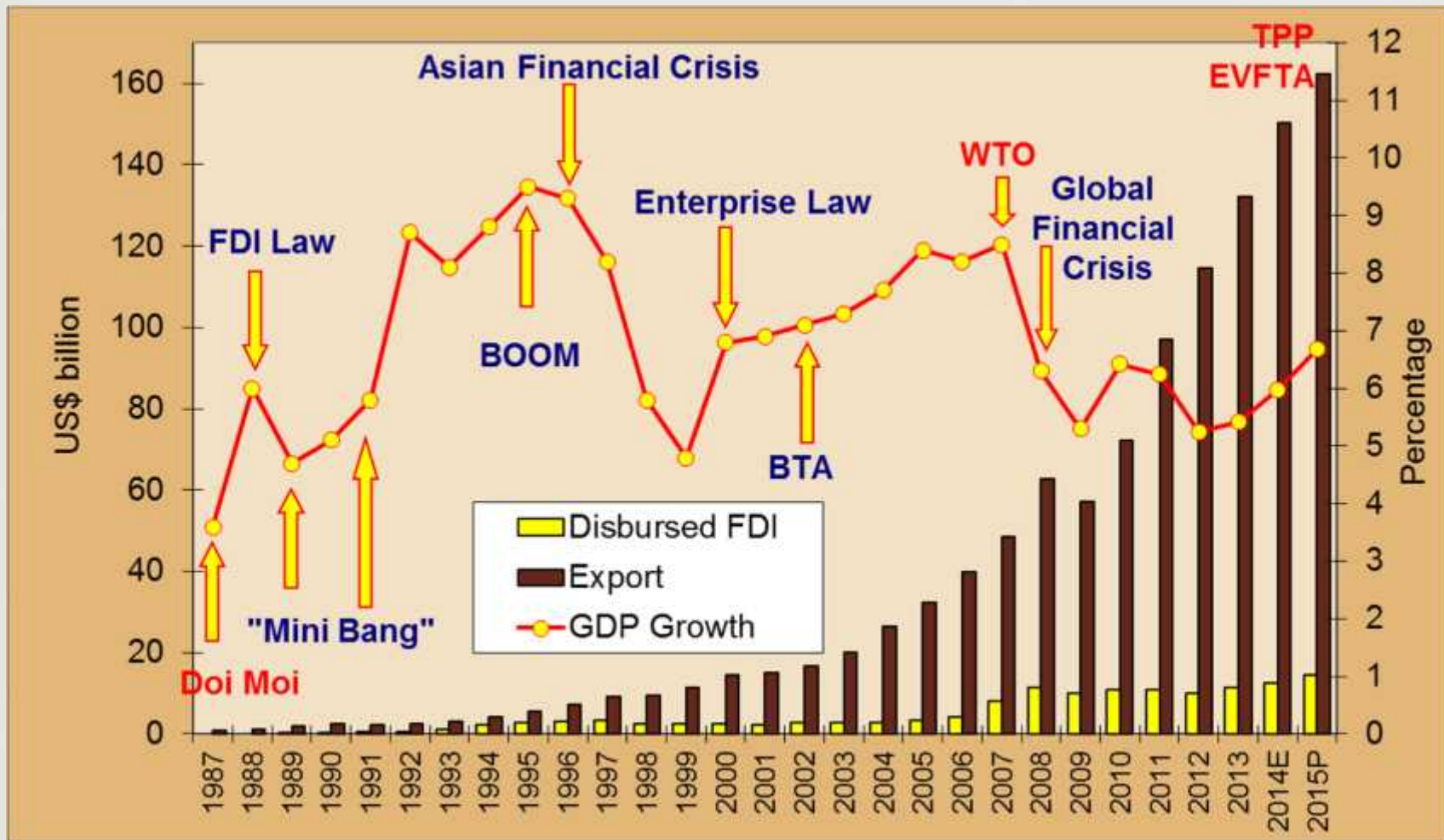


Political Economy of Industrial Development in Vietnam since Doi Moi



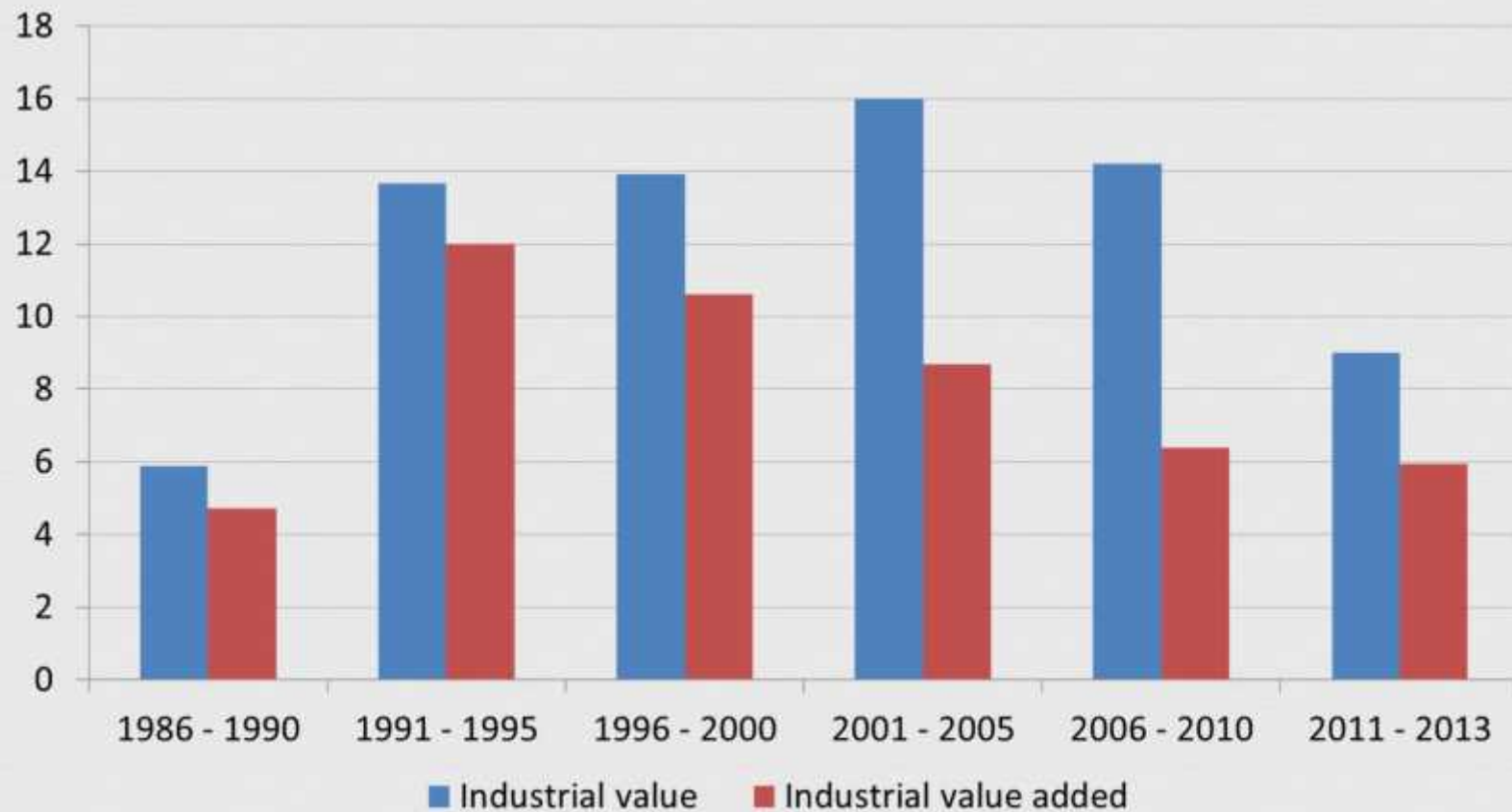
Tu-Anh Vu-Thanh
Fulbright University Vietnam
FETP, December 6, 2016

A brief history of Vietnam economy since Doi Moi



A success story ...

Industrial growth in Vietnam since Doi Moi (%)



... but a partial and waning one



	2000 - 2005	2005 - 2010
MVA growth rate (%)	12.2	7.5
MVA/Industrial production value (%)	36.0	17.4
IVA/Industrial production value (%)	50.0	25.0
Labor moving out of agriculture (%)	3.0	1.0

Main arguments



- ❧ The **key determinant** of this performance is the relationship between the party-state and the private sector which, in turns, depends on:
 - ❧ Political ideology vs. economic legitimacy tradeoff
 - ❧ Internal structure of the state
 - ❧ Between different levels of government
 - ❧ Within each level of government
 - ❧ Quality of leadership.
- ❧ These three factors have changed significantly in the last 30 years as observed through three generations of law on private enterprise.

Contribution of three sectors (%)



	SOEs		DPEs		FIEs	
	2001-05	2006-10	2001-05	2006-10	2001-05	2006-10
Investment formation	56.6	44.6	26.4	27.7	17.0	27.8
Employment	43.5	24.1	40.1	53.7	16.3	22.3
New job creation	-4.1	-22.0	74.1	88.1	30	33.9
GDP	30.0	27.8	46.7	46.1	14.6	17.9
GDP growth	32.9	19.0	44.6	54.2	14.5	17.4
Industrial value	28.9	20.1	28.3	35.4	42.7	44.5
Industrial value growth	28.5	7.9	34.0	45.8	37.4	46.3

Source: Author's calculation from GSO. MOF. IMF

Dualistic nature of Vietnam's industry



Active integrationist or comparative advantage following strategy:

Most FIEs and private exporters

Protectionist or comparative advantage defying strategy:

