Vietnam - Culture and Economy: Dyed-in-the-Wool Tigers?

One of the most delicate tasks that faced the Tudors, therefore, was the creation and education of a new ruling class and the retention of its loyalty. The new men had to be prevented from moving up too fast or too far. The drive and efficiency in economic matters which brought them their wealth and power also made them harsh to their tenants and contemptuous of the common people. Christopher Morris, The Tudors, London:Fontana/Collins 1955 pp. 25-26.


Abstract

This paper examines the current economic situation in Vietnam: the effects of the economic slowdown and the social and economic impact of the post-boom ‘hangover’. It relates the current social tensions to the political economy, and remarks upon some cultural implications of Vietnam’s particular participation in the localisation of global processes. It also contrasts the emerging middle classes of Hanoi and Ho Chi Minh City with reference to their recent economic histories. It will argue that Vietnam’s economic problems are systemic rather than cyclical, with important cultural aspects that will require major social change to alter.

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Culture and Economy: Dyed-in-the-Wool Tigers?

Introduction

In this paper I will examine the state of Vietnam’s economy in late 1998, and place it into a wider context. Despite the reputation that economics has as a profoundly boring discipline, I will try to show how important cultural elements of Vietnamese society both reflect and also, more interestingly for issues relating to economic development, have deeply influenced Vietnam’s current development style.

In the late 1990s, two main sets of problems confront economic policy-makers in Vietnam:

first, the effects of the regional economic crisis and global economic slowdown, and their severe effects upon inward investment flows and exports.

second, the political problems posed by high levels of rural unrest and weak employment growth, and the links between these and the pattern of savings and investment that was consolidated in the mid 1990s. Vietnam’s development style, as it has emerged through the 1990s, is one that has stressed urban and capital-intensive growth rather than one that is more agrarian and employment-oriented. Viewed as ‘style’, this suggests a relative disintegration of the national political economy in favour of processes of integration into global economic and cultural systems.

This paper commences by examining the state of the Vietnamese economy in late 1998. This section starts by looking at the political ‘hot points’ and the associated policy responses. This is followed by a discussion of the macroeconomic situation - the state of economic variables such as GDP, inflation and the balance of payments. Macroeconomic stability is contrasted with the more systemic and longer-term issues related to the political tensions. The section finishes with a discussion of the more general historical issues associated with market-oriented growth, contrasting the political problems of the Tudors with those of the Vietnamese Communist Party: what are the ‘new men’ - the emerging commercially powerful - and what is their relationship to the rulers of the country? This brings out the fact that nation-state development has its conscious as well as its unconscious aspects, not least for a ruling group informed by the classical political economy analysis of Marxism-Leninism.

The second section of the paper presents observations on some cultural aspects of Vietnam’s development style as it has emerged. It takes as its point of departure the fate, not of Cassandra, but of her little sister, who fate was to be ignored by the God who cursed her elder sister, which had of course positive as well as negative aspects. A not entirely dissimilar fate confronts Vietnamese farmers and workers, as Foreign Direct Investment (FDI) has largely passed them by. But there is always hope. Vietnam’s social structure is consistent with unusually low rates of domestic savings by East Asian standards, but this can change. It may not have to, though.

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1 Thus the apocryphal proletarian saying that the only thing worse than being exploited by capitalists is the reverse - not being exploited by capitalists. This has dialectal significance.
To develop this line of thought, I look at three areas:

*first*, a contrast between middle-class lifestyles in Hanoi, the capital, and Ho Chi Minh City, the commercial centre. Contrary to many orthodox perceptions, it is Hanoi that has emerged as the more savings averse of the two, with, for example, a high stress upon perceived high quality consumer durables (the Honda ‘Dream’ culture, for example).

*second*, the cultural consequences of the development ‘style’ upon the emerging ‘new men’ in the rural areas. Here contrast is made with the English ‘development style’, with its heavily structured integration of emerging urban power groups into rural upper class lifestyles. In Vietnam the reverse is the case. This is related to the lack of a rural property base for urban accumulation processes.

*third*, and most adventurously, I examine three areas where a profound localisation of global cultural processes seems to be happening. These are food, fragrance and rhythm - all areas where standards are largely unwritten, and also highly ‘popular’. All have major economic meanings.

**Economic update: the Vietnamese economy in 1998**

**Politics and all that**

**Economics ‘hot points’ and policy responses**

The current Vietnamese political economy is dominated by a pro-state owned enterprises (SOEs) policy stance that permeates the society. To give once example, it encourages a ‘spreading of risk’ by families who try to keep one foot in state employment even when they are pushing into new opportunities in private business.

This policy stance emerged in the early 1990s, but, in dogmatic and ideological terms, is perfectly consistent with earlier neo-Stalinist thinking. In this view, the main instruments for securing growth are, in caricature, a farming-family based rural economy linked to world markets through SOEs combined with substantial inward FDI creating joint ventures (JVs) between foreign companies and SOEs. The recovery of state finances and power after the 1989-91 crisis provided one of the preconditions for attempting this policy in the mid 1990s. Other preconditions were the willingness of foreign investors to enter into JVs with SOEs, and the willingness of foreign aid donors to go along with the ride by arguing for the reformist credentials of the government.²

The most important political events of 1998, as far as the economy was concerned, were the continuing signs of local administrative breakdown in parts of the countryside. Random conversations with a wide range of sources suggest that the problems of Thai Binh province were widespread, and, where there was no fire, there was often a worrying volume of smoke. It is therefore quite impossible to estimate with any accuracy the extent of the matter; it is enough, though, that state power at local level, in what remains a

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² The history of this support remains to be written. See footnote below on recent World Bank arguments about the overall correctness of the Vietnamese policy stance up to 1995.
predominantly rural economy, has been effectively challenged. There have been two political responses, at national level:

*first*, a re-orientation of official development priorities towards the rural areas, most marked at the 2nd and 4th central committee plena.  

