

State Capacity in East Asia

Japan, Taiwan, China, and Vietnam

Edited by

KJELD ERIK BRØDGGÅRD

And

SUSAN YOUNG

OXFORD INSTITUTE FOR
ASIAN STUDIES
OXFORD, ENGLAND

OXFORD
UNIVERSITY PRESS

CONTENTS

| | |
|--|-----|
| <i>Notes on Contributors</i> | ix |
| 1. Introduction: State Capacity in East Asia KJELD ERIK BRØDSGAARD AND SUSAN YOUNG | 1 |
| 2. The Weak State of Japan SAM K. STEFFENSEN | 17 |
| 3. State and Economy: Some Observations and Inferences from the Japanese Experience ANIL KHOSLA | 37 |
| 4. Institutionalizing Post-war Japanese Political Economy: Industrial Policy Revisited IKUO KUME | 61 |
| 5. The Waning of the Kuomintang State on Taiwan THOMAS B. GOLD | 84 |
| 6. State Capacity in an Asian Democracy: The Example of Taiwan JÜRGEN DOMES | 114 |
| 7. State Capacity in the RoC and PRC: A Comparative Perspective AN-CHIA WU | 131 |
| 8. When States Unravel: How China's Cadres Shaped Cultural Revolution Politics ANDREW G. WALDER | 157 |
| 9. State Capacity and Social Control in China BØRGE BAKKEN | 185 |
| 10. Informalization and Growth: The Political Economy of Local Enterprises KJELD ERIK BRØDSGAARD AND KAMAL SHEEL | 203 |

| | |
|--|-----|
| 11. The Layered State of Vietnam STEIN TØNNESSON | 236 |
| 12. China and Vietnam: Viable Socialism in a Market Economy DAVID E. APTER | 269 |
| <i>Index</i> | 307 |

11

The Layered State of Vietnam

STEIN TØNNESSON

INTRODUCTION

A 'state' consists of all those public institutions (central, provincial and local administration, army, banks and enterprises) which are—at least on paper—controlled by the government. The term 'capacity' can be defined as 'maximum output'. In this chapter, the term 'state capacity' shall be understood as the ability of public institutions to produce the output expected by their leaders. The task is thus to assess the extent to which Vietnamese public institutions are able to meet the expectations of the Vietnamese Communist Party. Before starting to characterize the Vietnamese state, a few words must be said about the general relationship between state and society.

STATES IN THE GLOBAL SOCIETY

States remain the most important institutions of the emerging global society. Their main rivals, the transnational banks and corporations and the multilateral institutions, mostly remain less resourceful than the territorial states, and are also more restrained in their decision-making.¹ Depending on size, efficiency, and geopolitical position, states have a

I would like to thank Anne Jerneck, David Marr, Peter Evans, and the editors for their helpful comments on an earlier version of this Chapter.

¹ The salience of the state is often compared to that of the 'market'. This is a false comparison, since the state is a formally established, territorially based institution whereas the market is a type of human interaction (buying and selling). A state can choose to let the national economy operate more or less in accordance with the market principle. It can also choose to emphasize enhancement of the nation's position as a buyer and seller in the global market place. Such choices will in some ways expand and in other ways restrict its future room of manoeuvre. A radical application of the market principle will inevitably strengthen the independent power of corporations, but the 'market' as such cannot be the 'master' of governments or states.

considerable capacity for influencing other states as well as non-state actors on the global scene, and for affecting the lives of the population within their own borders. It is important to emphasize that a state's capacity can no longer be considered only—or even primarily—in relation to its own national society, but must be assessed in relation to the global society of states, banks, corporations, and organizations.

States backed by a large population and a substantial economy evidently wield more influence in global affairs than states with a small or poor citizenry, but small states are sometimes in a position to maximize their global interests more efficiently than many a great power. Singapore is one example. For a trading state defining its aims predominantly in economic terms, it may well be an advantage to not have the status as a great power. The world system today even comprises a state-like unit which does not enjoy international recognition as a state, but compensates with an outstanding economic performance: Taiwan.

There is a difference of principle between what a state can do domestically and globally. Domestically, it can place itself above the market, and regulate it in order to ensure genuine competition, and stimulate certain sectors. Globally, the state cannot place itself above the market (except through participation in multilateral institutions), but must operate as a territorially based 'corporation', attracting investments, targeting promising markets, and defining comparative advantages. To the extent that a national economy is being integrated in the global market, the capacity of the state to govern its market will drop, while its strength as a globally operating corporation may grow. To maintain a cohesive, stable nation-state, a government will then need a population identifying itself with the national quest for an improved global performance. The people must support its national companies in the same way it supports the national sports teams.

Just as the size of population and economy does not necessarily enhance a state's capacity to maximize the national interest in the global market place, the capacity of the state itself (the public institutions) is not necessarily being enhanced by growing numbers of staff and expansion of functions. When a state tries to co-opt and integrate a great number of domestic institutions and associations, it may find it increasingly difficult to organize efficient public services. In the 1990s, states almost everywhere in the world went through the transition mentioned above: they found it increasingly difficult to apply domestic policies differing from norms defined by the 'Washington consensus', while at the same time expanding their capacity for promoting national interests through economic diplomacy. The two basic aims being pursued internationally were to gain access to foreign markets and to attract foreign investment. One of the means to achieve these aims was to apply the

kind of domestic policies favoured by foreign investors. Thus, the traditional distinction between domestic and foreign policy tended to be blurred.

In April 1998, when the World Bank launched its report *The State in a Changing World*, a seminar was organized by the World Bank's representative in Hanoi. Chairman of the Government Committee for Organization and Personnel (GCCOP) Do Quang Trung told the seminar that the role of the state had undergone changes in many nations. In some countries, the state had been changed from a 'direct growth-generator' to a 'central orientator' in the form of a partner, a facilitator and a catalyst for growth'. Such states had become a decisive factor for economic development, poverty alleviation, the maintenance of social stability and order, and the creation of opportunities for advancement. In other countries, the reform of public institutions had been less successful. The cost of this had been social instability and persistent crisis.

According to Do Quang Trung, the requirements of socio-economic development, and the transition from a centrally planned economy to a 'market-oriented economy regulated by the state' had helped Vietnam accelerate its reform effort, and had rejuvenated the state's organizational structure. In Vietnam there had always been an emphasis on building a state that was efficient, not corrupt, and close to the people while undergoing step-by-step modernization.²

The purpose of this chapter is to critically examine the capacity and efficiency in the 1990s of Do Quang Trung's modernizing state. In the first half of the decade, its revenues grew considerably, and the state-owned sector increased its share of gross domestic product (GDP). Towards the end of the decade, however, the country could not avoid the effects of the Asian crisis, and the state-owned industrial sector became more of a financial burden. All the time, the Vietnamese leaders tried to do what Do Quang Trung prescribed: boost exports and foreign investment, while at the same time maintaining social stability and order. These goals, however, were not always easy to combine.

In order to understand the contemporary Vietnamese state, we must first see how it was historically constituted.

VIETNAM: THE LAYERED STATE

The Vietnamese state can be said to consist of a number of historical 'layers' of varying importance to its current capacity. Each layer stems

from a particular historical period, which established a set of new institutions, organizational structures, codes of behaviour, and a general set of values. Residues of such structures and values remain parts of the Vietnamese state today. The state forms a complex corpus which is difficult to 'unpack'. The state needs to be 'unpacked', however, before it can be understood.³

The Confucian Layer

The first historical layer worth considering in a contemporary context is the Confucian state of the Nguyen dynasty, who ruled all of Vietnam from 1802 to 1863, and the central and northern parts of Vietnam from 1863 to 1945 (although under the form of a French protectorate from 1884). Until the French conquest this was a state whose leaders consistently tried to live up to neo-Confucian ideals by using Chinese characters, respecting the tributary relationship to the Middle Kingdom, organizing a system of state examinations, and upholding a comprehensive system of rituals. The aim was to secure social harmony and order, keep European interference at bay, sometimes expand the emperor's power into the realms of the Khmer and Lao princes, and maintain the empire's independence, but tributary status in relation to the Qing empire in the north.⁴ The aim of the state was not 'economic development'. Therefore, the Confucian state did not need to penetrate deeply into village affairs. It used to be said that the state's power stopped at the village gates.⁵ The mandarins were responsible for collecting a limited number of taxes and for organizing work to maintain the necessary dikes and canals to produce sufficient rice. The emperor

³ For the method of 'unpacking' the state, see Anne Jerneck and Nguyen Thanh Ha, 'The Role of the Enterprise Unions in the Shift from Central Planning to Market Orientation' in Irene Nordlund, Carol Gates, and Via Cao Dam (ed.), *Vietnam in a Changing World* (Richmond, Surrey: Nordic Institute of Asian Studies/Curzon Press, 1995), 159-80, at 161; and Anne Jerneck, *Adjusting State and Market in Vietnam: The Story of Enterprise Unions* (Lund: Studentlitteratur, 1995), 58-66.