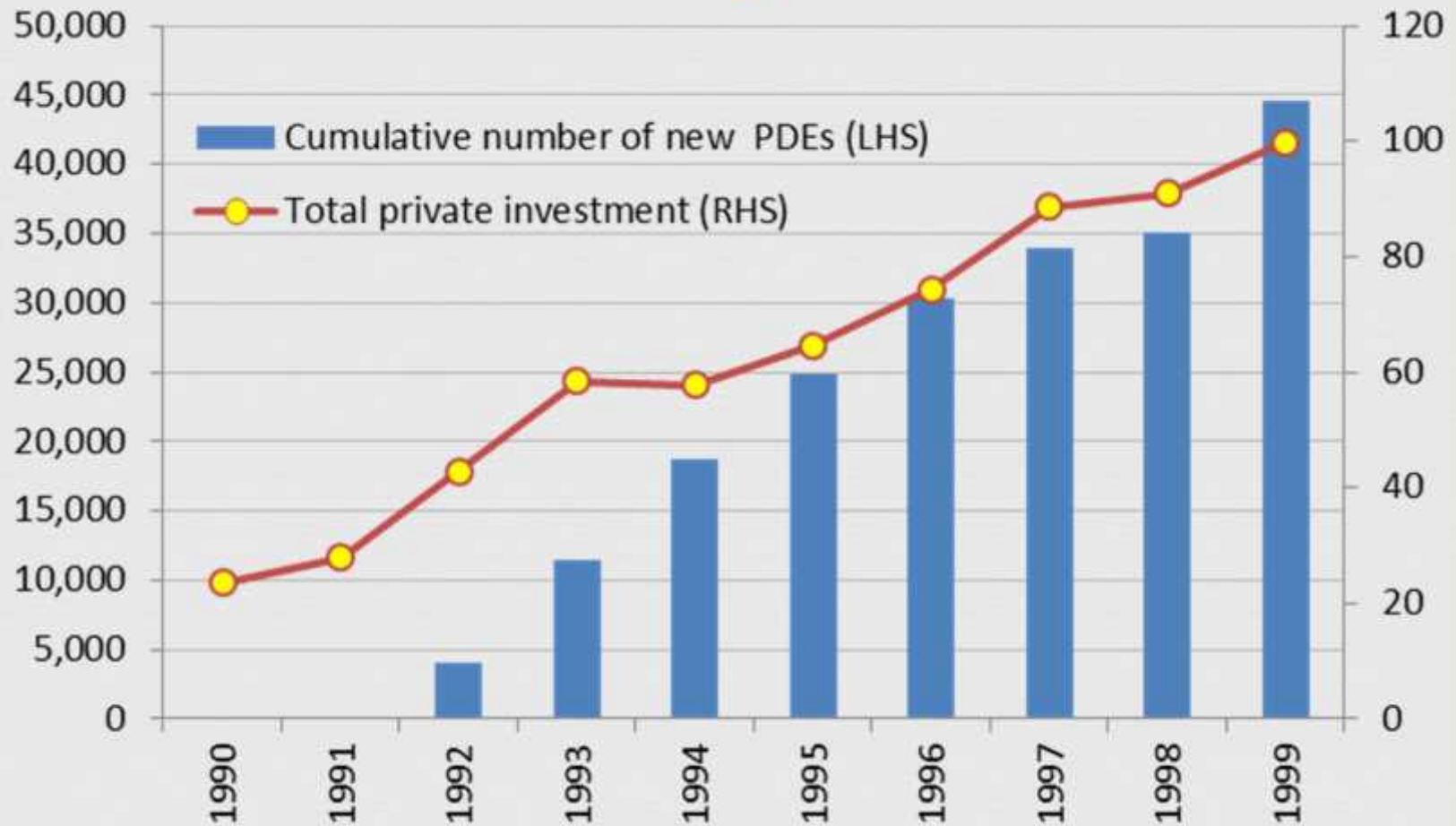
SOEs and some FIEs

1st Law on Enterprise in 1990



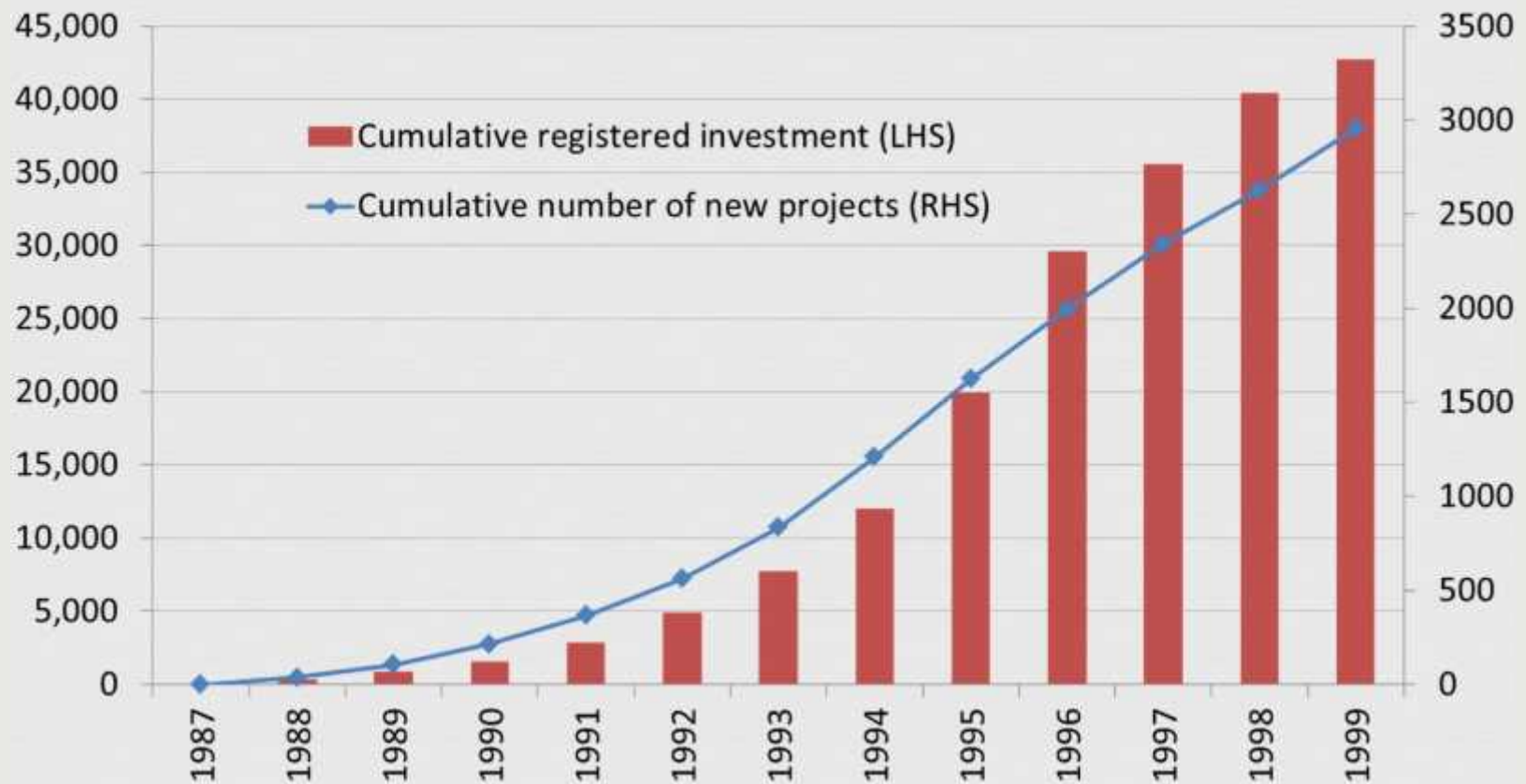
- ❧ Early 1980s: Comprehensive social and economic crisis
– Doi Moi or “economic renovation” (1986)
 - ❧ The key leadership role of Truong Chinh
- ❧ Late 1980s: Collapse of Soviet-style centrally planned economy – Company Law and Law on Private Enterprise (1990)
- ❧ Private enterprises were still marginalized. but for the very first time. they were not “**object for re-education**” but officially accepted as an **economic sector**
- ❧ Within a decade, FIE sector surpassed SOE sector to become the largest contributor to industrial growth