*second*, a gathering re-examination of various premises of the mid-1990s development policy stance: the focus upon state owned enterprises (SOEs) with their ‘leading role’ in the economy; the pattern of investment, especially foreign direct investment (FDI) with its avoidance of the rural areas and import-substituting and high capital-intensive nature; the poor performance in job creation; the generally weak capacity of the state.

These two issues come together in the contradiction between the need to use state power to change the direction of various economic processes, and the concern that that power may be insufficient. It is not surprising, therefore, to sense signs that the three top economic portfolios should be held by politicians of second rank and a certain proven capacity:

Phan Văn Khải, Prime Minister, with overall economic responsibilities, a trained economist with long experience

Nguyễn Tấn Dũng, Deputy Prime Minister in charge of domestic economic affairs and acting Governor of the State Bank of Vietnam, young but dynamic.

Nguyễn Mạnh Cảm, Foreign Minister and Deputy Prime Minister in charge of external economic matters.

These leaders must defer to senior advisers and to more senior politicians such as Lê Khả Phiêu, Party General Secretary. However, for state power to be utilised to offset the adverse political consequences of the largely ‘laissez faire’ attitude to state business interests and the direction of foreign investment flows, they will have to be given their heads (although not on a platter). The relative independence of these active politicians will be a crucial indicator of the chances for success. There is not very much evidence for this so far.

The main power base of the regime is the state apparatus. This combines with a widespread popular acceptance of it, albeit grudgingly in places. A Communist Party has no natural basis, according it own well-worked out ideology, for ruling a market economy. Yet rule it does.

To avoid threats to this it is necessary that actual and potential discontent be dealt with. Traditionally, this has been done by a reallocation of state resources and an acceptance of spontaneous liberalisation. The latter is no longer a viable option, not least because of the risks involved, for example in a free-for-all SOE privatisation that would give ownership to managers and the old planning cadre (as Russian experience shows).

A market economy, it is increasingly obvious, presents political opportunities that encourage the exercise of state power. Yet this trend must confront a general complaint as global processes grow in power and pace, which is the relative weakness of nation-
states seeking to localise these processes in response to local political and social priorities.\textsuperscript{4}

The significance of the political problems of the closing years of the decade is that without an ability to exploit state power risks now appear to be mounting. But there is no guarantee as yet that adopted policies can be implemented, especially that the overall stance is trying to ‘buck the trend’ and confront important and by now well-entrenched interests.\textsuperscript{5} The sword is blunt, and, even once sharpened, the foe will remain strong.

**Macroeconomics and all that**

**Growth**

Like the Philippines, but unlike most other SE Asian countries, Vietnam has so far been able to maintain positive economic growth despite the economic crisis. Estimates for the most likely 1998 outcome are around the 3-5% mark. There is some uncertainty over these numbers, largely due to the changes through 1998, with rather rapid deterioration in the second half year. This compares with the trend rates reported around the 9% level through most of the 1990s, and points to major contractionary forces. This is despite Vietnam’s avoidance of the financial upsets experienced in many other countries. The reasons for this are discussed below.

The main contractionary forces operating on the Vietnamese economy through 1997-98 have been:

- *first*, the steep decline in FDI disbursements and signing-ups;
- *second*, the slowing in export growth;
- *third*, the increasing need for businesses to reduce their liquid capital needs by reducing the build-up of stocks that they are carrying as a result of the output growth slowdown.

These trends are set to deteriorate further and so little growth can be expected in the next couple of years. There is a tangible risk of negative growth.

The situation of low or negative growth is having normal effects upon the government’s room for manoeuvre. Partly as a result of higher prices paid to farmers, in turn partly due to expansion of bank credit to SOEs in the rice export business, inflation has accelerated, to a show an increase year-on-year of around 10% in the current quarter. Tax revenues are showing a year-on-year real decline of some 5%, which the government is dealing with partly through inflationary finance but more importantly through

\textsuperscript{4} The effects of this upon the relationship between central and local government (argued to be to the benefit of the latter) is discussed in recent IMF studies - Vito Tanzi, *The Demise of the Nation State*, IMF Working Paper 98/120, 1998. But national governments, usually in control of the Army at least, will not go away.

\textsuperscript{5} See Ari Kokko, and Mario Zejan, *Vietnam - At the Next Stage of Reforms*, Stockholm School of Economics, 4/96 for an early pointer to the dangers in the political economy of protection.
reductions in spending. This is a fine juggling act, as the claims upon state resources naturally increase (due to competition and the threat of bankruptcy) at the same time as the resources available to meet them are declining. The ready availability of resources that under-pinned the emergence of the pro-SOE development model has now ended.

The decline in exports is starting to become a major issue. Whilst growth was maintained until September, since then exports have fallen. Vietnam has been badly hit by the collapse in the world oil price, and by competition from many commodity exporters desperate to create $ revenues. So far, however, Vietnam’s rather diversified primary commodity export base has helped offset these trends, with coffee, peanuts and seafood three good examples. Rice exports have also continued to increase.

Crude oil exports have been pushed up to nearly 13 million tonnes for the year, an increase of around 30%, but with prices well down the $ value has fallen sharply.

Light manufactures have shown positive growth in 1998. Textile and garments will bring in a growth of around 5%. Electronics has shown rather fast growth, mainly due to a number of assembly factories coming on stream.

With the brakes already full on, imports growth has been cut well back from the period of 1995-96, when free access to consumer goods such as motorcycles and other inputs to emerging middle-class lifestyles was pushing the country towards a severe balance of payments crisis. It is essentially administrative controls that have seen imports cut back. The trade deficit, though, remains essentially dependent upon capital inflows, and these cannot be expected to improve. This explains why the trade deficit has improved. Exports are likely to show an increase for the year of around 2%, and imports a fall of about the same magnitude.

