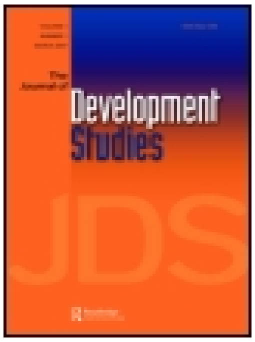

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The Politics of State Sector Reforms in Vietnam: Contested Agendas and Uncertain Trajectories

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The 1997 Asian financial crisis and subsequent impact on Vietnam's economy reignited a decade-old internal debate over economic reforms (doi moi). Heralded by many as a success story, the pace of doi moi was the cause of sharp conflicts within the ruling party as the IMF prescribed speeding up the process. At first glance it seemed that neo-liberalism was triumphant. However, this article argues that we need to take a closer look at the content and meaning of 'reform' in the Vietnamese context. Neo-liberal reforms were modified to ensure they consolidated rather than unravelled the authority of the Vietnamese state and to accommodate the new hybrids of state–business alliances.

I. INTRODUCTION

The 1997 Asian financial crisis came as a wake-up call to Vietnam's Communist Party elite. While the immediate impact was not dramatic, largely because Vietnam's currency was not traded, the subsequent regional slow-down did lead to a decline in the growth rate from near ten per cent to approximately five per cent, a sharp reduction in the level of foreign direct investment (FDI) commitments and looming fiscal and balance of payments problems [*IMF, 1999: 5; IMF, 2002: 6*]. The Government as a result felt moved to seek additional assistance from the IMF. At the same time, new vigour was added to an ongoing domestic political debate over the direction of economic reform, or '*doi moi*' (renovation).

Doi moi, launched in 1986, resulted in dismantling most of the instruments of the command and control economy and an 'open door

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policy' – encouragement of FDI and overseas development aid (ODA) and lowering of trade barriers. The result seemed to be an economic success story. A crisis of spiralling inflation was surmounted and longer term growth was delivered. Annual growth in exports averaged close to 30 per cent in the first half of the 1990s, and FDI reached over US$2 billion in 1995. ODA grew steadily, providing an important source of financing for much needed infrastructure. While *doi moi* seemed to deliver much needed growth and development, the Asian financial crisis aroused some of the worst fears of the doubters, including the risks of placing the country at the mercy of the IMF.[1] The IMF's diagnosis and remedy were predictable, blaming the 'sharp deterioration' in economic performance on 'domestic structural weaknesses compounded by the impact of the regional crisis', and calling for the Government to 'speed up structural reforms, especially in the banking, SOE (State Owned Enterprise) and trade areas...' [*IMF, 1999: 4*]. But just as the International Financial Institutions (IFIs) demanded an 'accelerated *doi moi*', the party elite was riven with conflict, with forces opposed to the reform agenda calling for a reassessment [*Abuza, 2001: 5–7; Thayer, 2001: 185–6*]. The outcome of this conflict, during which the implementation of *doi moi* seemed to stall, was in fact a much strengthened commitment to reform. During 2000 and 2001 the Government took a number of major steps: a trade agreement with the US; announcement of the intention to join the World Trade Organisation (WTO); implementation of significant new tariff reductions; re-affirmation at the 9th Party Congress of the principles of market reform, and proposals for more determined implementation; a Letter of Intent accepting IMF funds and committing Vietnam to reform milestones; and a strengthened Public Administration Reform (PAR) programme, including downsizing and deregulation.

In sum, the regional crisis brought to the surface and seemingly resolved underlying domestic cleavages and tensions that had been generated by over a decade of economic reform. In particular, it might seem that the Government of Vietnam had opened the doors to a long-term process of penetration by models of development projected by the IFIs. Neo-liberalism at first glance seemed to be triumphant, or at least in the ascendancy. However, before jumping to this conclusion, a closer look must be taken at the content and meaning of both 'neo-liberalism' and 'reform' in the Vietnamese context. In addition, the argument that the external influences are dictating the pace and direction of domestic reform needs to be placed in a wider context of debates about state autonomy. The next three sections address these issues, before turning to closer analysis of domestic, political dimensions of the reform process in Vietnam. I argue that Vietnam's development strategies, including marketisation, are strongly influenced by models other than neo-liberalism, and follow a trajectory of their own; that the selection and adoption of particular neo-liberal reforms in the face of external pressures must be understood as a domestic political process in which the state seeks to shore up its authority while accommodating emerging state–business alliances; and that these propositions are no better illustrated than by the strategic approach adopted by the Vietnamese party-state centre to overseas development aid which seeks to encourage economic reform.

II. NEO-LIBERALISM AND VIETNAM'S DEVELOPMENT STRATEGIES

Neo-liberalism as a set of economic policy prescriptions aims to free up domestic markets and speed integration with the global capitalist economy. These prescriptions have been most in evidence in the 'structural adjustment' policies of IFIs, imposed on states which descend into fiscal crisis. In those cases, a strong emphasis is given to reducing government expenditures and on privatisation. In 'transition' economies, where the IFIs are also active, stress is placed as well on building market-supporting institutions, such as the rule of law. Developing such institutions became an increasingly strong focus of donors such as the World Bank and the IMF in all developing countries in the 1990s, under the broad heading of 'governance' reforms.

This emphasis owes something to the growing perception that the 'Asian miracle' rested in part on the efforts of strong, effective states in sponsoring and supporting profits and growth. However, despite this concession, under the so-called 'post-Washington consensus' [*Jayasuriya and Rosser, 1999: 388–92*], the thrust of governance thinking within the neo-liberal paradigm has been more to advocate state institutions that mirror a minimalist, liberal state: frameworks of rules and systems of transparency and accountability, rather than mechanisms for democratic control and positive intervention in the economy [*Beeson, 2001: 483–7*]. Kanishka Jayasuriya [*2002*] sees the evolution of governance programmes under the World Bank and IMF as recently entering a third stage, that of the 'managerial civil society' in which partnerships, social inclusion and social contracts are constructed through social safety net programmes and social funds. Thus, the goals attached to the IFIs' Poverty Reduction and Growth Strategy (PRGS) loans seek to bring together programmes of structural adjustment, market strengthening and pro-poor social engineering in one package.