Cumulative newly established DPEs and private investment (1990-1999)



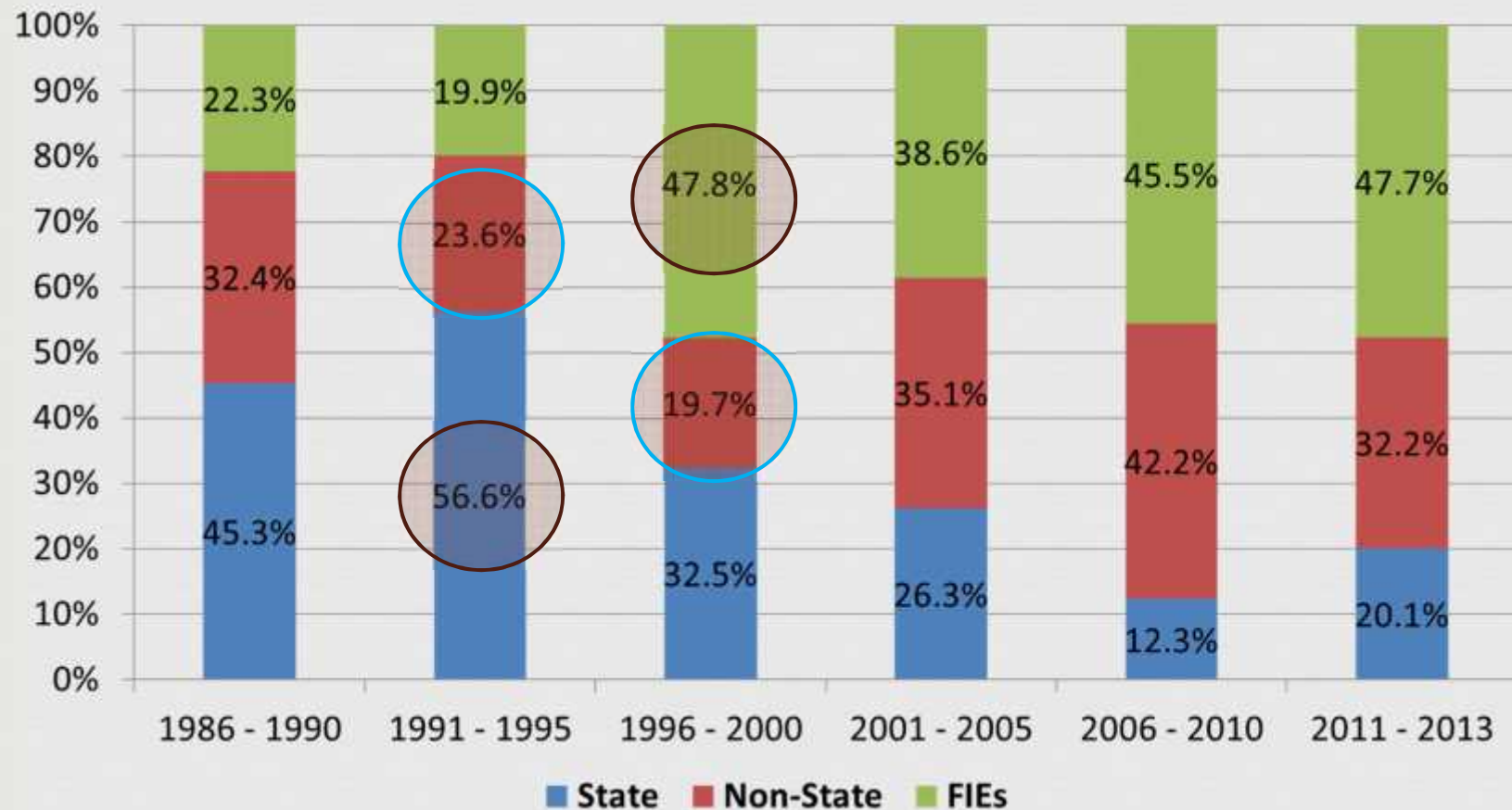
Note: Investment is in VND trillion. 1994 constant price

Cumulative newly registered FIEs and foreign direct investment (1987-1999)



Note: Investment is in US\$ million

Contribution to industrial production growth (1986-2013)



2nd Law on Enterprise in 1999



- ❧ 1997-98: Asian Financial Crisis
- ❧ PM Phan Van Khai with his group of reformers (PMRC and CIEM) successfully **designed** and **implemented** the 1999 Law on Enterprise.
 - ❧ Implementation Task Force
 - ❧ Dialogue between the PM and business community
- ❧ The private sector becomes “**policy interlocutors**”

The PMRC



- ❧ The PMRC under PM Phan Van Khai was essentially the advisory commission of the Prime Minister
- ❧ PMRC was very small, never having more than 15 members, all sharing strong aspirations for change
- ❧ Before joining PMRC, most members were senior experts or researchers in the party-state system. Nevertheless, they did not hold any executive posts in the administration, and many had already retired.
- ❧ Members could send recommendations directly to the Prime Minister and had the rights to reserve their opinions.