⁴ For the relationship between the Nguyen dynasty in Hue and the Qing dynasty in Beijing, see Alexander Woodside, *Vietnam and the Chinese Model: A Comparative Study of Vietnamese and Chinese Government in the First Half of the Nineteenth Century* (Cambridge, MA: Harvard University Press, 1988).

⁵ The notion of the traditionally autonomous, conservative Vietnamese village has recently come under attack by the Dutch historical anthropologist John Kleinen, who claims that villages differed from each other, often changed, and that 'rulers could intervene directly, however reluctantly, through their salaried bureaucrats'. Kleinen admits, however, that the Vietnamese villages were communities which opposed state intervention, and upheld a basic distinction between 'insiders' and 'outsiders' for that purpose. John Kleinen, 'Village-State Relations in 19th-century Vietnam. The Case of Lang To, a Small Village in the Red River Delta', in Nguyen The Anh and Alain Forest (ed.), *Guerre et paix en Asie du sud-est* (Paris: Harmattan, 1998) 175-209, at 178, 180.

had his capital in Hue. Thus, the state was most powerfully implanted in the central part of the realm, and had a northern and a southern periphery. The north was the densely populated traditional Viet heartland, close to Chinese civilization; the south was more recently populated. With its mixture of Viet, Khmer, Cham, and Chinese (*Hoa*) populations the south allowed more South-East Asian heterogeneity and openness.

What remains of the tradition from the Nguyen dynasty today? First, there are some of its values, such as dignity, social harmony, education, virtuous behaviour. These were also behind Ho Chi Minh's five revolutionary ethics: humanity, sense of duty, knowledge, courage, and integrity.⁶ Then there is the emphasis on education as the main way to achieve high social status. An educated elite is charged with running a centralized state on the basis of superior knowledge learned from abroad.⁷ One hundred and fifty years ago it was Chinese Confucianism—now it is Harvard economics. But the United States has not taken over China's role. Despite 20th-century nationalism a tradition still remains for the perception of Vietnam as a subservient, but still independent state in relation to China.

Although the post-colonial states of South-East Asia, not the least through Vietnam's 1995 membership in the Association of South-East Asian Nations (ASEAN), have assumed a role as a possible counter-balance to China, there are important actors in today's Vietnam who are inclined to continue the ancient tradition of paying particular respects to Beijing. This is only possible, however, if the Chinese government respects Vietnam's independence and treats Hanoi with the proper attitude of a virtuous elder brother. Sino-Vietnamese animosity from the mid 1970s to normalization in 1991 was aggravated by a mutual feeling of not being treated respectfully.

Yet another surviving feature of the Nguyen tradition is village autonomy. The state today penetrates the village to a much greater extent than a hundred years ago, but what the state can do with impunity in the villages remains limited by local sentiments. Many villagers still feel they have a right to not be interfered with, and they expect the local representatives of the state to behave in a virtuous way. The serious unrest that happened in the Thai Binh province of northern Vietnam in 1997 should be seen as a popular rebellion against leaders on the district and provincial level who had enriched themselves through malpractice.

⁶ Thaveeporn Vasavakul, 'Vietnam: The Changing Models of Legitimation', in Muthiah Alagappa (ed.), *Political Legitimacy in Southeast Asia: The Quest for Moral Authority* (Stanford: Stanford University Press, 1995), 257–89, at 264.

⁷ Adam Florde and Stefan de Vylder, *From Plan to Market: The Economic Transition in Vietnam* (Boulder, CO: Westview Press, 1996), 48–9, 53.

A third legacy of the Nguyen is the symbolic role of Hue as imperial capital. It is possible that historical nostalgia in central Vietnam can be linked up with resentment of being left behind economically, and give ground for local protest movements against the government or its policies. The north-based central administration and the south-based commercial elite would then find it difficult to impose their will on the central region.

The Colonial Layer

With the notable exception of southern Vietnam (Cochinchina), where most mandarins fled after the French conquest, the French did not dismantle the Confucian state. In central and northern Vietnam (which were conquered twenty years after Cochinchina) the French rather increased than destroyed the power of the mandarins, at least in relation to the villages. What the French did, was to integrate the Hue-based Nguyen state within a new institutional framework centred in Hanoi. The name of this new superstructural colonial state was French Indochina. It did not *replace* the Confucian state of the Nguyen, but *enveloped* it and to some extent transformed it. All five parts of Indochina—Cambodia, Laos, Cochinchina, and the two parts ruled by the Nguyen emperor (Tonkin and Annam)—were placed under a governor general in Hanoi, who was appointed by the French government.

French Indochina was part of a global system of territories which was known as the French Empire and later renamed the French Union. In the eyes of the Nguyen emperor and his mandarins, the French Empire was its new Middle Kingdom, but Paris did not show the same respect as Beijing had used to display. In fact, the Nguyen emperor was reduced to a shameful status as puppet of his French advisers. The central institutions of the Nguyen state fell into decay while the mandarins in the provinces served the new Indochinese authorities, at least as far as practical matters were concerned. In ritual matters, Hue remained the capital, and ritual was important to the mandarins, if not to the French. About the time of World War I, at French instigation, but with full support from a new elite with a nationalist outlook, the Chinese characters and the Confucian examination system were suppressed and supplanted with the *quốc ngữ* (Vietnamese written with Roman letters). An education system was introduced which was more or less modelled on the French, but which came to include a reinvented Vietnamese tradition, including a nationalist version of Vietnamese history, emphasizing national independence struggles against Chinese invaders.

The French Indochina state was geared to promote French strategic

interests in Asia, and to generate the *mise en valeur* (economic exploitation) of the territory. France wanted the colony at least to cover its own expenses, but showed little interest in establishing industry. The purpose of the colonial state was not to promote Indochina's economic performance as such, but to promote those parts of its economy (mainly rice and rubber) that could supplement France's own production. This excluded industrialization while at the same time obliging the governor general to seek ways to squeeze as much as possible out of the local population through taxes and state monopolies on opium, alcohol, and salt. The imposition of the French system of *mise en valeur*, and the growth of Vietnamese nationalism, required a strong police force. Perhaps the most impressive side of the French Indochina state was the capacity of its security police (*Sûreté*) to control the territory through a comprehensive system of informers and agents.⁸ The introduction of a security police force reporting to the government on all aspects of social, cultural, and political life had a lasting effect on Vietnamese political culture.

The Viet Minh Layer

The third layer is the national liberation state which could also be called the Viet Minh state. Until 1945, this emerging state could not have a capital, but was based on regional and global revolutionary networks, with bases in southern China and Thailand.⁹ From 1941, a guerrilla movement operated across the Sino-Indochinese border. Another basis for the emerging liberation state was organization of prison inmates, the victims and enemies of the French security police. They moved out of the prisons in the summer of 1945 and took up leading positions in the new Democratic Republic together with clandestine survivors, and guerrillas from the liberated areas south of the Chinese border. Mandarins and village elders were replaced by young People's Committees. They presented themselves as the 'people's power', but perhaps the main effect of the revolution was that a new state bureaucracy developed, having a much greater capacity for affecting village life than had previous administrations.

It is necessary to emphasize the global outlook of this new state-in-the-making. Until 1941, it had been impossible to establish anything but a highly vulnerable clandestine apparatus inside Indochina. But as Christopher Goscha has shown, the foundations of the Vietnamese

national liberation state are to be found in revolutionary networks among exiled Vietnamese (*Việt Kiều*) in southern China and northern Thailand during the first half of the 20th century, who were connected to global networks converging on Paris, Hong Kong, and Moscow.

What remains of the third layer is a global revolutionary outlook among elderly veterans of the Vietnamese Communist Party, and a strong sense of affinity between revolutionary veterans and villagers. The purpose of erecting the Vietnamese state was not only to liberate the Vietnamese nation, but also to bring about social transformation. This remains important since it tends to align party veterans with striking workers in foreign-investment companies, and villagers protesting against corruption. To some extent, this reduces the capacity of those Vietnamese decision-makers who want to combine social stability with market-oriented reforms.

When the Viet Minh transformed itself from a liberation movement to a proclaimed republic in 'the August Revolution' of 1945, the state it took over was not the Nguyen empire, but French Indochina with its centre in Hanoi. The communist leaders somewhat reluctantly decided to formally respect the national sovereignty of Laos and Cambodia, but their geographical outlook continued to coincide with that of the French colonial government which had governed Laos and Cambodia along with the lands of the Viet (Tonkin, Annam, Cochinchina). This was most visible in the strategies of the Vietnamese Army which, at least until its withdrawal from Cambodia in 1989, saw all of Indochina as one strategic battlefield. The Democratic Republic of Vietnam existed in northern Vietnam as a *de facto* administration from August 1945 to December 1946, and then lost its main towns and arteries to France. Until 1954, the revolution survived as an organization of war, again depending on support from base areas in Thailand and, from 1950, China. In southern Vietnam, from 1960 and until 1975, the state also took the form of a guerrilla organization—represented by the National Liberation Front (NLF) and the Provisional Revolutionary Government of the Republic of South Vietnam (PRG).

