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THE ECONOMIES OF CENTRAL AMERICA

Globalization and Third World Socialism

Cuba and Vietnam

Edited by

Claes Brundenius
Associate Professor
Centre for Development Research
Copenhagen
Denmark

and

John Weeks
Professor of Development Economics
School of Oriental and African Studies
University of London
England

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List of Tables

10
Vietnam in the Asian Crisis

*Stein Tønnesson**

Three stories

Because of the legacy from Vietnam's epic struggles against Chinese, French and American domination, and the country's close alliance with the Soviet Union in the years 1976–91, its remarkable transition from central planning to a more market-oriented economy in the years 1986–97 drew much attention from scholars and commentators all over the world.[1] During the Asian crisis of 1997–99, the Vietnamese experience became strongly contested. Virtually every commentator claimed Vietnam as support for his or her ideological position, and three highly different stories were told about 'Vietnam in the Asian crisis'.

One went as follows. The main cause of the crisis in East and Southeast Asia was the cosy relationships which had developed between business leaders and governments, with cronyism and corruption, red tape and lack of transparency, privileged access to credit and incomplete markets. These features were even more prevalent in Vietnam than in other East Asian countries since Vietnam had mixed socialist institutions with a market economy. For this same reason, however, the effects of the crisis were artificially delayed. The country had strict currency controls, no stockmarket, and enjoyed a growing inflow of donor money propping up its balance of payments. Thus, economic growth continued through 1997 and the first months of 1998, and macroeconomic adjustments were limited to modest devaluations of the currency.

There was an illusion among the country's leaders that they could continue to enjoy high economic growth without further reform. The Communist Party increased its emphasis on socialist orthodoxy, with party leaders insisting on maintaining the state's leading role in the economy. The Vietnamese government ignored warnings from the International Monetary Fund (IMF), and the market-oriented reforms which had been proceeding since the *doi moi* policy was introduced in 1986 ground almost to a halt. Only several months into 1998 did the government start to realize that the crisis was also having an impact in Vietnam. Markets elsewhere in the region contracted, which led to a reduction in the growth of Vietnamese exports. Low oil prices and drought further diminished the country's foreign currency earnings. Soon there was a serious drop in foreign investments, something that might stifle growth for several years. The government did not confront these problems, but instead decided to emphasize agriculture and the mobilization of internal resources.

In the summer of 1998, Vietnam renewed its talks with the IMF, but when the Central Committee met in October 1998, and again in January–February 1999, it was unable to resolve the country's problems. Instead, in January 1999 the party leadership expelled its most outspoken critic, Lt General Tran Do, who had demanded further market-oriented reforms and democratization of the regime. The party leadership reaffirmed ideological orthodoxy, notably the principle of the state's leading role in the economy. Since Vietnam was hesitant to undertake structural reforms while other countries in the region dramatically improved their business climate, the country was bound to lag further behind when growth resumed in the region. By the end of the twentieth century, as a disappointed commentator expressed it, 'Viet Nam became closer to Cuba than China',[2] and there was little chance the country could get out of its trouble unless the country's reformers were able to impose their views on the Vietnamese Communist Party (VCP) in the process leading up to the 9th Party Congress in May 2001. This story will be recognizable to readers of *Financial Times, Wall Street Journal, Time Magazine, Far Eastern Economic Review, South China Morning Post, The Economist* and other periodicals with a similarly liberal view.

The second story accounted for the same facts, but interpreted them in almost the opposite fashion, mixing jealousy with admiration for the Vietnamese experience. From this second perspective, 'Vietnam in the Asian crisis' was a success story. And success was explained by the same slow, or 'cautious' approach to reform that the liberal story deplored. Vietnam was given credit for not having shown the same haste as other countries to carry out US-inspired liberalization. Hanoi's leaders resisted the pressure and retained basic protective mechanisms which made it possible to ward off attacks from speculators, and to stay in control of the commanding heights in the economy. Thus, the government could ensure a minimum of stability and emphasize sectors of fundamental national importance: agriculture, energy and heavy industry. Some factors, of course, were uncontrollable. There was an inevitable drop in foreign investments and in exports of some items, but these costs were small and necessary in order to shield the country against the disruptive impact of unfettered global capitalism.

* I would like to thank Glen Casanova, Rolf Hernø, Nguyen Vu Tu, Kristen Nordhaug, Tore Sund, Benoît de Tréglodé and Thaveeporn Vasavakul for their helpful and critical comments to earlier versions of this chapter.

Official Vietnam-watchers in Cuba no doubt believed this story. The clearest expressions of it, however, came from commentators in Thailand and Russia. A January 1999 report from the Thai Farmers Research Centre took note that the Vietnamese economy had done better than that of any other ASEAN country in 1998. The report expected Vietnam and the Philippines to emerge winners in 1999, with growth rates of 3–3.5 per cent, while Thailand would not achieve more than 1 per cent, and Indonesia would remain in depression. Vietnam's shielded currency market had given it 'the perfect immunity'.[3] A more pronounced admiration was expressed in an article circulated by the Russian news agency *Inter Press Service* on 1 March 1999. It contrasted Russia's gloom with the enviable situation of its former Cold War ally and claimed the differing fates of the two countries had 'fuelled debate on which brand of transition to a market economy might be more sustainable in the long run'. IPS had interviewed a former chief energy expert in Vietnam, Pavel Bochenko, who praised the Vietnamese leaders for 'a clear economic vision and strategy'. Their slow approach to reform had kept Vietnam's economy relatively isolated, with no stockmarket, a non-tradable currency, and only a snail-pace 'equitization' of state-owned enterprises. This had helped Vietnam avoid the fallout from East Asia's crisis. Russia's hasty privatization, by contrast, had brought few, if any, positive results.[4] Russia had 120 000 private companies, but the economy shrank 5 per cent in 1998 and was expected to drop another 3–9 per cent in 1999. The gradual approach of the Vietnamese 'is no coincidence, but a well-calculated policy to shield themselves from external economic pressures,' said Vladimir Mazyrin, assistant professor of economics and Vietnam expert at Moscow University. Viktor Shevelukha, a communist deputy in the State Duma, added: 'Russia should learn from the Vietnamese experience of cautious reforms.'

The third story was more mixed. It acknowledged that the countries of East and Southeast Asia had structural weaknesses which needed rectifying, but this had been the case for many years and still there was rapid growth. The main cause behind the depth of the crisis in East and Southeast Asia during 1997–98 was a financial panic that spread across the region in the wake of speculators' successful attack on the Thai baht in the summer of 1997. Vietnam was saved from the panic because, like China and Taiwan, it did not have a fully convertible currency. In Vietnam there was also no stock exchange, and the country relied on foreign direct investments and official development assistance from the World Bank, the Asian Development Bank and donor countries, rather than foreign bank loans and portfolio investment. Since Vietnam was not vulnerable to the fluctuations of the international capitalist system, the government did not have to panic, let its reform programme be disrupted, nor listen to the dictates of foreign advisers. It refused to adopt radical and socially disruptive market-oriented reforms at a time when regional markets tended to decline, and even temporarily broke off relations with the IMF. Meanwhile, the new government of Prime Minister Phan Van Khai implemented laws and regulations which had been adopted since the reform period began in 1986. By the Spring of 1998, however, it was clear that Vietnam could not escape the regional crisis, and this placed the government in a difficult situation. It was forced to a second devaluation of its currency, and the National Assembly had to lower its growth target for 1998 from 9 to 6 per cent.

The government was obliged to reorient its economic policies, and there were drawn-out debates in the leading organs of the party concerning the proper course to follow. In order to avoid large-scale unemployment the leadership was reluctant to force state-owned enterprises into bankruptcy, so it took considerable time before any substantial number were equitized. In order to prevent further unrest of the kind that had happened in Thai Binh and Dong Ngai provinces in 1997–98,[5] and also because rice exports had become a major dollar earner, it chose to emphasize agriculture. Growth in agricultural production, mainly of rice, and also increased industrial exports to Europe, contributed to ensuring Vietnam an overall GDP growth at almost 6 per cent in 1998 and well over 4 per cent in 1999. To achieve such positive growth amidst the Asian crisis was in itself no small achievement, but the government was unable to attract much new foreign investment, and this became a serious concern. The government was united in its determination to continue the reform process, but also adamant that it would not give up the state's leading role in the economy or rapidly dismantle the system which had protected it against the financial panic. Vietnam, which followed a policy closely resembling that of China, seemed by the summer of 1999 to have got through the worst of the Asian crisis with only limited damage. Despite heated internal discussions among the party leaders over the proper course to follow, it looked as if the country was poised to benefit from renewed growth in the region while avoiding major threats to its social and political stability. This third, more detached, story will be familiar to people who remember the news bulletins from the *Vietnam News Agency*, the Chinese agency *Xinhua*, or who read *Vietnam News* and *Vietnam Investment Review*.

The three stories were obviously in conflict, although not necessarily in their account of the facts. The main difference was in interpretation, and in their implied prescriptions for future action. I do not attempt to test here which story that best accounted for the facts; instead I provide an alternative narrative of macroeconomic developments and decision-making in Vietnam during 1997–99, based on the presumption that national success or failure in the international context derive from each state's capacity to utilize its advantages, or assets, in the global marketplace. To do this, I point out Vietnam's main advantages. In the conclusion I return to the three stories and ask which is most likely to stand the test of time.