The Steering Committee



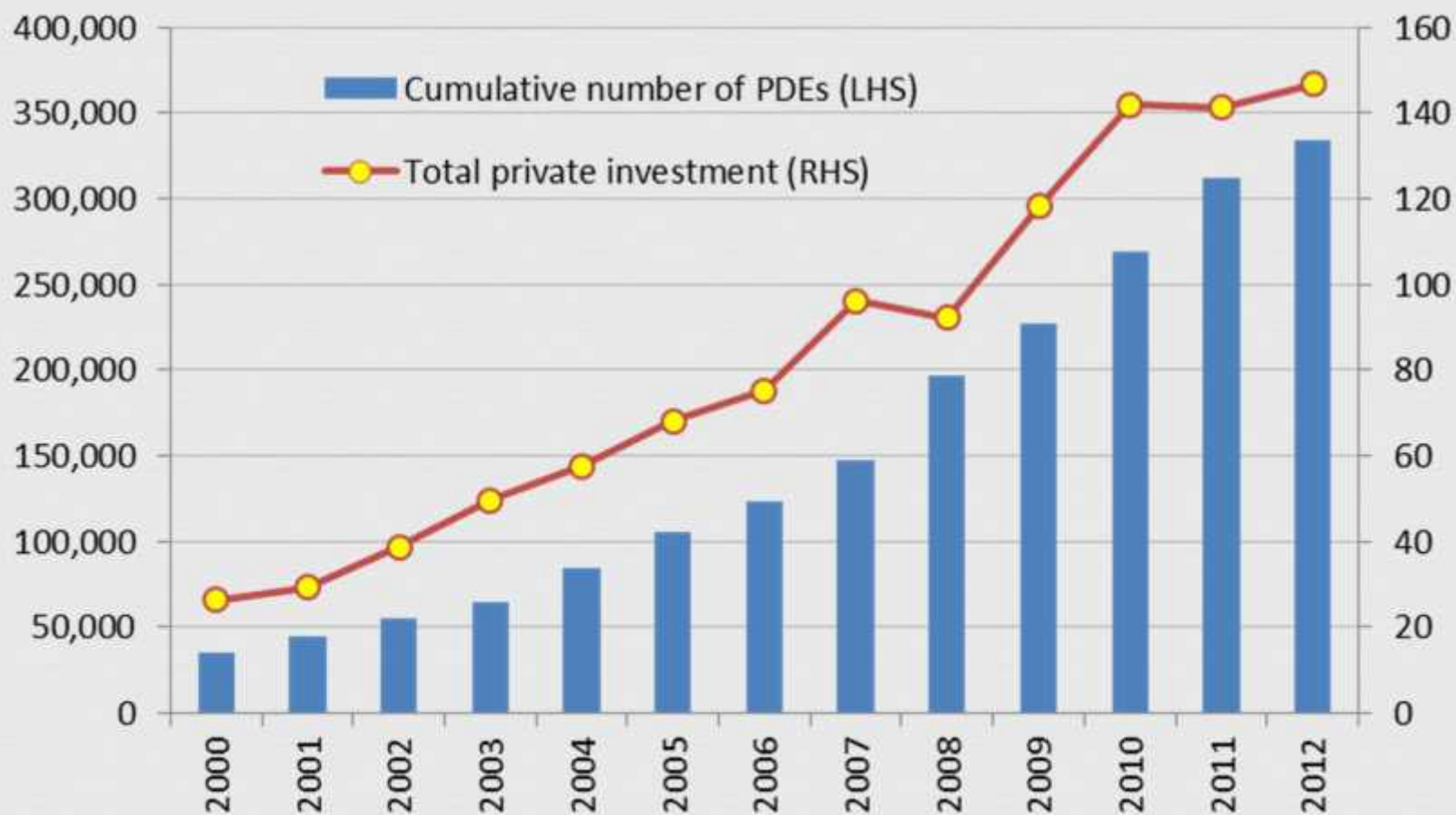
- ❧ Steering committee for drafting the new law was headed by MPI's minister, with members included representatives of CIEM (the principal drafter), deputy minister-level officials from the National Assembly and relevant ministries.
- ❧ For the *very first time*, a representative of the business community – the Vietnam's Chamber of Commerce and Industry (VCCI) – participated in the drafting process.
- ❧ CIEM and VCCI discussed the 5th, 9th, and 14th draft with business community around the country.