The pattern of industrial output growth shows vividly the rigidities in the system and the consequences of the pro-SOE development model. Total industrial output will show a growth rate of around 12% for the year. However, the foreign-invested sector, which will soon produce around one-third of Vietnam’s total industrial output, is growing fastest, at around 22%. This reflects, and is reflected in, rapid growth in highly capital-intensive sectors such as crude oil (24% growth), cement (22%), electricity (13%) and rolled steel (9%). Employment growth is thus limited. The non-state sector is growing the slowest of all.

Agricultural output growth remains rather high, at near 4%. The production potential of the family farming system continues to show its ability to grow fast from its owned retained profits. Here it is in striking contrast to the poor performance of the small-scale non-agricultural sectors. Non-state industry, for example, was the slowest growing part of Vietnam’s industry, and should end up showing a growth rate of around 5% for the year.

The monetary economy is remarkably stable. The crucial indicator of tensions, free market interest rates, remains at normal levels. Businesses can still get access to bank credits, although larger firms, especially SOEs, are preferred. Political pressures to support SOEs and ‘favoured sons’ are very important. Yet, as can be seen, the overall macroeconomic balance remains remarkably good. The exchange rate has fallen, initially in response to failed interventions and then simply to conserve reserves. The fall, from
near 11,000 to near 14,000 - near 30% - in fact compares rather favourably now with Vietnam’s regional competitors, such as Thailand.  

It is likely that there has been extensive overseas commercial borrowing by SOEs and also Vietnamese JV companies. Taiwan remains the largest investor, and has not experienced any major financial crisis.  

A second reason for the macroeconomic stability is the very high degree of confidence in the banks felt by the Vietnamese public. They still hold đồng, but also continue, as they have done for a long time, to hold US dollar bank accounts quite legally at Vietnamese banks. These amount to some one third of total deposit liabilities. It was striking to see how the authorities moved quickly to reassure the public that these deposits were freely withdrawable after the recent moves to encourage - if not force - a higher level of sales of Dollars to the banking system.  

The contrast between the continued integrity of the Vietnamese financial system and those of many ASEAN members is somewhat deceptive. It is the very lack of a normal system of financial markets that has protected Vietnamese businesses. As restructuring is pushed through, her competitors will increasingly benefit from more competitive fundamentals, including better human resources and physical infrastructure, as well as the normal effects of capitalism’s ‘creative destruction’.  

**Outlook**  
The outlook for the Vietnamese economy, in the short term, is for a period of slower if not negative output growth as various cumulative - ‘multiplier’ - effects impact upon demand and output. *Exports* growth cannot be expected to recover quickly, not least as Vietnam’s regional competitors move through their restructuring process and demand in the developed world weakens. *Investment* has fallen and, with excess capacity a major issue throughout the region, FDI cannot be expected to recover to the 1995-97 levels in the short-term. *Consumer spending* is weak, hit by pessimism and layoffs. Again, this can only deteriorate as stocks are shed and the recession continues.  

1999 and 2000 seem therefore set for negligible rates of growth. Policy changes and economic restructuring will therefore have to occur, if they do, under conditions of increased competition for resources. However, as yet there is no ‘Big Crisis’ to push for change. The tensions are more to do with the political problems posed for the country by the results of its recent history.  

**Development issues**  
The implications of the current situation for development need to be seen in a longer term context, and especially the pro-SOE development ‘model’ that emerged in the early 1990s.  

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6 Against the US $, the Baht is now near 36 compared with 25 before the crisis - a 45% change.  
7 Here I follow the opinion of Taiwan’s senior representative in Vietnam, who added in various investment flows by Taiwanese recorded as coming from other countries due to various multiple passports, companies etc.
One useful way of coming at this is from the concept of aggregate savings - total savings. Whilst one can debate whether a high level of savings is a necessary or sufficient condition for rapid growth, it is the case that most fast-growing economies have levels of savings as a percentage of GDP at least near the 25% level. Under Communist rule, such levels have rarely been attained. In the mid 1990s investment rates near that level have been seen, but these were strongly supported by inward investments. As FDI declines, overseas development assistance (ODA) is now growing.

It is often argued that at low levels of incomes, savings by the population are usually low. In Vietnam, where farmers gain little access to bank credits, most of the investments associated with agricultural output gains have come from farmers’ own retained incomes, which are not easily measured but large. There have certainly been significant state investments in infrastructure, especially in irrigation and drainage, but these do not match the mass of resources that farmers have been committing. So far, since FDI has largely ignored agriculture, these resources have been sufficient on their own to provide one condition for higher rural incomes. However, there exist many structures and mechanisms that suck resources out of agriculture, of which the widespread processing and export monopolies still enjoyed by SOEs are perhaps the most important.

Outside the agricultural sector, the Vietnamese economy remains largely dominated by SOEs, with the foreign-invested sector now growing fast. What is strikingly absent, is a dynamic small-scale private or quasi-private sector, growing rapidly based upon retained earnings and soaking up large amounts of labour. The relative lack of this sector, and the consequent dual importance for the newly-rich of the state sector and foreign contacts, is increasingly a deep-rooted aspect of the Vietnamese political economy. Reaction against it is expressed in the rural unrest and imminent threat from growing numbers of unemployed.

This issue is also usefully viewed historically and comparatively. ‘Development issues’ are not new, although so-called ‘development studies’ is. In the next sections I discuss what is called, in economic history, issues related to ‘class formation’ and the interaction between those who find themselves in power over society, and changes in it. This could be called ‘state craft’. Under the dynamic and globalising conditions of the late 1990s it is not clear just what elements of Vietnam’s historical ‘political culture’ could inform modern strategies.

_policy issues and the ‘confusion of expectations’_

Much policy debate occurs in isolation from such matters. This is partly the result of its dominance by social scientists, with their rationalist and activist approach. This is especially true of economists, who are most locked into a metaphor of knowledge

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frighteningly close to 19th century physics. However, it also reflects the practicalities involved in negotiating relationships structured by concepts of the nation-state, as an object of political influence and a subject capable of identifying and implementing transcendentally ‘correct’ policy. There are strict limits upon what can be said and done by foreign officials working in Vietnam. But what was widely expected has not, in fact, come to pass.

