
Economic Reform Trends in Vietnam: Has Nguyen Phu Trong's Leadership Curbed Reform?

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1. Introduction

It is generally agreed that introduction of the reform orientation called *Doi Moi*, proposed in the 6th Party Congress in 1986, put Vietnam on the right track for economic development. However, Vietnam did not initiate many drastic reform policies at one time, nor did it achieve rapid economic growth immediately after it declared the onset of reform. Vietnam has gradually transformed from a planned to a market-oriented economy, undertaking various restructurings, reorganizations, and amendments during the last 30 years or more. In 2010, the country, once facing a severely stagnant economy with less than 100 USD of GDP per capita at the end of the planning era, became a so-called middle-income country. Doi Moi has been an on-going process, and Vietnam is, at least according to the Communist Party of Vietnam (CPV), still engaging in continuous reform efforts.

Vietnam has actively advanced economic reform, although many still complain that reform has occurred more slowly than expected. Vietnam has concluded many bilateral and multilateral free trade agreements. Many state-owned enterprises (SOEs) have privatized, or *equitized*, as Vietnamese political leaders refer to it, and the list of those in the stock market is growing constantly. Recent inflows of foreign direct investments (FDIs), especially by Korean mobile phone producers, have contributed to employment generation and trade surplus in the country.

Vietnam’s political and administrative reforms, on the other hand, have taken place at a much slower pace compared with the country’s economic reform. While some changes to political-administrative systems have been introduced, such as age limits for Party cadres, confidence votes among high-ranking government officials, and abolishment of various privileges for civil servants, major political institutions have remained unchanged to present. One-Party rule has been maintained; national elections are still under the screening and supervision of the Vietnam Fatherland Front, the aligned organization of the CPV; and the successive Constitutions since its independence as Democratic Republic
of Vietnam have conferred special status to the CPV (or Labor Party of Vietnam from 1951 to 1976) as a leading political institution of the state. Furthermore, recent events in the political arena, including a harsh anti-corruption campaign, concentration of power with the CPV Secretary General Nguyen Phu Trong, and increasing repression on press freedom, represent the Party’s efforts to work against political-administrative reforms, strengthening (or even reviving) Leninist-style central state control.

Political scientist Jonathan London describes Vietnam as a country of “market-Leninism” (London 2009; London 2017).1 London claims that in Vietnam, a “specific combination of market economic institutions and Leninist power relations” exists, and contrary to conventional assumptions, “market-based growth is not intrinsically incompatible with Leninism” (London 2017: 389). However, this sophisticated terminology does not reveal the CPV’s motivation or rationale for adopting economic reforms, which inevitably lessen state control over the economy. The question remains whether the CPV’s recent excessively authoritarian rules signal its intention to curb economic reform.

This study attempts to gather data to answer this question, beginning with a review of the existing literature and description of recent relevant economic and political events. As the history of reform exceeds 30 years, there has been a rich accumulation of literature on Vietnam’s policy review, especially focusing on SOE reforms. Vietnam’s reform has been diversely valued; some praise it, and others are frustrated with it. In this paper a discussion on the progression of economic reforms in Vietnam under the recent political-administrative changes is provided through a presentation of various views on Vietnam’s reform.

In the second section of this paper, past sequences of reform that have taken place since Vietnam’s Doi Moi was initiated in 1986 are illustrated. The third section reviews recent events in political, administrative, and economic arenas, as well as policy measures introduced under the present leadership since 2016. In the fourth section, the effects of recent political-administrative changes on reforms are examined. Based on the analysis, the conclusion presented is that the CPV’s seemingly intensifying state control has not had a devastating effect on reform policy formulation. However, the strengthening of the

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CPV’s authoritarian surveillance over society has not curbed the pervasive rent-seeking habits of both state institutions and economic entities, which disables reform efforts.

2. Background: Reforms and economic development in Vietnam

2.1 Pass to the “industrialization and modernization”

One of the first economic reform achievements during the first decade of Doi Moi was abolishing rigid central state economic planning with price control and direct management of SOEs. The government also allowed the individual sector to participate in economic activities. Moreover, liberalization of trade and decollectivization of agricultural production dramatically improved people’s living standards. In the mid-1990s Vietnam escaped hyper-inflation and a chaotic economic instability at the initial stage of reform. Vietnam then started to set its ambitious goal to become an industrialized country.

