminiscent of the political problems facing reformers within the Communist Party of the Soviet Union (CPSU) under Gorbachev when they found that important elements of the apparat became insubordinate, refusing to implement constitutionally valid orders: a situation of 'weak hierarchy' that stymied change that, for Gorbachev, was initially driven by fears for the Soviet economy (Gorbachev and Mlynar 2002).

What is different for the Vietnamese Communist Party (VCP) compared with the CPSU are two factors: First – the vast material and social changes that have accompanied the 'economic miracle' of the 1990s and 2000s; second – the tensions created by the discourses (such as those above) that attribute economic success to policy, therefore tending to a common blindness to the weakness of hierarchy in the Vietnamese governance architecture, and so an increasing 'grasping at straws' as novel challenges, such as transition to middle income status, emerge that seem to require an ability to devise and implement difficult policies. This comes through to me very strikingly from reading GoV 2009.

Two interesting areas are rural development and the rationalisation of the state sector. The pattern of events since the emergence of macroeconomic tensions in 2007, through 2008 and 2009 and the changing impact of the GFC, is illuminating.

Political Economy?

In this perspective, relations between politics and business are placed central. Here, I argue that the commercialisation of the Vietnamese state sector has a long history. By the mid 1980s, it had created a powerful 'state business interest' that, allied with inner Party reformists, was a powerful force pushing for the ideological shift to acceptance of market economy at the 1986 VIth Party Congress (Fforde 1993). Throughout the 1980s the trend was for SOEs to gain in autonomy through various mechanisms, a process that was, generally speaking, fought tooth and nail by many central economic organs of the Party and State, as can be seen by the policy detail (Fforde 2007). The general success of this commercialisation was the foundation for the economic resurgence of the Vietnamese economy through from 1989-91, as a market economy emerged and a key power base of the central economic organs of the Party and State – the Soviet aid program – was lost. From then on, however, the unchanging formal political architecture set in place by the 1991 Manifesto has been increasingly accompanied by rising corruption and a 'polyarchy'[3] with no clear citing of national sovereignty in practical political terms ('who is in charge'?). Problems of weak hierarchy within the Party-state apparatus are pithily expressed in the phrase *tren bao duoi khong nghe* ('the higher levels instruct and the lower levels do not listen').

Clearly, much comparative experience suggests that such a situation would not be consistent with rapid economic growth and macroeconomic stability, yet it largely has been. Arguably, a central element of this 'Vietnam paradox' is the problems facing politicians and political groups in 'rent-creating' – the companion of macroeconomic instability, taking the forms, for example, of cheap credits (for some), access to cheap foreign exchange, failures to pay taxes etc. Often, these lead to balance of payments and/or fiscal deficit problems, resulting in turn with the familiar manifestations of trouble such as inflation, currency depreciation and lack of financial intermediation. Clearly, and I discuss this further below, 'rent-creation' is relatively weak in Vietnam. It seems that social position and political

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3 I use this term loosely, to refer to situations where power appears to be shared between a rather large number of centres, organs or agents. This is quite different from the far more precise sense used by Dahl in his 1956 book, where he associates it centrally with democratic politics. I thank Jörg Wischermann for pointing this out to me. I contrast 'poly' with 'olig' – as in oligopoly or oligarchy.

connections have been far more important in the *acquisition* of profitable assets than in their treatment once acquired.

Under such conditions, politicians lack stable sources of largesse for their clients, and are limited in what they can provide. I argue that this suggests that, in terms of political culture, politicians and their clients are used to high levels of competition and shifting alliances, so that the situation is reminiscent of what Doner and Ramsay (1997) referred to as "competitive clientelism" in their analysis of Thailand. Perhaps also a lack of concentration of power is consistent with the institutional checks and balances one would expect from a ruling Communist Party whose founding eminence, Ho Chi Minh himself, had experienced from close hand the consequences in the USSR of Stalin's personal rule. In this the tendency to 'small c' constitutionalism in the VCP can perhaps be understood better.

In such a political economy, 'rents', if created, will become the focus of competition as clients push their patrons to grant access to them; 'polyarchy' then implies that politicians or political groups find it hard to defend rents they for the moment control, and the value of them is then eroded. An example would be garment export quotas, which rapidly became simply a traded piece of paper, so that whoever could pay the price would buy them freely. Benefits then go, not to the politician's client, but to the courtiers and their close partners who mediate access to the quotas – officials in the bureaucracy and elsewhere, such as the business groups and local authorities.