Reforms and 'reform'

The term 'reform' is crucial to each of the stories. The liberals criticized Vietnam for an inability or unwillingness to carry out reform. Non-liberals praised Vietnam for its slow approach to reform. However, one might perhaps place less emphasis on pace of reforms and more on their content. Reform can be defined broadly as *intentional change carried out by a government*. Intentional change can go in many directions, but in the 1990s the term 'reform' was generally associated with change in a liberal direction: liberalizing national and international markets, opening capital accounts, privatizing state-owned and collective enterprises, allowing foreign-owned companies to invest and compete freely, trimming down state bureaucracies, establishing a rule of law, respecting basic liberties, instituting political pluralism, and practising electoral democracy. 'Reform' became a liberal package. Other types of reform, such as policies to boost certain industries or target certain markets, channel investments to certain locations, institute cooperative schemes in agriculture, employ the unemployed or promote grassroots democracy, were not normally included under the term. Governments that concentrated on policies of the latter type were often considered retrogressive. In the global discourse on reform there was a tendency to knit economic liberalism, political freedom and multiparty democracy together. No consideration was given to the possibility that political democracy and state interventionism might well walk hand in hand, even in a globalized world.

The starting point for the liberal reform period in Vietnam was the central-planning system which had been instituted in the North from 1960 and in the South after national unification in 1975. The history of the Socialist Republic of Vietnam since its inauguration in 1976 was that of an unsuccessful attempt to apply the Soviet model, amended for a first time in 1979 and a second in 1986, each time by policies relying on the market. During the first phase of softening the central-planning system (1979–82) the market-oriented reforms were seen as temporary concessions to necessity, but in 1986 they were given a slogan, *doi moi*, and soon became irreversible. The party leaders remained careful, however, not to put the socialist regime in danger. The most radical changes were forced upon them, first by economic crisis in the mid-1980s and then by cancellation of Soviet aid at the end of that decade. Only in times of deep crisis did the Vietnamese Communist Party (VCP) institute drastic change.[6] In the years 1989–91, while proceeding with market-oriented reforms, the party leaders were frightened by the breakdown of socialism in the Soviet Union and Eastern Europe, and clamped down on the few dissidents calling for political pluralism. The party struck a difficult balance between a perceived need to maintain political stability and an urge to catch up with the Asian tigers through integration into the global market. Through the 1990s the VCP sailed between the

Scylla of economic stagnation and the Charybdis of subversive change. The Asian crisis made it increasingly difficult to steer the course.

Still the VCP managed to stay united and avoid much public exposure of internal disagreements. For more than fifty years the VCP was characterized by its capacity for suppressing disagreements in the name of unity; in comparison with other communist parties it had few purges. A practice of bargaining and compromise was cultivated under the leadership of Ho Chi Minh, the national father figure, or 'Uncle', who was born in 1890 and died in 1969. Subsequently, Secretary General Le Duan was the leading figure during the period of central planning, and Nguyen Van Linh was the first among equals in the early years of *doi moi*. But in the 1990s no single individual achieved a position comparable to that of Deng Xiao-ping or Jiang Zemin in China, Lee Kuan Yew in Singapore or Lee Deng-hui in Taiwan. The situation in the VCP rather resembled that of the Liberal Democratic Party (LDP) in Japan, a system of bargaining which was so time-consuming that decision-making became inflexible. Once a decision was made, however, there might be a powerful consensus. From 1991, the party in Vietnam was led by a triumvirate, first Do Muoi, Vo Van Kiet and Le Duc Anh, then from 1996 Le Kha Phieu, Phan Van Khai and Tran Duc Luong, secretary general of the party, prime minister and president, respectively. One came from the north, one from the south, and the third from the central region. One played the role of ideological watchdog, the second of wooing donors and investors, and the third of guaranteeing national security against foreign and domestic subversion. The system worked slowly, but gave a unity of purpose. As from 1996 the VCP was actually run by a double triumvirate, for Do Muoi, Vo Van Kiet and Le Duc Anh remained influential. They allowed the Army, as a guarantor of stability, to increase its political power.

Vietnamese political culture was characterized by patient stamina, but also a reluctance by leaders to take major, independent initiatives. The Vietnamese leaders would study how others did things and apply foreign models selectively.[7] Often they would try out one model in one place, another in another, to assess what worked best before they made their choice. The Vietnamese were accustomed to jealously guarding their independence, but were not inclined to pose as a model for others.

Growth targets and results

In 1999 the World Bank ranked Vietnam second in the world after China in terms of average annual growth during 1990–99.[8] According to the General Statistics Office of Vietnam, the overall growth in GDP was 8.2 per cent in 1997, the first year of the Asian crisis. This was slightly less than 1 percentage point lower than the official target for the year. Growth continued at a reduced pace in 1998, and ended as mentioned, officially, at 5.8 per cent, which was 3.2 percentage points under the official target.[9] The target for

1999 was set at 5 to 6 per cent, but actual growth was only 4.8 per cent (in the IMF's estimate 4.25). In the first half of 2000 the economy grew 6.2 per cent.[10] These growth rates can be compared to the average of almost 9 per cent for 1993 to 1998. Exports of coffee, tea, footwear and electronics rose rapidly, and cement production grew sufficiently to obviate the need for imports.[11] The main export earners were textiles, garments and footwear (23.2 per cent of the total in 1996), crude oil (18.5), rice (11.8) and marine products (9.0). The output of rice in the Mekong Delta, which accounted for 90 per cent of the rice exports, rose steadily after 1988. In the second half of the 1990s, Vietnam was the second-largest rice exporter in the world. The regional crisis, notably in Indonesia, increased demand for Vietnamese rice, which contributed to keeping prices high. In the first months of 1999, however, Vietnamese agriculture was affected by drought, and while rice exports continued from the Mekong Delta, there were reports of hunger in the central region. This was a familiar occurrence in Vietnamese history. However, the floods in the Mekong Delta in 2000 were the worst in 40 years.

In the second half of 1997 and the first months of 1998, the government was relatively unconcerned by the regional crisis. At a cabinet meeting in late February 1998, more than half a year after the crisis had struck in Thailand, ministers could enjoy reports that industrial production had increased by 13 per cent and exports by 20.4 per cent compared with the first two months of 1997.[12] In April 1998 the *Vietnam News Agency* proudly reported that Vietnam was expected to achieve the highest growth in the Asia Pacific region in 1998, at 8.7 per cent, and that forecasts from the United Nations' Economic and Social Committee of Asia-Pacific (ESCAP) for 1999 and 2000 gave Vietnam the highest GDP growth after China.[13] Export growth continued to be robust through April 1998, 19.8 per cent relative to the first four months of 1997. This growth occurred despite a prolonged drought in the highland areas of southern Vietnam with major reductions in the export of coffee, vegetables and nuts. The greatest increase was in rice exports, but garment exports also rose by 12 per cent and footwear by 13.7 per cent.[14] Businesses with participation by foreign investors maintained their impressive growth rates as far as exports were concerned, reaching US$ 590 million in the first four months of the year, which was 41.1 per cent more than the same period in 1997.[15]

In early May 1998, Secretary General Le Kha Phieu held a press conference for foreign journalists where he insisted that there was no reason for the government to alter the 9 per cent growth target for 1998.[16] Only two months later the target had to be adjusted downwards, but in his opening speech to the National Assembly in late October 1998, Prime Minister Phan Van Khai remained optimistic. The Communist Party's vigilance, he said, had protected the country from international speculators through a non-convertible currency, and capital controls had insulated Vietnam from the turmoil afflicting its neighbours: 'Political stability has enabled the country to continue to grow steadfastly.'[17]

The first clear indications of economic slowdown were falls in aircraft traffic, tourist arrivals and office rents in the major cities. Reports of significant reductions accumulated during the first months of 1998. Soon there was also a drop in exports to other Asian countries, notably those most badly hit by the crisis (Thailand and South Korea). However, these effects were not dramatic since Vietnam's main trading partners were countries in the region which were less affected by the crisis: Singapore, Taiwan and Japan (at that point not yet in recession).[18] During the second half of 1998, Vietnamese exports grew only marginally relative to 1997, and the overall growth in exports during 1998 was only slightly less than 1 per cent (a figure that cast doubt on the official GDP growth rate of 5.8 per cent).[19] In the first months of 1999, exports continued to grow very slowly. On 1 March 1999, when VCP General Secretary Le Kha Phieu was ending a week-long visit to China, the normally benevolent Chinese news agency *Xinhua* reported from Hanoi: 'Vietnam's Export Performance in First Two Months Is Not Ideal.' In the second quarter, however, the situation improved in Vietnam, as elsewhere in the region. Exports grew considerably in 1999, and at an accelerated pace in 2000, despite low prices for rice and coffee.[20]

To an extent Vietnam could compensate for reduced exports to Asian countries by utilizing extended export quotas in the European Union,[21] but the country did not have normal trade relations with the United States (formerly called 'most favoured nation' status) or Japan. Negotiations with the United States started when diplomatic relations were established in 1995, but stalled when the US government presented Vietnam with a draft agreement in April 1997 which included demands for Vietnam to open up its economy to foreign competition. Normal trade relations with Japan were established in May 1999. Negotiations with the USA moved slowly, but had a breakthrough in the summer of 1999. However, when a treaty was ready to be signed in September 1999, the politburo of the VCP balked. Party elders seem to have blocked it, arguing that it represented a sell-out of the nation. In May 2000 during the run up to the US Congress decision to grant China normal trade relations on a permanent basis, Deputy Prime Minister Nguyen Tan Dung called for renewed negotiations towards signing the stalled agreement: 'We must strive to actively accelerate the process of integration into the world economy, particularly negotiations to join the World Trade Organization and to sign the bilateral trade agreement with the United States and other countries.'[22] This led to renewed talks, and the trade agreement was signed on 13 July 2000. It gives Vietnam the same normal trade relations, subject to annual renewal by the US Congress, as China had until it secured permanent normal trade relations in the spring of 2000. Although the agreement will not be ratified by the US Senate till after the presidential elections, it has already spurred high expectations for increased Vietnamese exports. On the other hand it obliges Vietnam to carry out a range of changes in the direction of an economy that is open to foreign competition. It is one of the most detailed and comprehensive trade agreements ever signed.