At the 7th Plenum of the 7th Party Central Committee in 1994, the CPV proposed the subsequently widely used slogan “industrialization and modernization” and set the target of “turning Vietnam into basically a modern industrialized country by 2020.” One policy direction of the CPV was mobilization of all types of economic resources. In 1997, at the 4th Plenum of the 8th Party Central Committee, the CPV characterized Vietnam’s economy as a “multi-sector economy,” which was then replaced by the new concept, the “socialist-oriented market economy,” introduced in the 9th Party Congress held in 2001. Under this innovative concept, which has been widely referred to in Party and government documents, all economic sectors are expected to contribute to Vietnam’s socio-economic development, maintaining the basic principle in the Constitutions in that “the State economic sector plays leading roles.” This orientation led to the National Assembly’s promulgation of Enterprise Law in 1999, which eased regulations on the activities and registration of private enterprises.

Other means of pursuing the industrialization and modernization of Vietnam’s economy were shifting from an import-substitution to an export-stimulating industrial policy and establishing more open economic relations with other countries. Symbolic events included joining the Association of Southeast Asian Nations (ASEAN) in 1995, signing a bilateral trade agreement with the United States in 2000, and admission to the World
Trade Organization (WTO) in 2007. Even after admission to the WTO, Vietnam has actively signed bilateral as well as multilateral free trade agreements (FTAs). Vietnam had signed 12 FTAs by the end of 2018. Moreover, in 2018, Vietnam concluded more comprehensive and high-standard economic agreements, namely the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and an FTA with the EU (EVFTA). Although some controversial non-tariff barriers still remain on some strategic commodities, like automobiles, the government’s attitude to external trade can be regarded as one of the most liberal in the region.

Accession to global economic communities has enormously boosted Vietnam’s export of industrial goods, produced largely by foreign-invested enterprises (FIEs) in the garment industry in the 2000s and by Korean mobile phone producers since the beginning of the 2010s. It is almost certain that Vietnam cannot survive if it adopts inward-looking anti-globalism policies towards international trade and investment. The total value of Vietnam’s trade (export and import) in 2017 was 193% of its GDP, the second highest in Asia after Singapore. In 2017, 72.5% of export value in Vietnam was produced by FIEs (GSO 2018). Vietnam’s economy has greatly benefitted from the country’s liberalized policy to promote global free trade and the inflow of FDIs.

2.2 History of SOE reform

One of the main targets of Doi Moi reform at the initial stage was restructuring SOEs. However, such reform was not implemented smoothly in tandem with the opening up of the market for non-state domestic and foreign-invested economic sectors. The significance of reform outcomes through the 30 years of Doi Moi is reflected in the reduction in the number of SOEs, from about 12,000 in 1986 to 2,600 in 2016 (GSO 2018). However, SOE reform processes did not occur at an even pace, as the definitions of SOEs and policy measures for SOE reform have changed frequently.

Soon after the war against France ended, Vietnam’s SOEs were established using the

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2 There are nine of those Vietnam independently signed, including AFTA (then AEC), Vietnam-US BTA, WTO, Vietnam-Japan CEP (Comprehensive Economic Partnership Agreement), Vietnam-Chile FTA, Vietnam-Korea FTA, Vietnam-Eurasian Economic Union FTA, CPTTP, and EVFTA, as well as five under the framework of ASEAN, including ASEAN-China FTA, ASEAN-Korea FTA, ASEAN-Japan EPA, ASEAN-India CEP, and ASEAN-Australia-New Zealand FTA.

3 A series of legislative actions, such as Decision 217/HDBT in 1987 and Decree 388/HDBT in 1991, were promulgated in order to regulate ways to dissolve, merge, and close down SOEs regarded as inefficient (Vu Quoc Ngu 2002).
Soviet Union model to hasten economic development. By the end of 1960, 100% of industrial establishments, 99.4% of commercial establishments, and 99% of transportation facilities were nationalized and transformed into SOEs. After the unification of North and South Vietnam in 1975, private and public establishments in the South were transformed into SOEs. By 1978, 1,500 capitalist enterprises were nationalized and transformed into SOEs (Vu Quoc Ngu 2002: 2–4).

During the planned economy era after the unification, many SOEs built up serious losses, which resulted in the meltdown of Vietnam’s entire economy, so the government executed drastic transformation of SOE management when the Doi Moi reform started. The first reforms were issued through a series of legislative actions, such as Decision 217/HDBT in 1987 and Decree 388/HDBT in 1991, to abandon price control over the production inputs and products of SOEs and to abolish a wide range of subsidies. The independent management principle for SOEs was also introduced. Moreover, procedures to dissolve, merge, and close down inefficient SOEs were regulated. As a result, the number of SOEs decreased dramatically in the first few years of reform, from 12,297 in 1991 to 6,264 by April 1994 (Vu Quoc Ngu 2002: 7).