What remains of the 'Viet Minh state' (DRV) today is not only its international outlook, revolutionary ideology, and its veneration of Ho Chi Minh as a man of the people, who founded a new kind of dynasty, there is also a tightly knit party comradeship that binds the elderly elite together, based on years of sacrifice and hardship. There is an army consisting of regional and local units who do not depend on detailed orders, but are able to act on their own initiative within the confines of general guidelines. And there is an elaborate, almost corporatist, system of voluntary associations, with the task of mobilizing popular support for the

⁸ See Patrice Morthat, *La repression coloniale au Vietnam 1908–1940* (Paris: l'Harmattan, 1990).

⁹ Christopher Goscha, *Thailand and the Southeast Asian Networks of the Vietnamese Revolution, 1885–1954* (Richmond, Surrey: Curzon Press, 1999).

state. It started during World War II as a system of 'national salvation organizations' (*Cuu quoc hoi*) which together formed the Viet Minh front (*Viet Nam Doc Lap Dong Minh*). Before the war with France the front was broadened to become the *Lien Viet*, and today it is the Viet Nam Fatherland Front which serves the function of co-opting all such associations that do not need to be repressed, thus blocking the emergence of a civil society outside the state.

The South Vietnamese Layer

The fourth layer was created by the counter-revolutionary, French- and US-sponsored South Vietnamese state, with origins in the short-lived Cochinchinese Republic. The latter was established on the territory of the French colony Cochinchina in June 1946 in order to prevent Ho Chi Minh's Democratic Republic from realizing its designs on Cochinchina. The attempt quickly backfired because most of the Viet population in Cochinchina wanted national unification. After the president of the Cochinchinese Republic committed suicide in November 1946, the French abandoned Cochinchinese separatism and instead opted for the creation of a new counter-revolutionary state for all of Vietnam. Still, it was not until 1949–50 that France formally gave up Cochinchina's independent status and allowed it to be integrated in a new State of Vietnam under the former Nguyen emperor, Bao Dai.

The main basis for the counter-revolutionary state was the French-built army. Not long after the Geneva conference of 1954, the State of Vietnam became the Republic of Vietnam, which held the territory south of the demilitarized zone at the seventeenth parallel. The Western sponsorship for the south-based state was taken over by the United States in 1955, but despite sustained efforts by the world's leading power, South Vietnam was defeated in 1975. South Vietnam was a corrupt, conflict-ridden, militarized state. In the years 1975–9 it was thoroughly dismantled and replaced with a new bureaucracy that had few roots locally, except in the areas which had long been under NLF control. The northern colonization created a type of social paralysis which lasted until the late 1980s. Today, the main remnants of the South Vietnamese state are the anti-communist networks of *Viet Kieu* in France, the United States, Canada, Australia, and elsewhere who in the 1990s have renewed their ties with relatives inside Vietnam, using family ties to promote their business interests. Several development projects originally designed by the South Vietnamese state were also revived in the 1990s, and in 1999 the United States opened a consulate in its former embassy building in Saigon.

The Centralized Planning Layer

What came out of the thirty years of revolutionary warfare was the fifth layer: a militarized, subsidized, centralized planning state, which was nominally constructed on the Soviet model, but in fact incorporated structures, codes of behaviour, and values from the previous layers. Vietnam came out of the war with a proud leadership who had great expectations of playing a prominent role in the spread of socialism worldwide. They thought that their tightly organized Communist Party would be able to channel the patriotic energy that had fuelled the 'war of resistance' to construct an industrialized socialist state, with the assistance from other socialist countries. But the leaders had to build on what they had, officials left over from previous administrations, and the officers and cadres who had led the long struggles. The latter had been good at waging war, but knew little about economics and administration. They could not meet the expectations of a citizenry who had hoped that the end of the war would bring a rapid relief from their burdens.

In an authoritative work on the Vietnamese economy, the state that came out of the war is characterized as 'weak'.¹⁰ As soon as analysts started to scrape off its glittering Soviet-like surface, it became clear that the previous layers had not disappeared and that multiple conflicts and inconsistencies existed. The army and police were the only institutions with a high degree of efficiency. The main weakness of the layered Vietnamese state was in the economic and the international domains. Under the leadership of Le Duan, the party and state became heavily bureaucratized, with a central planning apparatus in Hanoi, a set of state-owned enterprises that were modelled on a foreign system,¹¹ and a financial system heavily dependent on Soviet and East European assistance.

Hanoi's capacity to promote Vietnamese interests abroad in this period was hampered by its inability to avoid conflict with China while remaining opposed to the capitalist world.¹² Vietnam became the enemy of all its neighbouring states except Laos. As long as Vietnam held troops in Cambodia (1978–89), there was no way it could regain diplomatic influence abroad. By 1979, the military victory of 1975 had been transformed into a devastating civilian defeat. But for a long time this was disguised by the state's impressive capacity to control its citizens down to the lowest social level. This capacity had been partly inherited from the French system (and notably the struggle against it), partly from

¹⁰ Florde and de Vylder, *From Plan to Market*, 4.

¹¹ Jerneck, *Adjusting State and Market in Vietnam*.

¹² Stein Tønnesson, 'Vietnam as a Regional Power: A Study in Failure', in Iver B. Neumann (ed.), *Regional Great Powers* (London: Macmillan, 1992) 179–203.

Soviet inspiration, and partly from the wartime policies. Already in the late 1970s, the party was forced to make a first retreat and accept some market-oriented reforms, and by the mid 1980s it was no longer possible to disguise the general crisis of the centrally planned system.

The Market-oriented Layer

The institutions that are presently trying to manage the current 'commodify-based multi-sectoral economy operated according to the market mechanism'—to borrow the official Vietnamese phrase—form the sixth layer of the Vietnamese state. In the years between 1978 and 1981, the central government's hold on the economy was loosened, and experiences were gained that formed the basis for the far more radical and successful reforms starting in 1987–8. Under the slogan *Doi Moi*, announced at the Sixth Party Congress in 1986, an elaborate attempt was made to transform the centrally managed mechanism of distributing privileges and subsidies into a more decentralized mechanism of liberalizing market forces, obtaining foreign direct investment (FDI), and taking macro-economic advice, loans, and aid from Western and Japanese funding agencies.

What happened, say Eforde and de Vylder, was that the party adapted to changing political structures beneath it, 'notably the rising state business interest'. The main political effect of the transition was to change the underlying political structure of the country (much of it *inside the state*) creating an important business segment with basis in the increasingly commercialized state sector, which had its own interests to defend.¹³ This involved an alliance with transnational corporations and, notably, the regional Chinese business networks. The state had to increase its capacity for handling English-speaking companies, governments, and international institutions. The keys to success were to learn English and knowledge of macro-economic management. Those few young and middle-aged Vietnamese who already possessed such abilities could fill new jobs in yet another layer of the state, partly within new agencies, partly in existing institutions, which lost relevance when aid from the Soviet Union ceased to flow, and changed their names and functions. The new class of market economy experts would often work under the authority of better connected, more established, but less qualified party cadres.¹⁴

It is noteworthy that in the reform period, the party leadership did not only resist foreign advice to privatize state-owned enterprises (SOEs), but was also not willing, or able, to stimulate the emergence of a strong private sector. Vietnam does not have anything resembling either the new private sector or the township and village enterprises (TVEs) in China. Despite certain declarations to the contrary, the Vietnamese communist leaders endeavoured to keep the new 'business management layer' *inside* the state. This became clear in 1995–6, when the party rejected Prime Minister Vo Van Kiet's donor-inspired attempt to create a more efficient regulatory state.

By the time of its Eighth Congress in June–July 1996, the party had been consolidated on a decision that the state sector should have a so-called 'guiding role'. Instead of privatizing SOEs, an attempt was made to restructure them into a limited number of general corporations. The reason why it was financially possible to retain a strong state sector, was the substantial inflow of foreign investment and aid, and that the central government increased its revenues through taxation on foreign trade.¹⁵ Vietnam was pursuing an 'export-oriented import substitution' policy, using tariffs to sustain the guiding role of the state sector.

The question now is if this can continue, or if Vietnam will be forced to live up to its obligations within ASEAN to reduce tariffs on foreign trade drastically. This will be required if Vietnam wants to realize its ambition of becoming a member of the World Trade Organization (WTO), and if it intends to satisfy the terms of the trade agreement negotiated with the United States (but not signed) in 1999. It thus seems doubtful that Vietnam can resolve the basic contradiction between its attempt to retain the state sector's 'leading role' domestically and its ambition to become a global economic player. At some point in the near future it may no longer be possible to channel budgetary allocations and loans from the state banks primarily to the SOEs. Throughout the 1990s, however, the state sector was given priority. The SOEs were expanding, if not in number, at least in strength. Even their workforce increased.

Few attempts have been made so far by the Vietnamese government to establish a borderline between state and commerce, between a private and a public sphere. Vietnam has developed a market economy within and around the state. Few private enterprises have been established, and they generally remain small. Foreign companies have been

¹³ Eforde and de Vylder, *From Plan to Market*, 81–2.