I argue in this article that these tendencies in IFI rationales and models have not been unwelcome to many of Vietnam's policy-makers, who have been trying since the inception of *doi moi* to evolve their own 'market socialist' trajectory of development within a statist framework. Neo-liberalism, it would seem, has been made less threatening, at least as it is manifested in the rhetoric and content of international development assistance.[2] Vietnam's economic development strategy within the framework of *doi moi* has always been a mix of selected 'statist' and neo-liberal recipes, as defined above. Alexander Woodside [*1999: 36*] has argued that Vietnam's self-conscious latecomer status among Asian industrialising nations predisposes it to 'the necessity for a strong state, in which is vested the power to choose the right latecomer options'. Accompanying the rhetoric of market reform, there is a strong reliance on the export potential of a large SOE sector along with high levels of public investment in infrastructure and industry development. The Ten Year Plan of 2001 stressed the state sector's 'leading role in the economy' [*CPV, 2000*]. While tariff and trade reforms have exceeded IMF expectations [*IMF, 2002: 9–11; World Bank, 2002b: 14–5*], measures remain in place to nurture strategic domestic industries. In the midst of the financial crisis, Vietnam successfully deployed a number of interventionist measures that included 'soft' loans and tax breaks for SOEs [*Tran Van Son, 2000: 9–10*] and restrictions on imports [*Masina, 2002: 209–10*]. Vietnam's approach thus echoes the historical model of the Asian developmental state and has parallels with the contemporary exemplar of China, to which some of Vietnam's leaders pay close attention [*Abrami, 2003: 99–100; Tonnesson, 2001: 189–91; Zhu, 2003:157–9*].

But the reform strategy includes a set of initiatives to build market institutions and to aid the development of private business. Despite the continued complaints from foreign businesses over a bewildering array of bureaucratic obstacles, the official policy welcomes and encourages foreign direct investment, for example through enterprise zones where special conditions apply that facilitate development. A steady programme of legal reform has seen the introduction of laws that aim to ease business transactions, one of the most significant being the re-written Enterprise Law of 2000 [*Arkadie and Mallon, 2003: 109; 164–9*]. By the end of 2002, some 56,000 enterprises had been newly registered under this law [*Tenev et al. 2003, 2*]. Other prominent examples of measures intended to speed marketisation are the Land Law, the Law on Financial Institutions and the Law on Foreign Investment, each of them significantly re-written during the 1990s with a view to facilitating private enterprise. Between 1995 and 2000, the share of output by the non-state sector grew from 50 per cent to 58 per cent [*Arkadie and Mallon, 2003: 116–7*]. Private industrial output showed growth rates of around 20 per cent in each of the years 2000–2002 [*Tenev et al. 2003, 2*].

III. INTEGRATION AND AUTONOMY

As Vietnam absorbs the demands and pressures of economic integration, aid dependency and international trade negotiations, will these domestic growth strategies remain viable? How best can we assess the effects of this meeting between a set of distinctive national policies and a global neo-liberal programme that, in many respects, challenges that trajectory? The logic of economic integration into the global capitalist economy potentially constrains domestic policy choices in a number of ways, for example through the need to avoid capital flight and the requirements imposed by trade regimes such as the WTO [*Weiss, 2003: 5–10*]. Vietnam's vulnerability in these contexts may be even the greater, it being a poor, developing nation with ambitious growth targets. The receptivity to ODA in these circumstances brings with it the jeopardy of growing aid dependency. Outside technical assistance and policy advice may have potentially unwelcome effects. Foreign advisers are to be found in government agencies across Vietnam implementing programmes that reflect similar, if not identical, donor views of the world. The constant exposure to more or less uniform models of 'best practice' aids the diffusion of such apparently consensual, global reform models [*Larmour, 2002: 250–2*]. A more direct form of influence resulting from aid dependency is in the shape of the terms and conditions attached to grants and loans.

Many arguments about national vulnerabilities in the face of such external influences take an 'outside-in' perspective, treating local state actors as more or less passive recipients or victims. But the approach taken here is an 'inside-out' one, which stresses the potential significance of active choices made by state actors, the varying effects of globalisation on different interest groups and the variety of domestic and non-domestic pressures that bear on state policy decisions.[3] This analytical approach is outlined in the next section, which uses a 'state in society' perspective to argue that the processes of marketisation and integration have constituted new political interests and generated new problems of state management and legitimacy in Vietnam. Only from an understanding of these domestic political forces and strategies can we gain an appreciation of the manner in which external influences are contested and mediated. This is particularly the case when we try to understand relations with the various international institutions that have made their presence felt during the process of integration. Particular attention is focused here on international aid and its impact. I argue that, in the Vietnamese context, outside resources and ideas are both appropriated for domestic purposes and, in the process, transformed to support alternative outcomes to those that might be expected. In seeking to unravel these interactions between 'inside and outside', examples will be drawn mainly from the area of SOE reform. This focus on the state business sector is supplemented in the next section by a brief discussion of developments within the private sector, with a view to delineating the complex constellations of interests emerging within the realm of economic reform more broadly. The issue of SOE reform, however, is central to the neo-liberal project in transition economies, and there is no better example of an issue over which domestic economic interests and those purportedly represented by neo-liberalism come into conflict. The capacity of the Vietnamese government to manage the outcomes of this reform process is a key test of the manner in which domestic interests are shaping the trajectory of economic reform.