Another major policy direction since the beginning of reform was the equitization of non-strategic small- and medium-scale SOEs, aiming to transform the enterprises with 100% state capital into mainly joint stock companies. However, the equitization policy in the early- to mid-1990s was not able to mobilize private and foreign investment, and only about 30 enterprises were equitized until 1998 (data from Wacker 2017: 287).4

In the mid-1990s, a new reform orientation was adjoined. In addition to restructuring the SOEs that were regarded as inefficient, the government explored strategic enhancement of SOE competitiveness. Decisions 90 and 91 were issued in 1994, which directed the formulation of enterprise groups called General Corporations (GC 90 and GC 91). Enterprise groups that were categorized as GC 91, consisting of larger-scale SOEs in key economic areas, were supposed to report to the Prime Minister, while groups under GC90 were smaller-scale, specialized SOEs reporting to line Ministries or Provincial People’s Committees (Ishida 2013: 23; Fujita 2017: 4).

Substantial progress in equitization occurred following the 10th National Assembly in

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4 Other literature estimates that from 1992 to early 1998, just 17 SOEs completed equitization (Gainsborough 2009: 3).
1997, when the Prime Minister Phan Van Khai, called for acceleration of SOE reform. In 1998, Decree 44 (44/1998/ND-CP), which simplified equitization processes and established the National Enterprise Restructuring Committee to guide equitization processes, was issued. From the time Decree 44 was issued until the end of 1999, the number of equitized enterprises, most of which were small-scale enterprises with capital less than one million USD, increased to 224 (Clarke 2004: 94). Another study documented in the literature lists the number of equitized SOEs at 845 between 1998 and 2002 (Wacker 2017: 287).

Government actions supporting SOE reform, which was described as “keeping the big and releasing the small” (Cheshier et al. 2006), were further accelerated after 2005, just before Nguyen Tang Dung took the post of Prime Minister (in 2006). Since 2005, the government started to convert some GCs into State Economic Groups (SEGs), powerful conglomerates consisting of enterprises in diversified economic areas. The State Capital Investment Corporation (SCIC) was incorporated in 2005 in order to divest the capital of relatively smaller-scale SOEs. New economy-related laws in 2005 assigned a concentration of authority to the Prime Minister by easing the conditions under which the Prime Minister could issue Decisions related to SOE management. In total, 13 SEGs were established, seven of which were established under Dung’s administration.

However, due to the inability of the central government to discipline these new forms of economic groups, GSs and SEGs started to invest in side businesses in riskier sectors. Moreover, many of them established joint stock banks, which are loosely regulated and supervised by the financial authorities lending directly to their subsidiaries. The number of joint stock banks owned partly by state entities increased from five in 2005 to 22 in 2010 (Pincus 2015: 40).

Dung’s attempt to “keep the big” experienced a serious setback by the collapse of Vietnam Shipbuilding Industry Group (Vinashin) in 2010. The collapse was attributed to undisciplined management, overly ambitious business diversification, and wrongful spending. Vinashin’s collapse further led to the revelation of big losses of some other SEGs, such as Petro Vietnam, EVN, and Vinalines. The government finally decided to

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5 This concept in UNDP’s report was borrowed from the Chinese slogan “grasp the large, let go of the small,” which was first adopted by the Chinese Communist Party in 1996 (Ho et al. 2003).
6 When it declared failure, Vinashin ran 259 subsidiaries, most of which came to be subject to sales, dissolution, and liquidation.
dissolve and reorganize some SEGs and to close down their affiliates beginning in 2012. Dung was forced to express his “regrets” at the 4th National Assembly held in October 2012 for his error in judgment regarding Vinashin’s management. The government indicated new directions that aimed to hasten equitization and the listing of stocks of large-scale SOEs as well as the slimming down of SEG businesses. The SOEs, with 100% of their capital owned by the state, were supposed to focus on their core business sectors to deliver essential public-purpose end products (stipulated by Decree 61: 61/2013/ND-CP). The state determined it would continue to “keep the big,” but only in limited number and sphere.

3. Recent political economies of Vietnam

3.1 Tightening Party control after the 12th Party Congress

Vietnam’s political-administrative systems have been governed by Leninist elites in the Vanguard CPV, who enjoy monopolistic power to “subordinate powerful bureaucracy, control civil society through repression, and prioritize state economic interests over non-state interests” (London 2017: 417). The CPV’s decision to re-elect Nguyen Phu Trong for a second term as Party Secretary General and rather surprising withdrawal of former Prime Minister Nguyen Tan Dung from the Party Central Committee at the 12th Party Congress held in January 2016 indicated a reinforcement of the CPV’s authoritarian power. Since the onset of his second term, Trong intensified an anti-corruption campaign, which he utilized fully in order to remove the remaining influences of Dung from his administration. The foremost achievement was the elimination of Dinh La Thang, who was dismissed from the Party Politburo, the institution with the highest power of the country, and from the position of Secretary of Ho Chi Minh City. Thang was then prosecuted for allegedly causing damages in the amount of 900 billion VND to Petro Vietnam when he was its president. Removal of Thang was followed by some other high-ranking Party cadres who had been provided important management posts of large SOEs during Dung’s administration.