¹⁴ David Marr has noted how foreign aid can serve to 'rescue certain Stalinist institutions, practices, or attitudes from oblivion': David G. Marr, *Vietnam Strives to Catch Up* (New York: The Asia Society, 1995), 19.

¹⁵ Despite widespread smuggling, the state budgetary revenues from foreign trade taxes have increased from around US\$100 million in the early 1990s to nearly US\$2 billion in 1996. Adam Eforde, *Vietnam: Economic Commentary and Analysis*, 8 (Camberra: ADUUKI, Nov. 1996), 8. [http://www.adukti.com.au]

encouraged to invest through joint ventures with Vietnamese state companies who offered 'land user rights' and access to political power as their main 'capital'. From 1988 to 1996, 63 per cent of all licensed FDI projects were in joint ventures.¹⁶ When a foreign company invested in Vietnam, it needed to establish special relations with certain sectors of the Vietnamese state. In order to reduce transaction costs it was essential for foreign companies to find partners in the state sector and select those with the greatest potential for remaining influential. One of the most important elements in business competition was the quest for access to well-placed decision-makers in state institutions.

Before concluding this description of the historically constituted layers of the Vietnamese state, it is important to emphasize the crucial role of the Communist Party in mediating between its layers. In the absence of a civil society and a public political sphere where national development strategies can be debated and compromises negotiated between various interest groups, the party has to play the role as the principal mediator. This has represented an enormous challenge, and much ambivalence. The party has needed simultaneously to allow open debates among its membership and keep the debates unknown to the public. It has wanted its cadres to play a leading role in the economy while at the same time avoiding being associated with particular economic interests. These contradictions, of course, have proven irreconcilable. To some extent, the composition of the party has reflected the layered state. The Sixth Central Committee Plenum in January–February 1999 set as its primary goal, in the period up to the next congress in 2001, to 'purify' the party. Strict party discipline would be enforced, cadres were forbidden to voice personal opinions in public, and an attempt was made to root out corruption by forcing cadres to declare their assets.

The transformation of the Vietnamese state in the period of *Doi Moi* represented a bold attempt to preserve several historical legacies while at the same time opening up to the global economy. This meant absorbing foreign capital within the state sector, letting the nation be absorbed by global capitalism. Rolf Hermø has called the result a 'sandwiched state', pressured both by new internal social forces and the forces of international capitalism.¹⁷ The question is then what capacity does such

¹⁶ Many foreign companies, however, have found it cumbersome to form joint ventures and have wanted to go it alone. Thus, in the first half of 1996, half of the licensed FDI projects were 100% foreign-owned. *Economist Intelligence Unit Country Report*, 4 (1996), 21.

¹⁷ Rolf Hermø, 'The Sandwiched State: a Theoretical Approach to Public Administration Reform in Vietnam', in Mette Halskov Hansen and Arild Engelsen Rund (ed.), *Weak? Strong? Crisi? Embeddelt? New Perspectives on State-Society Relations in the Non-Western World* (Oslo: Centre for Development and the Environment, 1996).

a state have to influence the development of a national and global society, and how much difference there is between what it is expected to do and what it can actually deliver.

WHAT THE STATE IS EXPECTED TO DO

The most authoritative definition of the purpose of the Vietnamese state can be found in the constitution of the Socialist Republic of Vietnam. Socialist Vietnam has had four constitutions since the revolution of 1945. The first was adopted in 1946 and resembled the most radical drafts for the constitution of the French Fourth Republic, with a strong legislature. The second and third, of 1959 and 1980, were written in the Soviet and East European tradition. The thoroughly amended current constitution of 1992 represents an attempt to accommodate the constitution of 1980 with the necessities of the post Cold War world. The text resulted from a drawn out deliberative process which went on while the socialist camp collapsed in the period 1989–92.¹⁸

The view of the state, as presented in the constitution of 1992, is characterized by:

- unity of state and society,
- a strong legislature and no division of powers,
- rule *by* law rather than *of* law,
- boundless responsibilities,
- no room for an autonomous civil society,
- reluctant admission of a private economic sphere.

The constitution does not distinguish between state and society. State-and-society is conceived of as an organic whole. This can be seen from the continuously recurrent expression 'state and society' (*nhà nước và xã hội*). Nothing is ever said about a relationship *between* 'state' and 'society'. State-and-society is one body with certain duties and to which the citizens have certain obligations. State-and-society is for instance responsible for developing such good things as sports and tourism (articles 41–42). 'Citizens must fulfil their obligations to the state and society' (article 51), and they have 'the right to participate in the administration of the state and society' (article 53). 'State and society have plans to create even more jobs for workers' (article 55). 'Children are protected,

¹⁸ *Hiến pháp Nước Cộng Hòa Xã Hội Việt Nam năm 1992* (Hà Nội, 1992). English trans. can be found in Foreign Broadcasts Information Service, FBIS-EAS-92-093-S (13 May 1992), in Short Wave Broadcasts SWB (29 April 1992 and 18 May 1992), and in *Sittostasten aktuell* (July 1992). A book with all four constitutions (1946, 1959, 1980, and 1992) was published in English and French by the Gioi Publishers (Hanoi, 1995).

care for and educated by the family, state and society' (article 65). The chapter on the family is entitled 'Families are cells of society'. This reveals a view of society as organic, with families as cells (*tế bào*) and the state as a 'system of relations by which the party is the leader, the people the master, and the state the manager' (preamble). One is tempted to draw the allegory between families and cells a little further and see 'society' as the complete human body, with families as cells, the state as a system of bones, muscles, lungs, nerves, and veins, and the party as the head, employing market forces to take care of feeding and digestion. This view of state and society is not altogether different from that which prevails in Scandinavian left of centre politics, but it is drastically different from British, American, and south European perceptions of the state.

Constitutionally, the structure of the Vietnamese state is characterized by a strong legislature: in addition to performing the normal legislative functions of a constitutional democracy the National Assembly elects not only its own chairman, vice-chairman and standing committee, but also the president and vice-president of the state, the prime minister, the chief judge, and the chief prosecutor (article 84). It can dismiss or impeach these at any time and the prime minister has to submit his choice of ministers to the National Assembly for approval. This means that all five permanent state organs (the president of state, the government, the Supreme People's Court, the Supreme People's Organ of Control, and the National Assembly's standing committee), are directly responsible to the National Assembly (articles 135, 139). In reality, the power of the National Assembly is restrained by its members' obligation to follow the guidelines of the Vietnamese Communist Party. The role of the party as the 'leading force of the state and society' is formally defined in the constitution (article 4). Yet, the National Assembly is not—or not any longer—a mere rubber-stamp parliament. The deputies cannot defy party guidelines, but these are often open to interpretation. In the 1990s, the National Assembly expanded its role, not the least because of the growing importance of legislation. The National Assembly continued to meet only twice a year, but the sessions lasted longer than previously. In the words of a perceptive observer, the National Assembly assumed a function as a 'speaker's corner for the government's extensive self-criticism'.¹⁹ Its debates even started to be shown *in extenso* on national television.

The Vietnamese constitution is ambiguous concerning the principle of rule of law. Until the law on foreign investments was adopted in 1987,

legislation did not play much of a role in Vietnamese society. State organs operated on the basis of party instructions and government decrees. From 1987 onwards, there was a wave of new legislation, but it difficult to gauge from the constitution if the party and government are bound by the laws in the sense that they must operate in accordance with them, or if the laws should rather be conceived of as means by which the government rules society.

Article 4 makes clear that 'all party organizations operate within the framework of the Constitution and law'. This sentence represents a significant concession to the principle of rule of law, but 'within the framework' (*khôn khổ*) does not exactly mean 'under' or 'in accordance with'. Then also, in article 12, it is said that the state is to 'manage society by law' (*Nhà nước quản lý xã hội bằng pháp luật*). 'By' (*bằng*) means 'by means of' and seems to indicate that the law is an instrument of state management rather than a set of binding principles. This interpretation is strengthened by the fact that the Supreme People's Court is directly responsible and accountable to the National Assembly, its standing committee, and the president (articles 135, 139), and thus not a separate institution with an obligation to verify if laws are in accordance with the constitution, or if public institutions operate in accordance with the law. In this context it should be added that the Vietnamese expression *nhà nước pháp quyền* (literally 'state law power') is often 'inaccurately' translated into English as 'rule of law' whereas a more proper rendering of the prevailing Vietnamese connotation would be 'state rule by law'.²⁰ (By consistently translating the expression 'inaccurately', liberally minded people hope, perhaps, to gradually change the Vietnamese connotation.)

In the Vietnamese constitution there are virtually no limits to the domains of state responsibility. The goal of its economic policy is to 'make the country prosperous', to promote 'economic and scientific-technical cooperation and exchanges with the world market' (article 16), and to 'exercise its unified management' over external economic relations (article 24). Among the state's many responsibilities are to encourage foreign investment (article 25), uniformly manage cultural activities, prohibit the propagation of reactionary concepts and decadent culture, combat superstition (article 30), preserve good morals and customs, build 'happy families with a spirit of patriotism, love for socialism, and a spirit of authentic internationalism' (article 31), harmoniously develop the various sciences to 'devise scientific theories to support the formulation of policies, lines and laws' (article 37), 'closely combine

¹⁹ Andreu Thalemann, 'Vietnam: Marketing the Economy', *Journal of Contemporary Asia*, 26/3 (1996), 22–35, 338.