This simple picture has important implications for the equally simple choice of placing Vietnam as 'East Asian' or 'Southeast Asian' in terms of the basic position adopted by MacIntyre 1994. In summarising the case studies of the book, he argues that a common thread in explaining difference was the (my term) greater apparent 'intentionality' of development in East Asia: accounts of change (much disputed) implied that policy had played pro-active roles there in ways in that it had not in SEA, where, one might say, 'development simply happened'. And indeed, there is little that contradicts this, whether from writers on the left (e.g. Beresford 2008) or right (Kokko and Sjoholm 2000).

Such an analysis permits an interpretation of the official accounts above that explains very differently the macroeconomic policy shift of late 2008 'away from an anti-inflationary stance'. The problem in doing so was in this account the particular structure and nature of political conflict. Patrons and clients had found themselves (rather unusually) in fierce competition through late 2007 and 2008 over access to the economic rents created by the failure to allow the State Bank to sterilise capital inflows. There was cheap credit and foreign exchange to be had. This was politically costly and destabilising, and so deeply irritating to the political culture.

In such light one may review the resurgence of inflation that started in 2007, attributed by the World Bank to "the economic overheating resulting from massive capital inflows" (WB 2009: i). This is because the initial step in the process was policy *inactivity*: that is, that the State Bank was not allowed to sterilise the effects of its interventions in the markets.

We do not really know why this happened, for it was unusual. Normally, technical arguments are deployed to justify measures to 'sterilise' the sales of domestic currency – *Dong* (VND) – that correspond to the purchases of foreign currency done by the authorities. Thus, if the Chinese decided to sell, say, USD200 billion of their massive foreign exchange reserves, they would have to, in the first instance, *buy* from the population USD200 billion equivalent of domestic currency, and this would sharply reduce liquidity. Technically, therefore, central bankers would argue that at the same time as selling the dollars they would have to take offsetting measures to take liquid *Dong* out of the economy. In 2007 in Vietnam, powerful interests appear to have argued *against* these – against their being forced to increase their purchases of low-yielding government debt, or increase their low-interest deposits at the State Bank, or some other of the various measures the technicians would have called for. Temporarily, they won the day, and within months inflation had returned, asset prices ballooned, and the *Dong* started to fall against the US dollar as multiple exchange rates re-emerged, offering politicians opportunities to support their clients (as the initial decision not to sterilise the inflows probably also had implied).

But, what then happened was that established rules of the game came back into play, and the policy-shifts discussed above in their different ways by the donors and by the GoV stymied these traditional patterns of rent-creation. The political economy, one may conclude, showed again that it was highly antipathetic to rent-creation, not because individual politicians and their clients disliked it, but because behaviour comparable to 'competitive clientelism' meant that, in the absence of political agreement, political competition made it impossible to maintain the selective targeting of rents upon particular client groups. The political culture, thus, could not cope with the concentrations of power, and the implications for the political order, required for managing such strategies. And this has important implications for the viability of proposals for major state interventions to alter the basic parameters of Vietnam's growth process.

I argue that it is useful to bear this in mind when thinking about the economic consequences for Vietnam of the rapidly changing global conditions in the medium-term, both externally and domestically. Like other countries on the verge of transition to middle income status, Vietnam confronts increasing global competition, especially from China; climate change; and her own domestic problems.

Beresford (2008) argues that, at root because of the lack of political commitment, the state sector has been starved of the resources needed for it to become a real 'driver' of Vietnamese economic development, and that this has been encouraged by mainstream 'neoliberal' policy advice. As I argue below, a central question is that of commercial restructuring – the creation of a policy rationality, linked to adequate political authority that could underpin a coherent rationalisation of the state sector. In this sense it is the link between inner-Party reformers and business interests that must be placed central, but is insufficient. For this to work, processes of rationalisation and structural change have to be both politically viable (and implementable) and to work, in the sense that they are accepted by business as part of a viable national development project. That is, that when on rational grounds certain businesses or sectors are closed, this is politically acceptable and clients within these sectors cannot block policy implementation through their patrons.[4]

The relevance of technical policy capacity issues has, thus, political prerequisites (the economy, like the state, is both 'normative proposition' and 'sociological fact').

Let me now consider in turn various sets of policy-questions: rural development, rationalisation of the state sector, and state-business relations. Here the central question to ask is just what drives social and institutional change.

Rural Development

I noted above how the GoV account included mention of substantial resource allocations to the rural areas (credit, direct support to marketing efforts) – such as 'resource-driven' policy logic contrasts with what donors have been saying:

> Sources of agricultural productivity gains are shifting. Past growth was largely based on bringing additional physical factors of production into use, from land and irrigation water to labor and fertilizer, and policy shifts in incentives that came through land allocation and titling. Technical change and productivity increases made a less important contribution, but moving forward these relative roles are expected to reverse, as physical expansion of factor use is reaching limits.