IV. THE VIETNAMESE STATE AND THE POLITICS OF 'REFORM'

Economic reform is concerned with changing the rules under which economic actors go about their business. In contemporary debate and analysis of such reform, so dominant is neo-liberalism as an economic policy paradigm that it has colonised the very word 'reform' to the point where liberalisation lays sole claim to that label [*Tonnesson, 2001: 172–3*]. *Doi moi* is a liberalisation process, but to point this out tells us very little. For the points of political contention are not simply formal changes to abstract sets of market rules, but the restructuring of concrete opportunities for acquiring power and wealth in a particular historical and institutional context. Economic reform is a contested political process, and 'liberalisation' has acquired distinctive local meanings and produced contradictory results.

From this perspective, we need also to be wary of considering economic reform as simply a 'steering' activity by high level state actors who make strategic choices based upon expert advice. In Vietnam, there is a strong presumption that reform is a 'top down' process of command and control. Official party ideology insists on the veracity of the image of coherent, unified party leadership and state management. Under the norms and practices of democratic centralism, the party demands (and normally obtains) a monopoly of the formal processes of political mobilisation, representation and decision making. Moreover, there is a predisposition towards technocratic modes of policy making, with a plethora of research institutes and well trained economic experts undertaking analysis and advice that feeds very immediately into top policy making circles.

However, there are contrary indications to this image as an accurate representation of the political process of economic reform [*Gainsborough, 2003b: 104–9*]. For example, a noticeable feature of the reform process in Vietnam is 'fence breaking', by which 'reform' follows on after local actors first break the rules, coupled with a strong propensity to permit local experiments and to label them 'pilot projects'. The image of top-down decision making conceals not only a complex process of elite consensus-building which seeks to be politically inclusive, but also a high level of sensitivity to local demands and protests. Both of these features are evidence of the centre's domestic vulnerability as much as its strength. Migdal's view of the state as a set of institutions embedded in and inter-penetrating wider social and political groups and institutions is a useful perspective in this context [*Migdal, 2001: 15–22; 110–34*]. He proposes a distinction between on the one hand 'images' of the state, which stress its coherence and unity, and on the other 'the contradictory practices and alliances of its disparate parts' [*Migdal, 2001: 15–16, 22*]. Rather than a top-down hierarchical order, this kind of state is a set of interactions and negotiations between state actors, as well as with non-state institutions, communities, groups and individuals [*Kerkvliet, 2001: 239–40*].

Vietnam is governed through a highly decentralised, fragmented and sometimes incoherent set of state institutions. There is a chronic problem from the party-state centre's point of view of 'unimplementability' [*Fforde, 1998: 30–32*].[4] Party-state control is, on the surface, comprehensive, but the instruments to achieve many central party-state purposes are weak. Administrative structures in both central government and provincial governments tend to be structurally fragmented, with flat hierarchies and relatively weak centres. A number of institutional traditions and norms, such as 'double subordination' (where local line units are under both local general purpose control and central line management) and a strong tradition of 'self sufficiency' (bred in part by resource scarcity and the need to rely on local initiative to fill the gap) reinforce this disjointedness [*RIAP, 2001: 178–9*]. Increasingly, centrally provided funds are insufficient to cover mandated local spending needs, leading agencies at the periphery to resort to a variety of their own fees and charges [*World Bank, 2000: 22–3, 54, 63–4*] and to seek out revenue from locally sponsored economic activities. These activities enhance local autonomy and weaken the centre. There is an increasing level of fiscal and administrative decentralisation as demands for expenditure have grown but central tax capacities have not kept pace [*Fritzen, 2000: 68–77; World Bank, 2002b: 85*].

On top of these fragmenting forces, the loosening of the Soviet-style administrative controls of the command economy from the 1980s on set in train a process of 'power scattering' [*Vasavakul, 1996: 44–48; Gainsborough, 2002: 360*]. Effectively, state production units and the line bureaucrats who controlled them took advantage of the relaxation of controls and the commercial opportunities of the market to acquire assets and accrue power and wealth. Some local governments began to operate independently in attracting foreign investment and doing deals. A 'state business interest', with strong roots in provincial and local state and party circles, emerged as a powerful political force [*Beresford, 2001: 226–9; Fforde, 1993: 308–12; Gainsborough, 2003a: 72*]. Many factions emerged within this broad 'state–business bloc': local governments and branches of central ministries used their new freedoms as SOE owners to generate 'off-budget' income, and managers of SOEs used them to accumulate profits and appropriate wealth. Among these 'bureaucrat businessmen', varying interests and circumstances created conflicting perspectives on the daily practices of party control and administrative enforcement. A set of state–business relations evolved that was closely inter-connected with existing party and state patronage systems. Signs of 'money politics' emerged, including large scale corruption within the ranks of the party. This new set of political claims and fault lines within the party-state had serious implications for intra-party conflict management.

Another dimension to this 'power scattering' was through the growth of the private sector and the manner in which it related to the state. The nature of the private sector in Vietnam owes much to the fact that large parts of it emerged from within the state, or at its fringes. Market-like institutions and relationships in Vietnam evolved informally within the shell of the command economy before 1986. Subsequently, the same informality was evident in the way bureaucratic entrepreneurs explored the opportunities provided by growing economic freedoms. This high level of informality is characteristic of the private sector and market relations in Vietnam. The informal sector or 'shadow economy' as conventionally defined, where the formal rules and regulatory powers of the state do not reach, comprises about 50 per cent of the total economy. The household and small business sectors, which comprise the fastest growing part of the economy, operate by and large informally. One estimate is that half of the take-home pay of public employees derives from their involvement in the informal cash economy [*Tenev et al., 2003: 14–6; Painter, 2004*].[5] Where business comes into direct contact with state organs (regulation, taxation, registration and licensing, loans from state banks and so on), the gaps in administrative infrastructure (for example in the tax collection bureaucracy) not only make it difficult to achieve consistency and regularity of enforcement, but also at the same time encourage 'rent-seeking' behaviour. This, in turn, reinforces informality. The rules perform the function of providing some public officials with the leverage to make connections with private business for their own profit and advantage – deals over tax assessment, for example. Most private entrepreneurs cannot do business without entering into such non-formal relations with state officials, for example by paying bribes [*Tenev et al.: 35–7*].