In the first fifteen years of market-oriented reforms in Vietnam, the lack of normal trade relations with the United States and Japan clearly contributed to preventing the country from keeping up with the pace of growth in China.[23] Now that Vietnam will enjoy normal trade relations with the world's two biggest economies, it will be able to boost its exports considerably, but then of course Vietnamese companies will also be exposed to much more fierce foreign competition on the home market and Vietnam will be obliged to dismantle or privatize a range of state-owned enterprises.

Critics of Vietnam's slow response to the regional crisis argued in 1998 that Vietnam would lose competitiveness to Asian rivals (notably Thailand) because the dong was overvalued. In mid-1998, Vietnam devalued the dong, but by less than 15 per cent.[24] The IMF urged a more radical devaluation to impress international markets; with such a small devaluation, Vietnamese labour costs would not be low enough to attract foreign investors, the IMF argued. According to critics there had been a dramatic increase in Thai, Indonesian and Malaysian competitiveness after their currencies had depreciated so radically. However, the devaluations did not at first seem to have the expected results in those countries.[25] Companies in the crisis-ridden countries were too severely affected by debts and interest payments, rising costs of imports and declining domestic markets to boost their exports. The crisis may also have been so serious in some of the other Southeast Asian countries that investors withdrew. Some transnational companies may have preferred to maintain production in the relatively stable Vietnam, but on this point the situation would change in 1999–2000 when some countries (notably Thailand and Malaysia) returned to a rapid pace of growth.

At the height of the Asian crisis there was no capital flight from Vietnam, but many investment projects were delayed and there was a drop both in investment pledges and in the actual inflow of investment capital. Substantial pledges of foreign investment had begun in the early 1990s, and from then onwards the Vietnamese government had been proud to publish annual figures showing increases in pledged investment. When asked in May 1998 about the effectiveness of foreign investment during the past ten years, the Vietnamese Minister of Planning and Investment, Tran Xuan Gia, replied that foreign direct investment accounted for 27–30 per cent of the country's total development investment and had created 250 000 jobs.[26] Investment figures increased significantly through 1996, but in 1997 the pledges dropped by about 40 per cent, to US$5.1 billion, down from 8.7 billion in 1996. The actual inflow of capital continued to grow from US$1.8 billion in 1996 to 2.4 billion in 1997, but in 1998 both the pledges and the actual disbursements dropped significantly.[27] They decreased further in 1999, and in the first half of 2000 new foreign investments were at an alarmingly low level.[28] An example of how Thailand's recovery affected Vietnam was that the shoe company Nike chose to expand in Thailand rather than continue its investments in Vietnam.[29] Vietnam now faced competition as a low-cost manufacturer from countries which had used to be on a higher cost level. One comforting aspect, however, of the downturn in investments in 1998–99 is that it mainly concerned real estate (hotels and office buildings); a greater share of the decreasing foreign investments went into industry which allowed Vietnam to have a steady growth in exports. In the first half of 2000 exports rose significantly despite the lack of new investments.

For some time it was feared that the drop in foreign investment would threaten the balance of payments. This was probably why the Vietnamese government reopened its discussions with the IMF in 1998, and subsequently obtained pledges of significant increases in aid and loans from the annual donor meeting in Paris in December 1998. About US$2.2 billion was pledged for 1999 and US$2.8 billion for 2000 which helped to offset the danger to the balance of payments, although Vietnam's absorptive capacity was far from strong enough to ensure disbursement of all the money pledged. Fears for the balance of payments seemed somewhat overstated, and in 1998 and 1999 the trade balance actually improved as a result of reduced imports. Delayed necessary imports, however, brought a dramatic rise in the first months of 2000, leading to new worries for the balance of payments.[30]

Pressures for structural reform

Representatives of multilateral and bilateral donors during the 1990s became an important pressure group in Vietnamese politics. After the Soviet aid ended, Vietnam turned to the IMF and adopted an economic stabilization programme drawn up in consultation with its macroeconomic experts. In late 1994, the IMF approved a three-year Enhanced Structural Adjustment Facility of US$530 million. It disbursed two-thirds of this money during 1995–96, which contributed to saving Vietnam from the type of crisis that Cuba suffered, and provided for a smooth transition to a position as an integral part of the East Asian growth zone. In the first half of the 1990s Vietnam was generally believed to be a new Asian tiger. At this time a great number of prospective investors, mainly from other East Asian countries, came to Ho Chi Minh City and Hanoi to explore possibilities. Already in 1996–97, however, before the Asian crisis, foreign investors in Vietnam complained about red tape, corruption, slow handling of licence applications, failure to implement announced reforms, maintenance of protectionist policies and other matters. The complaints were reflected in the international press, which had earlier been enthusiastic about Vietnam's economic prospects.

In the vanguard of gloomy reporting was the *Financial Times*.[31] Gloom was enhanced by IMF's representative in Hanoi at the time, Erik Offerdahl, who went public with his critical views after the IMF suspended disbursements of its enhanced structural adjustment facility in 1997.[32] The World Bank representative, Andrew Steer, made statements indicating a more sympathetic attitude to government policies.[33] This reflected a general difference between the IMF and the World Bank on the world scale, where the former insisted on rapid macroeconomic adjustments with little concern for social consequences, and the latter took a broader and more patient approach. However, later the World Bank also became concerned about lack of progress in reforming the financial sector and the state-owned enterprises. An unprecedented meeting of donors was called in Vietnam in June 1998 to discuss the impact of the Asian crisis, and that same month Deputy Prime Minister Nguyen Tan Dung also met with a representative of the IMF.[34] Later in 1998, the World Bank eagerly joined the complaining chorus: '... over the past three years the vigour of the reform program has slackened, and the growth impact of the earlier reforms has been fading', said its website by the end of 1998 which also mentioned the difference in point of view concerning the speed of reforms: 'Differences exist in our views on the pace of reform, with the Bank Group urging an accelerated program, especially in the crucial inter-linked areas of financial sector and state enterprise reform. The Authorities are concerned about the social costs of dramatic reform.' To resolve these differences, the World Bank's Vietnam office was strengthened, and it launched a major programme of 'advisory and technical assistance services' to support 'the needed policy actions and social programs'.[35]

As noted by a Western correspondent, foreign donors, investors and Western ambassadors were falling over themselves urging Hanoi to avoid the mistakes that had swept other Asian countries into misery. And the advice was unanimous: 'accelerate reform of the banking sector and state-owned firms, improve transparency, cut red tape and give the private sector room to bloom.'[36] When making pledges at their annuel coordination meeting in Paris in December 1998, the donors went further than usual in urging the Vietnamese government to take action. In the first months of 1999, Vietnam and the IMF continued discussions begun in November 1998 about a new Enhanced Structural Adjustment Facility. At the same time the World Bank worked on a fresh Structural Adjustment Credit facility for the country. On 18 March 1999, however, negotiations were broken off both with the IMF and the World Bank, because of failure to agree on a 'policy framework paper'.[37] In June, after the annual bilateral discussions between the IMF and Vietnamese authorities, the Board of Directors of the IMF published a report which, surprisingly, revealed internal disagreement in the IMF over Vietnam's approach to reform. The majority stuck to their warnings against Hanoi's apparent inaction, predicting that GDP growth in 1999 would remain a mere 3.5 per cent, that there would be continued high inflation, and a widening of the current account deficit. A minority of the Directors 'continued to see some merit in a more gradual approach to reform, stressing the need to maintain social and political stability'.[38]

In late 1999, the IMF appointed the former country director of the World Bank in Indonesia, Dennis de Tray, as its new representative in Vietnam. He expressed more understanding for Vietnam's cautious approach than his predecessor: 'In a sense, they have done remarkably well: They're not North Korea and they're not Cuba. They've really begun to understand the need to integrate, but they're also cautious, and for that you can't really blame them.'[39] Thus the attitude of the IMF and the World Bank tended to converge.

It is difficult to judge to what extent the Vietnamese government was influenced by pressure from foreign donors and investors. Prime Minister Phan Van Khai said in January 1999 that Vietnam must decide for itself how to shore up its economy, suggesting that conditions imposed by the IMF in exchange for aid had fuelled unrest in other countries.[40] Still the measures advocated by Vietnam's own reformers were similar to those urged by the foreigners. The latter tended to emphasize removal of restrictions on foreign and domestically-owned private companies, financial sector reform, dissolution of the cosy relationships between state banks and state-owned enterprises, tariff reductions and measures to make credit available to the private sector. The government was not against these, but also had other priorities: agricultural development, the country's infrastructure, special investment zones, the competitiveness of key industries, channelling investments to backward regions, obtaining access to export markets, and reducing corruption. This was also a reform programme, albeit with its own priorities. To the Vietnamese leaders, social and political stability were probably more important than rapid growth.