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4 As was put to me once about a particular SOE – 'they are strong because they have ten thousand relationships' (*mot van quan he*).

> However, these past sources have lost momentum prior to the possible new sources having picked up pace.
>
> [This] puts a heavy emphasis on greater success with agricultural research, extension and technology transfer, as well as farmers being able to make (and adjust) efficient use of resources in response to market opportunities (WB 2006: 1, vii).

This position argues that it is not through increased resources, but through institutional change, that the rural areas will continue to grow. How can this happen? It is well-known that one driver of the 1997 rural unrest was local cadre corruption associated with rip-offs of rural development projects. Whilst much has been made of the 'grass roots democracy' process, there are other indicators.

One pointer is the accounts of village-level changes. Do Duy Thuong, a senior official of the central level of the VFF, offers an account of recent history in the election of village leaders (Le Kien 2009). Thuong reports that organisation of direct elections of village leaders throughout the country started in 1998, after Order #30 of the Politburo on 'enhancing democracy at the base', and were initially familiarly 'Leninist' in form, but things could easily go wrong, for if the popular additions were suitable (*xung dang*) then use of the Group's right to exclude them could be risky:

> If the VFF was not skilful in resolving these issues then they could be accused of being 'partial', with bad effects on public opinion (Le Kien 2009: 2).

At so-called 'hot points' (*diem nong*) the population simply refused to accept village leaders chosen in this way by the VFF Work Group. The compromise was to let them elect their own leaders, and then the population would be peaceful (*yen dan*).

This compromise appears to have been politically feasible from the start of the introduction of Order #30, and to have increased in extent. Thus, even if the VFF Work Group (or its masters) was successful in getting its candidate elected, then if he or she did not do their job well they would fail to be re-elected:

> It is the development of popular democratic rights that is the biggest thing. Through a direct selection of the village leader like this people come to believe that the position is very important. They see the village leader as somebody of the people, who works for the people, and they monitor them directly, so if he or she is not 'their's' (*vi dan*) then they will removed (*mien nhiem*, *bai nhiem*). If he or she works well then they will be re-elected at the next elections; if they do not work well they will be struck out (*gat ra*) (Le Kien 2009: 2).

Informal farmers' group densities have been increasing, and are at rather high levels (Fforde 2008).

Such issues suggest that critical change in rural institutions – the creation of a stratum of rural leaders who can reliably articulate farmers' interests – is ongoing, meeting important needs. But it is not policy-driven! Indeed, as we saw in the 1980s, important institutional changes are largely driven by spontaneous processes, in some ways inhibited by normative Party or state positions.

Rationalisation of the 'State Sector'

This section is largely based upon Study Team 2009. For background, it is useful to recall that the so-called state sector in Vietnam is arguably better viewed, not as a series of bureaucratically-run entities, but as a number of complicated business arrangements with a wide range of commercial and business relationships.

State Owned Enterprises were the 'spear-carriers' of the commercialisation of the Vietnamese economy through the 1980s, and in that decade their autonomy tended to increase compared with their superior levels. After the emergence of a market economy in 1989-91 their recorded share of GDPO tended at first to rise slightly, and it has tended not to fall since. In any case, statistics are misleading as joint ventures between them and foreign investors are classified as 'foreign-invested' businesses. Fforde 2007 argues that many should be seen, not as state-owned, but as de facto joint ventures, or 'virtual share companies'. There is some evidence that the pattern of change through the 1990s and into the current decade has seen their autonomy fall away, as claims on their profits have had to be shared with officials and politicians. Such business relations may sometimes be called corrupt, but in other cases diverse de facto 'share' holdings seem a better way of looking at the situation. Often such relations are seen as protective, appropriate to the notion of a 'polyarchy'.