The Implementation Task Force



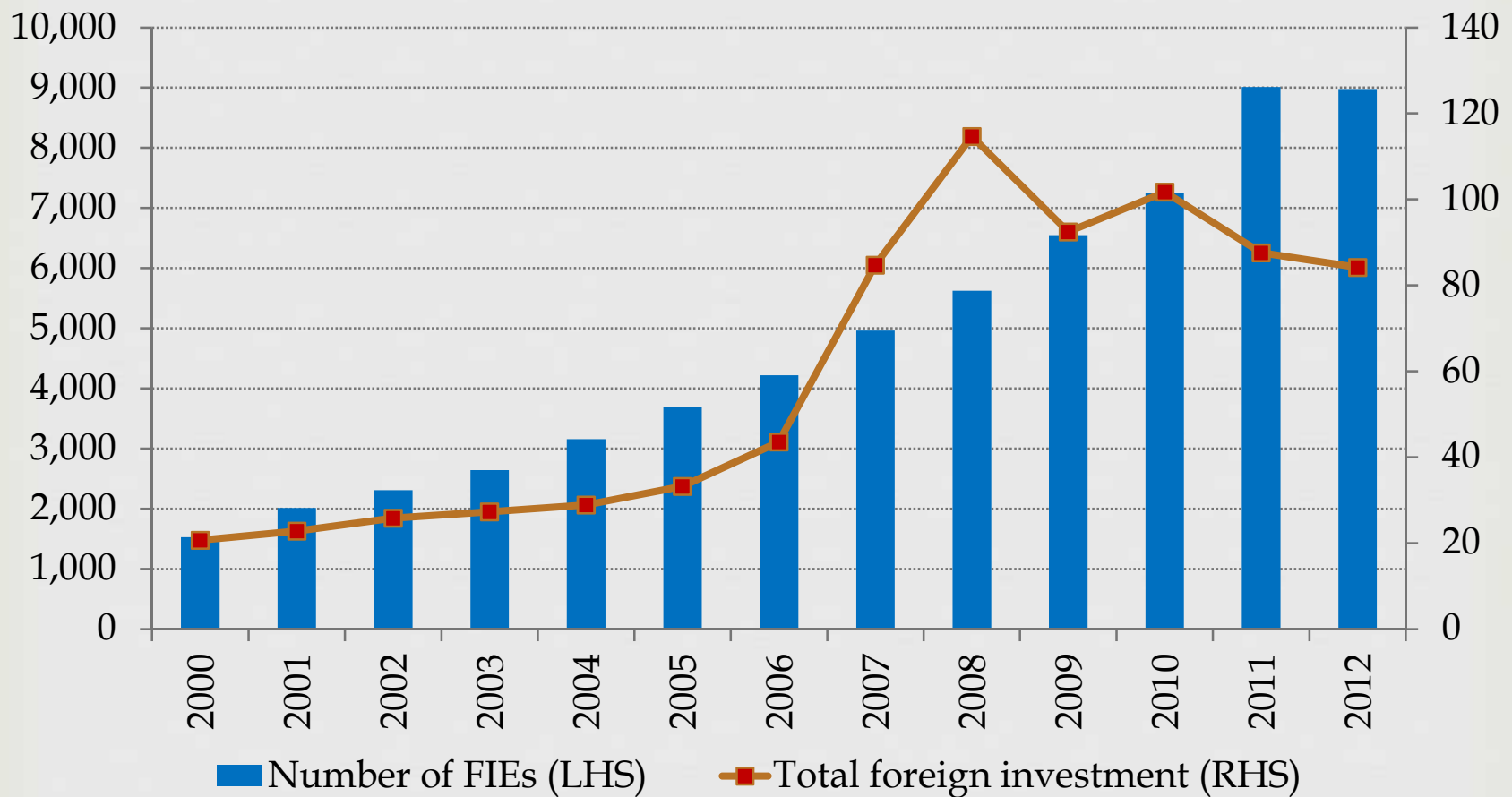
- ❧ Established by the PM, reported directly and was accountable only to the Prime Minister
- ❧ Headed by MPI minister, members are the most dedicated reformers who previously served in the Steering Committee and the Drafting Committee.
- ❧ The Task Force was to draft decrees guiding the implementation of the Law on Enterprise and check the current business licensing system.

Cumulative newly established DPEs and private investment (2000-2012)



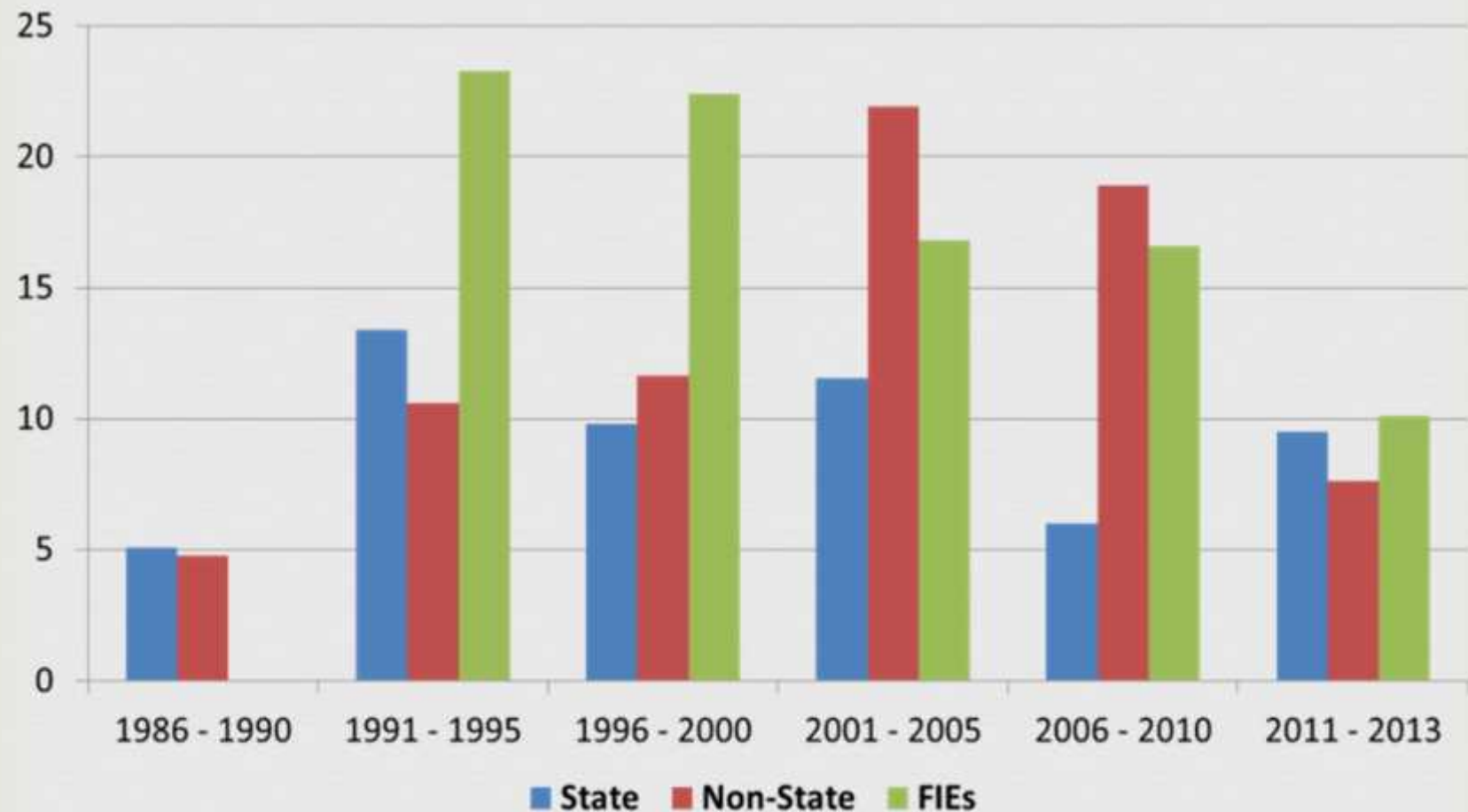
Note: Investment is in VND trillion. 1994 constant price