It is clear, however, that the government took the donors' views seriously. A resolution from the first session of the 6th Plenum of the VCP Central Committee in October 1998 stated: 'Economic development has slowed down. Our economic efficiency and competitiveness are low. Our financial and monetary activities are still weak.'[41]

In early February 1999, at a two-day government meeting to discuss a plan to readjust the investment structure, Prime Minister Phan Van Khai said the country could not go its own way while the rest of the world was globalizing. Pointing to the 'natural trend' of international and regional integration, he maintained that Vietnam should prepare carefully to integrate into the region and the world. In preparation for the integration process it was an urgent task to alter investment priorities. With a view to raising the efficiency of the economy, he stressed that it was essential to define sectors and products that could fully utilize the country's natural resources. The stated aim was to turn Vietnam into an industrialized country by 2020.[42]

Evidently, Phan Van Khai's intention was neither to create a liberal, non-interventionist state nor to rely on protectionism and import substitution. He sought to engage the state in a national enterprise of global integration. This was the Vietnamese version of the Asian developmental state. However, for Vietnam to realize its potential, many obstacles would have to be overcome, such as infrastructural development, fiscal reform, the introduction of a more efficient banking system and state enterprise reform. And in their struggle to carry out change within each of these domains, the younger party leaders would meet continuous opposition from entrenched interest groups and sceptical party elders.

The lack of an appropriate infrastructure was generally recognized as an impediment to economic growth in Vietnam. The state received aid and loans to build roads and bridges, construct systems for water supply, repair railways and ports, build dams, a national electricity grid and a modern telecommunications system. Interestingly enough, though, among Vietnam's main donors it was only Japan and the Asian Development Bank who were focusing on infrastructure. The World Bank and its affiliate, the International Finance Corporation, were waiting on private sector initiatives and reform in order to enter into Build-Operate-Transfer (BOT) projects. Thus the great majority of foreign investors preferred to locate their investments in the Ho Chi Minh City region or a few other privileged zones; the cost of doing business outside the main growth zones was deemed too high. It was estimated at the beginning of 1998 that only about 85 per cent of Vietnam's towns and 50 per cent of its villages were electrified, and there were frequent cuts even in the major cities. In May 1998, because of a lack of water in reservoirs, the government was forced to cut the power supply in Hanoi and Haiphong, such that only one of the two cities would have full power at any time.[43] Electricity Viet Nam (EVN) planned to produce 24.38 billion kWh in 1999, 2.72 billion more than in 1998, and to achieve this it would invest US$929 million, mainly in new power stations.[44] (Early rainfall in 1999 provided a respite from the energy problem.) However, access to potable water seemed an even greater problem, at least in the long term. No one foresaw a quick solution to Vietnam's infrastructure problems; they could, it was said, only be solved through a sustained effort involving the construction of an efficiently organized public sector with an increased absorptive capacity for foreign aid and loans.

After the end of central planning, Vietnam had a fiscal system based mainly on customs duties. In the 1990s the government increased its revenue substantially by levying customs duties on imported machinery and raw materials for the newly-established industries. This was not popular with the business community, and also made it difficult for Vietnam to fulfil its pledges to ASEAN and the Asia Pacific Economic Council (APEC) to gradually remove tariffs.[45] Substantial tariff reductions were also necessary in order to realize the government's ambition to become a member of the World Trade Organization. A new 10 per cent value-added tax (VAT) took effect on 1 January 1999, but time will be needed to make it function properly, and the government will continue to depend on customs duties for its income. The drop in new foreign investments decreased the imports of taxable items.

The financial sector in Vietnam showed problems similar to those in China. The state banks made cheap credit available to state-owned enterprises, and a large number of bad loans resulted.[46] Foreign banks were allowed to establish themselves in Vietnam only under strict rules; they were able to serve the foreign-invested sector, but there was no legally functioning credit system for small and medium-scale Vietnamese enterprises. Credit for these enterprises was organized through informal channels. The financial crisis in other Asian countries heightened the awareness of the need for financial reform.[47] In September 1997 the National Assembly refused to endorse the government's renomination of the central bank governor. This led to an extended quarrel within the Vietnamese leadership, and it was not till the National Assembly met in April–May 1998 that it was decided to nominate First Deputy Prime Minister Nguyen Tan Dung as Central Bank Governor.[48] This 49-year-old southerner was at the time seen by many as Vietnam's key economic reformer. Nguyen Tan Dung's nomination was therefore expected by some to create a momentum for financial reform. However, he did not have the financial expertise of his predecessor. By the summer of 1999 there was no visible progress in reforming the financial sector, and rather than applying the changes urged upon him by investors and donors, Dung focused on trying to curb the role of dollars in the Vietnamese economy. In January 2000, in connection with a government reshuffle, he was replaced as governor by a professional so that he could concentrate on his work as Deputy Prime Minister.[49]

Probably the main action that the Vietnamese government needed to take to satisfy foreign investors and donors was to streamline its financial sector and create a more level playing field for state-owned and private enterprises. There were two reasons why donors and investors payed much attention to state-owned enterprise reform. First, these companies absorbed so much credit from the state banks. Second, most foreign investors were obliged to form joint ventures with state-owned enterprises. The Vietnamese partners did not usually contribute much capital, but they navigated the joint venture through the bureaucracy, and provided user-rights to land. If Vietnamese companies were privatized, they might lose the advantage of privileged access to government decision-makers, and the foreign investors would be freer to operate on their own. This would make it easier for Vietnam to attract investments, but would reduce the government's control of the economy.

A World Bank report released at the end of 1998 said that 60 per cent of Vietnam's 5500–6000 state-owned enterprises had been unprofitable before the Asian crisis started, and that the state sector was burdened by a debt of US$7.3 billion at the end of 1997.[50] The equitization programme started as early as 1992–93, as part of a broad effort to restructure the state sector. The prime ministers were the driving force behind this, first Vo Van Kiet and later Phan Van Khai, but the provinces and municipalities resisted, preventing reforms from being effective. To manage the reform, Vo Van Kiet created a limited number of enterprise groups. They were not conglomerates in the manner of the Japanese *zaibatsu* or the South Korean *chaebol*, rather, each represented a sector. Phan Van Khai pursued the same line of reform, and in July 1998 his government formally endorsed the establishment of 18 enterprise groups,[51] which would take charge of streamlining the state commercial sector. By September 1998 about 3100 state-owned enterprises had been merged and 3500 dissolved.[52] Ten per cent of their workforce, 170 000 employees, were reported to have been sacked during 1997, and a further 68 000 lost their jobs in the first few months of 1998.[53] Prime Minister Phan Van Khai admitted in March 1999 that 30 per cent of Vietnam's state-owned enterprises were losing money and that the state sector needed a major overhaul to compete in the marketplace; and as Vietnam's protective barriers were gradually dismantled, they must prepare for global competition. The state-owned enterprises still accounted for 42 per cent of Vietnam's gross domestic product, and for nearly two-thirds of industrial output. Phan Van Khai emphasized that they must continue to play a leading role in industrialization.[54] Vietnam lagged far behind China in terms of equitization, though the process was not rapid there either. The reasons for slow progress on equitization in both countries were resistance from enterprise managers and workers, fear of unemployment and unrest, and anxiety that equitization could lead to rampant corruption of the Russian kind.[55] When Secretary General Le Kha Phieu toured China in late February 1999, he said China 'was bolder than Vietnam in this area', and that Vietnam had much to learn.[56] In 1998 the government planned to equitize 150 state-owned enterprises, but only 98 companies were fully equitized.[57] In April 1999, the total number of equitized companies reached 160, but most of them were small, and in an opening speech to the National Assembly in May 1999 deputy Prime Minister Nguyen Tan Dung refrained from fixing a target for 1999. He just said that state enterprise reform had led to some 'complicated' developments. At the beginning of 2000, there were still 5280 state enterprises left. It was planned to bring the number down to 3000 by 2003 and 2000 by 2005.[58]

Equitization was sometimes presented as a euphemism for privatization. This gave a false impression, since in Vietnam a state organization, either a provincial or local People's Committee or a military region, usually retained a majority stake in the shareholding company.[59] Equitization could actually be seen as a programme to commercialize the state itself. Companies were separated from direct ministerial control, but remained under the influence of government officials. Little information is available as to the fate of the companies after equitization; it would be important to know whether they retain privileged access to credit from the state banks, and whether they sell their products to the state.

Equitization is not the only way to make state-owned enterprises competitive, and the government tried other means. It loosened ties between the ministries and the fully state-owned corporations by introducing a system whereby a few selected companies could recruit their own directors, trade directly with other enterprises, and implement self-financing schemes. In May 1998 the prime minister instructed that all state-owned enterprises should be reorganized into three groups. Group one would comprise important businesses that needed to be wholly-owned by the state.[60] Group two would include businesses that should have a new form of ownership structure, but remain under the administrative authority of the state as owner. Group three would comprise businesses that had lost money over the previous two years and would be either equitized, dissolved or declared bankrupt.[61] It is perhaps not surprising that the equitization programme was slow when only the most unprofitable and least essential companies were scheduled for equitization.

To sum up, the Vietnamese government attempted to carry out a number of reform programmes at the same time: giving key state-owned companies more flexibility; separating public utilities from other productive enterprises; dissolving unprofitable companies; and equitizing unessential but sustainable companies. Overall progress was slow, and the government received much criticism for doing too little to help the private sector and paying too much attention to keeping the state-owned enterprises alive.

In the late 1990s the state sector in Vietnam employed almost four million people, half of whom were bureaucrats and the other half working for state-owned companies.[62] Private entrepreneurs and foreign investors often complained about red tape and corruption in state offices, and in response to this the Vietnamese government took a number of measures to simplify procedures for licensing foreign investments and making government policies more transparent. The prime minister called meetings of investors to discuss their concerns, without, however, providing solutions. In December 1998 the government made an attempt to further smooth the licence procedures by giving provincial and municipal authorities the right to license small-scale projects without referring to the Ministry of Planning and Investment.