²⁰ David G. Marr, 'Vietnamese Youth in the 1990s', *Australian–Vietnam Research Project Working Paper Series*, 3 (Nov. 1996).

scientific research and training with production and business operations' (article 38), and promote the 'revolutionary heroism of the people' (article 48). The constitution makes no attempt to demarcate spheres in which the state should not interfere. Human and citizens' rights are defined, but they are consistently juxtaposed to obligations, and are said to be valid only as 'stipulated by the constitution and law'. Since state and society are one, everything falls within the responsibility of the state.

It is quite clear that from a constitutional point of view there is no room for a 'civil society' in Vietnam outside the state. Only if we allow the concept 'civil society' to cover institutions operating *within the state*, can we speak of a legally existing civil society. The media and the many associations that are organized in the Vietnamese Fatherland Front, and which in the words of the constitution 'join hands with the state' and 'supervise the activities of state agencies' could perhaps be recognized as a kind of 'official civil society'. It has been argued that a kind of 'creeping pluralism' has developed, with multiple social, political, and economic practices being beyond the reach of the government and party. A great number of local economic and religious associations have been established in the countryside, and not all have respected the obligation to seek registration in the Fatherland Front. Even within the Front an increasing number of organizations have been 'putting daylight between themselves and the Communist Party and other parts of the state'.²¹ Much the same has been the case for labour unions. But in the Vietnamese constitution and the philosophy of the Communist Party there is no room for associational pluralism. Indeed, the party has openly fought the pluralist tendency, adopting a vast programme to combat what it calls 'peaceful evolution'. The ambition remains to co-opt all acceptable associations within the framework of the Fatherland Front, as a corporatist expression of society within the state. Inside the state there is some room for economic, cultural, and political renewal, but in principle there is no room for developing a 'civil society' that can be autonomous from or contest the state or the Communist party.

However, the 1992 constitution does leave room for a private economic sector as a component of the national economy. The economy is said to consist of several forms of production organization: ownership of the entire people (the state), collective ownership, individual ownership, and ownership of 'private persons' (*sôhân tư nhân*).²² The constitution emphasizes, however, that state and collective ownership are

at the 'core' or 'foundation' (*nền tảng*) of the economy (article 15). A basic goal is therefore to consolidate and develop the state economy so that it can assume a leading role in the national economy' (article 19). But the state is also responsible for promoting the development of the private sector. The goal of state economic policy is defined so as to bring into full play the potentialities of all economic components, including both 'private capital and state capital economic components' (*kinh tế tư bản tư nhân và kinh tế tư bản Nhà nước*) (article 16). The constitution makes clear that private capital may set up trade businesses 'without any limit on scope and areas of operation provided they engage in branches and trades beneficial to the nation and the people' (article 21).

Despite this formal admittance of a private economic sector, what we see in the constitution is a vision of a functionally unbounded state. The ruling elite had great expectations for the performance of this state when debating the constitution in spring 1992. Economic growth had by then taken off. How did expectations develop during the main growth years of 1992 to 1996?

To answer this question we shall look at the political report and the five-year plan for 1997–2001, both presented to the Eighth Party Congress in June 1996.²³ Generally, they did not represent any major change of outlook in relation to the constitution. The political report noted with satisfaction that the country had been extricated from its 1980s crisis situation, that the material life for the majority of the people had improved, and that the 'commodity-based multi-sectoral economy operated according to the market mechanism under state management' was being continuously built along the socialist path: 'The state economic sector will have to fulfil its leading role and, with the cooperative economic sector, become the foundation of the economy'.

Indeed, the party leaders had reason to be satisfied with their ability to promote the leading role of the state sector, at least in statistical terms. After a reduction from 35.7 per cent of GDP in 1987 to 32.5 per cent in 1990, the state sector was reorganized. The number of SOEs was reduced by half to 6,500 through closures and mergers,²⁴ and the state sector then grew to an estimated 47 per cent of GDP in 1995.²⁵ By 1998, the number of SOEs had been further reduced to around 6,000.²⁶ The

²¹ Political report presented by the Central Committee to the Eighth Party Congress, Hanoi, 28 June–1 July 1996 (English trans. in FBIS-EAS-96-134). Report on socio-economic development orientations and tasks for the 1996–2000 period, presented by the Central Committee to the Eighth Party Congress, Hanoi (English trans. in FBIS-EAS-96-147).

²² Thalemann, 'Vietnam: Marketing the Economy', 329.

²³ *Asia Pacific Profile*, section on Vietnam (Asia Pacific Economics Group, 1996), 319–38.

²⁴ 130 SOEs (mainly small- and medium-sized) were equitized (including 4 which were

²¹ Benedict J. Tria Kerkvliet, 'Rural Society and State Relations' in Kerkvliet and Doug J. Porter (ed.), *Vietnam's Rural Transformation* (Boulder, CO/Singapore: Westview Press/ISEAS, 1995), 65–96.

²² The difference between individual ownership and private person ownership is not clear.

foreign-investment sector grew more rapidly than that of the state, but the state sector did not have serious competition from the non-state sector (private or collective). According to official Vietnamese statistics, SOEs were responsible for 46.2 per cent of total industrial production in 1998, the foreign-investment sector 31.8 per cent, and the non-state sector only 22 per cent.²⁷ By 1999, however, analysts expected the SOEs to be heading for serious trouble. Domestic demand had been sliding. Stocks had built up, and the state banks were reluctant to lend more money to already highly indebted SOEs.²⁸

Increased oil prices, however, and renewed international demand at the end of the Asian crisis, saved the Vietnamese government from the tough decisions it would otherwise have been forced to take. The strengthening of the state sector in the 1990s does not necessarily mean that the party achieved its aim of securing 'a leading role' for the state in the national economy. What happened may rather be interpreted as a commercial invasion of the state, with SOE managers using the government to promote their business interests rather than the government using its authority to 'orientate' the economy. The quest for connections inside the state became a significant aspect of business competition, and public institutions were involved in the commercial operations of the SOEs, instead of regulating them. Administrative retrenchment along the lines recommended by the prime minister, Vo Van Kiet in 1995 (in a secret letter to the politburo, which was soon leaked) could perhaps have facilitated the creation of a more independent civil service, but it seems that this opportunity was lost.

The June 1996 political report did not directly address the problems caused by the commercialization of the state sector. One problem was that civil servants started to spend much of their time and energy on extra-professional activities within the private sector (trade, banking, tourism, etc.), thus reducing the effectiveness of public offices. Another problem was the lack of transparency in the way SOEs obtained loans and other allocations. Even before the 1997-9 Asian crisis, the donor community in Hanoi was unanimous in asking that a line be drawn between the role of the state as regulator and producer.

The political report to the party congress did note other deficiencies of a moral kind, such as wastefulness, lack of ability to mobilize capital from the population, corruption, and smuggling, but failed to pinpoint the structural causes of the problems. Rather than moving in the direc-

²⁷ opened to foreign investors) in the 15 months through March 1999, compared with 17 enterprises during 1992-7. International Monetary Fund Public Information Notice (PIN), 99/46 (8 June 1999).

²⁸ Vietnam News Agency (19 Jan. 1999).

²⁹ Adam Florde, 'Vietnam: Monthly Economic and Social Analysis. Developments in July-September 1999', (Camberra: ADITK1, Sept. 1999).

tion of privatization (or 'equitization') the political report emphasized the need to create a momentum for SOEs to 'develop their leading role in the national economy', and opted for new forms of collective ownership. It complained that the 'apparatuses of the party, state, and mass organizations' had been slow to reorganize, streamline, and improve in quality and characterized the role of the state in the management of socio-economic development as 'still weak'. Many cadres and party members had been 'losing their revolutionary ideals' and were becoming 'alienated from moral quality'. But, generally, the party and state had followed the correct path. It was correct to reject resolutely 'initial indications of political pluralism appearing in the party' and to adhere steadfastly to Marxism-Leninism and Ho Chi Minh ideals.

Still, according to the report, administrative reform was a priority task. A serious attempt was also made under *Doi Moi*. The number of people on the government payroll was reduced by approximately 10 per cent between 1988 and 1996, when the state employed some 2.8 million people. Wage differentiation increased drastically, but this did not make it easier to recruit qualified personnel since even the highest salaries remained ridiculously low in comparison with what one could earn from side-activities in the 'unofficial sector'.²⁹

The 1996 political report emphasized the need to strengthen the state management role and avoid 'letting the country drift along the capitalist path'. This also pertained to the international domain: it was seen as important to seek multilateral cooperation within the dynamic Asia-Pacific region without being too strongly influenced by powerful countries and elements that 'might cause instability'. The party was ambitious in its expectations to the state, and the expectations were full of ambiguity. The state should achieve high economic growth, while maintaining its own dominant role. It should be a dominant commercial actor, while being vigilant against corruption. It should attract foreign investment and gain access to foreign markets, while avoiding the contamination of Vietnamese society by undesirable foreign values.