Cumulative newly registered FIEs and foreign direct investment (2000-2012)



Note: Investment is in US\$ billion

Industrial production growth (%) (1986-2013)

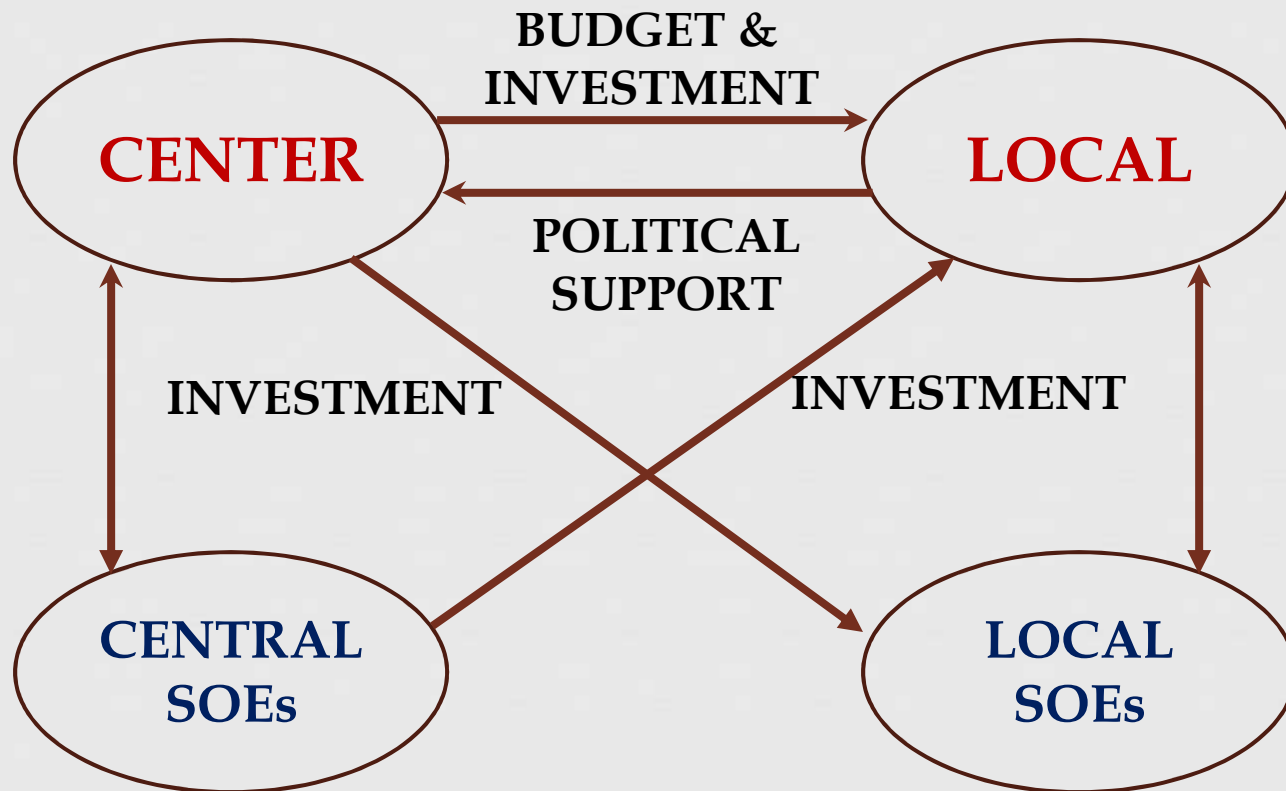


3rd Law on Enterprise in 2005

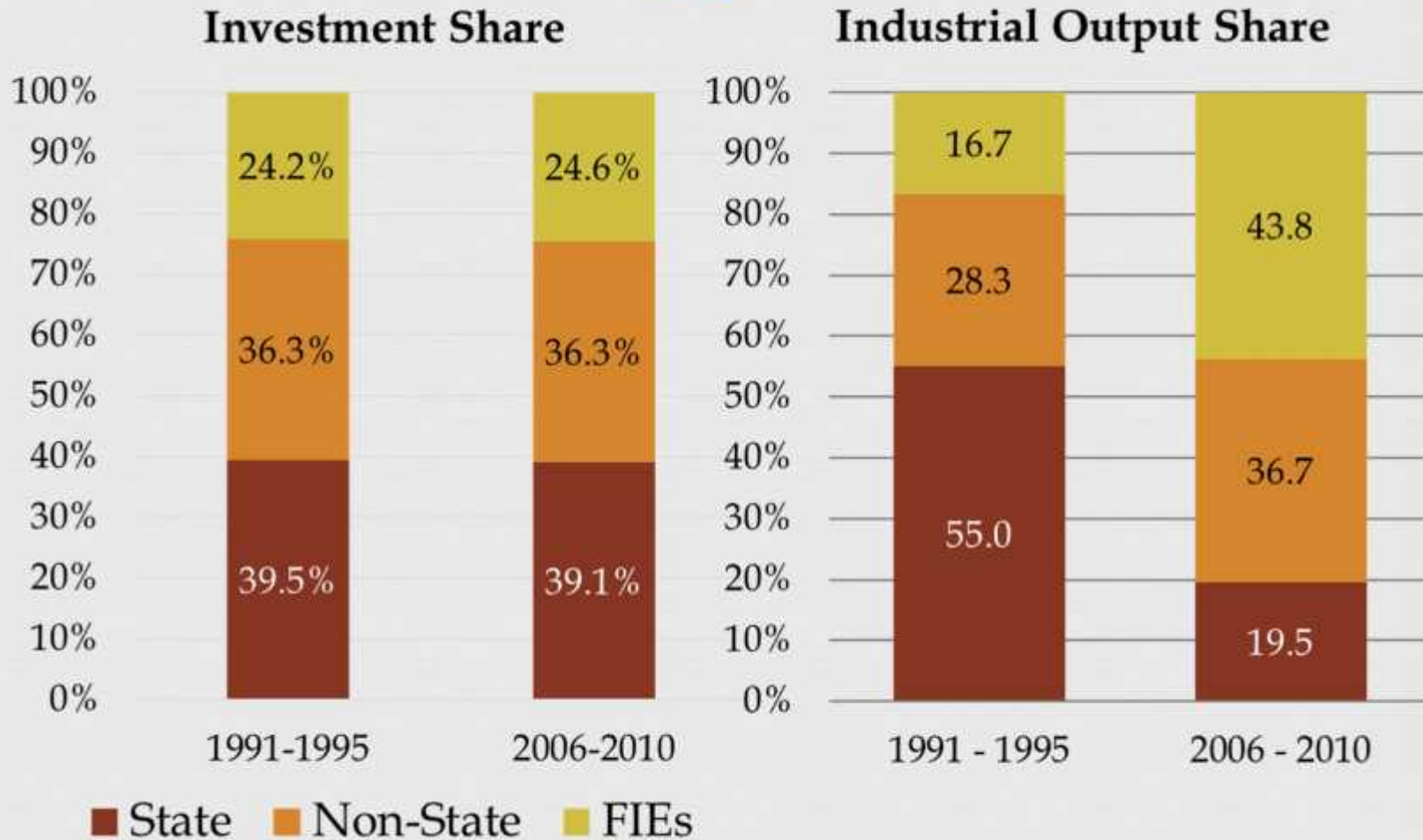


- ❧ The 2005 Law on Enterprise was enacted at the peak of economic growth.
- ❧ Decentralization alters internal structure of the state
 - ❧ Decentralization intensifies competition among provinces -- local governments to stay closer to (larger) businesses.
- ❧ SEG status improved thanks to leadership change.
 - ❧ SEGs move away from the line ministries towards the PM
 - ❧ SEGs become economic means for building political support
- ❧ While the local business climates have generally been improved across provinces. clientelism and collusive behavior in the SBR at both the central and local levels becomes widespread.

Emergence of clientelism



Investment and Output Share 1991-1995 vs. 2006-2010

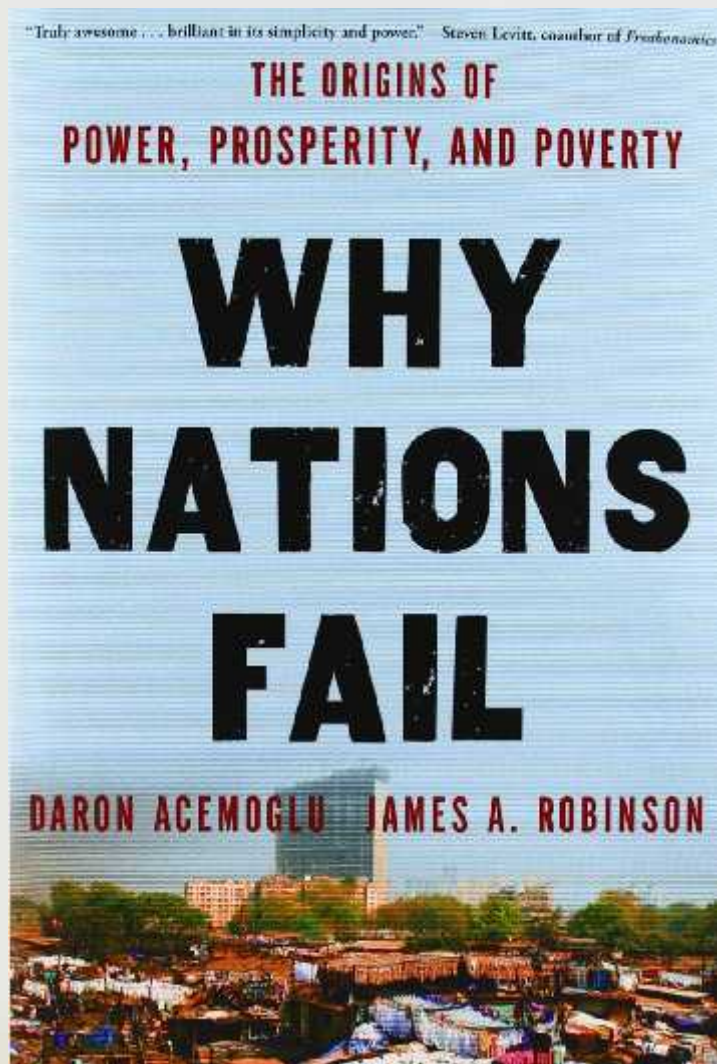


Fundamental Problem: How to boost economic growth while keeping political stability?



Economic development		Political stability
Market economy		Socialist orientation
Private ownership		Public ownership
Decentralized markets		Centralized plans
Integration		Protectionism

Political Economy Ramifications



- ❧ *State capture*: public and private conglomerates affect, even shape the formation of the rules of the game
- ❧ *Resistance to reforms* (e.g., SOE reform, public investment restructuring, financial sector reforms)
- ❧ *Emergence of clientelism*
- ❧ *Economic slowdown/ stagnation/ failure*

Prospects?



Why Nations Fail — or Succeed

Acemoglu and Robinson Paradigm

Extractive Economic and Political Institutions

Inclusive Economic and Political Institutions

A
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Critical Junctures



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Historical Contingency

The persistence and strengthening of absolutism have impoverished North Korea and Myanmar

Pluralism transcends authoritarian growth, creating modern South Korea and Taiwan

Thank you for your attention!



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