The attempt to reform the state-owned enterprises presented a challenge to the cohesion of the Vietnamese Communist Party since the company managers were often influential within it. A great many company directors were political appointees with extensive networks and little managerial competence. The VCP was not a monolithic party, and in the 1990s there seemed to be intense conflict between a market-oriented faction led by Prime Minister Phan Van Khai, Deputy Prime Minister Nguyen Tan Dung and Foreign Minister Nguyen Van Cam, and a faction putting more emphasis on stability, cultural traditions and security. The latter, which was apparently in overall control of the party organization through Secretary General Le Kha Phieu, found it difficult to formulate a credible economic strategy. The combination of a strong tradition for internal party bargaining between regional and functional groups, and the struggle between two increasingly hostile factions made it difficult to reach decisions or renew policies. 'Vietnam must move forward at its own pace', said the 4th Central Committee Plenum in 1997, and this was later repeated by the prime minister in statements to impatient foreigners.[63] The signing of the trade agreement with the USA in July 2000 was a victory for the market-oriented faction, and led to speculations that it would further strengthen its influence in the run up to the 9th Party Congress in 2001.

More and more often the party has preferred to resolve internal disagreements by leaving decisions to representative government institutions. One of the best examples of this trend was the fate of a proposal put forward in the autumn of 1998 for amending the land law of 1993. The reform faction in the party wanted to extend the maximum time limit for a contract on land lease from 20 to 50 years, and to abolish the three-hectare upper limit on the size of individual farms. These proposals apparently evoked memories of the hated system of land ownership that formed a prime target for communist agitation in the colonial period. The reformers failed to pass their motion through the politburo in September 1998, but managed to have it endorsed by the 170-member Central Committee in October, only to see it rejected by a majority in the National Assembly in November.[64]

Thus, the party's failure to resolve internal differences provided the basis for the National Assembly's ascendancy as a decision-making body, though virtually all of the deputees were party appointees. Since the nomination process ahead of elections was heavily screened, it was virtually impossible for independent candidates to win nomination. Thus, the National Assembly mainly represented the interests of well-established party cadres on the local and intermediate level. The political system in Vietnam was in a process of change, and for some time it seemed likely that divisions within the VCP would provide for vibrant and more open political debates. However, there remained a strong tendency to give priority to unity over clearness and action.[65] Foreign liberal commentators often assumed that the conflict between protagonists of political stability and democratization within the Vietnamese society and the VCP coincided with the conflict between protagonists of a state-directed economy and market-oriented reform. This was not always the case. Although he was an economic reformer, Prime Minister Phan Van Khai was not necessarily in favour of a more pluralistic political system. Protagonists of democratization, on the other hand, could sometimes be party veterans who reacted against the corruption

and moral depravation that followed market-oriented reforms, and felt nostalgia for the days of Ho Chi Minh. However, Lt General Tran Do, the party veteran who circulated several critical letters in 1998 and was expelled from the VCP in January 1999, wanted both political democratization and a more market-oriented economic policy:

> Democratisation is a must and the first condition to ensure the success of national development. As long as people don't have freedom of thinking, freedom of expression, freedom of the press, freedom to associate, and other fundamental freedoms of a democracy, all the talk about national development and modernisation is useless.[66]

His exclusion from the party seems to have been widely resented. The eventual democratization of the Vietnamese state, if it were to occur, will be a complex process, and it is not evident that all market-oriented reformers will promote it. As mentioned, Phan Van Khai seems to prefer a more authoritarian Asian developmental state.

Vietnamese advantages

We can now develop the distinction between 'reform' as a liberal package and 'reforms' as a more neutral term for intentional change carried out by a government. The Vietnamese government, despite its many decision-making problems, pursued a line of reform that was different from the package implied in the liberal term 'reform'. In the view of the most consistent liberals, the state should provide the framework for free citizens to enjoy their lives independently, and leave market forces to operate as freely as possible. Ideally the state should be a smoothly operating, incorruptible and fairly small institution, taking decisions on the basis of laws and precedents. If all states were organized in such a fashion, each government's decisions would be predictable, and they would be likely to cooperate in establishing a rule-based global order. A less liberal, more realist way of thinking about the state in the contemporary world depicts it as one among several competing actors on the global arena, utilizing national advantages to attract foreign investments, to build alliances with corporations, organizations and other states, and to target foreign markets. At the end of the twentieth century it was, as Phan Van Khai said, impossible to maintain a vision of a state directing its national economy through central planning. It remained possible, however, to engage the state in an active effort to promote its own global interests as a corporation with a territory and citizens. The government would then need to pinpoint and utilize its main advantages. The term 'advantage' is not here used in the same sense as 'comparative advantage' in economic theory, which is built on the free play of market mechanisms, but rather as an asset which a government can deliberately play upon.

Vietnam has a number of advantages, or assets, which the state can exploit in the global marketplace. There is an abundance of natural resources: oil, gas, coal, minerals, fish and tourist sites. However, the two main resources are the fertile soil and the low-cost workforce. Vietnam's fertile, irrigated land has made it possible for the people who settled in the Red river Delta, along the eastern coast of the Annamite cordillera and, eventually, in the Mekong Delta, to grow to a population of almost 80 million. The Mekong Delta is one of the world's main areas for growing rice for export. Some 80 per cent of the Vietnamese population still work in agriculture, and agricultural growth was perhaps the main success story during the *doi moi* period,[67] not in terms of annual growth figures, but in terms of social impact. The record winter harvest in 1998 did much to save the country from suffering more from the regional crisis. It was no wonder that the first session of the 6th Plenum of the Central Committee 13–17 October 1998 decided to put emphasis on further developing the country's agriculture, since this is key to maintaining a minimal balance among the country's regions. Increased emphasis on growing fruit, vegetables, coffee, cashew nuts and tea is part of an attempt to combine export growth with regional development, yet there have also been negative fallout effects of market-oriented agricultural policies. They led to a steep rise in food prices and, thus, to impoverishment of the unemployed and the landless. The regime, still at least rhetorically committed to socialist ideology, has problems with its legitimacy when it carries out policies leading to dramatic cleavages between rich and poor. This may have been behind the reform faction's failure in November 1998 to further liberalize the agricultural land law.

The reason most often cited abroad for investing in Vietnam has been the country's skilled, disciplined and low-cost workforce. Vietnam has a literacy rate among the highest in the world, including rich, industrialized countries.[68] Vietnam not only uses its workforce to attract foreign capital, to reduce unemployment and gain foreign currency, the government also encourages the export of labour. This is a tradition from the colonial period when many Vietnamese worked in France, and during the central planning period when some 300 000 Vietnamese worked in Eastern Europe and the Soviet Union. At the end of the 1990s there were approximately 11 000 Vietnamese workers in South Korea and 4000 in Japan.[69]

Comparatively speaking, Vietnam is a homogenous nation, which may be seen as an asset. The great majority of the population are ethnic Viet (Kinh), who dominate the densely populated lowlands both in the southern and northern deltas and along the coast in between. A French attempt in 1946 to divide the country by the creation of an independent Cochinchinese state in the Mekong Delta got little local support and was abandoned. During 1954–75, North and South Vietnam were rival states both claiming to represent the whole nation. Although the dialects in north, centre and south differ, the Viet have basically the same language and build on the same historical tradition, and are not divided by religion. Although there are more Christians in the south (since the exodus from the north in 1954–55) and the Cao Dai church is a uniquely southern phenomenon, Buddhism, Confucianism and ancestor worship contribute to drawing the country together. Although there are multiple ethnic minorities in the highlands they are not in a position to threaten the unity of the state. Thus, the ethno-national situation in Vietnam is not as difficult to manage as in Malaysia, Burma, Indonesia or the Philippines. Both for historical reasons and because of heavy repression in the 1970s–80s, Chinese businessmen are not as powerful in Vietnam as in other Southeast Asian countries. This means that Vietnam can adopt national reform programmes without negotiating ethnic compromises. It also means that the government can be generous to its minorities without putting national cohesion at risk.

However, Vietnam suffers from a weak balance between its main regions – Vietnam has no Paris or Bangkok, no obvious centre. The country is divided into three regions, each with a town that at some point was the capital of a state – Hanoi, Hue and Ho Chi Minh (HCM) City (Saigon). Economic growth in the 1990s favoured the regions around HCM City and Hanoi. The relationship between north and south remains difficult, and most of the central region has lagged behind which might lead to the emergence of protest movements. This is a prospect which is difficult for foreign advisors to appreciate, but which has to be taken seriously by any responsible Vietnamese leader.