Study Team 2009 shows how policy has attempted to grapple with these businesses. The language is one of rationality, but with rather little rationalisation. Thus a single large state holding company was set up in 2007 to act as the 'single representative of state ownership' and abolish the system of 'superior organs' (*co quan chu quan*) (Study Team 2009: 5). The overall impression one gains, however, is a lack of clear and effective exercise of state sovereign power over these businesses, and rather a series of attempted administrative changes. Yet there is a clear intention to stick with the goal that they play a leading role (*vao tro chu dao*) in national development. Their total assets at end 2008 were about USD80 billion (1.241 million billion VND) (Study Team 2009: 7), and they reportedly produce at least 40% of

GDP and the same share of industrial output, over 50% of exports (excluding oil) and employ around 1.2 million people in a country with a total population of over 80 million. Their *recorded* profits after tax are very low – 70 trillion VND in 2008 (around USD2 billion) (Study Team 2009: 14), though it seems likely that large values go into unrecorded channels, not least as were this not the case the overall macroeconomic picture would not be feasible – rapid growth at trend rates of 7-8% requires a certain efficiency in the use of capital. This situation matches the opinion of the Study Team that the exercise of state sovereignty through the state's formal ownership rights over these businesses is – essentially – *incoherent* (the language is relatively diplomatic):

> The division of tasks and responsibilities that realise the rights and duties of the state as owner, regarding Groups and General Companies are scattered and divided (*phan tan, cat khuc*). This leads to a situation where there is no organisation that bears principal responsibility for the management of capital and assets at [these units …] and no organ that bears principal responsibility to monitor, analyse and evaluate deeply and in reality on the meeting of targets and responsibilities of regarding state ownership that are allocated to Groups and General Companies. Ministries and People Committees pretty much do not adequately grasp information on the activities of these units. The Ministry of Finance carries out state financial management but only participates indirectly in the management of capital and assets via the reports of the Ministries and People's Committees and of the units themselves (Study Team 2009: 20).

This supports the idea that, in any common-sense use of the term, these units, despite being nominally state-owned, holding vast assets and being major contributors to the economy, are out of control. As already argued, they have considerable cash flow and opportunities to generate political support and protection. It follows that any coherent rationalisation process will first require that they be brought under control. This would, arguably, require major political changes.

The contrast with institutional change in the rural areas is striking. What they have in common is that in both cases the main drivers are local interests. In the rural areas the situation of village leaders and farmers' groups arguably *improves* economic performance in various ways – they have no access to subsidy. The position of the state sector is different in that they are *meant* to be state-owned, but any clear interpretation of what is meant by this is rather hard. Clearly, this has important political implications.

State-business Relations – How Profitable?

Finally, I want to mention how a range of interesting quantitative studies is starting to add to discussions about the value of state-business relations to Vietnamese businesses.

Malesky and Taussig (2008) use a set of proxies that permit quantification of their notion of political connections, and use these to conclude that:

> [politically c]onnected firms are actually not very different from the rest of the private sector. They have very similar investment and profit levels and on average have seen similar levels of expansion over the past year. Connected firms have slightly larger employment, but not much (Malesky and Taussig 2008: 15).

Their data permits them to investigate and gauge the value of political connections (as they measure them) to businesses, and they conclude:

> The most robust finding from the model is that personal connections to the government matter a great deal. In the fully specified Model 5, with all other variables held to their mean, having one connection to the provincial government increases the probability of a loan by about 4%. […] While a firm with no connections has a 48% probability of receiving a loan, a firm with one connection to the provincial government has a 52% probability and those with two or three connections have 55% and 59% probabilities of receiving loans respectively.
>
> In short, political connections are important in all types of investment environments (Malesky and Taussig 2008: 20).

Personally, I think that their conclusions do not match their analysis, for these seem to me to be extremely *low* levels of benefit from political connections. And they are *gross* benefits – "everything has its costs" and would conjecture that, compared with the costs of resources that flow from businesses to those helping them get loans these numbers are mainly interesting for what they may say about the value of politicians to businesses, and the very limited net value of such relations to businesses.

If this is the picture (albeit far form conclusive) we gain from a search for rent-seeking, we can gain an additional slant from Hansen, Rand, and Tarp 2009 who examine the effects of government support, understood clearly in a technical manner, a study unlike that of Malesky and Taussig in that it is not interested in the existence of political links. They conclude that:

> Our analysis also demonstrated that initial government support to enterprises has been a statistically significant determinant of firm growth, and this is so even when controlling for relations with the state. Taking a closer look at this result, we found that specific types

> of government support during start-up appear to have a growth impact on well-targeted enterprises. Receivers of temporary tax exemptions in the group of non-household enterprises have grown faster compared to their non-receiving counterparts. Finally, direct credit support seems to have benefited rural firms in particular (Hansen, Rand, and Tarp 2009: 1064).

Both of these studies suggest that classical programs of targeted credits and support would be rather easy to implement in Vietnam, since they can be treated as 'technical' rather than 'political' in nature. But is this possible?

Back to Political Economy

In this sense one can start to see the emerging political battleground as and when development policy starts to become more important.