7 In 2012, the Housing and Urban Development Group (HUD) and Vietnam Industry Construction Group (VNIC: Soang Da Group), and Vinashin in 2013 were reorganized to GCs and One Member Limited Liability Companies. As of the end of 2018, the number of SEGs was reduced to ten.

8 When the 12th Party Congress was held, 19 Politburo members were elected. As of the end of 2018, the number of Politburo members was reduced to 17 for Dinh La Thang’s withdrawal and the death of former President Tran Dai Quang.
Political power was additionally concentrated under Trong after the sudden death of the Head of State (President), Tran Dai Quang, in September 2018. The National Assembly elected Trong, with 476 votes out of a total of 477, to succeed Quang. He became the third person who served as Party Secretary General to become President in Vietnam’s history after Ho Chi Minh and Truong Chinh.

In addition to the power concentration at the central party level, the CPV accelerated its authoritarian rules by suppressing freedom of expression. Security authorities have fought for more than a decade against bloggers who expressed their political support for democratization or a multi-party system. Some of them were arrested and, in many cases, exiled to countries with more liberal freedom of expression policies, like the United States. Pressure has also been mounted on official media recently. In July 2017, the most popular online newspaper Tuoi Tre was forced to suspend for three months due to “delivering false information.” Even the former chief editor of the political publishing house Tri Thuc (knowledge) publisher was condemned as a “traitor” by the CPV since he began openly criticizing the recent attitudes of the Party. The National Assembly passed the Cyber Security Law in June 2018, which enables the security authority to remove what it deems as “toxic” content from websites and social networking services, and to request foreign information service providers, such as Google and Facebook, to provide user information.

Trong and his sect have not been the only state leaders to maintain the Leninist top-down hierarchical political institutions, for at least the next decade or more, as the principle of the state management. Even before the 12th Party Congress, the 6th National Assembly in 2103 passed a new constitution in which proposals of drastic changes in some articles were shelved. The controversial statement in the draft 2013 Constitution as to the CPV as the “leading force of the State and society” (Article 4) was finally retained, despite challenges from radical parties in and outside the National Assembly.

9 Tuoi Tre reported that President Tran Dai Quang agreed with the need to issue the Demonstration Law. This article was then revised, and there were no longer any statements of Quang on the Demonstration Law in the revised version. This incident provoked speculation on online media. (BBC Vietnamese, 19 June 2017 https://www.bbc.com/vietnamese/vietnam-44187458)
11 Before the 13th National Assembly of 2013, there were demands from the liberal population to abolish Article 4 in the draft Constitution. One of the powerful forces demanding this change was a group of 72 intellectuals lead by the former Minister to Justice Nguyen Dinh Loc, who submitted the
3.2 Macro stability and new stage of reforms

The impact of Trong’s anti-corruption campaign has been, in some ways, enormous, especially on the real estate market. The real estate sector is the main target of anti-corruption investigations, as many development projects involve public land or SOE land, usually with undisciplined management. Licensing processes for many property projects were delayed due to stricter investigations, and property transactions became slack. As a result, the price of luxury and high-end condos in Ho Chi Minh City increased by 15 % in 2018 because of short supply (Le Hong Hiep 2019).

Nevertheless, the macro economy has shown a stable performance. Vietnam has maintained more than a 6% GDP growth rate since 2015, and the rate reached 7.08% in 2018, the highest since 2010. Export value and FDI inflow increased consistently. The export value in 2017 was more than four times higher, and the total registered capital of FDIs in the same year was 1.7 times higher than they were 10 years previously. Public debt, which amounted to 63.7% of the GDP in 2016, nearly reaching the “dangerous zone” of 65% of GDP set by IMF standard, decreased to 58.4% at the end of 2018.13

The government still announced at the beginning of every year target numbers for equitized and listed SOEs, but was disappointed at the end of every year. However, the events in 2017 in which some equitized (ex-) SOEs attracted significant foreign capital, such as the sell-off of Saigon Beer Alcohol Beverage Corporation (Sabeco) to Thai Beverage (Thailand) and purchase of VINAMILK stock by Singapore’s Fraser and Neave (F&N), might have motivated some SOEs to hasten their equitization and listing of their stock. Large-scale SOEs, such as Vietnam Airlines and Petrolimex, listed their stock in 2018.