The Vietnamese ‘market economy’, it has been argued, emerged around 1989 from a period of economic liberalisation that can best be understood as a process, rather than the outcome of purposeful policy. This view, deliberately unenthusiastic about predictive exercises, nevertheless anticipated certain matters, such as the role to be played by SOEs, as being of importance and as yet ‘unresolved’. It has had far more influence on the academic literature than it has upon writings emerging from the neo-classical economic orthodoxy, for obvious reasons.

Yet the various different expectations regarding what would happen to Vietnam that arose in the early and mid 1990s point up various interesting issues. The two key groups of actors, so far as policy debates are concerned, are Vietnamese policy-makers and the overseas donor community.

For dominant groups within the Vietnamese policy-making establishment, the recovery of state resources from around 1991-92 offered a continuation of state activities that was not so very different from old ways of thinking. Basic to this was the idea that the main channels of savings should be controlled by the state.

Central-planning had argued that SOEs’ profits, based upon the institutions of neo-Stalinism and controlled plan prices, should form the basis for the resource flows underpinning the plan. Now, with prices largely set by the market, bank credits and a reformed tax base again offered steam for the state’s development engine. The creation of ‘rents’ - resources that could be acquired by the chosen at very low or zero cost, was thus structurally transformed, given the renamed State Planning Commission a new but not radically new meaning to its existence.

The SOE-focussed development model that emerged in the mid 1990s fitted this world outlook. It is not at all hard to understand why Vietnam’s state banks were increasingly subject to the imposition of non-commercial criteria in their lending. They were intended to act as instruments of state rent creation - to secure and then allocate resources for planners and politicians, not in search of profit.

For the key opinion-makers with the donor community, such as the dominant cadre within the World Bank as it developed its view prior to the resumption of US-Vietnamese relations, the early 1990s, especially the period 1989-92, offered support for a vision within which the SOEs would slowly shrink in a rising pond of emergent private-sector firms. This view was supported by the particular circumstances of 1990-92, when the state lacked resources and SOEs were being heavily squeezed. The ‘hard budget constraint’, when combined with an interpretation of the events of 1989 as reflecting

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purposive market-oriented and systemic ‘reform’, implied that the SOEs should not be a source of worry.\textsuperscript{10}

An additional element of this view, based upon orthodox views of the forces governing domestic and international capital movements, was that investments in Vietnam would reflect her so-called ‘comparative advantages’.\textsuperscript{11} These were said to be a cheap and relatively high quality labour force and rich agricultural potential. If capital were to flow in these directions, then growth could be expected to be both sectorally and socially ‘good’, in that the rural areas would benefit and employment creation would be rapid. In fact, however, in Vietnam both FDI and domestic investments have tended to avoid these areas in favour of real estate, tourism and relatively capital-intensive industry. One reason for this was the temporary profits to be made as land became a commodity. However, it remains a key problem in the analysis of Vietnam’s economic development in the 1990s.

Neither of these views has turned out to be correct. Why? Much has to do with the pattern of investment that has occurred.

There are at least three ways of coming at this issue.

\textit{first}, by arguing that there is in fact little evidence that capital flows have in fact ever been explainable in these ways. This is now starting to influence important official thinking (in eg the IMF).\textsuperscript{12}

\textit{second}, by arguing that markets in Vietnam are full of entry barriers and other ‘distortions’, which, if corrected, would ensure that investments moved in the ‘right’ direction. It is certainly the case that Vietnam is full of such inhibitants to business, especially the ad hoc barriers to inter-provincial trade set up by under-paid policemen.\textsuperscript{13}

\textit{third}, by arguing that almost any barrier in Vietnam can be dealt with, if the relative profitability of doing so is sufficient. This point of view tends to be confirmed by discussions with Vietnamese business people. It is supported by the observation that increasing competition is present in global markets for both light manufactures and agricultural products, with increasingly high entry barriers. For light manufactures, especially in SE Asia, competition from China is a major problem. Such exports were

\textsuperscript{10} See the recent World Bank study of aid - \textit{Aid: where it works, where it doesn’t}. One of the authors, David Dollar, was a key figure in World Bank activities in Vietnam. It argues that policy, as objectively measured by a point system, was ‘good’ up to 1995, and was linked to a steep increase in aid. This is then taken to argue that Vietnam is an example of a country where aid and good policies are correlated. In fact, policies throughout the decade can easily be shown to be hostile to the development of the private sector, usually a major element of the World Bank’s preferred development policy stance.

\textsuperscript{11} This was long taught to be revealed by the so-called ‘pure’ theory of world trade and economic relations in basic economics courses.

\textsuperscript{12} See Harm Zebregs, \textit{Can the Neo-classical Model Explain the Distribution of Foreign Direct Investment across Developing Countries?}, IMF Working Paper # 98/159, 1998. This suggests that the ‘standard neo-classical model is not particularly useful if we want to understand FDI flows to developing countries’.

\textsuperscript{13} See Nguyen Manh Huan, (a socio-economic study of agricultural input and output prices and exchange relationships).
already suffering before the onset of the financial crisis, spurred by China’s devaluations early in the decade. In agriculture, the trends towards biotechnological intensification and the baleful presence of European Union subsidised output make expected profits in agriculture low.

Whatever the truth of the matter, it is clear that the pattern of investment in Vietnam during the 1990s has - contrary to donor expectations - tended to avoid politically key domains:

first, the rural areas;

second, light manufactures;

third, small-scale private and semi-private non-agricultural enterprise;

The relative failure of small-scale enterprise to emerge and grow strongly is perhaps the most striking and revealing aspect of Vietnam’s development style in the 1990s. Vietnam has nothing to compare with China’s TVE phenomenon. It helps to understand why aggregate savings are so low, and is the main explanation of the political tensions discussed above. It is these issues that have forced the re-ordering of sectoral priorities presented at the 2nd and 4th plena. Whether these can be implemented, is a major question.