Thus, the level of support for or opposition to the official programme of economic reforms by diverse kinds of emerging business interests was unpredictable and depended on circumstances. A powerful undertow in the policy reform process in the 1990s, for example, was produced as a result of the defensive stance among many managers and bureaucrats with a stake in state business enterprises, who opposed reforms that would undermine their protected status, or even deny them the control of the assets that they had already effectively appropriated. At the same time, greater access to FDI and joint venture opportunities, along with loosening up of state regulations governing such activities, were welcome to many state business entrepreneurs. Fforde [*2002: 372–3*] argues that by the end of the 1990s, many entrepreneurs and managers had acquired sufficient power and confidence that they no longer viewed state protection and ownership as the best shell for accumulation, thereby creating a growing political coalition in support of accelerated marketisation of SOEs and other structural reforms. As to private entrepreneurs, while the majority, in response to questions in a survey, might complain about 'red tape' and bureaucratic corruption, many at the same time are highly dependent upon informal connections with state actors for essential resources (such as land or bank loans), and thus have ambiguous views about economic reforms that are intended to bring a more transparent set of rules and a more 'by the book' style of administration and enforcement. Their connections provide a competitive advantage that they might not be able to substitute. Complex alliances among both state and non-state actors produced not so much a uniform pro- or anti-reform perspective as a set of interests that were intent on exerting domestic control of bureaucratic and political decision-making, whether at the centre in the forums of high policy, or at the periphery, where much discretionary power actually lay with local officials.

In this context, the national leadership at the party-state centre has faced a continuing problem of trying to plug gaps in the growing fragmentation of central state power. In the 1990s, as a consequence of the changes brought about by transition, they were challenged from another direction. Some aspects of the process of commercialisation of the state sector threatened to damage the wider standing of the party. There were increasingly hostile popular reactions to growing abuses of state power and to conspicuous signs of personal wealth among party officials. This hostility was a symbol of the heightened social inequality that arose with the economic forces released by marketisation.[7] In the early period of economic reform, removal of subsidies led to a withdrawal of some social safety net provisions. Subsequently, inadequate state revenues led to a drop in the quality of state services, and a growing tendency for local health, education and other service providers to squeeze the local population for personal contributions [*Beresford, 2001: 222*]. Petitions and protests from disgruntled citizens complaining about official corruption, arbitrariness and inefficiency were a growing phenomenon in the 1990s [*Vasavakul, 1996: 50–2*]. There was sporadic but serious rural unrest and protest [*Kerkvliet, 2001: 265–8; Koh, 2001: 543–8*].[6] These outbreaks were a cause for much leadership concern and contributed to the doubts that were apparent in 1998 and 1999 over whether to press on harder with *doi moi*, or to put the brakes on.

Thus, throughout the reform era, a primary preoccupation of the party-state centre has been with loss of control. While *doi moi's* successes bolster the legitimacy of the regime, they threaten day-to-day control, both within and across the increasingly ambiguous boundaries of the state. In the next section, I argue through the case of the restructuring of SOEs that state reform strategies are primarily determined by the pressures exerted by emerging domestic business interests, with the party-state centre not only adapting its policies to these realities but also fighting a continuous uphill battle to implement them against resistance. In the subsequent section, I suggest that ODA offers one opportunity for the party-state centre to reinforce domestic control in the face of these pressures, while also helping to sustain development. This section shows the selective, strategic uses made by state actors of both aid resources and the ideas and influences that come with them. Here, we encounter neo-liberalism in the shape both of structural adjustment and of governance reform. Ironically, those who seemed to benefit most from efforts to advance these agendas were not the business interests but party and state officials seeking to defend the party-state centre from the political implications of marketisation.

V. *DOI MOI* MEETS NEO-LIBERALISM: THE CASE OF SOE REFORM[7]

The World Bank in its 2003 Development Report noted 'uneven progress in the march towards development', with some areas of 'outright stagnation'. It singled out SOE reform as a problem area: '... it will be necessary to identify mechanisms to instill a new life into the programme to restructure state-owned enterprises' [*World Bank, 2002b: 3*]. The Report warned: '(Vietnam) may fail to remove the obstacles in its reform path, let the vested interests capture government transfers to offset their inefficiencies, and see an unhealthy relationship develop between enterprises... and government officials. A weak macroeconomic situation, slower growth, increased inequality and generalised corruption could be the outcomes...' [*World Bank, 2002b: 4*]. The recipe urged is a familiar one, including accelerated privatisation (namely, conversion to private company form, issuing of shares, and development of an effective share trading system), removal of subsidies, reform of the banking system and measures to 'level the playing field'.

The Vietnamese Government would have no trouble endorsing the World Bank's diagnosis of the problems it faces with its SOE sector. But the solutions followed (particularly when viewed in the light of their actual implementation) demonstrate a very different set of priorities. Between 1986 and 1992 state controls and subsidies were dismantled in a series of measures which allowed SOE managers greater autonomy to operate on a commercial basis. Steps were taken to drive out of existence many small, non-viable enterprises (most of them owned by local governments). The result was to more than halve the number of SOEs (from over 12,000 in 1990 to about 6,000 in 1994). In 1991, the 2nd Plenum of the 7th Party Congress approved a proposal on 'equitisation', that is the transformation of SOEs into joint-stock companies, with retention of state owned shares. A pilot programme was approved in mid-1992, and efforts made to speed it up a year later. Line ministries and local government SOE owners were instructed to develop divestiture plans, which were to be submitted to a national steering committee. By the end of 1997 under this 'bottom-up process' only 15 enterprises had been converted to joint-stock companies.