Moreover, such mergers and acquisitions might also have motivated the government to

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12 Export value increased from 48.6 billion USD in 2007 to 214 billion USD in 2017 (preliminary data). The total registered capital (newly registered and additional investments) of FDI in 2017 was 37.1 million USD (preliminary data), while in 2007 it was 21.3 million USD. (GSO website)
further reform policy. The plan for establishing the State Capital Management Committee, the so-called “super committee,” which was initially announced in 2016, was finally launched in September 2018. The committee aimed to consolidate ownership of capital, which used to be separately controlled by line Ministries, Provincial People’s Committees, and SCIC, in order to accomplish efficient investment of this capital. Ownership of six SEGs, 13 GCs, and other large-scale SOEs was transferred to the committee.

One new policy direction Prime Minister Nguyen Xuan Phuc has endeavored and referred to in his speeches on various occasions is “to improve business environment and enhance national competitiveness.” Just after Phuc took the Prime Minister position in 2016, the government announced the issuance of Resolution 19 and Decree 35, which stipulate various measures to improve the business environment for the enterprises of all sectors. Resolution 19 aimed to set targets for improved business environments by using the indices of the World Bank’s “Doing Business” report and the World Business Forum’s “Global Competitiveness Report” scores as measurements. Resolution 19, which has been issued every year with the same resolution number, targeted better performance of micro economic managements, such as shortened time for enterprise registration procedures and tax payments. Resolution 19 aims to lift the scores of these indices up to the levels of the neighboring ASEAN member countries, especially Malaysia, Singapore, and Thailand.

On the other hand, Decree 35, which specified the government’s support for establishing new enterprises (throughs tax reduction and access to loans, for example), set an ambitious target for the number of new enterprises in Vietnam at one million by 2020, while the actual number in 2016 was about half that (505,000). In fact, the number of enterprises in operation, most of which are private enterprises, increased over the three years since 2016 by 204,615 (Table 1). This number exceeds the figure of the previous five years (2011–2016) of 180,386 (GSO 2016; GSO 2018). This rapid increase was possible, in part, due to the transformation of small-scale “individual business establishments” (co so kinh doanh ca the) into enterprises. There must also be many newly established enterprises as affiliates of SOEs and equitized SOEs, although it cannot


15 In fact, the government has issued Resolution 19 since 2014. In that sense, Resolution 19 was not Phuc’s original initiative. However, the issuance of Resolution 19 was a symbolic event to show Phuc’s zeal for economic management. Since then, “improvement of business environment and national competitiveness” became the frequently-used important slogan of the government.
be confirmed statistically with open available data.

Table 1: Changes in number of enterprises

<table>
<thead>
<tr>
<th></th>
<th>newly registered</th>
<th>re-operation</th>
<th>temporary ceased</th>
<th>dissolved</th>
<th>increase in those in operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>110,100</td>
<td>26,689</td>
<td>60,667</td>
<td>10,468 *</td>
<td>65,654</td>
</tr>
<tr>
<td>2017</td>
<td>126,859</td>
<td>26,448</td>
<td>60,553</td>
<td>12,113</td>
<td>80,641</td>
</tr>
<tr>
<td>2018</td>
<td>131,275</td>
<td>34,010</td>
<td>90,651</td>
<td>16,314</td>
<td>58,320</td>
</tr>
<tr>
<td>total</td>
<td>368,234</td>
<td>87,147</td>
<td>211,871</td>
<td>38,895</td>
<td>204,615</td>
</tr>
</tbody>
</table>

(source) GSO website.

(note) *from January to November.

Not only the number but also the presence of large-scale private enterprises increased in Vietnam’s economy. Vingroup, the biggest private conglomerate in Vietnam, founded by a Vietnamese who obtained his success by selling instant noodles in the Ukraine, provides Vietnamese people with various goods and services for use in their daily life through their shopping malls, supermarkets, condominiums, hotels, schools, hospitals, etc. Vingroup even declared its intention to start production of mobile phones and automobiles. In the aviation sector, Viet Jet Airlines, Vietnam’s first private airline flying among 35 cities, including Tokyo and Osaka, was joined with Bamboo Airlines through the investment of FLC Group, the private real estate titan. Five Vietnamese founders or chairpersons of private enterprises (including equitized ex-SOEs) were named as billionaires in Forbes magazine’s 2019 list.