For Vietnam it may also be an advantage to have China in the forefront of socialist economic reform.[70] The Vietnamese can study the Chinese experiences before designing their own programmes. 'Viet Nam has learnt from many experiences, but China's is the most applicable,' said Prime Minister Phan Van Khai when receiving a Chinese visitor in late February 1998.[71] In the following month, during his first briefing for foreign journalists, Phan Van Khai said reform in Vietnam would be gradual and that China was now a suitable model to follow.[72] Le Kha Phieu gave the same message when visiting China in early 1999. In May of that year, when Vietnam and China were united in their opposition to NATO's war against Yugoslavia, first a delegation of the Vietnamese Communist Party's Commission for Ideology and Culture made a week-long visit to China, and then Deputy Prime Minister Nguyen Tan Dung, a member of the VCP politburo, headed a delegation to Beijing to study Chinese experiences with reform and open-door policies.[73]

There is, however, a basic difference between the Chinese and the Vietnamese development patterns. China has allowed and stimulated the emergence of a productive and export-oriented private sector alongside the public sector, whereas in Vietnam the state-owned enterprises, often through joint ventures with foreign investors, have played the leading role in promoting industrial growth. As far as the relationship between the public and private sector is concerned, the Chinese model converges with the World Bank's vision for Vietnam. Throughout the 1990s the World Bank urged Hanoi to allow the role of state-owned enterprises to 'slowly shrink in a rising pond of emergent private-sector firms'[74] At the beginning of the twenty-first century, China seemed to be better positioned than Vietnam for growth potential; but, as Barrett McCormick has argued, the smaller size of Vietnam and the greater domestic legitimacy of its regime might leave it with better prospects for 'an incremental transformation of the existing institutions' without violent social conflict.[75]

Economically it is of paramount importance for Vietnam to integrate its economy in the greater Chinese business network. Links with Singapore, Taiwan and Hong Kong are essential. Singapore is Vietnam's greatest foreign investor and trading partner, with about 200 licensed investment projects worth almost US$7 billion, and bilateral trade in 1997 of more than 3 billion.[76] Vietnam's economic dependence on Singapore increased significantly in the 1990s, but this should be seen as dependence on regional Chinese business networks rather than on Singapore as such. When Vietnamese President Tran Duc Luong visited Singapore in March 1998, his host, President Ong Teng Cheong, urged him to continue reforms aiming for 'a transparent and conducive business environment', using the same key words as Western economic advisers. Luong replied that he was fully aware of the need to 'develop the economy in a more effective and sustainable manner'.[77]

Japanese goodwill represents another of Vietnam's advantages. Japan is the main destination for Vietnamese exports and, at the same time, the main prospective source of foreign investment from outside the greater Chinese business network. For strategic reasons the Japanese government prefers its companies to invest in Taiwan and Vietnam rather than China. The smaller countries are viewed by the Japanese as potential buffers against Chinese expansion. However, Japan has not invested as much in Vietnam as the Vietnamese government had hoped. By mid-1998 Japan ranked only fourth on the list of investors, though Japanese investments were mainly in projects with a long gestation period. In the 1990s the reduced value of the yen and the stagnation of the Japanese economy contributed to a general reduction in Japanese investments abroad. This worried the Vietnamese government, and when Prime Minister Phan Van Khai visited Tokyo in late March 1999, he obtained an agreement with the Japanese government to 'conduct negotiations for the signing of an agreement on investment protection and promotion between the two countries'.[78] For Vietnam there was little doubt that the development of economic relations with Japan was crucial. Japan was Vietnam's main aid donor, and most of the Japanese aid went to infrastructure facilities related to energy, ports and communications.[79] Even in the middle of the Asian crisis, Japan decided to increase its aid to Vietnam.

In 1998, when Japan introduced a new aid programme to crisis-ridden countries in Asia, Vietnam was initially not included. The Vietnamese government applied strong pressure to gain access to the crisis fund despite Vietnam's apparent lack of 'crisis'. Japan yielded to the pressure, and in December 1998 promised to include Vietnam under the programme. On 26 May 1999, Japan and Vietnam finally exchanged 'most favoured nation' status.[80]

Another economic asset for Vietnam is the 2.5 million emigrants and refugees who settled abroad during and after the Vietnam War (the *Viet Kieu*). In May 1998, Nguyen Ngoc Ha, president of HCM City's Committee for Vietnamese living abroad, said that the *Viet Kieu* were 'part of Vietnam's strength'. They sent US$400–500 million each year to relatives in HCM City, he said, and invested in many projects.[81] In May 1998, the Vietnamese National Assembly adopted a new citizenship law after a long debate on the status of the *Viet Kieu*. The law declared them part of the nation, but although the law established a right to dual citizenship, foreigners of Vietnamese origin would not qualify.

The factors listed above are only some of the advantages that Vietnam has utilized and may continue to utilize to attract foreign capital, open markets for products abroad, and achieve rapid economic growth. Progress on these goals has been only a part of the Vietnamese government's programme. Its main preoccupation has been to ensure the regime's survival by preserving social and political stability. This presents an apparent contradiction which, if not resolved, could prevent Vietnam from realizing its potential.

Conclusion

After this sympathetic account of the Vietnamese attempt during 1997–2000 to emerge as unscathed as possible from the regional crisis, and after having pointed to some of Vietnam's main assets in a globalizing world, we must now return to the three initial stories: the warning from the liberal, financial press; the anti-liberal endorsement from frustrated Thais and Russians; and the qualified, pragmatic optimism of *Xinhua* and the *Vietnam News Agency*. It is far from simple to pick the story that best accounts for the facts. The better explanation must be one that takes into consideration the pertinent role that states play, and will continue to play, in economic affairs. In the 1990s, this role became more outward-oriented than in earlier periods, when many suffered from the illusion that it was possible to achieve rapid, sustainable growth in a protected economy. In the 2000s, the successful state seems to be one who actively promotes the national interest, utilizing its main advantages in the global marketplace.

The outcome of the regional crisis, which cannot yet be fully gauged at the moment of writing this chapter, is likely to influence the relative strengths of the three stories. If Thailand and South Korea (the main followers of IMF advice) had exited the crisis with renewed vigour, while the Vietnamese and Malaysian economies remained in a backwater, then the plausibility of the first story would have been enhanced.[82] Malaysia, however, who during the crisis applied currency controls that were extremely unpopular in liberal circles, achieved rapid growth again by late 1999 and early 2000, just like South Korea and Thailand. If Vietnam continues to grow while a second crisis hits more open countries, then the second story will gain strength. And if Vietnam once more achieves significant economic growth through gradual but consistent reforms, while the rest of the region also grows, then the balanced view of *Xinhua*, *Vietnam News Agency* (and this author) will seem the most reliable. Whatever the future reveals, such stories are themselves consequential. During 1998, the international financial press recounted only the first of them, thus perhaps contributing to fulfilling the prophecy by frightening away investors. The negative image of an immobile, bureaucratic Vietnam resisting 'reform' may itself have contributed to Vietnam's economic slowdown.

Future events might conceivably confirm the veracity of the liberal story of Vietnam's inability to respond adequately to the regional crisis. In a globalized world the government of a poor country must attract foreign investments to have any probability of growing out of poverty. To attract investment, Vietnam was – and will probably still be – obliged to endorse the basic rules of the international liberal order, and compete with other governments for the favours of transnational corporations.[83] Thus, the Vietnamese government needs to build the necessary legal infrastructure, create banks with normal capitalist practices, construct a stable and predictable fiscal system, and apply appropriate macroeconomic policies. On the other hand, the slowdown of the Vietnamese economy from the second half of 1998 was not caused primarily by changes within the country, but by crises elsewhere in the region. It may be argued that Vietnam's leaders failed to utilize the occasion to implement drastic changes, but the crisis as such was not caused by political failures.

It was certainly an exaggeration when it was claimed that reform in Vietnam came to a halt during 1997–99. Market-oriented reformers remained influential and sought to implement their agenda, but there was a shift in the type of reforms. One might argue that the reform process passed from a mainly deconstructive to a predominantly constructive stage, and that construction requires patience. In the first ten years of *doi moi* (1986–96) the main task was to dismantle the prohibitions and inhibitive structures of the central planning system, reinforced by pressures from below. *Fence-breaking* was the term used by researchers to describe this process: people in some areas began to ignore official restrictions, after having ascertained through informal channels that the party leaders might tolerate some disregard for the rules if the perpetrators did so discretely.[84] When the new practices proved successful, the government and National Assembly legalized what was *de facto* practice. Reforms included opening the country to foreign investment, permission for establishing private enterprises, decollectivization of land, more flexibility for the media, a more independent National Assembly, and somewhat more competitive elections. All of these were relatively easy measures to implement once ideological constraints were overcome, and they unleashed social and entrepreneurial forces which created a momentum for growth and optimism. New laws contributed to making market practices more widespread, and thus boosted economic growth.

Then, Vietnam passed into another phase in which it seemed dangerous to just dismantle existing institutions, since new structures were not yet in place. Further reforms required the construction of new institutions, *implementation* of the newly-adopted laws, and the emergence of an indigenous entrepreneurial class. Construction, implementation and class formation cannot be done overnight, but require years of effort. The reform faction in the government strove to achieve this, but it had to train new personnel, overcome resistance from incompetent civil servants, work its way through disagreements in the party, and reconfirm its authority. The impatience of the donors, investors and the IMF was enhanced by the Asian crisis which reduced international credits and directed the attention of new investors to other parts of the world. The impatience of foreign advisers could have provoked a hardening of the attitude of the Vietnamese Communist Party, but could also have tempted the most market-oriented members of the government to seek quick solutions, such as a rapid equitization of state-owned enterprises that might have led to large-scale corruption of the Russian kind.

Instead came a little of each. Some aspects of the government's policies hardened, while others softened, and all the time Vietnam moved closer to China. Some commentators have claimed that Vietnam needs an independent vision to guide its reform policies – implicitly thinking of a liberal vision; but if Vietnam had a vision it would not necessarily converge with the advice of the IMF. Visionary reforms might well include an industrial policy targeting specific international markets or certain sectors (the Vietnamese seem to be especially talented in the field of information technology, for example). Visionary reforms might also include policies aimed at social equity, environmental sustainability and developing backward regions, all areas that the Vietnamese leadership has repeatedly emphasized in public declarations.[85] In order to carry out effective reforms in these directions. Vietnam will require a more centralized, interventionist state, To really be effective, the central administration probably needs to be more independent of domestic business interests (both public and private), while also remaining able to resist pressure from investors, lenders, prospective trading partners – and story-telling media.