Under the urgings of aid donors, various measures were adopted to speed up equitisations in the second half of the 1990s and, and as a result, from the end of 1997 to May 2002, 636 SOEs were equitised [*World Bank, 2002a: 22*]. Practical obstacles to equitisation included technical and legal difficulties, but the main impediment was that most of the potential purchasers were existing managers and employees who, in most cases, already enjoyed informal ownership rights [*Gainsborough, 2002: 358–60*]. Many SOEs are what Fforde calls '*de facto* virtual share companies where owners' rights are varied and essentially commercial in nature and operation' [*Fforde, 2002: 371*]. Manager-owners of these semi-privatised entities were not prepared to surrender the advantages of SOE legal status: clearer title to land, easier access to loans, fringe benefits for employees, security of employment and so on.

Thus, the actual pace of reform was shaped by the need to respond to the challenges posed by the alliance of state or party officials and enterprise managers who, in the new commercial environment, were extracting growing benefits, some in the form of rents. One indication of this was that while some efforts were made to remove obstacles to equitisation, the restructuring of enterprises remaining nominally in state hands was a more significant component of the overall reform programme. One aim was to reduce the power of bureaucratic line agencies which were obstructing some commercial efficiency reforms [*Vasavakul, 1996; 1997*]. The establishment in 1994–95 of 'General Corporations', that is large conglomerates of SOEs, sought to achieve this. These Corporations control most of the key industry sectors and play a vital role in the Government's industry development and export strategies. But as commercial entities, their rationale was far from clear, and their constitution reflected a political compromise between the need to corral local business interests under closer party-state oversight and the desire to provide a new set of structures in the name of market efficiency.

The 9th Party Congress in 2001 laid out an ambitious and expansive future role for the SOE sector, '… being the key force in boosting the economic growth and providing ground for the industrialisation and modernisation of the country with the socialist orientation'. But at the same time, restructuring measures were redoubled. During 2001–03, around 1,800 out of 5,571 SOEs were to be subject to reform measures, mostly through equitisation (1,400), divestiture (140), liquidation (220) and merger or consolidation. Several measures were also announced for auditing, reviewing and restructuring a number of large SOEs with a view to improving their commercial operations [*IMF, 2001: 17*]. A parallel set of measures sought to assert greater party control: once again, we see the party-state combining a liberalising economic reform programme with a domestic political strategy. The 2001 Party Congress spelt out the principles: '…Party organisations in state enterprises lead in the application of party lines and policies, participate in proposing and leading in implementing efficiently the business development; ensure the legal rights for labourers; bring democracy into play; lead in building the manager system, party members, and in fighting corruption; lead mass organisations in implementing their tasks and functions'. The Party Central Organisation Committee issued a new circular on '…innovating the leading way of party organisations in SOEs to fit with the requirements and operational characteristics of enterprises in the new conditions'.

The party-state centre has a vital interest in the overall economic success of the state economic sector and its rates of productivity: about one-quarter of state revenue is extracted from SOEs, and of that about two-thirds from the 200 largest enterprises [*Painter, 2003: 26*]. The efforts to improve their productivity and profits has shifted somewhat towards a new set of more hands-off 'level playing field' measures, which will both impose efficiency disciplines on SOE managers and remove some of the obstacles to equitisation of those SOEs not considered to be strategic. A number of legal and administrative measures are being introduced to use market instruments to improve commercial performance, such as restructuring of state owned commercial banks so as to put a check on the ability of SOEs to acquire easy credit and similar favoured treatment through political connections, and other changes that 'level the playing field' on which private enterprise and state business enterprises compete.[8] Meanwhile, further steps are being taken to improve the efficiency of enterprise management through restructuring of the General Corporations into 'holding companies', new forms of corporate governance to try to impose stricter disciplines on management, and new terms of employment for enterprise managers that include direct sanctions for incompetence. The measures to re-assert party control must be seen in this context, as efforts to maintain a party stake in the commercial future of entities that operate at an increasing distance from direct state control.

VI. INTERNATIONAL AGENCIES AND DOMESTIC REFORM

Financial aid is one of the instruments through which neo-liberal ideas and policies are promulgated by international agencies and bilateral donors. As the quotation at the beginning of the previous section suggested, the possibility that Vietnam could sustain economic growth at required levels, while failing to privatise its SOE sector in ways that conform to neo-liberal ideas of appropriate ownership and management structures, is one that the international proponents of structural reform have found hard to believe. The World Bank has sought variously to convince, cajole and coerce the Government into faster liberalisation and structural reform. In opening itself to such influences, the Government of Vietnam has taken a risk, given that it both wishes to pursue its own domestic development strategies and is also heavily preoccupied with sustaining its domestic authority in a situation of rapid realignment of political and economic forces due to the processes of marketisation and integration. How has it handled this risk? In sum, I argue that it has succeeded in co-opting aid to its own purposes.