4. Discussions: Has reforms curbed by intensifying authoritarian rule?

4.1 Seeking new form of state intervention?

It appears contradictory that, on one hand, authoritarian state control is intensifying in the

16 http://vingroup.net/
17 https://www.vietjetair.com/Sites/Web/vi-VN/Home
18 http://en.flc.vn/
19 Listed are Pham Nhat Vuong of Vingroup, Nguyen Thi Phuong Thao of Viet Jet Airlines, Nguyen Dang Quang of Masan Group (food and beverage), Tran Ba Duong of THACO automobile, and Ho Hung Anh of Techombank. (Viet Nam News on 6 March 2019: https://vietnamnews.vn/economy/506592/five-from-viet-nam-included-in-forbes-billionaires-list.html#0gtEG7ktW63ymSkX.97)
political arena, while on the other hand, reforms, especially SOE reform, which requires the loosening of state control over economic entities, has accelerated. How can this be legitimized among the state leaders?

The removal of Nguyen Tan Dung at the Party Congress and the following intensification of the anti-corruption campaign cannot simply be interpreted as the triumph of conservative inward-looking Trong over open reformist Dung. Indeed, Trong is not a typical old school conservative stalwart. He is the very person who, during the 14th Plenum of the 11th Party Central Committee in 2015, approved signing the Trans-Pacific Partnership Agreement (TPP: then concluded as CPTPP in March 2018). Trong is also the first Vietnamese Secretary General who visited the United States (in 2015). He seems to have strong motivation to enhance consolidation of the Party, which he believed was threatened by Dung and his cronies. Likewise, Trong’s way of governing the state may not simply mirror Xi Jinping’s administration of China. Trong does not seem to have ambition to become a cult leader personality. Trong did not make any drastic changes in decision-making rules in the Party, like Xi did, in order to extend his term as the Secretary General for as long as he wanted.

Another relevant factor is that the progress of SOE reform tends to be overvalued. Although the number of SOEs has decreased and have come to account for only 0.5% of those in all sectors in 2016, the impact of the state sector on Vietnam’s economy still remains substantial. Many of the SOEs are large-scale enterprises that employ 9.2% of total labor and possess 34.8% of the fixed assets of the country, and contribution of the state sector to the national account is still as large as 28.8% of the GDP in the same year (GSO 2018).

It is obvious that the grips of 100% State-owned enterprises have been tightened since the establishment of the “super committee”. However, even over the equitized enterprises, the state institutions, such as line Ministries and Provincial People’s Committees, can still exert a considerable degree of influence. Rather, equitization allows indirect control over the enterprises, or “a new form of state interventionism” (Gainsborough 2009). First of all, state institutions can influence decisions on when, how much, and to whom state capital is to be sold. The reason why equitization usually proceeds slowly is either because of the resistance from the enterprises and the state (Fforde 2004) or because of the struggles among persons and institutions concerned for control over the assets of SOEs (Gainsborough 2009). Equitized SOEs (even ex-SOEs) are often obliged to extensive
regular reporting to authorities, such as the audit board. Therefore, they need to maintain “friendly” relations and connections with authorities for their smooth business execution (Gainsborough 2009).

Beyond such persistent old habits in state-business relations, there may lie, probably partly, ideological claims of a socialistic state or firm beliefs in the technocrats for their abilities in scientific economic management, which serve as the bases of “modern states” (Scott 1998). However, it is more likely that such spontaneous actions by enterprises to maintain relations with authorities tend to create a “cover for rent-seeking and redistribution” of state capital (Ngo and Trako 2018: 482). State capital to be equitized can be effectively used for expanding the managers’ network among central as well as local state officials who decide matters such as allocation of party and government posts and the selection of government contractors (Pincus 2015: 46). Similarly, due to rampant rent-seeking, “obsessive state planning” still functions in the development projects, even after abolishing the central direct planning system, which hampers administrative reforms (Benedikter and Nguyen 2018).20

The anti-corruption campaign under Trong’s leadership has uncovered the rent-seeking practices in the equitized large-scaled SOEs (“kept” by the state) and large-scale development projects, although they are probably still far from conclusion. However, problems of persisting rent-seeking, partly rooted in old “xin-cho” (begging and giving) relationship between SOEs and controlling state institutions, still widely remain among “released” small-scale ones.

4.2 Has pressure from international economy led SOE reform in the right direction?

It is widely contended that Vietnam’s commitments under international trade agreements have been used to usher SOE reforms (for example, see World Bank and Ministry of Planning and Investment 2016: 6; Le Hong Hiep 2015). In this view, the recent (acceptable) performance of SOE reform, at least the decrease in the number of SOEs, is associated with the accession to WTO and conclusion of other FTAs. However, some critics assert that Vietnam has failed to utilize international pressure for reforms. On the contrary, they claim, FTA negotiations are used to conceal resistance to SOE reforms. At

20 The number of state plans continued to rise; in the decade from 2001 to 2010, it was 3,114, which increased to 18,285 in the period from 2011 to the date of the writing of this paper (Benedikter and Nguyen 2018: 4).
the stage of negotiating the WTO accession, Nguyen Tan Dung’s government stirred up the fear that the national economy would be threatened in the competition against the foreign-invested sector. Dung used WTO accession as the catalyst to establish the SEG-centered state economic development model in Vietnam (Vu-Thanh 2015; Vu-Thanh 2017).