Notes

1 For a survey, see Harvie and Tran Van Hoa (1997).
2 Douglas Pike, 'Viet Nam as the Quarter/Year/Decade/Millennium Ends', *Indochina Chronology*, October–December 1999.
3 *The Nation*, 25 January 1990.
4 Today's only successful Russian commercial enterprise abroad, we might add, is Vietsovpetro, a joint venture between Zarubezhneft and Petro Vietnam, which exports crude oil from Vietnam's most profitable offshore oilfield. In December 1998, Zarubezhneft also took upon itself to build Vietnam's first refinery at a location in Dung Quat Bay of Quang Ngai province which had been rejected by other foreign oil companies. Work on infrastructure for the refinery has begun.
5 Violent protests over corruption and local abuse of power swept Thai Binh, a province with strong communist traditions 80 kms south of Hanoi, from May 1997. In January 1998, there were serious clashes between demonstrators and policy in the southern province of Dong Ngai.
6 'Vietnam's history suggests you tend to get big (policy) changes when you have a big crisis and at the moment you don't have a big crisis so you're not getting big changes.' Adam Fforde interviewed by Reuters correspondent Dean Yates 24 May 1998. What Adam Fforde says here may in fact be true of any country.
7 At present, the main model is China. A Vietnamese economist told a Western journalist in May 1999: 'With China, we are always like the little brother... We don't feel we need their permission to make any moves, but we do study them very, very closely. We never do anything important unless China has tried it first. They are a guiding light-for good or bad.' Mark McDonald in *San José Mercury News*, 10 May 1999. For an excellent analysis, see Tréglodé (2000), pp. 7,18-19,27-31.
8 The top ten economic performers were: China (11.2 per cent), Vietnam (8), Chile (7.8), Singapore (7.5), Sudan (7.4), Ireland and Uganda (7.2), Malaysia (6.9), Taiwan (6.2), and South Korea (5.8). World Bank figures as reported by *China News Agency*, 31 May 1999.
9 Reuters 2 January 1999. The World Bank estimated that growth in 1998 had been around 4 per cent. Faith Keenan in *Far Eastern Economic Review*, 18 February 1999.
10 *Reuters*, Hanoi, 9 May 2000. *Agence France Presse* (AFP), Hanoi, 9 May 2000.
11 *EIU Country Report*, 1st quarter 1998.
12 *Vietnam News Agency*, 2 March 1998.
13 *Vietnam News Agency*, *Agence France Presse (AFP)* 9 April 1998.
14 'Despite strong competition from shoe-makers in other countries, companies such as Hiep Hung, Thuong Dinh and Thang Long have managed to diversify their products and increase their quality, resulting in increased export volumes and greater market share. In the first quarter of 1998, Viet Nam's footwear industry recorded an export volume of US$250 million, an increase of 26 per cent compared with the same period last year. New strategic moves have been projected for the second quarter including expanding the market, developing local materials and lowering costs.' *Nhan Dan* (the party organ) quoted by *Vietnam News Agency*, 6 April 1998.
15 *Vietnam News Agency*, 27 April 1998.
16 'Of course the regional crisis is having an impact... but it is now important that we develop our resources to overcome this,' said Le Kha Phieu. Reuters 5 May 1998. Prime Minister Phan Van Khai had previously given another reason for sticking to the target: 'We would lose our "militant spirit" if we adjust the target now'. *Associated Press*, 27 April 1998.

17 *The Wall Street Journal*, 29 October 1998.
18 According to the Economist Intelligence Unit, the main destinations of exports in 1995 were Japan (26.8 per cent), Singapore (12.7), Taiwan (8.1), China (6.6), Hong Kong (4.7) and South Korea (4.3). In the same year the main sources of imports were Singapore (17.5 per cent), South Korea (15.4), Japan (11.2), Taiwan (11.1), Thailand (5.4) and Hong Kong (5.1).
19 *Xinhua*, 30 December 1998.
20 *Vietnam News Agency*, 25 June 1999. *AFP* Hanoi, 9 May 2000; *Reuters*, Hanoi, 9 May 2000.
21 The EU and Vietnam conluded a new 3-year agreement on textiles and garments in June 1998, allowing Vietnam to increase exports by 30 per cent. *EIU Country Report*, 3rd quarter 1998, p. 22.
22 *BBC Summary of World Broadcasts*, 17 May 2000.
23 'We estimate that if Vietnam had MFN [most favoured nation status] now, export earnings (from the U.S.) could increase three-fold by as much as $800 million a year three years from now,' World Bank representative Andrew Steer said in June 1998. *Reuters*, 18 June 1998. 'Vietnam is one of just five countries that don't enjoy normal trading status with the U.S. – the others are Cuba, Iraq, Libya and North Korea. Two-way trade between the U.S. and Vietnam amounts to less than $1 billion annually.' Faith Keenan: 'Opening the Door. Hanoi takes major step towards a trade deal with U.S.', *Far Eastern Economic Review*, 11 February 1999.
24 This was less than the depreciation from December. 1996 to 24 July 1998 of the Japanese yen (17.6 per cent) and the Singapore dollar (18.2 per cent), and much less than that of the Thai baht (37.4 per cent), the Philippine peso (37.6 per cent), the Malaysian ringgit (38.7 per cent), not to speak of the Indonesian rupiah (83.1 per cent). EIU *Country Report*, 3rd quarter 1998, p. 32.
25 The devaluation of the Thai currency was said, however, to lead to a dramatic increase in the smuggling of cheap products from Thailand to Vietnam.
26 *Vietnam News*, 16 May 1998.
27 *Dow Jones Newswires*, 22 April 1998. According to Adam Fforde, the disbursement in 1997 was US$2.6 billion, not just 2.4. Adam Fforde, 'Remarks on the 1998 Outturn and Developments in February 1999', Newsletter on http://www.aduki.com.au.
28 *Far Eastern Economic Review*, 4 May 2000; *South China Morning Post*, 25 May 2000.
29 Nike is a significant investor in Vietnam. Its subcontractors shipped 20 million shoes out of Vietnam in 1999, 15% of Nike's total production. *USA Today*, 25 May 2000.
30 Adam Fforde, 'Remarks on the 1998 Outturn and Developments in February 1999', Newsletter on http://www.aduki.com.au. 'Private sector leads sharp rise in vietnam's industrial output'. *AFP* Hanoi, 25 May 2000.
31 In *Financial Times*, 20 April 1998, its correspondent Jeremy Grant quoted a US-based scholar to say that 'Policymaking has ground to a halt to such a degree that there's no hope of serious economic reform without some sort of major shift in the political system.'
32 One outstanding example of negative reporting was Tim Larimer's article 'Hanoi's Hard Road Ahead', *Time Magazine*, 9 March 1998, vol. 151, no. 9. IMF representative Erik Offerdahl stated in May 1998: 'There are disturbing similarities between Vietnam and Indonesia, particularly the policy-making inertia and seeming inability to put in place urgently needed policy adjustments.' He urged 'a more

flexible exchange rate, dramatic financial sector reform and a tightening of monetary and fiscal policy to combat building inflationary pressures', and remarked: 'It's a very simple choice: some pain now saves a lot of pain later.' *AFP*, 25 May 1998.

33 'The economy here has momentum. There is a real vibrancy to the economy that is caused by a momentum that has gathered over the last six to 10 years,' said Andrew Steer. *Reuters*, 13 April 1998.

34 *Vietnam News*, 8 June 1998.

35 'Evolving priorities and development strategy', http://www.worldbank.org.vn/econdev/navpd.htm. The World Bank issued an alarmist report on Vietnam before the donors' meeting in Paris in early December 1998. *Reuters*, 2 December 1998.

36 *Reuters*, 22 September 1998.

37 *Associated Press*, 18 March 1999.

38 Public Information Notice (PIN) no. 99/46, 8.6.99 (available on the IMF webpage: http://www.imf.org/)

39 Interview in the *San José Mercury News*, 12 January 2000.

40 *Associated Press*, 2 January 1999.

41 *Nhan Dan*, 19 October 1998. The first session of the 6th Plenum had been held in October 1998. This was the first time in party history that a plenary meeting was divided in two sessions. The second session was held 25 January–2 February 1999

42 *Voice of Vietnam* in Vietnamese 4 February 1999 according to BBC Worldwide Monitoring.

43 'We have to resort to power cuts as hydro-electric plants are likely to cease operation on May 20 if the dry weather continues. This is really a disaster,' said EVN deputy general director Bui Thuc Khiet in early May 1998. Khiet still forecasted that electricity supply would return to normal during the monsoon season normally starting by the end of May. *Vietnam News*, 6 May 1998. (Rain came just in time to avoid the disaster.)

44 *Vietnam News Agency*, 9 February 1990.

45 Vietnam gained membership in ASEAN 1995 and APEC 1998.

46 According to one source, Vietnam's state-run firms were burdened with debts of $7.3 billion by early 1999, and 60 per cent of them were unprofitable. *Inter Press Service* (Moscow) 1 March 1999. Lt General Tran Do, who was expelled from the VCP in January 1999, claimed in an open letter one year earlier that a 'dangerous consequence of the 'Socialist direction' is that the government generously provides credits to the state-owned sector. Many of these credits could never be collected and the banking system is on the edge of insolvency'. Tran Do: 'The state of the nation and the role of the Communist Party', 13 pp. letter to the Party, the National Assembly, the Government, and concerned friends, dated 'End of 1997 and Start of 1998', circulated on the internet in February 1998.

47 'The fourth plenum [in December 1997] took note of the Asian financial crisis and resolved to reform and strengthen the state banking system, including resolving outstanding credit cases.', Thayer (1998). We might add here that banking reform was already on the agenda in Vietnam before the regional crisis. Such reform had been necessitated by the introduction of a market economy, but was slow in forthcoming. See Román (1998).