The key element that is absent from the situation is a mechanism to deliver political authority to the inner-Party economic technicians so that they can deliver the rationalisation and restructuring programs that would underpin an emergent Vietnamese developmentalism, and it is not obvious where these would come from.

The economic analysis thus suggests a result that is perhaps not that surprising. So far as can be told, Vietnamese commerce is powerful and includes important SOE components as well as a fast-growing private sector both domestic and foreign. Combined with the 'polyarchy' of Vietnam's political culture, this means, as we have seen from the GoV and donor accounts, that policy can and does come into play in late 2008 through simple macroeconomic measures, when political and other conditions suit (as was the case through early 2009). It is possible for the Vietnamese state to fail to take measures to maintain macroeconomic balance, but – as happened in 2007 and 2008 – political competition (and its wider costs within the political culture) makes it very hard to maintain 'rents' created by such 'policy mistakes' for long. It is possible for the State Bank to act monetarily to curb inflation, and this happened in 2008-9. But it is very hard for the state to go further and push through measures of rationalisation of business structures that 'ordinary market forces' will not rationalise by themselves, for whatever asserted reason. It is not possible to manage state interests in SOEs in a coherent – 'policy' – manner. The state does, thus, what it can. This works so long as it works – if what the state does in the change process amounts to piecemeal steps that come down to retreat in the face of popular pressure, or pulling upon certain levers that are (unlike others) 'connected' (such as certain elements of monetary policy), or is not important, because social forces rather than policy measures drive the process.

The intriguing question is whether this overall political economy is one that can accompany sustainable growth to middle income status and beyond. There are arguments that it is, not least that it has worked so far. Clearly, it has come with heavy levels of corruption and waste. But there are also arguments that, as we have seen in expert comment on rural development policy-questions, higher levels of development themselves tend to pose novel problems and require social and political change that embeds the economy in regulation and direction – that is, its politicisation. This has happened before, and could be what Shonfield 1965 called the 'taming' of capitalism in the context of the post WWII liberal democracies. The preconditions, after WWII as in contemporary Vietnam, are popular and political.

Conclusions: Luck or Policy?

Since economics is not a predictive but an explanatory science, and since it is politically very important, assertions that pretend to the sole possible interpretation that they are about 'facts' should widely be viewed as simply playing that familiar rhetorical card. Caveat lector (Fforde 2009 and 2010). Yet the Government of Vietnam (GoV) and World Bank analyses are revealing.

In my opinion, luck is far more important than the dominant discourses would have us believe, but of declining importance, though the rate of decline is too slow. What do I mean by this?

The GoV and donor accounts ignore the basic issue of the reasons for the underlying dynamism of Vietnamese business and farming communities. One can accept this, buying the idea that macroeconomic policy settings are crucial and largely sufficient for economic success. Or one can dig deeper into the particular nature of core business groups, such as SOEs, and rural institutions such as the informal farmers' groups. One can note that these areas are not ones where there has been much formal 'knowledge production' that would project its ideas into the creation of policy rationalities. The 'real ownership' of SOEs and the emergence of informal farmers' groups are not well-studied. This would seem essential, given the contribution made by Vietnam's SOEs to economic growth and the rural areas. But clearly it is not, and this is revealing.

If we put these factors into a 'black box' we come up with the simple conclusion that, open to trade and world markets, and without any clear and politicised growth strategy, the Vietnamese economy has so far grown fast. For politicians, this is a stroke of good luck, as it is for most of the population.

The question is whether this can continue. Certainly, many in Vietnam and many well-informed commentators are worried. I share their concerns. I find persuasive the argument that the fact that levels of corruption are *increasing*, and becoming more refined (*tinh vi*), tells us that fundamental prerequisites to implementation of policies such as SOE restructuring are if anything becoming more distant. The rural changes I have referred to arguably improve rural economic performance but are not policy-driven in any obvious way. The comments from the Study Team are, to those interested in such things, quite familiar from others made over past decades. Competition in world markets is increasing, and will continue to increase. So, if in the past it has largely been a matter of luck, it seems likely that luck will be harder and harder to find in the future.

So the outlook for 2010 is for continued slower growth than the country is used to, though a good degree faster than many other countries experience. We can expect macroeconomic stability to be maintained, with familiar lessons drawn from the political experiences of 2007-2009, as from the late 1980s and the late 1990s. But we can expect gathering political tensions as advisors continue to point to the difficulties involved in gathering and focussing state power to cope coherently and deliberately with the demands of transition to middle income status, increased global competition for export markets and foreign capital, climate change, and all the ongoing problems of the economic management of the country.

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