The question now is what happened to the capacity of the layered, Vietnamese state during the period of commercialization.

WHAT THE STATE CAN PROBABLY DELIVER

It was argued above that the state in Vietnam has six historical 'layers'. What this means is that each of six different historical periods have left certain segments, residues, or 'remains' in the form of organizational

²⁹ Thalemann, 'Vietnam: Marketing the Economy', 332, 334.

structures, codes of behaviour (formal and informal rules), and values. The mixture of such 'residues' varies from one ministry, sector, or locality to the next. Perhaps the main 'residue' is the distinct difference between Vietnam's three main regions, whose capitals (Hue, Hanoi, Saigon) have all in certain periods served as the national capital. Today, the separation between the three regions means that national politics in Vietnam involves constant compromises between representatives of the three regions, who at the same time may represent different sectors within the party and state (doctrine, security, economy). There can be no doubt that regional differences, and the constant need for compromises, hampers the capacity of the government to reach clear-cut decisions. This also contributed to preventing the Eighth Party Congress from modifying the top hierarchy. The replacement of the leading triumvirate (Secretary General Do Muoi, President Le Duc Anh, Prime Minister Vo Van Kiet) with a younger triumvirate (Le Kha Phieu, Tran Duc Luong, Phan Van Khai) was a drawn-out process dominating party politics during 1997, and the old guard remained influential after it had formally resigned.

It would be interesting to undertake a comparative study of the three Vietnamese regions, of a sample of provinces or districts, and also of selected ministries and SOEs, in order to unpack them historically, reveal how each has been historically constituted. No one has made such a study. Therefore, this chapter cannot systematically pursue the 'layered state approach' in the following analysis of what the state can and cannot do. Suffice it to say that any analysis reducing the Vietnamese state to purely an authoritarian 'party state' or a 'state in transition' from a centrally directed planning economy to a plural, capitalist society, will be misleading. The Vietnamese state is the result of a complex historical process, with many interrupted state-building projects. The present state-builders build on what they have, while trying to respond to new challenges.

There are certain areas in which the Vietnamese state has had an impressive capacity in the past, and probably retains a good capacity today.

National Defence

The first is the capacity to resist foreign aggression against the national territory (articles 44–46 in the constitution). This capacity was demonstrated both by the victory against the US-backed South Vietnamese regime in 1975 and by the staunch defence against the Chinese invasion of January 1979. Although allocations to the armed forces were reduced in the 1990s with the cancellation of military aid from the Soviet Union,

and the number of troops being significantly reduced, there is reason to believe that the 'people's armed forces' have remained well trained and organized. There are still a large number of fairly young officers with battle training experience from the war in Cambodia. But the army has come to depend on income from various profit-making activities. Jiang Zemin's attempt in 1998 to decommercialize the Chinese army has not so far been reflected in Vietnam, where the army insists that its business activities are a patriotic duty.³⁰ Commercialization is likely to have already deteriorated the army's defensive capability. However, its reputation, in combination with an improved international climate, may be sufficient to deter foreign aggression against Vietnamese land territory. The same is not, however, the case at sea. Vietnam has spent some of its meagre resources to upgrade its navy and airforce through purchases in the former USSR, but remains vulnerable. If Vietnam was forced to operate independently, without support from other countries in ASEAN or the United States, its navy would not have the capacity to resist an attempt by a better-equipped foreign power to take over the Vietnamese-held islets in the Spratlys (*Truong Sa*). To pursue its goals in the South China Sea, Vietnam therefore depends on either Chinese moderation, a *de facto* alliance with the United States, or wholehearted support from the strongest naval powers in ASEAN (Singapore, Malaysia, Indonesia). At present, none of the three factors seem secure. Despite its ASEAN membership and improved relations with China, as well as with the United States, Vietnam cannot expect support for its claim to sovereignty in the Spratly Islands or its vast maritime zone claims. Thus, it may be more important for Vietnam to develop its diplomatic than its military capacity, also because the latter is so much more costly.³¹

Social Control

The second is the capacity to maintain internal security and social control (article 47 in the constitution). Police controls were relaxed in the late 1980s, but remain impressive by international standards. The Ministry of the Interior and the security service of the Communist Party have no doubt continued to collect abundant information about presumed subversive activities. They have been good at nipping in the bud

³⁰ The combined turnover of military-run enterprises in Vietnam is estimated to have increased from US\$25 million in 1990 to US\$360 million in 1995. Carlyle Thayer, 'Marching Orders: The Military has Directed Army-run Enterprises to restructure Operations for a Market Economy', *The Vietnam Business Journal* (Aug. 1998).

³¹ See Stein Tønnesson, 'Vietnam's Aim in the South China Sea: National or Regional Security?', *Contemporary Southeast Asia*, 22/1 (March 2000).

opposition groups through preventive arrests and well-publicized trials. So far this has been enough to deter any large-scale political or religious protest movements, although the Unified Buddhist Church has become increasingly bold and has received international support for its quest for the right to maintain an independent organization.

The security apparatus was no doubt severely criticized by the party leaders when it failed to prevent serious peasant unrest in the Thai Binh and Dong Nai provinces in 1997. After these incidents, however, the government made a great effort to improve its capacity to monitor popular sentiments. The government is now also trying to implement local democratic reforms, with Chinese-style local elections. Despite some failures, the Vietnamese state's capacity for social control remains remarkable. It has not been obliged to resort to massive force in a period where there has been widespread unrest in other nearby countries. Social control depends, however, on the loyal contributions of local cadre. The security services are only able to monitor what their cadre on the local level choose to report upwards, thus the failure in Thai Binh. The security system is not based on a small, highly centralized police force with sophisticated technological means, but on the willingness of local cadres to report illegal activities. There can be no doubt that certain kinds of illegal acts are more likely to be reported than others. A capacity for repressing political and religious dissent cannot necessarily be translated into a similar capacity for fighting smuggling or corruption.³² When there are local protests against local corruption, the local cadre may not want to send reports upwards, since this could lead to sanctions against corrupt cadres instead of repression of the protesters.

Attracting Investment

A new field where the Vietnamese state developed capacity in the first half of the 1990s, was attraction of foreign direct investment. Until the adoption of the first Investment Law in 1987, the Vietnamese had little experience in dealing with foreign banks and companies. The addition of the state's sixth 'layer' in the *Doi Moi* period was therefore a learning process, and a whole range of government organs both on the central and provincial levels, with the Ministry of Planning and Investment and the State Committee for Cooperation and Investment (SCCI) at the apex, were geared towards obtaining foreign investment. When the struggles over leadership succession began in 1996, and the party

decided to emphasize the state sector, foreign companies upgraded their assessment of political risk, and this contributed to a reduction in the number of foreign investment pledges. During the 1997 Asian crisis, there was a dramatic drop in foreign investment, notably in real estate and tourism. Investments in export-oriented industries continued to trickle in, and the output from established plants was still growing. In 1999, Hanoi worked hard to find new ways of attracting investment, and a contract was signed between PetroVietnam and three foreign oil companies (the Indian ONGC, BP-Amoco, and Norwegian Statoil) for a US\$1.5 billion project to build a gas pipeline from the Nam Con Son gas field to southern Vietnam, and build plants for producing electricity.³³ At the same time, Vietnam continued its close cooperation with Russian oil companies.

A symbiotic relationship has clearly developed between foreign investors and the reform faction in the Vietnamese government, and this has caused adverse reactions within the party, from those who fear too much foreign, capitalist influence. Friction must be expected to continue, and this will hamper the state's capacity for attracting investment. The way Vietnam handled the newly negotiated trade agreement with the United States is a case in point. After the agreement was ready for being signed by the prime minister, Phan Van Khai and the US president, William Clinton at the September 1999 Asia Pacific Economic Cooperation (APEC) meeting in New Zealand, the party politburo failed to sanction it, and the signing had to be postponed.³⁴

Thus, the capacity to attract foreign investment, which was developing rapidly in the first half of the 1990s, had been reduced by 1996, and dropped significantly as a consequence of the 1997 Asian crisis. By early 2000, investors remain in doubt about the prospects of further market-oriented reforms, and seem to be waiting for indications that Hanoi is accelerating its restructuring of the financial sector, equitization of SOEs, credit facilities for the private sector, and opening-up of the domestic market to foreign competition. Capacity for attracting investment has a price.

Legislation

As a part of its drive for achieving foreign investment, Vietnam adopted a large number of new laws. The government and the National Assembly therefore had to develop a new capacity for deliberating politically

³² As official imports decreased in 1998–9, smuggling probably grew in importance. See Florde, 'Vietnam: Monthly Economic and Social Analysis'.

³³ Reuters (29 Sept. 1999).

³⁴ See Stein Tønnesson, 'Vietnam in the Asian Crisis', in Claes Brundelius and John Weeks (ed.), *Globalisation and Third World Socialism* (London: Macmillan) (forthcoming).

about legislative matters, adopting and promulgating laws, and building institutions to implement them. The Vietnamese Communist Party, the Fatherland Front, the local People's Councils, and notably the National Assembly proved able to develop new political mechanisms for frank and open debates about legislative matters.