48 This was suggested by Prime Minister Phan Van Khai to the National Assembly (*Vietnam News Agency*, 5 May 1998) and immediately accepted.

49 *Voice of Vietnam*, Hanoi 6 December 1999 (BBC Monitoring).

50 *Reuters*, 2 December 1998.

51 These were: Vietnam Oil and Gas, Vietnam Post and Telecommunications, Vietnam Chemicals, Vietnam Steel, Vietnam Garments and Textiles, Vietnam Cement, Vietnam Ship Building Industry, Civil Aviation Administration of Vietnam, Vietnam National Shipping Lines, Vietnam Papers, Northern Food, Southern Food, Vietnam Coffee, Vietnam Rubber, Vietnam Gem and Gold, Vietnam Alcohol, Beer and Beverage and the Vietnam Tobacco Corporation. See *Vietnam News Agency*, 22 September 1998.

52 *Vietnam News Agency*, 22 September 1998.

53 *Vietnam News Agency*, 28 April 1998. *South China Morning Post* Internet Edition 27 May 1998. The first 18 equitized companies had by then created 1300 new jobs. *Vietnam News Agency*, 3 March 1998. By March 1998, statistics from the Ministry of Finance said Vietnam had 5962 state-owned enterprises, of which 1953 were centrally governed and 4009 managed by local governments. They produced about 42 per cent of Vietnam's gross domestic product (GDP) and accounted for about 75 per cent of state budget revenues. *Vietnam News Agency*, 6 March 1998.

54 *AFP*, 2 March 1999.

55 '... the equitisation process in recent years has been fairly slow. Several obstacles remain to be overcome, including: - Directors of SOEs say that they have to seek effective production measures so as to ensure stable incomes for their workers and contribute to the State Budget. - Debt and finance have been the main obstacles faced by SOEs trying to turn into equitised companies. The SOEs in general have debts, and many SOEs in particular face a huge debt or losses in production and business. Dealing with these debts are major problem for a SOE to become an equitised company. - Many SOE directors are afraid that equitisation will take away their positions and powers because they will no longer be appointed but have to be annually elected by a board of managers. - Workers worry about their futures when their enterprise faces equitisation. They worry about the implementation of policies on social insurance and buying shares.' *Vietnam News*, 9 July 1998.

56 *Xinhua*, 28 February 1999.

57 *Xinhua*, 19 January 1999.

58 *Dow Jones Newswires*, 4 May 1999. *Vietnam News Agency*, 5 May 1999. *Thoi Bao Kinh Te Saigon*, 4 May 2000; *Voice of Vietnam*, 8 May 2000 (*BBC Summary of World Broadcasts*, 18 May 2000 and 24 May 2000).

59 'We must understand that equitisation of the state sector is not privatisation and it doesn't mean that the following stage is privatisation', said party secretary general Le Kha Phieu in April 1998. *Reuters*, 3 April 1998.

60 This group included large-scale mineral, exploitation, exploitation of rare and precious ores, oil and gas exploitation, electricity, aircraft repair, post and telecom, rail, air and sea transport, printing and publishing, beverages and tobacco and investment banks.

61 *Vietnam News Agency*, 8 May 1998.

62 *Deutsche Presse-Agentur*, 27 May 1998. See Herland (1999), p. 106 and Papin (1999), p. 122.

63 *EIU Country Report*, 1st quarter 1998, p. 12 and 3rd quarter 1998, p. 21.

64 *Far Eastern Economic Review*, 10 December 1998, p. 26.

65 For a good analysis of Vietnamese party politics in 1997, see Vasavakul 1998.

66 Tran Do: 'The state of the nation and the role of the Communist Party', 13 pp. letter to the Party, the National Assembly, the Government, and concerned friends, dated 'End of 1997 and Start of 1998', circulated on the internet in February 1998.

67 Le Cao Doan: 'Agricultural Reforms in Vietnam in the 1980s', in Nørlund, Gates and Vu Cao Dam (1995). Kerkvliet and Porter (1995). Tran Thi Que (1998).
68 The adult literacy rate in 1994 was reported as 93 per cent. *UNDP Human Development Report*, 1997, p. 165. For education, see Herland (1999), p.101.
69 *EIU Country Report*, 3rd quarter 1998, p. 29.
70 The Vietnamese government 'fears instability and is apparently following the Chinese model of more gradual reform, rather than the shock therapy approach followed in Russia'. *Dow Jones Newswires*, 22 April 1998.
71 *Vietnam News Agency*, 25 February 1998.
72 *AP-Dow Jones News Service*, 24 March 1998.
73 *Vietnam News Agency*, 12 May 1999 and 20 May 1999.
74 Fforde (1998); p. 9. Fforde also notes that 'what is strikingly absent [in Vietnam], is a dynamic small-scale private or quasi-private sector' (p.8). This absence may to some extent be explained by the fact that small-scale private enterprises are not included in the statistics. On 17 May 2000, General Secretary of the VCP Le Kha Phieu said it was the government's policy to encourage the development of the private sector, which represented 50 per cent of GDP. *Nhan Dan*, 18 May 2000.
75 McCormick (1998); p.122.
76 Vietnam's main foreign investors are Singapore with 21.4 per cent of all approvals up to July 1998, Taiwan with 12.7 per cent, Hong Kong 11.7 per cent. These three 'Chinese' countries thus account for 45.8 per cent of all foreign investments in Vietnam. If we include Japan (10.7 per cent), South Korea (9.6 per cent), Malaysia (4.2 per cent) and Thailand (3.4 per cent), we get to and East Asian share of 73.7 per cent. *EIU Country Report*, 3rd quarter 1998, p. 18.
77 *Reuters*, 18 March 1998.
78 *Vietnam News Agency*, 29 March 1999.
79 *Vietnam News Agency*, 4 March 1998.
80 *Vietnam News Agency*, 27 May 1999.
81 *Vietnam News*, 26 May 1998.
82 This is what the Economist Intelligence Unit (EIU) expected. Its country report for Vietnam in the 3rd quarter 1998 (p. 10) included a table showing that Vietnam's GDP growth was more than double the Asian average in 1998, but the EIU expected the Vietnamese growth to slow down whereas the Asian average would rise from just above 2 to as much as 4 per cent.
83 According to *Reuters*, 3 April 1998, Party Secretary General Le Kha Phieu had just declared: 'In no place can people close the door themselves. If the door is closed, then it will open later itself and this is the same for Vietnam... In this situation closing the door and carrying out modernisation and industrialisation... is an illusion.'
84 Fforde and de Vylder (1996).
85 The first session of the 6th Plenum of the VCP Central Committee 13–17 October 1998 set the following tasks for 1999: 'Concentrating heavily on agriculture and rural development to create a foundation for socio-economic stability; effectively mobilising and using all investment resources; broadening the market for our products; developing and stabilising our state financial system; renovating the production process; settling all urgent social issues; reforming our administration and state mechanism; strengthening national defence and security; improving democracy together with social order and discipline.' *Nhan Dan*, 19 October 1998.

11

Trade and Industrial Policy Reform: The Challenge of Continuous Change

Ari Kokko

Introduction

During the two decades since the reunification of the country in 1976, the Vietnamese economy underwent more or less continuous change. In three major stages of reforms, Vietnam went from stagnation under orthodox central planning to double-digit growth rates in the industrial sector and an increasingly market-oriented economic system.

The first steps from plan to market were taken in 1979, when an acute economic crisis forced the Central Committee to stimulate production by introducing an individual contract system in agriculture and decentralizing decision-making in state enterprises (Dollar and Ljunggren, 1995; Ljunggren, 1996). Other cautious reforms were introduced during the following years, such as price adjustments and a reorientation of production from heavy industry towards agriculture and consumer goods, but the second significant step was not taken until 1986. An inflation rate of 775 per cent that year demonstrated that the limited reforms of the command economy had not been sufficient and that more radical action was needed. Hence, the Sixth Party Congress in December 1986 decided that *doi moi*, a thorough renovation of both the political and economic systems, was necessary. The renovated economy would still be dominated by the state, but the role of a supplementary private sector was acknowledged and the country was opened up to foreign investment and foreign trade. The third stage commenced in 1989 when the need to achieve macroeconomic stabilization motivated abolishment of the dual-pricing system and administrative prices, liberalization of the exchange rate, and increases in nominal interest rates to make real interest rates positive. Gradual reforms and fine-tuning of the legal and institutional framework have continued since that time, although the state sector remains firmly in control.

The progress and accomplishments of the Vietnamese economy since the abandonment of central planning were undoubtedly impressive. The country moved from stagnation and macroeconomic instability in the mid-1980s

3 Stiglitz reaches a strong conclusion on ownership and incentives, 'If each farmer owned the land he or she worked, or if each worker owned the capital goods with which he or she worked, there would be no incentive problem' (Stiglitz, 1994, p. 49).
4 There is a considerable empirical literature that casts doubt on the generalization that freer trade tends to foster exports of labour intensive products in developing countries (Yeats, 1989).
5 Lall concludes pessimistically: '. . . [T]he scope for selective interventions has been considerably narrowed by the new rules of the game of international trade and finance. This constitutes. . . the single most important constraint to the use of the tools that were deployed as successfully by [Korea and Taiwan]' (Lall, 1997, p. 52).

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Index

Acronyms used in the index:
FSU former Soviet Union
GDP gross domestic product
MAI Multilateral Agreement on Investment
SOEs state-owned enterprises
WTO World Trade Organization