Similarly, international pressure during the TPP negotiations was said not to be helpful for SOE reform in Vietnam. In the negotiation process, “a considerable number of exceptions” to exempt the SOEs’ conditions and their activities were sought to be listed (Willemyns 2016: 673), and in fact, many of them were successfully listed in the CPTPP agreement. Furthermore, as the concrete definition of SOEs was not delivered in the TPP negotiations, provisions of SOEs in the 2014 Enterprise Law were “blurred” in order to deflect pressure from the TPP negotiators in other countries (Le Thi Anh Nguyet 2015). The chapter on SOEs in the 2014 Enterprise Law (Chapter IV), consisting of 22 articles, covers only the 100% state-owned enterprises. To that extent, Vietnam’s TPP negotiators were able to claim that the official number of SOEs was reduced (Le Thi Anh Nguyet 2015: 8).

4.3 Is Vietnam doing business better?

Although the government has reviewed the rankings and scores of “Doing Business” as well as “Global Competitiveness” reports and set new targets every year by issuing annual versions of Resolution 19, Vietnam has not recorded tangible progress. Table 2 shows the rankings and scores of the 10 topics and overall ranking (ease of doing business ranking) of Vietnam according to the World Bank’s “Doing Business” reports from 2016 (the earliest report for which both ranking and scores are available) and 2019. In three years, Vietnam’s position advanced by nine places in its overall ranking. However, this is due exclusively to the better “access to electricity” (thanks largely to the Chinese power plant projects).

Table 2: Rankings and Scores in the Doing business Reports
Vietnam’s rankings in the World Business Forum’s “Global Competitiveness Report” from the 2013-14 and 2018 editions indicate that Vietnam’s competitiveness levels in business remain almost unchanged since 2013, although these cannot be compared simply on this basis, because some aspects of the measured items have changed (Table 3). The most appreciated among the items of Vietnam’s national competitiveness is its population: “market size” ranked 29th out of 190 economies.

Table 3: Rankings and Scores in the Global Competitiveness Reports

<table>
<thead>
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<th>Item</th>
<th>2013-14</th>
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<tr>
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<td>Institutions</td>
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<td>Innovation</td>
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(source) Global Competitiveness Reports, 2013-14 and 2018 editions.
Furthermore, although the Global Competitiveness Report grants relatively better marks on “financial system” (59th in the ranking), international investors still regard Vietnam’s financial market as underdeveloped. In its newly released Market Accessibility Report in June 2019, Morgan Stanley Capital International did not upgrade Vietnam’s country status from “frontier market” to “emerging market” in its classification, which many investors in Vietnam have desired for years.21

The idea presented in Resolutions 19 appears new because it requires measurement of Vietnam’s institutional capacities, which reflect the impact of policies with globally recognized indicators. Improving these indicators is logically easier to implement than complex enterprise reforms. However, it is questionable if the policymakers have real intention to accomplish policies to formulate such a micro business environment. The underlying beliefs and behaviors of the policymakers have hardly been changed from the central planning era. Resolutions 19 are typically a part of Vietnam’s top-down state planning system with state intervention.

In regard to recent outstanding performances by some large-scale private enterprises, Prime Minister Phuc and other economic cabinet members have repeatedly emphasized the important role of the private sector on various occasions. However, growth of private enterprises may not be brought on by the removal of discriminatory treatment, or provision of a “level playing field” to the private sector. Rather, it seems that Vietnam’s “national champion” model of development, in which government provides preferential treatments in financial access, land use and tax exemptions to a limited number of enterprises in key economic sectors, started to be applied to some private enterprises. In the course of recent developments, Vietnam has sought a development model relying on “national champions” that play a leading role. Given the fact that Vietnam’s economy has been traditionally dominated by small-scale enterprises and individual economic entities according to their numbers, it seems to be a reasonable strategy to rely on the large entities, regardless of their ownership in key economic sectors. However, again, Leninist top-down decisions mechanism on to whom “state champion” status be provided tend to create state rent and rent-seeking practices regardless of the ownership of the enterprise.22