Within the limits of what a one-party state can allow, a genuine political process therefore emerged among those who were 'internal' to the regime (i.e. party members and others considered loyal). This helped the party and government to increase their capacity for taking popular sentiments and local conditions into consideration, when formulating their plans. The Vietnamese layered state had never been just a top-down authoritarian state, but had preserved strong elements of local initiative and bottom-up influence from the time of the resistance struggles. There was also a tradition for working out compromises—or decisions by consensus—within the leading organs of the party. A broadening of the need for compromises in the *Doi Moi* period contributed to creating a larger and more disparate political elite than before. Thus, disagreements within the party could no longer be kept as secret as they used to be. In early 1999, the party leaders found it necessary to re-enforce party discipline through the exclusion from the party of a widely popular party veteran, General Tran Do, who had been advocating democratization. Shortly afterwards, a Central Committee Plenum instituted new, strict rules forbidding party members to voice their personal opinions in public.³⁵

Planning

One particular capacity that the Vietnamese state has retained from the period of the central planning state is to establish and propagate official plans with precise numerical goals. The five-year plan for 1997–2001 presented its economic growth targets as a kind of moral obligation:

We must achieve an average annual economic growth rate of 9–10 per cent. . . . We must mobilize 21–22 per cent of GDP for the budget, relying on the source of tax and fees collected. . . . Export value must achieve an average annual increase of some 28 per cent. . . . We must vigorously develop tourism. . . . We must renovate most of the state-run industrial establishments. . . . We must strive for about one million tonnes of sugar by the year 2000. . . . accelerate oil

³⁵ For the reasoning behind the strengthening of party discipline, see Ha Hoc Hoi (deputy director of the Ideology and Culture Department of the Party Central Committee). Some Issues concerning the Struggle to Protect the Party's Line and Viewpoints', *Hà Nội Tạp Chí Quốc Phong Toản Dân*, 11 (Nov. 1998). See FBIS-EAS-99-019. For the decisions of the CC, see the text of Secretary General Le Kha Phieu's closing speech, posted on the website of the Vietnam News Agency (3 Feb. 1999).

and gas exploration and exploitation and achieve the target of about 16 million tonnes of crude oil and 3.7–4 billion cubic metres of gas by the year 2000.

Few of these targets are likely to be reached. The party could not know that the Asian crisis would strike in the first year of the five-year period. But in Vietnam's socialist political culture—just as in some transnational corporations—prognoses are defined as achievement goals, meant to inspire personnel—or population. One unintentional effect of this may be to create a kind of accountability. A business executive whose company does not reach the targets defined, is often forced to retire, not through a democratic decision, but by the board elected by the shareholders. A similar fate might befall the top hierarchy of an export-oriented Communist state. If the state does not achieve the targets defined, the leaders may be forced into retirement by the party central committee. When precise goals are set, and increased transparency makes it impossible to grossly falsify statistics, it also becomes possible to make judgements about a government's economic performance.

In the mid 1980s the Vietnamese Communist Party was forced by an economic and social crisis to stake its future on a capacity for presiding over rapid economic growth. This became much of its *raison d'être*. In 1998, the party failed to realize the goals defined in the five-year plan, but this does not seem to have affected the authority of the top leadership. The reason may be that the reduced *pace* of GDP growth in Vietnam (to 5.8 per cent officially, 3.5–4.5 per cent unofficially) remained impressive by comparison to those other neighbouring countries which were in recession. Success or failure in the economic domain is always relative. Still, it probably remains true that the future of the Vietnamese state depends on its capacity for continuing to achieve high economic growth. Questions must then be asked. To what extent does economic growth result from government policies? Can a state like the one in Vietnam have a capacity to generate economic growth?

WHAT THE STATE CAN HARDLY DELIVER

There are a number of things the current leaders of Vietnam want from their state but which it can probably not deliver, because of self-defeating contradictions between aims, a lack of organizational cohesion within the state apparatus itself, because of resistance from influential power groups, and simply because success or failure depends on international trends. In some cases, the perceived lack of state capacity may be temporary or specific to Vietnam. In other cases, it is generic, not only for the Vietnamese state, but for any state opening itself up to

global market forces. When a state allows its economy to be integrated into the global economy, it increases its chances to achieve high economic growth, but at the same time it stakes its national future on regional and global cycles. This means that unforeseeable circumstances will have an effect in determining the degree of a state's success, thus also its perceived capacity. Governments wanting to ensure their survival may therefore prefer to encourage the emergence of a flexible business sector with an ability to adapt rapidly to new opportunities.

The business sector in Vietnam is not known for its flexibility. Neither is the state. Its lack of capacity for taking quick decisions, and for changing priorities, is partly a result of the need to follow party guidelines, partly of the need to coordinate a number of institutions with different, but overlapping functions (army, police, various economic ministries and directorates, state banks and joint-stock banks), and the central and provincial levels. In the 1980s, the provincial administrations increased their autonomy, and attempts to recentralize have been half-hearted. In order to carry out a project in a certain part of Vietnam, a company or agency must often obtain permission and support not only from the various organs of the central administration in Hanoi, but also from the provincial People's Committee, the district People's Committee, and from the army, if the region includes an area under military administration. One does not automatically follow the other. It is necessary to develop a vast number of connections. This increases transaction costs.

Taxation

A problem in Vietnam, as in many other countries, is the state's weak capacity for collecting other types of taxes than those on foreign trade. Many taxes have been introduced, in 1999 even a value-added tax (VAT), but the administrative capacity for levying taxes remains limited. There has been an enormous amount of smuggling, both from China, from Thailand through Cambodia, and by sea. And since many small private companies obtain credit from private money-lenders rather than official banks, a great deal of the national economy does not exist on paper. Tax collectors have become more aggressive, but it is safe to say that no fair or respected tax system exists. This may cause serious fiscal problems if Vietnam is forced to meet its pledges and reduce its tariffs. Donor money and loans from the World Bank, Asian Development Bank, and other multilateral institutions have helped the state to survive financially. If substantial new discoveries of oil are made, the state can solve its financial problems by taxing the oil companies, but this may further reduce the state's capacity for making domestic companies and

households accept the idea of paying part of their income to the state (cf. Indonesia where villagers during the Suharto period were used to receiving money *from* the state rather than contributing *to* it). It will take a long time before Vietnam has an effective fiscal system.

Savings

In contrast to other states in East Asia, the Vietnamese state has found it difficult to induce the population to save and deposit their savings in the banks. The savings rate in Vietnam has been much lower than in China. Savings rates depend on popular expectations and cannot be increased by government decree. Few instruments are available to the Vietnamese government to encourage its citizens to save. The most important incentives to save are high interest rates, a stable currency, and general improvements in the banking system. Banks have paid high interest for money deposited in the local currency, in order to discourage people from accumulating US dollars, but many households continue to save in gold or 100 dollar bills, and when they deposit money in the banks, they often open a dollar account. It has been estimated that some 30–50 per cent of domestic bank deposits remain in foreign currency.³⁶ The reason for the general lack of trust in the Vietnamese currency is partly that, in contrast to the Chinese yuan, the Vietnamese dong depreciated considerably during the Asian crisis.

In addition, many Vietnamese do not trust banks. After several years of market reforms the state-owned commercial banks still do not operate on a normal commercial basis. For a long time they continued to give low-interest loans to companies deemed to be valuable for social, national, or strategic reasons rather than basing their loan decisions on the creditworthiness of the client. The result of this is that the state-owned sector continued to operate under a politically motivated rather than a market-oriented financial system. In the eyes of Western and Western-educated economists this has distorted the market mechanism. Many private companies have been forced—or preferred—to rely on informal lending systems (often usury), and the new joint-stock banks have been much too short on assets. If the state-owned banks were to become truly commercial, and trusted, the savings rate would probably go up, and people's savings could be loaned out and reinvested in productive activities.

³⁶ Florde, 'Vietnam: Monthly Economic and Social Analysis, for a thorough discussion of banking practices, see Lisa Román, *Institutions in Transition. A Study of Vietnamese Banking* (Stockholm School of Economics, 1995), 278ff.

Law Enforcement

The Vietnamese state's legislative capacity has not so far been matched by a similar capacity for enforcing the new laws. The state's high capacity for social control has not been translated into a similar capacity for enforcing economic regulations. The Vietnamese constitution makes it a duty for all state agencies, cadres, and state employees to 'resolutely struggle against all manifestations of bureaucracy, arrogance, authoritarianism and corruption' (article 8), but since this often means to struggle against oneself, it amounts to no more than a call for morality. Several campaigns have been launched to combat corruption, but they are impeded by the lack of an independent judiciary, a free press, and the family-based patron-client networks that characterize state-business relations. So far, the Vietnamese party leaders have been unwilling to create the kind of independent agencies that could disclose and deter corruption. The last words in the five-year plan for 1997-2001 do not seem to have helped much: 'Stronger measures and better coordination will be needed to push forward the struggle against corruption, waste, and authoritarian behaviour in the state management apparatus and in state economic organizations'. The fact that even stronger words had to be expressed at the Central Committee Plenum in 1999-2000 is more indicative of the magnitude of the problem than of a will to find the proper means to do something about it.