ODA to Vietnam increased dramatically after the normalisation of relations with the US and the commencement of World Bank lending in 1993. According to the World Bank Development Indicators, between 1994 and 1999, annual ODA averaged out at 20 per cent of annual central government expenditures, rising to 27 per cent in 1999. Eighty per cent of government capital expenditure is funded from ODA [*Bartholomew and Lister, 2002: 8–9*]. Loans have been a fast-growing form of aid, reaching about three quarters of total disbursements in 2001. In 2000, by far the single largest donor was Japan, providing nearly 54 per cent of total disbursements. The World Bank estimates that in the years 2003 to 2005, Japan will contribute about 30 per cent of total ODA, the World Bank the same amount and ADB about 20 per cent. ODA is thus crucial for sustaining economic stabilisation and growth. However, for Vietnam debt relief is not an issue [*World Bank, 2002b: 10*]. Debt services as a share of total exports are less than ten per cent (compared with Indonesia at over 30 per cent and Thailand at 23 per cent). About four-fifths of debt in Vietnam is with multilateral and bilateral donors, on concessional terms [*World Bank, 2001: 36–7*].

The Government of Vietnam's enthusiasm for aid has not abated with the experience of being enmeshed in the aid system. However, the experience has not been an untroubled one and there remain lingering suspicions and tensions. The initial IMF/World Bank loans negotiated in 1994 were suspended in 1996–97 as a result of non-compliance with targets agreed during the negotiations. No immediate, dire economic consequences followed [*Dijkstra, 2002: 313–4*]. Thus, on their side, the IFIs in their attempts to attach conditions to loans have not found Vietnam an easy target. Conflict became evident during discussions for new loans in 1999, when the IFIs demanded an 'accelerated *doi moi*' as a loan condition. At the international donors' Consultative Group meeting in that year, the Minister of Planning and Investment, Tran Xuan Gia said: '. . .you cannot buy reforms with money . . . no one is going to bombard Vietnam into acting'.[9] Discussions with the IMF were broken off over disputes about the agreed policy framework paper. However, there was disunity among the donors as to the stance to take, with a growing tension between the World Bank's increasingly tolerant and longer-term view of the relationship, and the IMF's preference for imposing stricter conditions and timetables. In the event (as described at the beginning of this article), the Government, following a long internal debate, adopted a series of measures that satisfied both the IMF and World Bank [*Tonnesson, 2001: 177–85*]. New Poverty Reduction Growth Facility (PRGF) loans amounting to $415 were granted under the banner of '. . . the twin imperatives of restoring the momentum of growth and deepening the quality of development' [*IMF, 2001: 44*].

The successive IMF reviews of reform progress in the first two years of the loan programme expressed doubts and reservations (for example, about SOE and state bank reform) but were mostly favourable. However, in mid-2002 (at which point about two-fifths of the loan had been handed over), disbursement ceased because of a dispute over audit and accounting arrangements in the State Bank. The Government refused to change its national audit legislation and auditing procedures to comply with the standard requirements of the IMF. Negotiations continued with the hope of finding a formula that satisfied both sides [*IMF, 2004: 4*]. However, this was not possible and in April 2004, the IMF and the Government jointly agreed that the PRGF would expire without further disbursements [*Vietnam Economic Times, 2004: 12*].

The PRGF loans from the Bank and IMF bundled together support for agreed programmes of economic reform with social expenditure initiatives. It would seem on the face of it that the acceptance of the PRGF facility was an act of compliance by the Government with the set of demands embodied in these programmes. Thus, in the case of SOE reform, in November 2001, the government issued an 'action plan' to flesh out the details of the reform programme, allocated responsibility for 34 specific tasks, and gave detailed deadlines. This action plan embodied the milestones and targets which were incorporated in the agreed strategy with the IMF and World Bank. In the Letter of Intent issued in November 2001, the government set out agreed 'structural benchmarks and performance criteria'. From the IFIs' points of view, getting these into official Government and party pronouncements was a considerable achievement. But it is also possible to view the IMF conditions as a set of props for the party-centre's own exhortations and instructions to those charged with implementing the party centre's policies. The Government's decision to accept the PRGF loan was arguably less a cause and more a consequence of the Government's reaffirmation in 2001 of the *doi moi* programme. The availability of the loans and the need for capital inflows to sustain growth was an important factor in bolstering the strength of those against turning back or slowing down the reform programme.

There is nearly always slippage on specific targets and milestones [*World Bank, 2001: 39–41*], but the normal result is mild admonishment more than specific sanctions when the time comes to review progress. In some cases, agreement is reached on the existence of 'acceptable reasons' why a target was not met. Some milestones seem deliberately chosen by both sides for their symbolism rather than substance. One target for the SOE programme, for example, was a requirement that the national coordinating body charged with overseeing the SOE reform process be given 'enforcement powers', a response to a long-standing criticism of weak implementation. A new monitoring unit was set up under a Deputy Prime Minister and placed within the Office of Government (effectively, the Prime Minister's Department). The change made little practical difference to the political processes of careful negotiations with local political groups and business interests by which the annual programme of equitisation was implemented [*Painter, 2003: 38*].

The Government has demonstrated growing self-confidence and sophistication in dealing with the aid sector. It has devoted considerable effort to ensuring that high-level dealings with donors and monitoring of the aid programme are carefully managed and controlled. Here, they have been assisted by efforts on the donor side to 'coordinate' aid programmes into sector-wide arrangements. The World Bank took the lead, and the Government responded positively with a view to having one forum where it could seek to shape the overall programme to its ends. The annual Consultative Group meetings discuss and monitor aid disbursement and provide a forum where the donors can make known their views about domestic developments and the Government can, in its turn, put the case for its preferred programme of assistance.

In the implementation and administration of aid, The Ministry of Planning and Industry (MPI), assisted by other powerful central agencies such as the Ministry of Finance, has taken a firm grip over both the oversight of relations with donors and also the aid disbursement and reporting processes within the state apparatus. Procedures for prioritising aid, dealing with donors, and controlling project implementation have been codified in a comprehensive decree.[10] In particular programme areas the Government has set up consultative and coordinating arrangements so that project aid can be directed at preferred areas. For example, in the field of Public Administration

Reform, the Government in 2001 prioritised a series of sub-programmes in which it has actively sought technical assistance and loans.