It was the rapid expansion of the non-state sector in the period 1989-91 that transformed the rural landscape as services returned to the streets. It also easily absorbed at that time the some 500,000 labourers shed by the state sector. However, in manufacturing, the 1990s saw very little employment growth in this sector.14

There is rather good evidence here on the nature of the non-state manufacturing sector. The 1998 Ronnas study shows that what new entrants there have been exhibit a classical model of rapid capitalist growth:

• extremely rapid accumulation, based upon retained earnings. There was very little borrowing from the banks.

• clear signs of emergent class formation: unlike the 1980s, most managers came from middle class backgrounds.15 However, most reported ‘previous experience’ as their main reason for entering private business.

This suggests that they were coming from the state sector, pointing to earlier processes of ‘primary accumulation’ as hoards were built up. Systemic extraction of resources (‘expropriation’, or perhaps ‘re-expropriation’) has been viewed in radical quarters as the main characteristic of capitalist development in Vietnam in the 1990s.16 Close links between accumulation and official status have been identified by Vietnamese researchers,

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15 In the 1980s, managers of such businesses came from proletarian origins - op cit p.14 Table 10.

but the lack of access to state bank credits reported by Ronnas muddies the simple picture that could be drawn from this.\textsuperscript{17}

Work of this type points to underlying processes of social change and class formation that would be quite normal. Accumulation of private wealth and economic power can be expected in any emerging market economy, whether Vietnam in the 1990s or Tudor England.

How, from this perspective, are Vietnamese SOEs to be viewed? Neither of the two sets of official beliefs outlined above really fit easily with the fact that very few Vietnamese SOEs report any significant capacity to put their own equity (own capital) into investment projects, and therefore require high levels of state bank finance.\textsuperscript{18} Since they generate significant cash flow, where do the retained earnings go?

These arguments take us towards a re-examination of the interests driving state activities and the exact function of SOEs in the political economy. Their power to access resources controlled by the state is clear; also now evident, however, are the social and economic costs that result.

In the event, both of these two views can easily be criticised. The ideas that drove the pro-SOE development model have led to major political problems. By combining a high level of state socialisation of risk with a breathtaking self-exposure to corruption and the creation of weakly competitive businesses, the model has taken the regime into the minefields of popular discontent that we see it confronting today. The increasing foreign domination of the economy, partly the result of Vietnam’s low domestic savings, which is directly related to the lack of a large private sector, adds to the soup.

The disregard for signs that the priority given to the state sector was soon to be backed by resources, is the main issue undermining the earlier optimism of the aid donor community. However, since such officials are relatively isolated from Vietnamese political processes, and have their own - external - loyalties, this less interesting. Ultimately, gathering evidence for problems must be met by withdrawal, and a 'refusal to play'.\textsuperscript{19}

Hindsight is always easy.\textsuperscript{20}

\textsuperscript{17} See Tuong Lai, xx, Xa hoi hoc, 19xx.

\textsuperscript{18} The gathering crisis of over-capacity in the sugar industry, for example, shows this clearly. The over-investment in capacity by a multitude of provincial SOEs was encouraged by their ready access to state bank credits. See my - xx in the Vietnam Business Journal.

\textsuperscript{19} A good example is the recent (1998) World Bank study of rural development - Advancing Rural development in Vietnam: a Vision and Strategy for Action. It is hard to see how, without institutional changes in Vietnam that would be quite massive in scope, any significant sectoral lending above a diplomatic minimum could be justified to a Bank approvals committee that had read this report.

\textsuperscript{20} My own writings from the period did point to the dangers of state rent seeking, but were masked by the activism of the times. See the reference below to the paper in the collection edited by Borje Ljunggren, ideas for which were developed whilst I was a Visiting Fellow at NCDS, ANU.
An alternative view down-plays the importance of state activities and looks more closely at incentives - to use the maxim of the Bloomberg financial intelligence service, to ‘Watch where the money goes’. This, as we have seen, is revealing.

**Systemic issues - the ‘new men’ - from Bosworth field to Industrial Zones (IZs)?**

**Introduction - ‘last man standing’?**

The emergence of a market economy in 1989 was the outcome of a series of events, some of them policy-driven, which were certainly not widely predicted. The usefulness of the analogy with certain European histories is that the Vietnamese Communist Party, to a certain extent, found itself somewhat bemusedly and quite unexpectedly ruling over a market economy under changing conditions with which it was quite unfamiliar. Even if the rules of the new game could be learnt and understood, the style of play that would evolve, essentially Vietnamese, could hardly be predicted. That it was in power was incontrovertible; in a market economy, however, to which its dogma and ideology were essentially hostile, upon what would its power rest?

Willy-nilly, since all processes of growth imply differentiation, Vietnam’s social structure and political make-up would have to change. ‘New men’ would come up, with wealth based upon a range of sources, and what would be done about them? As the quote at the start of this paper reflects, similar issues have confronted others in the past. A simple characterisation would be that most of the ‘New Men’ have come from positions in the state apparatus, negotiating with varying success new positions in the 1990s market economy.\(^{21}\) This process is naturally full of contradictions, not least of which is the rather different skills required to manage a business as opposed to a network of well-established relationships granting access to resources.

**Savings, accumulation and economic development**

As I have argued above, one main element of the Vietnamese ‘development style’ as it has emerged has been rather low levels of savings. This is mainly due to the lack of a rapidly growing private or semi-private sector. This is turn may be explained by a variety of factors:

*first*, the general hostility of the regime to the private sector, and its favouring of SOEs.

*second*, the high levels of competition from imports and the relatively low profitability of light manufactures

*third*, the presence, for example in real estate, FDI consultancies and related service activities, of alternative outlets for capital and investment and entrepreneurial activities.

\(^{21}\) An early and somewhat speculative attempt to place these strata into a category called the ‘state business interest’ can be found in my chapter in *The Challenge of Reform in Indochina*, ed Borje Ljunggren, Cambridge: HIID 1993.
Does this really matter? The answer is at root only valid in terms of Vietnamese political priorities. These reflect, amongst other things, learning processes on the part of many parts of the population, not least the government.