Donor Relations

The Vietnamese state has traditionally depended on foreign aid, and this continued to be the case in the 1990s, when Vietnam became a favourite target for donor agencies in Japan and Europe. Aid dependency is much less than during the wars, and less than in Bangladesh and many African countries, but it may become a problem. Reliance on aid makes it difficult for Vietnam to challenge the community of donors openly. In the process leading up to the Eighth Party Congress in 1996, the party leadership consulted foreign donors and, indeed, the diplomatic corps, when formulating reports and targets in the economic and social domains. Crucial political documents were revised against the background of criticism from the donor community. During the Asian crisis, the Vietnamese government was repeatedly exposed to strong criticism from the International Monetary Fund (IMF), bilateral donors, and foreign chambers of commerce, for the slowness of its market-oriented reforms. Such criticisms could not be ignored. The professed goal of fighting 'peaceful evolution' and avoiding contamination of the Vietnamese mentality through foreign influence is therefore difficult to achieve. The

young emerging Vietnamese elite has already been strongly influenced by a globalized, liberal culture; parents educated in the Soviet Union do not hesitate to send their children to be trained in the United States, Australia, Europe, or Japan.

It must be emphasized, however, that the community of donors and investors in Vietnam has not been unanimous in its views. Press commentators abroad often take the views of the IMF and spokespersons of some major Western companies as representing the views of all foreigners operating in Vietnam. Most companies investing in Vietnam in the first half of the 1990s were based in Taiwan, Singapore, South Korea, Japan, or Hong Kong. They rarely made their views known through the English-language press. Many of them probably derived competitive advantage from their ability to navigate between the various layers of the Vietnamese state, and it is not a given that they share the Western urge for transparent and rule-oriented decision-making. Thus, the fact that Vietnam cannot afford to challenge the communities of donors and foreign investors does not mean it has to follow IMF advice scrupulously. The IMF and the World Bank have also differed in their approach. While the IMF has cut off loans under its Structural Adjustment Facility as long as the Vietnamese government does not accept its strict conditions, the World Bank has channelled huge loans to Vietnam, in appreciation of the social profile of its economic policies.

Diplomacy

In the diplomatic field, Vietnam has not so far developed an impressive capacity for promoting its economic and diplomatic interests, although this may be one of the sectors where there was the greatest improvement in the second half of the 1990s. The Vietnamese diplomatic corps was rapidly learning to manoeuvre in global financial and business circles, but suffered from a lack of economic competence. Vietnam's participation in ASEAN from July 1995 was expected to help it develop capacity as a trading state, but the Asian crisis reduced the role of ASEAN, forcing Vietnam to rely more on its participation in APEC, of which it became a full member in 1998, and its quest for membership in the World Trade Organization (WTO). In the international domain, the Vietnamese state remains weak, both because of poverty, lack of expertise, and a political culture embedded in the practices of the international socialist movement. Vietnam's relations with Japan, India, Australia, Europe, and the United States have been hampered by the relatively weak position of its foreign ministry in relation to military and party institutions who give priority to placating China, and who try to use the Chinese model to prevent Westernization.

The international capacity of the Vietnamese state is further impeded by the current stalemate in the factional struggles within the party and, more generally, by Vietnam's vulnerable geopolitical position. Vietnam cannot take the risk of another military confrontation with China, since it is unlikely to find a solid ally in the event of such a conflict. For some years ahead, Hanoi is therefore likely to stake its foreign policy on maintaining fraternal relations with Beijing.

Survival

The most important question is if the Vietnamese state has the capacity to survive in its present form, there are likely to be strong conflicts within the state, between security agencies and reform agencies, and between institutions linked to rival business groups. Perhaps the most essential problem for the reformers in Vietnam today is to dissolve patron-client relations between the ministries and the SOEs (i.e. between institutions intended to regulate economic activities and institutions meant to carry out production and trade). As long as the political leadership is unwilling to privatize the state companies fully, it needs to find alternative ways of separating business from administration. At least the supranational donors think so. If the government fails on this score (which it seems to have done so far) the enterprises will continue to compete as much for bureaucratic influence as for shares of the market. Eventually, this may reduce state capacity even in the sectors where it is strong: military defence and social control. But it is not altogether certain that a lack of state capacity will hinder economic growth. Thailand developed considerably for many years, but to what extent was that caused by state capacity? Perhaps what we shall see in Vietnam is a further erosion of state capacity, in combination with rapid economic growth—both within and around the state.

CONCLUSION

The Vietnamese Communist Party purports to lead the country's economic development, but actually walks a tightrope between a range of contradictory forces: efficiency and political compromise; morality and corruptibility; ideology and growth; internationalization and social control; elderly disappointment and youthful expectations; security and active diplomacy. On all levels, party and state officials try to strike a balance between contradictory options and temptations. It is easy to fall down on either side.

What will determine the pace of economic growth may not primarily be government policies, but the willingness of the Vietnamese population to work, study, save, buy, and invest; the ability of managers on all levels to organize the workforce and apply new technologies; the access Vietnamese exports can get to foreign markets; discoveries of oil, the readiness of donors, lenders, and investors to channel money into the Vietnamese economy; and international business cycles. It is certainly beyond the capacity of the state and the party to control all these factors, and it is more difficult to influence them positively than negatively. The Vietnamese government can easily destroy internal and external goodwill by resorting to more violent repression of social, political, and religious dissent, by spending more resources on keeping uncompetitive SOEs afloat, or by succumbing to factional and regional strife. To uphold and create confidence is much more difficult, but there are influential people within the government who would do their best to re-establish a more decisive leadership, draw a wedge between business and public administration, strive to distribute benefits more equitably, launch efforts to impose respect for the laws, channel resources to better managed credit institutions, boost education, implement a more active economic diplomacy, and keep donors and investors happy. With the current momentum for growth in the Asia-Pacific region, this may well be enough for Vietnam to extricate itself from the Asian crisis without suffering substantial damage.

Renewed growth may give the party and government leaders more room to manoeuvre, but will also put them before new challenges. First, the challenge from globalization and economic interaction with the United States. If Vietnam is to live up to its pledges in its recent comprehensive trade agreement with the United States, and attain WTO membership, it cannot retain its policy of export promotion with import substitution, but must open up its market to foreign-made products. Second, the challenge from the new generations and social class in Vietnamese society, with different experiences and expectations from those of their parent generation. So far, they have been patient, but the new generation is unlikely to continue to be satisfied with the degree of openness and democracy that the Communist Party allows today. And third, the challenge from growing regional and social imbalances between those who profit from economic growth, and those who remain behind. To tackle these challenges, the state cannot just continue to add new structures, new 'layers' to the inherited ones, but will probably be obliged to carry out a more radical restructuring of the state.

To reform the Vietnamese state drastically, with due respect for the most valuable residues of each of its historically constitutive periods, may not be an insurmountable task. The size of the state sector remains

modest. Between two and three million civil servants, and some two million workers and employees in SOEs, is not much in a country of almost eighty million inhabitants. The state sector is not an immovable colossus. Under a more strong-willed and popular leadership than the present consensus-dependent triumvirate, the state could no doubt be restructured. If, however, the current leaders continue to expect their state to co-opt and manage all sources of power while the society is being exposed to the powerful influence of global capitalism, the capacity of their public institutions is bound to erode.

12

China and Vietnam: Viable Socialism in a Market Economy

DAVID E. APTER

INTRODUCTION

It is a difficult time for the few remaining socialist countries. Whatever other concrete problems they confront, they also have been forced to recognize that history is not linear, any more than Marxism is unilinear, and that irreversible change toward socialism is no less a myth than the dictatorship of the proletariat was for a transition to communism. Perhaps this last they knew all along—hence the coercive character of all socialist states. There may be a few people left who believe that in the end communism will triumph. But one does not hear much from them now. In any case, the evidence against that possibility is plain, even among those who, forced by circumstances to be more receptive to market principles, still reject capitalism as a preferred system. Clearly, neither China nor Vietnam has any alternative to the pursuit of market reforms if productivity is to continue to increase. Even a quick glance at the condition of countries like North Korea, or Cuba (countries whose socialism is at the highest stage of sclerosis) would show the futility of resisting the reversibility of irreversible change. Trying to do so would only ensure disaster. Not only does virtually everyone in both countries now recognize that residual Stalinism is a terminal political disease. They can hardly avoid comparisons with the remarkable transformation elsewhere in East Asia, where, despite recent setbacks, growth has been little short of dazzling. Nevertheless, while liberalization has proceeded apace in both China and Vietnam, it has been more in economic terms than political. Leadership in both

The purpose of this chapter is to stimulate discussion. It is not a research text, and footnotes have been kept to a minimum. The material on Vietnam and China is based on visits in spring 1996 and spring 1999, respectively. My thanks are due to the Institute of International Education which sponsored the latter trip.