21 Viet Nam News, 26 June 2019 (https://vietnamnews.vn/economy/521851/vn-fails-to-make-msci-watchlist-for-status-upgrade.html#48IH7p8GPTjTg.97)
22 John Reed’s long (more than 4,000 words) column in Financial Times suggests the government’s policy supports to Vingroup, including strict restrictions on automobile imports from the beginning of 2017 to support the inception of automobile production by VinFast, the automobile producing company under Vingroup. The column also hints at the existing special relations with state cadres
5. Conclusion

In its process of transformation from a central planning to a market economy, Vietnam has formulated a unique economic management system different from that of capitalist countries or from the ideal type supported by neo-classical economic theories. Even though a series of new policy measures has been introduced and new phenomena have taken place recently, such as emergence of large-scale private enterprises, the basic principle of and motivation for economic management of the CPV and government seem to be unchanged: the country’s economy develops effectively when it is led by the national champions in the key economic sector selected by the Vanguard Party. That constitutes the substantial meaning of the market Leninism of Vietnam.

Economic reforms, especially those of State-owned enterprises, are aimed toward, first and foremost, improving the efficiency of the economic entities and of state capital investments. However, even though a series of reform policies have been issued and many SOEs have been equitized and listed in the stock market, Vietnam’s economy has yet to demonstrate drastic structural changes. The level of Incremental Capital Output Ratio (ICOR) remains high, which Ohno (2009) warns is an indication of being caught in a possible “middle-income trap.” Many other economic indicators reveal that Vietnam still cannot grow out of the “vent-for-surplus” development model based upon the “millions of new employments created by agriculture and light manufacturing industries” (see Pincus 2015, Pincus 2016). The CPV admitted in 2018 that it is unlikely to achieve its long-standing target of becoming an “industrialized country by 2020.”

One of the causes of such phenomena can be, as has been argued in this paper, pervasive rent-seeking practices of economic entities and state authorities. In a Leninist state with a top-down planning system like Vietnam’s, rent has easily been created and distributed effectively among the limited rent-seekers because state authorities have restricted access to economic opportunities. Recent, surprisingly rapid advancements of large-scale private

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(23) The higher ICOR is, the more capital formation is required. ICOR in 2017 (preliminary score) was 6.11, dropping for some years after the global economic crisis in 2008 (the highest was 7.35 in 2009), but has yet to drop to the pre-2008 level (5.36 in 2007).
enterprises, seemingly supported by state initiatives, may only suggest that Vietnam’s state institutions have diversified rent-seeking systems, ranging from state capitalism to crony capitalism (Ngo and Trako 2018).

At the transitional stage from a planned to a market economy, as the state power and capacity to manage the economy were weak, such rent-seeking mechanisms might have helped create economic efficiency at local levels, which Adam Fforde called the “auto-reform” of economy with spontaneous and endogenous actions of stakeholders (Fforde 2009). However, as Vietnam’s economy has grown, it has become obvious that such an autonomous mechanism does not function well at the national level, and the state must take suppressive actions over the parties who speak out against the injustice of the rent-seeking economy. There must be a limit to growth based upon a rent-seeking distribution system. For further growth in the long run, Vietnam needs to establish an economic management mechanism based upon a universal rule of law (for example, protection of property rights, freedom of expression, etc.).

In the future, Vietnam might be requested further commitments for domestic reforms as an important actor in global trade. One unforeseeable factor is Donald Trump’s administration in the United States. At present, Vietnam has benefited largely from the unstabilized international political economic situation, i.e. trade “war” between the United States and China. The enterprises in both countries, especially in the United States, must look to divert their orders to bypass higher tariffs, and indeed the export value from Vietnam to the United States in the first half of 2019 increased by 30.42% compared to the same period of the previous year (according to Global Trade Atlas data).24 However, for the United States, Vietnam may not be a “fair” trade partner, accumulating 42.6 billion USD in trade deficit, ranked the seventh highest country in 2018 (Global Trade Atlas data). Furthermore, U.S. trade authorities seem to become nervous with the illegal transfer of Chinese goods with fake product-origin certificates from Vietnam.25 It would not be surprising if the United States, having decided not to participate in TPP, someday starts to question Vietnam’s unfair production system (by SOEs or subsidized private

24 Bloomberg introduced the study of Nomura Holdings Inc. that describes Vietnam as the “top winner” from the U.S.-China trade war because Vietnam gained orders from trade diversion on tariffed goods equal to 7.9% of its GDP in the first quarter of 2019, followed by the distant second Taiwan with gains equivalent to 2.1% of its GDP. Bloomberg online news on 3 June 2019 (https://www.bloomberg.com/news/articles/2019-06-03/vietnam-tops-list-of-biggest-winners-from-u-s-china-trade-war)
enterprises) and imposes more strict regulations to create a more open economy.

References