If under the Tudors the ‘New Men’ were people whose “drive and efficiency in economic matters ... also made them harsh to their tenants and contemptuous of the common people”, the evident lack of antagonistic class relations between their Vietnamese equivalents and their work forces points to a rather different ‘development style’. However, unlike their Vietnamese equivalents, these ‘New Men’ were coming from the rural areas - something that is conspicuously lacking in Vietnam.

For predominantly rural countries, whether Tudor England or modern Vietnam rulers’ perceptions of developments in the countryside are naturally very important.

**Lenin and the peasantry re-visited: the other ‘delicate task’**

If one ‘delicate task’ is the relationship between rulers and the ‘New Men’, then another is the way in which the social structure of the rural areas is changing.

It has well been argued that the basic political rationale behind collectivisation was economic: the desire to avoid creation of a new class of landlords and employers in the rural areas whose class interests would be antagonistic to the regime. It was argued that land concentration and rural proletarianisation would be necessary to attain increasing land yields. Experience in China and Vietnam since decollectivisation appears to argue, on the face of it, that large output gains can be obtained from a rural economy made up predominantly of family farms. Yet the political pressures to re-establish cooperatives ‘of a new type’ suggest that there is something going on in the rural areas that is seen to threaten political instability. Most likely, arguments have been made that without these organisations small-scale new entrepreneurs will increasingly force themselves into local politics.

The sense that this is the case is strong. However, the picture is made more complex by two features of the current situation:

*first*, the effective breakdown of the local administration and party structures in the ‘hot’ areas, such as Thai Binh, for it is these that would guide and utilise these cooperatives ... ;

*second*, the shear lack of competitive power of cooperatives under Vietnamese conditions. Vietnam is no Denmark.

The 2nd and 4th plena both called for a major shift in development priorities to support rural development. Yet this has not exactly been the issues raised in Thai Binh, which have been more to do with relations between the population and the local administration. It therefore seems that there is a slight stalemate. Whether this will be resolved by the major changes to be introduced nation-wide in order to enhance local democracy remains to be seen.

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Conclusions

Two main issues confront Vietnam as she goes into the 1990s:

*first*, coping with the need to use state power to offset the gathering pressures from groups who felt that they missed out, relatively speaking, from the benefits of economic growth in the 1990s. These are farmers and the growing mass of unemployed. That they have missed out can be more or less directly attributed to a pattern of growth that resulted from a relatively free allocation of investment according to market forces. Yet the state remains incoherent, ill disciplined and in need of profound constitutional reform (either explicit or implicit).

*second*, coping with the need to confront the very powerful external economic forces, to redirect resources in keeping with domestic political priorities. This ‘localisation’ issue is common amongst most nation-states. Vietnam, with far less to play with, confronts it in spades. Signs that the three key senior politicians listed above are being given their head will show that state power is being purposefully used.

Culture and comedy - economics and the real world

Introduction - Cassandra’s little sister was bored, again

Vietnam seems to confirm that in the world as it now is, it is the nature of one’s position with respect to global processes that is central. One interpretation of the above economic analysis is that the political agenda in Vietnam is, increasingly, pushing the VCP towards interventions to influence these ‘positions’ for a range of political actors, whose voices are objecting strongly to the status quo. The basic issue, granted the profound poverty of Vietnam, is the terms of access to external economic opportunities, whether directly or indirectly. Like Cassandra’s little sister, to miss out on the curse is also to miss out on divine intervention.23

It is perhaps useful to put into perspective the relative power of the economic forces and phenomena we are observing. The Vietnamese GDP is around US $ 30 bn, of which perhaps US$ 7 bn is invested. Total Australian exports, yearly, are around US $ 100 bn. The total value of deposits at Vietnamese banks is around US $ 3 bn, of which around US $ 1 bn are in US dollars. If, for the sake of argument, we assume that there are 1 million families (in a population of 75 million) with US $ deposits, then this amounts to only US $ 1,000 each. And from these should be deducted the deposits of businesses and other organisations.

Salaries remain low, even in urban areas. This underlying economic weakness is a main characteristic of the Vietnamese ‘development style’ as it effects emerging middle class lifestyles.

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23 Whether the VCP should be compared with Cassandra’s brother Hector is another issue; who, then, is Achilles? Note the perceptive quote from a student of another region with Communist rulers - that for the Buddhist Buriats of Soviet Central Asia, the state appeared in many ways like the pre-modern Nature - distant, erratic, and possibly appeasable (Karl Marx Collective, Caroline Humphrey, Cambridge: CUP, 19xx).
Middle-class lifestyles, purchasing patterns and cultural issues - the Year of the Leg; Hanoi and Ho Chi Minh City compared

With the replacement of the Honda Dream by the Spacey, 1997 saw preferred body styles go through another set of changes, with greater emphasis upon the leg, as could be seen from the classic Spacey advertising campaign. Yet this focus was far more evident in Hanoi than in Saigon; indeed, the relative absence of such expensive conspicuous consumption in what has long been referred to as the ‘individualistic, commercial, South’, is intriguing.

A group who clearly benefited greatly through the 1990s were the salaried urban middle class. These families often have mixed incomes: father in the bureaucracy, children in a mixture of public and private sector jobs, wife possibly in trade but moving into other things as the economy liberalises. This mixed pattern is more common in Hanoi than Saigon, reflecting the opportunities for corruption, the perceived need for risk-avoidance and the greater number of public sector jobs in the capital. From a situation in the late 1980s when a bicycle was a major capital investment, by the late 1990s many of these families now find themselves close to regional middle class lifestyles.

A main lack is of course a car; other differences include housing stock, which in Hanoi and Saigon often reflects rapid ‘own-construction’ activities with a wide range of qualities and designs; a near complete lack of the air-conditioned malls and other ways of dealing with the climate; and a relative lack of numbers leading to thinner markets.