The party-state centre has sought to use aid to attempt to counter some of the fragmentary forces discussed earlier and to assist it in exercising control over the periphery. In a context where spending power has shifted significantly to the local level [*World Bank, 2002b: 85*], the aid budget is a welcome means of enabling the centre to engage with and seek to regulate local actors. Even where funds are spent on local projects, the hold that the centre has over disbursement and accounting provides it with avenues of control that it normally may not have. Effectively, it is 'piggy-backing' on the donors' project control and accounting requirements. In addition, the aid budget is used for the centre's policy ends, as against those that local state actors may find more attractive or compelling. The centre may otherwise be short of funds and technical resources to develop and sustain nation-wide initiatives. There is evidence that the presence of this new flow of resources and the measures taken to control and monitor their disbursement has shifted the balance of power at the centre towards coordinating agencies such as MPI and away from sectoral ministries [*Norlund et al., 2003: 147–8*].

A good example is the anti-poverty programmes that have been launched under the heading of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), approved and announced by the government in May 2002 in keeping with the agreement on the PRGF loans [*Socialist Republic of Vietnam, 2002*]. The form and content of the Government's CPRGS reflects World Bank global strategies [*Craig and Porter, 2003: 56–9*]. However, these strategies, which admit the need for certain kinds of state involvement in economic development and social engineering, open new opportunities for a national government such as Vietnam's. The policy document that outlines the Strategy for Vietnam was a domestic product, not imposed from outside. It draws its cues from the Ten-Year Development Strategy (2001–10) and Five-Year Socio-Economic Development Plan (2001–05) and reaffirms a number of policies and programmes that were already in place. The CPRGS was drafted under the coordination of MPI, with the assistance of an inter-ministerial committee of 52 officials from 16 government agencies. Consultants were engaged – for the most part local experts – and four national consultation workshops were held, along with four regional workshops bringing together about 500 officials.

Technical assistance was provided by a Poverty Task Force, which was set up in 1999 at the World Bank's initiative 'to facilitate Government–donor–NGO collaboration on poverty issues' [*Shanks and Turk, 2003: 4*]. Membership comprised 16 government ministries, six donors and eight NGOs (four local and four international). One of its tasks was to pull together the considerable amount of research and technical analysis that has already been undertaken by the World Bank and by others on poverty and on service needs and gaps. One assessment of this process was that the Task Force 'helped to build consensus around the most pressing issues on the poverty reduction agenda' [*Shanks and Turk, 2003: 5*]. Among the work done was the collection of local community data, including a 'participatory consultation exercise' at 80 research sites across the country. The central role of the World Bank in coordinating this exercise aroused more alarm from international NGOs and other donors than it did from the Vietnamese Government, but 'early discussions with MPI were helpful in alleviating the former concerns' [*Shanks and Turk, 2003: 10*]. The bulk of the fieldwork and the conduct of the local community consultations were done with the involvement of local District and Commune Peoples' Committees, and local mass organisations such as the Women's Union and Fatherland Front. These exercises lent support to the Government's own 'grassroots democracy' measures, initiated in 1998 in response to rural unrest [*Fritzen, 2001: 3–4*]. In other words, there is evidence from which we can infer that the process of collaborative policy-making between the Government and donors under the CPRGS was as much a way of strengthening party-state policy capacity, and reaffirming pre-existing programmes, as it was a means of imposing an external view derived from IFI models of development. It must be stressed, however, that this central policy capacity resides in a few central agencies and core actors who have the responsibility for coordination, and they continue to compete for power with other powerful state actors with sectoral or local priorities when interests and perspectives clash. The fate of all development strategies and programmes depends critically on these internal divisions and conflicts.

In sum, the extent to which the policy process of *doi moi* is shaped by the external pressures of lenders and donors should not be exaggerated. The impact of the combined influences of technical assistance and loan conditions, with their attendant exhortation and monitoring, is to strengthen the hand of some central party-state actors by supporting their own top-down attempts at restructuring. *Doi moi* was conceived while Vietnam was still shut off from external influences, and it has been sustained through years of intense domestic political debate within party-state circles. Its implementation through central party and state planning documents and through particular legal reforms or policy initiatives is a continuous process of debate and conflict. However, the presence of aid and the guidelines that come with it can be powerful tools in the hands of particular actors in these conflicts.

If these actors are able to use aid as leverage in local bureaucratic conflicts, they might align differently when faced with the issue of external vulnerability. The general context of aid from the viewpoint Vietnamese Government is not one of extreme vulnerability: Vietnam is dependent on capital inflows to feed growth, but is not a mendicant before the IFIs. Thus, it pays the Government occasionally to be 'difficult' and to present a belligerent face. Donors as a result tread more carefully for fear of creating a political backlash from 'conservative forces'. Rather than impose more radical demands, official pronouncements from most donors seek acceleration of existing directions, and renewed efforts to achieve under-shot targets. The World Bank, in particular, has tended to adopt a stance of encouragement and support rather than adversarialism.[11] In response, the advocates of restructuring in the party-state gratefully accept funds and technical assistance to help them in strengthening their grip in a domestic policy environment of increasingly centripetal social and political forces.

VII. CONCLUSION

Vietnam's economy consistently confounds its critics with growth and performance beyond expectations. The reviews of economic performance by the IFIs offer somewhat grudging observations on the continued health of the economy, while pointing out areas of vulnerability such as the need for large capital inflows. The economy has recovered since the effects of the 1997 and shows levels of vigour and growth characteristic of pre-crisis times. A recent economic bulletin reported a 'staggering' and 'whooping' (*sic*) year on year growth of 43 per cent in exports in the first quarter of 2003 [*World Bank, 2003: 1–3*]. Recent inflows of capital and remittances estimated to be about $2b a year from Viet Kieu (expatriate Vietnamese), stimulated by official encouragement and a lifting of restrictions on ownership of property, offer a new sustaining factor [*Vietnam News, 2003; Vietnam Investment Review, 2003*].