The great land ’share out’ of the early and mid 1990s often saw them end up with real estate having nominal values well over $100,000. White goods (the prized imported Electrolux at over $1,000 replacing second-hand washing machines imported from Japan at less than $50; second-hand Hondas were sold to buy Dreams or Spaceys worth over $2,500; Hi-fi, colour T/Vs, VCR etc. Domestic servants and cheap tailoring permitted wives and daughters to transform their lifestyles, as did the return of street food and ready-prepared dishes. Style, chic, ostentation and the rest revealed Vietnam’s urban tigers’ capacity to blow away most other cities in terms or pure ’front’. But, unlike Milan, it was not based upon real and sustainable economic power.

Yet steady incomes remained rather low. Few of these families were making money from small businesses. Instead, access to handouts and shares of their offices’ ‘funds’ derived from the flows of resources flowing into the country as an accompaniment to foreign investment, aid, technical assistance and so forth that financed these investments, helped by the creation of assets by such measures as the land share-out. It was this that permitted such lifestyles to arise when incomes were at the $100s a month level.

The Vietnamese salaried middle class thus remains dependent upon rather low incomes. Sometimes, its living costs are low - maids, for example, get paid levels sufficient to attract them from their impoverished villages. When it has to buy the services of its members - such as teachers, doctors and others - it has to pay, since the state’s salaries are deemed too low for these professionals to deliver good services without ’top-ups’. As a result of this, maintenance of lifestyle, and continuing purchases of important status goods, when the rain stops falling, depends upon access to savings.
With foreign interest and $s drying up, feast is rapidly turning to famine. Houses, built with little debt, now start to be sold, or at least buyers sought.

How does this group save? Through the 1980s, preferred media were - goods, gold and dollars. As the banks started to offer good returns, they became used to savings in the banks.

A part of the picture was a rapid increase in their $ deposits. With the state commercial banks offering reasonable rates of interest with no questions asked (unlike the 1980s), a significant proportion of these were put into the banks. Easy arbitrage meant that interest rates remained competitive with opportunities offered by overseas banks. This has gone on for a while, and, unlike the 1980s, nobody has (yet) been burnt by banks refusing to pay out when asked.

The graph above shows the $ deposits of Vietnam’s deposit taking banks; they have grown steadily as Vietnamese have accumulated savings.

The main differences between Hanoi and Saigon can be related to the different sources of incomes. If the main difference is in the importance attached to conspicuous consumption, then the greater importance of ‘rent-seeking’ in Hanoi is striking. Hanoi, it should be noted, is most striking in its relative lack of an extensive commercial class basing itself upon the production of goods for sale on markets. Too much of the city’s revenue derives from its role as the main ‘gate-keeper’ to Vietnam, the capital city. Further, the willingness to spend large sums on consumer durables points to the
underlying sense of ‘development style’: relative security based upon social position, with little desire to invest in medium-risk commercial ventures. By contrast, Saigon is more normal, with greater social mobility and far more interest in commerce and the production of commodities.

The nature of social mobility, and the lack of significant rural property holdings amongst the urban population, is another characteristic of Vietnam’s development ‘style.’

‘Le petit Vietnam’ and the ‘new men’ emerging from the rural areas

‘Fine Gael’, the Free State and ‘little Vietnam’

How isolated are Vietnam’s farmers? How cut off from the outside world? To what extent can they be seen as being kept ‘down on the farm’?

One consequence of Vietnam’s ‘traditional socialist’ past is that, unlike many other countries going through processes of urbanisation and industrialisation, the cities do not derive direct incomes from land-holding. This was certainly a process under way during the French period, both in the north and more significantly in the south before the US-inspired Land Reform of the 1960s. But collectivisation and all that effectively severed the links of property between the cities and the rural areas. Since the late 1980s, if not before, this has been reversed as profits and earnings have been invested in land. But economic links between city and countryside are largely based upon trade and contract, not land ownership.

It seems too far-fetched to argue that Vietnam’s farmers are ‘isolated’. Apart from the upland areas, the now near universal electrification and access to TV add to rather easy migration possibilities to have greatly ‘opened the door’. Issues of ideological control aside, and granted the rather porous nature of controls through the registration system, what does keep them ‘down on the farm’?

Dominant expressions in the mass media, and popularly, of the nature of the village, of rural peace and its contrast with urban life and colonial conditions, are certainly reminiscent of other evocations of a ‘little world’, such as pre-war Ireland during the Free State. These notions can also suit a country recovering from a period of violence and turning inward. Yet the Vietnamese population seems too desirous of aggressively negotiating its relations with the outside world to be viewed in this manner.

Indeed, the awareness of the wider world expressed by the Vietnamese rural population is often challenging. Praise from cadres is often given to those with ‘get-up-and-go’ and the capacity to get out and seek out new opportunities (the right ones, of course).

What is true, though, is the absence from the ranks of the new urban middle classes of those who have ‘made it’ in the rural areas, and now seek better social positions for themselves and their children. Those with rural backgrounds in the cities are almost always those who got ‘up and out’ during the period of ‘traditional socialism’. Such careers were made in the state sector, with a strong emphasis upon education and access to positions in the apparatus.
Unwritten localisations: rhythm, fragrance and food

The joy(s) of commoditisation - French house, Japanese wife, Chinese food, Bose speakers

Interesting areas of localisation are those where there are strong and well-developed indigenous tastes and activities, that are in turn not overly conceptualised and regulated. Such a situation permits the interplay of supply, demand and evolving tastes to be observed. Below I explore rapidly three areas: music, fragrance and food. Economically, all three are very important, as can be seen from the widespread purchases of hi-fis and tape-recorders, and the equally widespread availability of pre-recorded tapes and counterfeit cds. Food is of obvious importance. Urban wage earning young women can be found spending very high proportions of their incomes on fragrances and toiletries (up to 30% or more has been reported).24

Rhythm - natural syncopation with no dance tradition

Musically, Vietnam poses a number of intriguing paradoxes.25

first, the society is one of strong rhythms, both in speech, movement and indigenous music. Yet it has no popular dance tradition.

second, whilst initially tedious 2/4 rhythms dominated attempts to play in a ‘Western’ style, it took less than a decade for Vietnamese drummers to master the polyrhythms and feel of such genres as funk and swing. This mastery, to a non-professional ear, draws upon innate sense. Yet no attempt has been made to develop a Vietnamese equivalent of Western ‘electric folk’, which adapted traditional fold music to modern instruments and rhythms influenced by R & B.

third, the fine (ie 1/32 or at least 1/16 beat ‘misses’) syncopations naturally used by non-professional Vietnamese singers whilst performing for friends are far ahead of what Westerners usually attain (especially the appallingly bad timing usually heard in Anglican churches). Even finer manoeuvres are probably used by professionals in genres such as Cai Luong or Cheo. Vietnamese folk music is heavily syncopated. Yet this is - so far - almost totally unexploited by those treading the interface between Vietnamese and foreign culture.

From an economic point of view, the most profitable and commercial areas for Vietnamese musicians are probably those that are aimed at domestic consumers. Their access to world music markets will of course depend upon their ability to devise a product that can compete with those already in existence. It will be interesting to see to what extent this is successful, and to what degree it manages to draw upon the distinct elements of Vietnamese music discussed above. Since many Vietnamese musicians are

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24 See below Tran Huy Chuong, op cit.

25 I am not properly informed about foreign studies of Vietnamese music. An early endeavour is Vietnamese Music in Britain, Rosemary Fitchett, London: SOAS (Masters Thesis) 1984. Amongst other things, this discusses the innovative use of sculpted freeboards on electric guitars.
classically trained, the path will probably require technical proficiency, which is likely to result in a certain stifling of creativity.

_Fragrance - ám or-duration_26_

The Vietnamese cosmetics and related markets are exhibiting a classic trajectory. With imported foreign brands expensive and without Vietnamese-language labelling, joint ventures with major multinationals (Unilever, Colgate, Proctor and Gamble) are using standard packages of advertising and distribution to market to those with adequate incomes to create viable demand levels. There is little evidence that products are being adapted to specifically Vietnamese tastes.

There is extensive smuggling of product, especially from Thailand.

The market is large. According to one survey, the proportion of women’s incomes in Ho Chi Minh City spent on perfumes, cosmetic, skin care, shampoo etc was around 1% in 1991 and is now around 20%. In buying perfumes, 40% reported that they bought foreign brands, 10% Vietnamese and 50% said that they used no perfume. According to another survey, around 70% of women in the city spend between 300-400,000 dong on cosmetics.

At the same time there are a rather large number of Vietnamese companies, who seek out various market niches: sales to low income groups, to the rural areas, and exports, particularly to China, Laos, Cambodia and the CIS. At the margin, they attempt to compete with the global brands coming from the JVs, but they lack funds for advertising and face steep entry costs in terms of brand recognition. As yet, they have not been able to offset this successfully through a specifically Vietnamese identification of their products. Whether they could prevent this niche from being bought by a foreign JV keen to preserve its market share would be interesting to see.

_Food - from quantity to quality?_

Perhaps the most striking aspect of Vietnamese food remains the strong regional differences in taste. One can no more get a northerner to like southern pho - noodle soup - than the reverse.

In addition, the attitude to foreign food remains very interesting. As a result of many foreign influences - Chinese, French, American, Eastern European - the diet, at least in the urban areas, was early penetrated by items such as breads, cakes, pate, dairy products (especially yoghurt) and, more recently, espresso coffee. Yet the basic diet and tastes appear to have remained fundamentally unchanged. Part of the explanation may be to do with the importance attached to ‘balance’ in diet, following traditional pre-scientific norms which do not sit well with Western cooking. Yet much must be to do with the indigenous ‘taste’ - even if this is normally expressed with the French loan word ‘gu’.

An additional element of the economic impact of food is the legacy of the pre-1990 situation of poor nutrition and in many areas chronic malnutrition, especially amongst rural women in the north. The combination of a return to the normal open-air provision of

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food through stalls and streetside restaurants with the far better access to food led initially to a sharp rise in the quantity of food eaten. Later, in what is again a natural process, higher incomes and better supply has tended to enable a shift to better quality and widening of the range of food eaten.

**Can development be fun? Conclusions: Merino Tigers?**

The cultural elements of the arguments have tended to reinforce the sense that Vietnam’s particular ‘development style’ is likely to remain profoundly Vietnamese, as deep cultural elements exploit distinctly Vietnamese elements of social life there. Music, fragrance and food - all important parts of life - are part of creative negotiations of the ‘localisation’ of the global processes that now dominate the world economy. These are most obvious for music and food, and less clear for fragrances.

In this sense, the ‘New Men’, facing not surprisingly political opposition and contradictory incentives in their relationship with the state, are likely to remain inward-focussed. This argues for a relative retention of an integrated domestic polity, and so for the chance of better political outcomes. This will be very necessary, for the hangover from the mid 1990s ‘boom’, and political pressures from the rural areas and rising unemployment, forces a faster divorce of these new commercial elements - capitalists - from their origins in the state apparatus. And as they do emerge, they will find, as they already have, that competition from foreign and domestic competitors is fierce.

If one wishes to be optimistic, then there is a strong argument that modern technology and market opportunities ‘must’ enable a country like Vietnam to grow fast and rather equitably. It is clear that the trends of the 1990s point in the opposite direction. It is also part of the World Bank’s ‘cookbook’ - possibly now partly to be discarded, that with the right political solutions and mechanisms, better policies should be able to secure a change in Vietnam’s development style that spreads the benefits of growth more widely. Getting there from here is an essentially Vietnamese opportunity.

It is possible that Vietnam is a tiger in sheep’s clothing? They may yet surprise us. Effective use of state power based upon coherent domestic political processes may yet provide support for a reformed ‘development style’ that will realise the country’s potential.