On the strength of this growth, the Vietnamese Government can both claim to its domestic audience that 'market socialism' works and also present an image of economic liberalisation to the outside world. However, I have argued in this article that the party-state centre is pursuing a state-led developmental strategy that makes selective use of the techniques and instruments of neo-liberalism (supported by donor technical and financial assistance) to achieve its aims: '…global capitalism, far from simply threatening the Vietnamese state, is supplying an arsenal of techniques by which state-directed cultural borrowing will salvage and refine a managerial regime whose previous policies had seriously tarnished it' [*Woodside, 1997: 74*].

The expectation and hope of many in the donor community is that global economic forces will be the key to further liberalisation, especially as Vietnam becomes enmeshed in the multilateral institutions of the international economy such as the WTO. As we have seen from the case of SOE reform, however, behind such liberalisation may lie a very different domestic political and economic reality. The process of marketisation taking place does not conform to the model of ‘transition’ contained in the paradigms of liberalisation espoused by the IFIs. Large areas of business and entrepreneurship in Vietnam have their roots in the state as much as in the market, and all sectors operate according to a set of ‘local rules’ rather than to those universally prescribed. ‘Privatisation’ is a good case: as I have argued, it has already happened informally, and the programme of so-called ‘equitisation’ is *de facto* a means of preserving and formalising informal ownership rights, in which party-state actors are still implicated. Hence, it proceeds at a pace suited to the interests of the owner-managers and their state and party clients and protectors. The case of SOE reform illustrates a pattern common across the economic reform process in Vietnam: because the party-state remains enmeshed with the business interests that marketisation has given rise to, it is vital that the process of ‘transition’ is one which the party-state centre controls, or at least contains. In various ways, the centre has had to fight hard not to lose control over its own people and to maintain the integrity and effectiveness of its own systems of power and rule. Political strategists and policy makers have trodden a fine line between the uncertainties of ‘reform’ and the need for stability. In this context, one stratagem has been to draw on the financial and technical support of overseas aid to sustain policy and state capacities.

Thus, Vietnam’s domestic political processes provide the key to understanding both the domestic forms that marketisation are taking and the impact of external forces mediated through international institutions, bilateral and multi-lateral dealings and aid donors. Most of the international aid and donor advice is urging on Vietnam an accelerated liberalisation programme, to which the Government seems to be conforming. However, as I have argued, this is an over-simplification. Moreover, the party-state centre has used aid to help with its own political containment strategy. However, this strategy is in some respects a precarious one, made more so (for example) by rising levels of corruption and inequality, but less so by the somewhat unlikely alliance between key party-state central actors working within a framework of one-party rule on the one hand and the World Bank, IMF and other champions of neo-liberalism on the other.

NOTES

1. The ‘doubters’ were a mixture of diverse groups within the party and state, some of whom were on the losing end in material terms as a consequence of some reforms and some (many from the older generation) who were highly suspicious of the reforms on principle. A ‘touchstone’ issue was the bilateral trade agreement with the US, which was rejected in the first instance but later agreed to.

2. The governance emphasis might seem on the surface to be challenging for a one-party state avowing democratic centralism. However, the way it is interpreted and applied by donors in Vietnam allows for the party and government to embrace 'governance' aid programmes using local nomenclature. Tensions and conflicts are thereby often overlooked – for example by eliding the governance concept of 'rule of law' with the Vietnam's concept of 'rule by law'. As to political liberalisation more broadly, this is mutually agreed to be 'off the agenda'. The party steadfastly refuses to countenance relaxation of one-party rule and continues to assert the doctrine of democratic centralism.
3. This approach shares with Weiss [*2003: 15–19*] an acknowledgement of the 'enabling' as well as 'constraint' view of globalisation, which suggest that states are able choose to benefit from globalisation through adopting different domestic strategies.
4. The term 'party-state centre' is convenient shorthand to indicate, first, the overlap and interpenetration of the Communist Party and the state and second, a set of interests and concerns that are unique to top level party-state actors. This is not to say that the party-state centre is a coherent, united, uniform group in all circumstances and situations.
5. Much of this income is accepted as a normal by-product of the public administration process, for example, through the collection of local semi-official fees and charges that are converted by the agency concerned into income supplements.
6. In Thai Binh Province in the mid-1990s, the abuses by local party-state officials included stealing the proceeds of land sales, allocating land to friends and family and diverting local revenues to private businesses. There was a 10,000 strong demonstration in the provincial capital, policemen were held hostage, local officials were driven out of town and their homes were burnt. The party centre sent inspection teams of senior party figures to investigate. As a result, the provincial party chief and the Chairman of the Peoples Council were dismissed, and at least 30 officials ended up in prison.
7. This and the following sections draw on Painter [*2003*]. Thanks are due to Phan Huu Nhat Minh for research assistance and to Mekong Economics for facilitating access to informants and documents.
8. One law on the drawing board would create a unified enterprise law, instead of one for state and one for non-state enterprises. The precise content of all such laws and (in particular) their implementation at the local level are, however, shaped by the claims of different local and central business, party and bureaucratic interests. Among them, the state business interest is a very powerful force. For examples, [see *Gainsborough, 2002: 361– 4*].
9. The consultative group meeting is an annual event at which all donor organisations and the government exchange views and review the content and direction of the overall aid effort.
10. Decree 17/2001/ND-CP, *On the Issuance of the Regulation on the Management and Utilization of ODA*
11. For an account of the role of the World Bank in negotiating and implementing the CPRGS loans and the poverty reduction strategy [see *Norland et al., 2003*: *132–3*].

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